



Grant Thornton

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The Monitoring Group

By e-mail to:

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Dear Members of the Monitoring Group

Public Consultation on the governance of the Monitoring Group, the IOB and the standard-setting boards and Compliance Advisory Panel operating under the auspices of the International Federation of Accountants (IFAC)

Grant Thornton International Ltd ("Grant Thornton") welcomes the opportunity to comment on the Monitoring Group's Consultation Paper on the governance of the Monitoring Group, the IOB and the standard-setting boards and Compliance Advisory Panel operating under the auspices of the International Federation of Accountants (IFAC) dated 28 March 2012 ("the Consultation Paper").

Grant Thornton appreciates the importance of both actual and perceived due process and strong governance arrangements for international standard setting and we share the desire of all parties to build upon existing strengths in the current system.

We support the current Monitoring Group structure

In our view the current structure of the standard setting model and the independent oversight and monitoring performed respectively by the IOB and the Monitoring Group (MG) is held in high regard by most stakeholders. Further, this oversight and monitoring has demonstrated to be operating effectively and has contributed to a standard setting process which is responsive to the public interest. Accordingly, while improvements are possible and desirable, we feel the current oversight process is not in need of significant change.

Similarly, our view is the standard setting process presently includes a broad and balanced representation of stakeholders. Therefore, the existing governance of the Public Interest Activity Committees (PIACs) and the composition of the main bodies and advisory groups are not in need of significant change.

The above areas were considered individually and collectively during the 2003 IFAC reforms and reconsidered during 2010 to ensure that they continue to function well. In our view it would make sense to defer any further reassessment until after the impact of those changes can be fully considered. We recognise and support that the MG, the IOB and IFAC will continue to search for further improvements.

Educating observers

Whilst we observe above that the structure of, governance over and rigour of the standard setting process is strong, we acknowledge that there are observers who express doubt that standards are set independently and for the public interest.

Communication with stakeholders is key. We note that the PIACs commit considerable resource to meet with stakeholders to inform them of developments and activities and to obtain their views. We encourage continued and further outreach with stakeholders to increase the understanding of the strength of the present process and to hear feedback on possible improvements.

The PIOB and the MG also have critical roles in educating stakeholders about the quality of the PIAC's governance, due process and, ultimately, of the PIAC's standards. We encourage both the PIOB and the MG to seek opportunities for outreach to various stakeholder groups.

In conclusion, we believe that the structure and robust due process of the PIACs, together with oversight of the PIOB and involvement of the CAGs, result in high-quality standards that are in the public interest. While improvements are possible, significant change to the existing representation or processes may have the unintended consequence of damaging an approach that is operating effectively. The PIACs have established high credibility with investors, regulators and preparers, and auditors of financial statements and are recognised as bodies that set high-quality global standards.

We respond to the MG's specific questions in an appendix to this letter. If you have any questions on this letter, please contact April Mackenzie (phone: +1 212 542 9789; email: April.Mackenzie@us.gt.com) or Martin Drew (phone: +44 1865 799914; email: Martin.S.Drew@uk.gt.com).

Yours faithfully

A handwritten signature in black ink, appearing to read 'April Mackenzie', with a long horizontal flourish extending to the right.

April Mackenzie
Global head - governance and public policy
Grant Thornton International

Appendix I - responses to specific questions in the consultation paper

The structure. Objectives, legal nature and name

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?

In our view the current structure supports the public interest appropriately. The standard setting bodies, the Public Interest Activity Committees (PIAC(s) or board(s)), include practitioner and non-practitioner board members, including public members. Grant Thornton participates in multiple boards and we have observed first-hand both practitioner and non-practitioner members acting in a manner that is in the public interest. The 2010 consultation process resulted in significant changes to the representation of these bodies including that no board seats are designated to be filled by members of the Forum of Firms, with any Forum of Firms members now being considered among all of the candidates.

The nomination process for each board is thorough, transparent and to be commended, with, in particular, the PIOB overseeing the nomination of board members to ensure that due process is followed and that the boards have an appropriate composition. In addition, each board member signs a pledge to act in the public interest and the Chair of the respective board annually assesses whether that member performs their role in the public interest.

We consider that there is a need to better communicate and illustrate the good practice that is already in place to reinforce the independence of the PIACs, particularly with legislators.

We also fully support the implementation of an independent IESBA Chair as this is clearly in 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?

We believe that the inclusion of practitioners is critical to the development of high quality standards. Practitioners act in the public interest and their perspective, obtained from relevant recent experience, ensures appropriately worded and practicable standards. The quality of standards would be affected negatively, and we believe significantly, if practitioners are not part of the standard setting process.

The present approach brings together the perspectives of members from a variety of backgrounds and experience and together with the independent oversight provided by the PIOB, along with the oversight of the MG, and the input of stakeholders on the Consultative Advisory Groups (CAGs), the public interest is well represented. We believe the result is high-quality standards and we note that the standards are used in over 100 countries worldwide. We have not observed another system that produces better standards.

