

June 21, 2012

Mr. Fernando Restoy, Chairman  
Monitoring Group

By E-mail: [Piob-MonitoringGroup@ipiob.org](mailto:Piob-MonitoringGroup@ipiob.org)

**Re: Public Consultation on the governance (with 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 operating under the auspices of the International Federation of Accountants (IFAC)**

Dear Mr. Restoy:

This letter is submitted on behalf of Deloitte Touche Tohmatsu Limited and member firms of Deloitte Touche Tohmatsu Limited (collectively “Deloitte”). We appreciate the opportunity to comment on the Monitoring Group’s Consultation Paper on the governance of the Monitoring Group, the PIOB and the standard-setting boards and the Compliance Advisory Panel operating under the auspices of the International Federation of Accountants (IFAC) (the “Consultation Paper”).

The changes that were put in place to create the new global standard-setting regime outlined in the IFAC Reforms were monumental and took a significant amount of time and effort. Moreover, significant changes to further strengthen this regime were agreed to at the conclusion of the Monitoring Group’s consultation in 2010, most of which have been recently implemented. We believe it would make sense to defer any further reassessment until after the impact of those changes can be fully considered. We continue to believe that all of these reforms serve the public interest and support audit quality.

Our specific comments on the questions raised in the Consultation Paper are covered in the following pages. We would be happy to discuss our views with you or to provide more detailed comments on any points where our views are not clear or where we may have misunderstood any of your questions. We hope that this letter and all other comment letters provided to the MG on this consultation will be posted to your website or made available to the public via some means.

**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?**

No. We believe the public interest is well represented and fully protected by the existing arrangements and safeguards. We support the implementation of an independent IESBA Chair and believe it will add an even greater level of protection of the public interest. We do not believe any additional mechanisms are needed 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?**

We would not be opposed to a different and fully independent standard-setter model with a reliable funding source as long as the standard setting model had the same key characteristics of the current model. Given the unique nature of auditing, ethics/independence, and education standards, we believe it is critically important for the standard-setting boards to include at least 50% practitioners who are expert in the technical content and familiar with the implementation issues regarding the standards that are being set. Second, we believe these standard-setting boards should rely on valuable advisory input from informed individuals, equivalent to the respective CAGs in the current model. Third, we believe the model should include an experienced group of individuals, equivalent to the current PIOB, to evaluate due process and provide assurance that the public interest in being served.

We are not able to recommend any other funding sources for a new independent standard-setting model, but we would be supportive of other funding sources as long as they do not unduly influence the operating effectiveness of the model. Regardless, we believe the existing model has served the public interest well and will continue to work effectively while remaining under the IFAC umbrella. Moreover, the safeguards built into the existing model are more than adequate to protect the public interest regardless of the funding source.

**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?**

We believe the current three-tier system is working effectively to achieve its objectives the way it was originally designed. The PIOB has, in our view, done an effective job of overseeing the public interest activities of and the due process followed by the Public Interest Activity Committees/Boards (PIAC's), thereby protecting the public interest, and we would favor continuing a model that relies heavily on an experienced PIOB.

As mentioned in our response to the previous question, we would not be opposed to an independent standard-setter model as long it had the key characteristics discussed above.

However, at the current time, we know of no better alternative model, and we would not be supportive of any model which does not have significant practitioner involvement, nor one without a strong PIOB role to ensure the public interest is well served.

**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?**

Yes. We would support and favor the IPSASB being subject to PIOB oversight. We would also favor the IPSASB being subject to the same due process requirements and safeguards as the other PIAC's, with no additional conditions required. We believe the due process requirements of the PIACs are strong and the PIOB has the expertise and judgment to oversee the IPSASB's standard setting processes regardless of the fact that the IPSASB sets accounting standards. Since the role of the PIOB is to assess due process and not the technical content of the standards, we believe there is no good reason the PIOB could not play the same critical role in protecting the public interest in the setting of public sector accounting standards just as well as it does in the setting of auditing, ethics/independence, and education standards.

**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?**

No, we do not believe this is necessary. However, we would not object to the preparation of a compilation document if it would add more clarity for any stakeholders who do not understand how the current system works. If such a document is prepared, we believe it should be organized through the PIOB Foundation.

