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By email: Piob-MonitoringGroup@ipiob.org

28 June 2012

Dear Sirs

Monitoring Group Consultation Paper – Governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the PIOB and the standard-setting boards and Compliance Advisory Panel operating under the auspices of IFAC (the MG Consultation Paper) and Public Interest Oversight Board Consultation Paper – Work Program 2012 and Beyond (the PIOB Work Program)

We appreciate the opportunity to respond to the Monitoring Group's (MG's) Consultation Paper and the Public Interest Oversight Board's (PIOB's) Work Program published on 28 March 2012. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network. We set out below our comments on the MG Consultation Paper and the PIOB Work Program.

We share MG's and the PIOB's objective of reinforcing the quality and independence of the standard-setting process, thus enhancing market confidence in financial reporting and audits of financial statements. We agree that both the fact and perception of independence of the International Auditing and Assurance Standards Board (IAASB), International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA), referred to collectively as "the Boards," are necessary for the credibility of auditing and assurance, education, and ethics standards and ultimately market confidence in the value of audits of financial statements.

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As discussed below, we believe that reconsideration of the issues addressed in the November 2010 Consultation Paper is premature. As such, we have not provided detailed responses to the individual questions set forth in both the MG Consultation Paper and the PIOB Work Program.

MG Consultation Paper

The November 2010 Final Report on the Review of the IFAC Reforms identified a number of recommendations to support and strengthen the Boards. However, as stated in the MG Consultation Paper, these proposed changes are still in the process of being implemented. Accordingly, the impact and effectiveness these additional reforms may have in addressing the concerns identified in the previous consultation and repeated in the current MG Consultation Paper cannot be evaluated yet. Therefore, we believe that it is premature to revisit the same issues.

Furthermore, we note that no major deficiency in the current standard setting process has been identified to suggest that an urgent review is necessary at this time. We agree that all standard setting entities should consider how they can further improve upon their effectiveness. However, continuous reviews and/or repeated structural modifications over such a short period of time could undercut confidence of key stakeholders, which the MG Consultation Paper seeks to avoid.

Therefore, until the 2010 reforms have had an adequate opportunity to take hold, we believe that it may be more productive for the MG to focus on how to streamline and enhance the effectiveness of its oversight responsibilities.

Specifically, the MG and the PIOB should work to enhance the effectiveness of the PIOB's oversight of the Boards. For example, PIOB input, especially to IESBA, can be leveraged most effectively if it focused on oversight of due process, including consideration of public input, rather than involvement in the Board's deliberations. In addition, it is our understanding that currently IESBA's Consultative Advisory Group (CAG) reviews decisions within a project and provides input in parallel with consideration by the Board, which at times can lead to repeated deliberations of the same issue by the Board. We recognise that the CAGs play an important role in terms of providing input on agenda items and testing of significant issues. However, we believe that the extent to which this is done throughout the life of ongoing projects needs to be considered carefully in order to avoid repeated deliberations of the same issues. We believe that such improvements would better enable the Boards to respond to emerging issues in a timely and efficient manner.

We support the current three-tiered oversight and advisory structure as we believe that it provides a structure that can deliver timely and effective guidance, with the MG responsible for accountability, the PIOB responsible for due process and oversight, including the Boards' nomination process, and the CAGs responsible for stakeholder input including public interest and practitioner concerns. We encourage the MG to clearly articulate the separate roles of each body. Further, we support the MG's objective of increasing the visibility of its oversight

activities, as this is a positive step to address concerns of public perceptions about the Boards' independence.

While we believe that it is premature to perform an in-depth analysis of the overall current governance structure, we believe that the MG could address the following items in the near term. Firstly, the MG Consultation Paper raises the issue about the overlap between the institutions participating within the oversight and advisory structure, namely the PIOB and the CAGs. We think that it is important for each of these bodies to have discrete and clearly defined roles, as discussed above, and recognise that overlap of institutional membership could contribute to blurring of the different roles in fact or in perception. Therefore, we encourage the MG to review appointments with this concern in mind, but we do not believe that there should be any absolute prohibition on institutions being represented on more than one body.