Since investors are the ultimate customers in the auditing process, and it has been sighted by some that the audit report and financial statements suffer from an "expectation gap", we support methods to increase investor representation within the standard setting process.

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?

The current governance structure includes the independent PIACs, overseen by the PIOB, which in turn is monitored by the MG. This structure is entirely suitable to achieve the overall aims of standard setting and allows rigorous public oversight by regulators, which ensures that due process is followed.

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?

In the current economic environment and with increasing focus on public sector issues such as sovereign debt, we support the need for independent oversight of the IPSASB, to ensure that standard setting serves the public interest. Governments, like corporates, have a duty-of-care to numerous stakeholders and decisions about the financial health of a government have a direct and powerful impact on local and global economies. It is critical to these stakeholders that governments' financial management and reporting is high quality. Improved governance over the standard setting process would assist in achieving this objective by ensuring that standards of accounting are developed independently of the governments applying them.

The use of an expanded PIOB, inclusive of members with recent and relevant experience of public sector accounting issues, is an appropriate structure to provide this oversight. This approach takes into account the efficiencies of the current PIOB model and ensures due process is followed and seen to be followed. Further as the PIOB deals with oversight, we do not believe a distinction between accounting rules and auditing rules is relevant.

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?

We see huge benefit in the preparation of a Compilation document which provides the objectives, structure, composition and functions of each body as well as the relationship between them. As set out in our covering letter, the perception of due process and oversight in the standard setting regime is paramount and we believe the largest barrier for the MG to overcome is ensuring universal acceptance of the standard setting process. A compilation document would be a useful tool to educate stakeholders and observers of the rigorous structure and governance that is already in place.

We would have no concern with a compilation document being organised through the PIOB foundation, whose oversight process allows them insight into the entire structure.

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?

As stated previously, we consider that education of stakeholders and legislators to the purpose and constitution of the current structure and the bodies that are party to the process is the most critical point in improving universal acceptance. In our view the use of a compilation document as described under Q5 together with a focus on further education and outreach efforts by the MG and the PIOB would suffice, without the need to rebrand the structure. Such a change could lead to increased confusion.

Bodies in the structure (role and composition)

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

We believe that it is essential that the standard setting process remains independent so that regulatory and international public interest organisations which make up the members of the MG are able to rely on the output. The current position where the MG appoints members to the PIOB, approves the PIOB strategy and monitors the execution of that strategy has proved successful in our view and we see no compelling reason to increase the MG's direct involvement in the strategy.

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?

While the PIOB should have an understanding of the views of the MG and other stakeholders, we do not see the need for the MG to have further input into the PIACs' agendas. The current structure is rigorous and allows the PIOB, the PIACs and the CAGs to perform their roles appropriately and to ensure the public interest is being served. An increase in the MG's direct involvement in the process risks undermining the standard setting process and the PIOB's capabilities. Further the CAGs play a critical role in the process as they represent a very wide constituency and therefore can provide a broader range of views on these matters

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?

We believe that methods to improve the communication of the MG's work and in allowing further investor involvement in the process are to be encouraged. In particular, more regular press-releases, increasing contact with relevant stakeholders such as investors, organising conferences and improving website visibility would all contribute to improving the public awareness and acceptance of the process. However as above we do not see a need for the MG to have a more direct role in liaising with the PIACs as to do so would run the risk of undermining each party's role in adding confidence to the structure and the output.

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 consider that there could be merit in having some portions of the MG meetings with the public in attendance to provide further transparency over the Group's work. Investor input into the process could be gained through their representation on the PIACs and, as stated previously, by the MG and the PIOB better advocating and communicating the current structure to gain more universal acceptance that the standard setting process is performed in accordance with due process.

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?

Business is global and Grant Thornton supports the use of international accounting, auditing and ethical standards developed internationally through a process with appropriate representation and oversight. General acceptance of the standard setting process requires that the process includes appropriate stakeholder representation and that it follows due process. To this end the MG's engagement with organisations representing governmental institutions, such as the G20, is to be supported. Benefits include allowing the MG and the PIOB to communicate the work that they do to ensure that due process is followed in standard setting and to obtain the views of such groups on the standard setting process.

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 fulfil 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?

Grant Thornton does not support the need for national and regional regulators to join the MG. We are of the view that the process is best represented by international organisations that have a legitimate and direct interest in the areas under review. The suggestion would risk that the process be unduly influenced by national or regional interests. We support the MG being composed of a diverse range of representatives with an interest in the activities of the various PIACs, including the IPSASB.

We believe that there is likely to be an optimum amount of members on the MG for it to be able to operate effectively and so we would support a cap, say ten organisations, being in place.

We have no concerns regarding the current appointment process of the Chairman.

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

In our view, membership of the PIOB should be selected to continue to include the most senior and experienced individuals available. We believe that the MG should be made up of the most senior positions of the representative bodies, such as the chairs of the representative bodies.