**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 would support any reasonable name that adequately describes the structure if it would result in greater understanding of the whole range of activities under the scope of the structure, but we do not believe a change is essential. We believe that referring to the existing structure as "the IFAC structure" fails to adequately describe many of the other key elements and organizations of the existing structure, most notably the dominant role of the PIOB and the important role of the CAGs.

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

No. We believe the model is working effectively as it was designed. Moreover, there is no reason to believe that it will not continue to work effectively without any substantive

additional roles assigned to the MG. The MG should continue to appoint the members of the PIOB, approve its strategic plans and budgets, and monitor the execution by the PIOB of its mandate, but it should not have a closer involvement in or oversight over the PIACs. Doing so would create confusion and undermine the PIOB's role. It should also not participate or have an active role in influencing the "technical content" of the standards, which is the responsibility of the PIACs and the CAGs.

**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?**

No. We do not agree with the proposed new objectives of the MG. Conferring with the PIOB on the PIACs's agendas or similar activities would interfere with the key roles of the PIOB and CAGs. Members of the PIOB and CAGs are highly qualified and capable of overseeing and influencing the PIACs to ensure all appropriate public interest considerations are being adequately addressed. Moreover, the organizations represented on the MG can already influence the PIACs agendas given their representation on the PIOB and CAGs. To the extent the MG believes these bodies are not doing their jobs, they should discuss this with the respective groups and monitor their progress.

**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?**

Yes and No. The MG could certainly improve its communication activities, improve its website, and allow public attendance during some parts of its meetings. On the other hand, as noted above, we do not believe the MG should play a more active role with the PIACs as proposed, nor do we believe a business case has been made for the need to do so. As mentioned, we do not believe the MG should have any direct involvement with the 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?**

No and Yes. We do not favor the MG creating any more direct liaison with investors except to the extent investors might attend meetings of the MG if portions thereof were open to the public. We would support the MG having a portion of its meetings open to the public and greater transparency of its activities.

**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?**

We would support the MG engaging with organisations representing governmental institutions, such as the G-20 to ensure that the PIOB, CAGs, and PIACs are aware of and focused on concerns raised by the G-20 or any other organizations whose input the MG believes should be considered.

**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 are supportive of the current composition of the MG. We do not believe national or regional regulators should be added as it is unnecessary and could create potential conflicts and reduce effectiveness and efficiency. However, if and when the MG agrees to have IPSASB become a PIAC, we believe it could consider adding INTOSAI or a similar group as a MG member to expand the MG's perspective in this space. We are also of the view that it would be advisable for the MG to agree to a maximum number of members simply to keep its size at a workable level. However, it would not necessarily need to operate at that maximum at all times. Finally, we would support any credible means for how the MG appoints its Chairperson.

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

No. We do not see any inherent conflicts in serving both roles. We favor selection of the best available individuals for the PIOB and believe there are adequate safeguards to deal with any general perception concerns regarding potential conflicts. Given the critical importance of the PIOB in protecting the public interest, we would urge the members of the MG to continue to appoint experienced, senior level people to the PIOB.

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

No. Once again, we believe appointing the highest caliber individuals to the PIOB is a predominant consideration. We believe that mature, experienced and competent individuals will well serve the public interest regardless of a hierarchical relationship between the PIOB and MG members, but if the MG or PIOB perceive the need to issue guidance to avoid issues that have or could impair the effectiveness of the current arrangements, they should do so. We also believe is important for the MG organizations to consistently have senior and experienced individuals representing their organizations at the MG meetings.

**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?**

No. We believe the respective roles and responsibilities are clearly defined. If some members of the MG or PIOB or others are confused and more clarity would be helpful, then we would support additional communications to help clarify.

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

Yes. We support a periodic review by the PIOB of its due process and oversight framework – via a strategy document or any other effective means.

**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?**

Yes. We also support the PIOB continuing to issue an annual report to the public in which it communicates what it believes is appropriate. We would have no objection to the PIOB sharing drafts of its reports with the MG in advance of such publication, to seek input on, but not approval of, its reports. However, the PIOB needs to be able to freely express its views even if its views are not fully supported by the MG.

