Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
www.ey.com

4 July 2012

Mr. Fernando Restoy, Chairman
Monitoring Group

By email to: Piob-MonitoringGroup@ipiob.org

Dear Mr. Restoy:

Public consultation on the governance (with respect to special focus on organizational aspects, funding, composition and the roles) of the Monitoring Group, the PIOB and the standard setting boards and Compliance Advisory Panel operation under the auspices of IFAC

Ernst and Young Global Limited, the central entity of the global Ernst & Young organization, welcomes the opportunity to offer its views on the above public consultation ("Consultation Paper").

We believe the reforms undertaken in 2003, which were substantial, were aimed at restoring confidence in the standard setting processes. We believe the international standard setting functions that have resulted from those reforms, supported by effective oversight and monitoring by the PIOB and Monitoring Group, respectively, have positively impacted the quality of the standards issued by the IFAC standard-setting boards. We noted in our 12 August 2010 response to the Review of the IFAC Reforms Consultation Paper that we were pleased the Monitoring Group generally believed the reforms had been effectively implemented. Importantly, additional changes were undertaken as a result of the Monitoring Group's consultation in 2010 to further enhance and continue to strengthen the international standard setting boards and processes to serve the public interest. Most of these have been recently implemented and we believe further changes should not be considered until these changes have been allowed to fully take hold and achieve their intended impact.

We strongly support continuous and ongoing improvements in the standard setting process and have long publicly called for a single set of high quality standards including both auditing

Ernst & Young Global Limited is a company limited by guarantee incorporated under the laws of England and Wales. Its registered office is Becket House, 1 Lambeth Palace Road, London, SE1 7EU, UK.

and assurance and ethics/independence standards. High quality standards serve the public interest and, we believe, aid in improving audit quality and consistency.

Our views on the specific questions of the Consultation Paper are addressed below. We have grouped questions which are similarly focused and provided our comments to the group of questions. We would be pleased to discuss our comments with you or provide further thoughts if you would so desire.

Structure

Q1: Do you consider it necessary to enhance representation of the public interest? If so, which additional actions, apart from the appointment of an independent IESBA Chair and redefining the nature of non-practitioner board members, would you suggest to reinforce the mechanisms to safeguard the public interest?

Q2: In the long term, would you favour a different and fully independent standard-setting model completely outside the IFAC structure and if so how could such a structure be funded?

Q3: Do you consider the current three-tier system adequate for achieving its objectives, or an alternative model could be more adequate? In the latter case, which model would you suggest?

> In the current three-tier system, the PIOB is entrusted with the evaluation of the due process followed in the standard setting process to ensure that the views of stakeholders are sought, properly considered and fully addressed. The MG monitors this entire process and also creates an essential link between the standard setters and the public authorities responsible for the adoption and supervision of those standards. We believe the structure in place provides fully for a transparent standard setting process, public and regulatory input into those processes, regulatory monitoring and independent public interest oversight. We also note that the current model is designed for the creation of high quality standards and practices in auditing and assurance that are responsive to the interests of the public. Consequently, we believe the public interest is properly represented in the current three-tier structure and at this time we do not see a compelling need for a change to the standard setting model.

IPSASB

Q4: Would you support the IPSASB being subject to PIOB oversight? Why? What conditions, if any, would you impose on such oversight? Would you see as a factor to take into account the fact that IPSASB deals with accounting rules instead of auditing ones?

We would support the IPSASB being subject to the same oversight as the other PIACs. Recent developments continue to demonstrate the need for a robust and sound framework in public sector financial reporting. Because of the systemic nature of sovereign credit risk, the need for transparency and accountability in government is just as great as that of the private sector. We believe PIOB oversight would help provide assurance to those using the IPSAS that the processes used by the IPSASB fully take into account the broad public interest nature of public sector financial reporting.

If the PIOB is entrusted with providing oversight over the IPSASB, we note this may require an expansion of the PIOB to ensure it has the relevant experience and sufficient resources to effectively provide such oversight.

Compilation document and name

Q5: Do you see merit in having a "Compilation document" for the whole structure? In this case, which alternative would you prefer for organising the structure and nature of the Compilation document?

Q6: Given the breadth of the current mandate, would you consider it helpful to modify the name of the structure to improve its visibility? In this case, what name would you suggest?