Secondly, if the MG believes that substantial funding of the Boards and PIOB by the profession (via the International Federation of Accountants, or IFAC) is, in the long term, an issue for the perception of independence of the Boards, then we encourage the MG to start exploring ways to diversify the funding base for the Boards. We encourage the MG to consider the funding principles established by the Trustees of the IFRS Foundation to see whether similar principles could be adapted by the MG to provide long-term funding of the Boards. The Trustees of the IFRS Foundation have established funding through a mix of levies and national contributions from regulators and standard-setting authorities. Principles for IASB funding include a system that is broad-based, compelling, and open-ended (not contingent on any specific outcome or action).

PIOB Work Program

We support the PIOB's existing mandate of focusing on due process oversight (including nominations) and not assessing the technical content of the standards. In order to achieve an effective oversight of due process, it is important for the PIOB to be engaged throughout the standard-setting process and not simply assess the finished standards.

We have some concerns regarding PIOB's comment noted on page 6 stating that "*Respect for due process may not always guarantee protection of the public interest*." As this statement indicates, the PIOB believes that it is necessary to supplement its oversight of the Boards' due process with internal technical reviews of the standards and their implications by PIOB staff. However, a separate analysis by PIOB staff of the substance of a standard is difficult to distinguish from an assessment of the technical content of a standard, which is outside the mandate of the PIOB. We believe that the PIOB's oversight should focus on whether there has been substantive and robust due process.

We note that standard setters often receive extensive and diverse comments on proposals. We believe that the PIOB should be focused on ensuring that significant public interest concerns raised by stakeholders are considered adequately in a board's deliberations. Ultimately, after thoughtful consideration, a board may conclude that it will not be appropriate (e.g. not cost

beneficial) to adopt every stakeholder suggestion. In order to enhance understanding of how public interest considerations have been addressed, we encourage the PIOB to work with the Boards to expand their use of feedback statements. For example, the IAASB's feedback statement in response to the January 2011 Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosures and its Audit Implications*, provided an overview of key messages raised by responses in consultation papers and how those key messages were addressed. We believe that feedback statements are an effective communication method and provide transparency. As such, we believe that the PIOB and the Boards should consider how the use of feedback statements and other similar communication tools can further enhance the visibility of stakeholder input into the standard setting process and the rationale behind decisions made by the Boards.

Since 2006, the PIOB has built valuable oversight experience with the Boards and has gained familiarity with active projects. We agree that direct observation of standard setting boards is an appropriate element of robust oversight. However, it should be possible to move away from direct observation of 100% of meetings, while still maintaining adequate oversight of due process, based on an assessment of the significance of the projects scheduled for discussion and the stage of development (e.g. redeliberations probably would be a higher priority than initial discussions). Furthermore, we agree with the proposal to heighten focus on the oversight of the Boards' strategic plans. However, we discourage a separate (parallel) PIOB consultation on the Boards' strategies. Instead, we believe that the PIOB's focus should be on ensuring input from the MG and other stakeholders is timely and substantive and also on evaluating whether sufficient and adequate consideration of such input has been included as one of the key factors in the Boards' shaping of strategic plans.

In addition, we support the PIOB expanding its oversight responsibilities to encompass the International Public Sector Accounting Standards Board (IPSASB). However, this should not come at the cost of reduced oversight of IESBA and the IAASB. We draw your attention to the nature of the stakeholders interested in the IPSAS standard setting process which may require the PIOB to expand its composition to include members with public sector experience.

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The KPMG network remains committed to continuous enhancements of audit quality and reinforcement of professional integrity, recognising that these are key to continuing our commitment to the public interest and hence to the standing of our profession globally. We believe that it is important to continue to make progress with adoption of ISAs and other international standards as part of the global financial architecture. We agree that strong, well-resourced and credible Boards whose commitment to the public interest is unquestioned are important aspects for achieving this goal. It is in the spirit that we have supported and will continue to support the work of the Boards by providing input, funding and highly qualified and experienced partners of member firms to act as Board members.

Please contact Mary Tokar +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours faithfully

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