**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 acceptable, but we would prefer that it be expanded to include investor representation, which we recognize may be hard to identify. We also believe PIOB membership could be enhanced by appointing a member with public sector reporting experience if and when the IPSASB becomes a PIAC. We would support a review by the MG of the composition of the PIOB at the time a new body becomes a full member of the MG and reconsideration of how to include investor representatives on the PIOB at any time.

**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?**

Yes and No. We consider the current composition of the PIACs to be appropriate, including imminent plans to have an independent chair of the IESBA as agreed at the conclusion of the 2010 effectiveness review process. We see no current need for another effectiveness review given that a comprehensive review was performed quite recently and the recommendations coming out of that review were fully considered and the agreed action plans are being implemented on a timely basis.

We remain fully supportive of the current balance of 50% practitioners and 50% non-practitioners. We see no merit in exploring the idea of having a majority of non-practitioners or a majority of public members on any of the PIACs. We believe any change in that balance would likely reduce the quality of the standards significantly and should not be explored.

The experience and expertise brought to the standard-setting process by practitioners who regularly work with and more fully understand the complexities of the standards and how they are implemented is absolutely critical to setting high-quality standards by each of the PIACs. Public members and non-practitioners are simply unable to provide that same level of technical expertise, which is essential.

In our view, the existing model has the right practitioner/non-practitioner balance on the PIACs and plenty of effective safeguards to ensure the PIAC's standard-setting activities are conducted in the public interest, including the dominant role of the PIOB and the important role of the CAGs. We see no credible evidence of a need to tinker with that balance on any of the PIACs and we believe doing so would create a huge risk of reducing the effectiveness of the standard-setting processes and the quality of the standards, neither of which would be in the public interest.

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

Periodic rotation of individuals serving on the CAGs would be a sound principle and a prudent practice to aspire to. However, given, the key role of the CAGs in providing technical input to the standard setters, there may be instances where an organization with limited resources may conclude it is prudent for an individual to serve longer. Consequently, we would not object to exceptions to that general principle when an individual identified by the CAG member organisation as having the appropriate technical expertise for the particular CAG is reappointed, even if the individual may have served nine years.

**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?**

Not necessarily. We believe it would be desirable if the MG would help ensure that at least 50% of the annual funding of the PIOB comes from parties other than IFAC, as was intended when the model was established. However, we believe the safeguards to protect the public interest embedded in the current model are so significant that the source of the funding does not impact the effectiveness of the process, nor the credibility of the standard-setting activities.

**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?**

No. We believe it would be desirable for the MG to ensure that at least 50% of the funding of the PIOB's annual budget comes from parties other than IFAC, as was intended when the model was established nearly a decade ago. We believe the MG should launch its own external fundraising efforts to deliver the greater level of external funding intended when the model was established. We understand the MG and IFAC have recently begun new joint efforts to accomplish this, which we certainly applaud.

**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?**

No. We doubt that the current funders of the IFRS Foundation would be willing to commit to a similar funding structure, although we certainly believe the benefits of the high-quality standards established by the PIACs benefit the capital markets and the same stakeholders funding the IFRS processes. We would not object if the same funding sources were to provide some or all of the funding for the PIOB and PIACs, as long as such funding would not alter the fundamental model and its existing safeguards.

**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?**

Yes. We believe there is a clear need for more continuity and ongoing institutional knowledge of the background and developments of the MG, particularly given the ongoing turnover of the actual representatives from the MG organizations. Given IOSCO's leadership role in the creation of the MG and the key role of this organization in the capital markets, it would seem appropriate for it to provide resources for a permanent Secretariat to the MG.

**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 the existing governance of the PIACs is working effectively to improve audit quality and will continue to do so without any modification in the governance arrangements. The main objective that those responsible for governance should continue to take into account is to act in the public interest in their respective activities, which will continue to help improve audit quality.

**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?**

Yes. We believe the current structure is appropriate for setting high-quality standards. We would propose no changes.

**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?**

Yes. We believe the current levels of empowerment and responsibilities of the bodies that compose the current structure are appropriate.

**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?**

No.

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Should you have any questions on the above, please feel free to contact Chuck Horstmann at (212) 492-3958.

Sincerely,

Deloitte Touche Tohmatsu Limited