We believe having a "Compilation document" that clearly describes the features and independent roles of the various parties in the three-tier system would greatly enhance stakeholders and regulators' understanding of the standard setting process. A document that clearly articulates the transparent standard setting process, public and regulatory input into those processes, regulatory monitoring and public interest oversight, may lead to greater awareness and appreciation of the output of the processes—the actual standards produced. We believe this can be achieved in a single document with an MOU between all the parties with an attached charter or compilation document. We also suggest that a single page graphical depiction be created to allow ease of understanding.

We do not necessarily believe assigning a name to the structure would provide clarity to third parties. However, if a name is assigned, we agree that a name that uses the word "IFAC" would not be the most appropriate as it would not encompass the public oversight features of the system. We believe the name that is selected should encompass the full three-tier system and cover all PIACs.

Monitoring Group - Role

Q7: Do you agree with the proposal that the MG should have a more strategic role?

Q8: Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIACs' agendas and receiving appropriate feedback?

Q9: Do you agree with the suggested ways of improving the communication activities? Would you consider it useful for the MG to have in the special occasions above described direct involvement with PIACs?

Q10: Do you have any specific suggestions on how liaison with investors could be improved? In this sense, do you see merit in some portions of the MG meetings having the public in attendance?

We concur with the statement in the Consultation Paper that a reasonable period of time has not yet elapsed in which to gain sufficient practical experience on how the recent reforms have actually worked. To date, we believe the current structure is operating effectively and in the manner it was intended. We believe any changes to the role of the MG should only be considered at a future date and not presently.

We do not believe that the MG should have a more strategic role than it already currently has. Further, we do not consider it useful for the MG to have direct involvement with the PIACs. We believe such involvement would be a duplication of the PIOBs efforts and responsibilities and would only serve to dilute the MG's independence and oversight.

We support the MG strengthening and improving its communication activities. We believe opening the MG meetings to the public and organizing conferences and other public events on matters under the MG's domain would improve communications and provide valuable feedback from investors and other interested parties.

We strongly encourage the MG to take a more active role in communicating to stakeholders the PIOB's independent oversight role in the development of auditing, assurance and ethics standards and the essential link the MG plays in monitoring the entire process. We believe an improved understanding of the effectiveness and transparency of the independent standard-setting process may lead to more countries adopting the standards developed. We also encourage the MG to be more outspoken in discouraging country deviations from the standards.

Monitoring Group – Composition

Q11: Would you find it useful that the MG engages with organisations representing governmental institutions? Would the G20 be the most appropriate? Or, should others bodies be considered instead?

Q12: What is your opinion about the current composition of the MG? (i) Do you believe that other organisations (i.e., national or regional regulators) should or could be

represented in the MG? If so, which criteria do you think new members should fulfill to become MG members? (ii) Should a maximum be set to the number of MG members? (iii) Would you favour a change on how the Chairperson is appointed?

We believe engagement by the MG with other organisations representing governmental institutions may be useful with the goal that such engagement serve to increase the transparency, understanding, support and confidence of such organisations in the standard setting process. To some extent, the MG is comprised of organisations representing governments and governmental institutions.

If additional engagement is undertaken, we encourage the MG to link with and leverage the efforts of allied bodies or organisations currently engaged in such efforts so as to increase, not compete with, such efforts.

Q13: Do you see a problem in MG members appointing full time employees of organisations represented in the MG as PIOB members?

Q14: Would you consider convenient to avoid direct hierarchical relationship between the PIOB and the MG members?

We believe the qualifications and caliber of the individual(s) for the position(s) are the most important criteria for selection. We do not see a conflict in MG members appointing full time employees of organizations represented in the MG as PIOB members. We believe this approach may be an effective way to fully and faithfully reflect the views of the organizations from which they are appointed. We also do not believe the existence of a direct hierarchal relationship between PIOB and MG members would necessarily hinder performance.

PIOB

Q15: Do you think that the roles and responsibilities of MG and PIOB should be further clarified? Do you have specific suggestions regarding which areas this clarification should address?

Q16: Do you see merit in the PIOB undertaking a regular review of its due process and oversight framework through its strategy document?

Q17: Do you see merit in the PIOB periodically producing a strategy document that would supplement the yearly business plan and budget? What should the involvement of the MG be in the production of these documents?