However we share a concern that there could be a perceived conflict of interest in the appointment process of PIOB members, if they were full time employees of organisations represented in the MG. To extinguish any possible concern or doubt, we would support the establishment of a rule restricting any hierarchical relationship between individuals on the PIOB and individuals on the MG.

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

See answer to question 13.

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?

We are clear as to the roles and responsibilities of the MG and of the PIOB although we consider that a lack of knowledge of this by some stakeholders and observers raises concerns over the independence and due process within the setting of standards of the PIACs.

We believe that further communication to stakeholders such as investors and the general public is needed in order that the MG's and the PIOB's work is understood and recognised more widely by stakeholders.

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

We consider that it is important that the PIOB is seen to be periodically undertaking a review of its due process and "moving with the times" in reassessing its strategy and focus. This function should be performed and communicated publicly, perhaps via its strategy document. We support such a review taking place no more frequently than every 5 years, as reviews on a more regular basis than this is likely to be ineffective and may confuse constituents.

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 consider that the production by the PIOB of its strategy document, including a review of its due process and oversight framework, as referred to in Q16, would be appropriate.

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?

The key requirement of the PIOB composition is balancing the regulatory perspectives and geographic and gender diversification. Further, this balance needs to be easily perceived by key stakeholders so that there is no question of bias in the board's make-up.

We consider that the current composition of the PIOB meets the above requirements, although we support a review of its composition on a regular basis – such as when a new body becomes a member. For example, if the MG undertakes to oversee IPSASB, the PIOB would need increased experience with respect to public sector accounting issues.

Q19: Would you consider the current composition of the PLACs 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?

We believe that the current composition of the PIACs is appropriate, with a proportionate mix of practitioners and non-practitioners, an independent chairperson on the IAASB and IESBA and with additional advisory input by the CAGs and oversight by the PIOB.

We continue to strongly endorse the need for practitioners with relevant and recent experience to be included on the PIACs – these practitioners bring a wide range of experience – from practitioners in the field, to leaders managing relationships with oversight bodies and practitioners assigned to technical roles. Each brings an important perspective on how to develop high-quality implementable standards that serve the public interest.

In our view the quality of standards is high and the due process is rigorous and transparent. Enforcing more regular reviews will only serve to undermine the credibility of the role of the PIACs.

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

In accordance with best practice we support encouragement for a reasonable rotation period for the CAG representatives, and nine years is not, in our view, unreasonable.

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?

We do not believe that the current source of funding affects the strength of the standard setting activities due to the quality of the members of the PIAC's and the robust oversight provided by the PIOB. However, in our view it is desirable and realistic to broaden the current funding structure to include bodies that benefit from the activities of the structure.

It is incumbent on the MG to contribute to bringing increased funding to the structure for which they are responsible, thus continuing to ensure credible effective capital market operation and protecting investors.

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?

We believe it would be preferable if IFAC did not finance the largest part of the PIOB budget as there is a risk that this could harm the perceived credibility of the PIOB's work. We support a proportion of the PIOB's funding to come from contributions from the MG members in addition to other external fundraising being launched, specifically from public authorities and others from outside the accounting profession. In our view it is critical that this be resolved urgently and that regulators, as representatives of the public, contribute to the funding.

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 consider that it would be desirable to have a similar funding structure in place for the PIOB to that which is in place to fund the IFRS Foundation, where accounting firms provide approximately 33% of total funding, an amount significantly in excess of that which is provided to fund the standard setting activities of the PIACs.

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 see merit in the MG having a permanent Secretariat in order to ensure that there is continued experience and knowledge of the organisation. This position would allow a smoother running of the MG, in particular when representatives of the member groups rotate or change. We see this resource requirement being small, such as 25% of a person's time, to help with administration and communication within the MG. In our view, it would be appropriate for IOSCO to provide or sponsor the resource.

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?

We believe that audit quality has and is being improved by the work that is undertaken by the PIACs and by the due process that the PIACs follow which is independently overseen by the PIOB and monitored by the MG.

We see the key activity that those responsible for governance should undertake is to increase communication with regulators, investors and other stakeholders about the progress achieved from the IFAC reforms in improving the structure and composition of the various bodies in the standard setting process.

We consider that wider and increased advocacy and education by the MG and the PIOB of the rigorous structure that exists is needed to address perception concerns by some stakeholder and observers.

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?

We believe that the current structure, brought about by the IFAC reforms, is appropriate to ensure high audit quality. We have no proposals to change the existing structure.

Q27: Do you agree that the current levels of empowerment and responsibility of the bodies that compose the current structure (MG, PIOB and PLACs) 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?

We are supportive of the current structure as it provides sufficient empowerment and responsibility to the various bodies in the current structure.

We believe the use of regulatory impact assessments and transparency of the meetings of the MG/PIOB and PIACs will aid the empowerment and responsibility of each of the bodies. We have no other suggestions to further enhance the structure.

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 consider that the current structure maximises efficiency in the target of improved audit quality.