We believe the 2003 IFAC reform document clearly defines the roles and responsibilities of the MG and the PIOB and we do not see a need for further clarification at this time.

We see merit in the PIOB undertaking a regular review of its due process oversight role. We also believe that periodically producing a written strategy would enhance the role of the PIOB and allow other groups that are involved in the process to better coordinate with the PIOB. However, we believe that the MG should keep to its assigned monitoring role and should not be involved in the production of such document.

Q18: Do you think that the current composition of the PIOB could be enhanced? Would you consider convenient that the PIOB's composition is reviewed each time a new body becomes full member of the MG?

We believe the current composition of the PIOB is appropriate and that it results in effective oversight over the standard setting process. We also consider it reasonable and appropriate that the PIOB's composition be reviewed periodically though not necessarily each time a new body becomes a full member of the MG.

In our view, it is important that the PIOB possess the relevant experience and sufficient resources to effectively provide and discharge its oversight responsibilities.

PIACs (and their respective CAGs)

Q19: Would you consider the current composition of the PIACs appropriate? Do you see merit, in the context of a second effectiveness review, in exploring the idea of having a majority of non-practitioners and a majority of public members?

Given the strong and transparent independent oversight in place, we believe the current composition of the PIACs is appropriate. We are in full agreement with the statement expressed in the Consultation Paper that more experience with the recently implemented reforms is needed before concluding that steps beyond those previously recommended could be necessary. Consequently, we do not see the merits of a second effectiveness review at this time.

Q20: Do you consider best practice a nine years period for rotation of the representatives of CAG member organisations?

The role of the CAGs is to provide technical input. We question a need for rotation of the CAG members. In our view, what is most important is the caliber and technical qualifications of the individual not the length of time an individual may have served.

Funding the structure

Q21: Would you agree that it is not realistic at the current time to attempt to alter the funding structure of standard setting activities in any substantial fashion?

Q22: Do you consider appropriate that IFAC finances the largest part of the PIOB budget? If not, do you consider appropriate that IFAC launches an external fundraising having some contributions of the MG members in the mean time?

Q23: Do you think it feasible to have a similar funding structure in place for the PIOB to that in place for funding the IFRS Foundation?

We believe the full PIOB budget should be obtained from sources outside of IFAC. Dependency on IFAC funding may be perceived as inconsistent with the PIOB's independent public interest oversight role.

In our view, before it would be feasible to have a similar structure in place for the PIOB as that in place for funding of the IFRS Foundation, stakeholders would need to perceive that auditing, assurance and ethics standards are a public good and are developed in a manner that considers the public interest, and the standard-setting and related governance processes are understandable and transparent. We do not believe that this change in stakeholders' perception is achievable in the medium term. An alternative would be for MG members and other third parties to finance the PIOB. However, due to the current economic conditions, we believe this may only be achievable in the considerably longer term horizon.

Q24: Do you see the need for and/or merit in having a permanent Secretariat for the MG? In this case, do you think IOSCO should provide resources for a permanent Secretariat to the MG?

We agree that some form of permanent staff structure would facilitate the operations of the MG.

Final questions

Q25: How do you think the governance of the international auditing, ethics and education standards setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?

Q26: What is your opinion about the current structure? Do you think the current structure is appropriate in order to improve audit quality? If not, what changes, suggestions or remarks would you propose?

Q27: Do you agree that the current levels of empowerment and responsibility of the bodies that compose the current structure (MG, PIOB and PIACs) are appropriate? If so,

do you have any suggestions for improving the dialogue and interaction between the different bodies? If not, how these levels of empowerment and responsibility could be improved?

Q28: Do you think that there is any other overall structure that could achieve improvement in audit quality more efficiently? If so, what could they be and how might they be financed?

> We fully support the current structure in place. We strongly believe that the current levels of empowerment and responsibility of the bodies that compose the current three-tier structure are appropriate and operating well. The current model allows for the creation of high quality standards and practices in auditing, assurance, ethics and education that are responsive to the interests of the public. High quality standards that are understandable by practitioners, enable sound professional judgment and proper and consistent application and consequently result in improved audit quality.

Again, we appreciate the opportunity to express our views and to engage on matters of such importance. Should you have any questions regarding our response, please direct your questions to Karen M. Golz, Global Vice Chair, Professional Practice at Karen.golz@ey.com.

Yours sincerely,

Ernst & Young Global Limited