12 July 2012

Electronically submitted to Piob-MonitoringGroup@ipiob.org

Dear Sir/Madam

RESPONSE TO PUBLIC CONSULTATION – MONITORING GROUP
GOVERNANCE REVIEW AND PUBLIC INTEREST OVERSIGHT BOARD WORK
PROGRAM

I am pleased to provide our comments on the Monitoring Group’s (MG) preliminary proposals resulting from its assessment of the current governance structure and the Public Interest Oversight Board’s (PIOB) work program for 2012 and beyond.

The comments have been compiled in my capacity as the Chairman of the Standards Coordination Working Group (SCWG), which is a working group of the International Forum of Independent Audit Regulators (IFIAR), from the inputs of the following members:

- South Africa
- Thailand
- Spain
- Chinese Taipei
- The Netherlands.

The SCWG is largely responsible for matters with respect to standards and standard setting activities.

While I attempted to highlight common views and trends in the responses, the comments are not necessarily representative of the SCWG or the IFIAR membership as a whole. Where, in some instances, the views of the members were different, we tried to share the different views with the appropriate motivation.

IFIAR has as its overarching objective a common goal of serving the public interest and enhancing investor protection by improving audit quality globally, and more specifically:

- Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms;
- Promoting collaboration and consistency in regulatory activity; and
- Providing a platform for dialogue with other organisations that have an interest in audit quality.

Our comments should therefore be read in the light of the above objectives.

While we have responded to the specific questions in the consultation papers, we have made some high level recommendations which are pervasive throughout the current structures and apply to the present processes. Broadly, these include the following:
While we believe that the monitoring and oversight responsibilities of the PIOB and MG, respectively, should continue, there are opportunities for these roles to be further enhanced and for closer liaison between the different structures, notwithstanding their independence from each other;

We believe that the ultimate goal of standard setting should be for the standard setting structures to be entirely independent of the profession;

While a focus on due process remains essential, it is not necessarily sufficient for the oversight structures to discharge their responsibilities to protect the public interest and more active roles need to be considered; and

The objectives of the oversight and monitoring should be more outcomes based, instead of focused on process (inputs).

I trust that our inputs will be of value to further enhance the goals of the MG and PIOB to reinforce its mechanisms to safeguard the public interest with respect to standard setting, and will be happy to further discuss our comments if required.

Yours Faithfully

Bernard Peter Agulhas
Chief Executive Officer

Established in terms of Act 26 of 2005
Response to

Public consultation on the governance of the Monitoring Group, the PIOB and the standard setting boards under the auspices of IFAC
Q1: Do you consider it necessary to enhance representation of the public interest? In that case, 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?

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<th>Response to Question 1</th>
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<tr>
<td>Yes, we do consider it necessary to enhance representation of the public interest.</td>
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While we support the appointment of an independent chairman to the IESBA and redefining the nature of non-practitioner board members, we also consider it necessary to enhance representation of the public interest on the standard setting boards. For example, defining the criteria regarding a cooling off period for former audit partners to sever any material link with the profession will contribute towards the promotion of stakeholders’ confidence in the quality of the standards, and ensure that the standards are developed in a manner that is responsive to the public interest.

The non-practitioner board member definition must also be carefully considered. This is sometimes confused with ‘public members’. Non-practitioners should not include former audit partners (unless there are criteria for an appropriate cooling – off period). In our view, a ‘public member’ also does not mean anyone who is not an auditor, for example, an academic is not necessarily a ‘public member’, although the academic inputs are essential.

It is also important to consider structures that will provide the necessary technical support to public interest members, as they may not be close enough to the technical issues which could impact on the public.

As an ultimate goal, we would foresee full independence of the PIACs from IFAC. However, as interim measures, it could also be explored whether the non-practitioner members could be appointed (and paid) other than by IFAC. (We are aware that the process has recently been changed to allow for the appointment of public members other than by IFAC). Further, we suggest exploring possibilities to ensure that the PIACs have a majority of public interest members.

We believe that the role of the PIOB vis-à-vis the appointment of PIAC Members could also be expanded. Currently the PIOB only monitors the appointments of Members who are approved by the IFAC Members, but we believe that the PIOB should also consider the nomination process as a whole, and that application by potential public members are dealt with in a different way than via IFAC Membership (as mentioned above, we are aware that the appointment process is being changed).
We would also like to point out that the standards for Auditing (including Quality Control) and Independence/Ethics are more of a public interest nature. We believe that the efforts from both the MG and PIOB should focus on these two aspects and thus on the development of ISAs, ISQC and the Code of Ethics. For other standards, we believe that there is much less public interest at stake.

Finally, we note that the level of acceptance of the ISAs and, even more so, the Code of Ethics, show that these standards are not yet perceived to be sufficiently meeting Public Interest needs. This may be caused by the fact that the standards are now developed to serve the needs of a broad range of companies, audits and audit firms. The capital markets, however, need high quality audits. While we recognise that the needs from capital markets may be different than those from smaller entities, we believe that this should be better reflected in standard setting, and that the standards should be developed so that they better meet the needs of the capital markets.

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 it be funded?

**Response to Question 2**

We would strongly favour standard setting outside of IFAC and foresee a structure funded by independent bodies (e.g. regulators and/or supervisors). In such a structure, it could also be explored whether the current structure of separate boards for auditing standards and for ethics standards is the best one, or whether these boards should be merged.

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

**Response to Question 3**

The current model is difficult in practice, and somewhat overlapping in its oversight and division of tasks between the PIOB and MG. However, given that standard setting currently resides within IFAC, we believe that the three-tier system is appropriate and needed. If standard setting were fully independent and outside of IFAC, a two-tier system, with a standard setting body, and one oversight body, could be adequate.

**Three – tier system**

In a three-tier system, consideration could be given to change to a similar model to the one adopted by the IFRS Foundation. This also involves the existence of 3 layers and could be represented as follows:
- Standard Setting Boards
- PIOB (expanding its functions to technical support to PIAC’s and acting as the IFRS Foundation Trustees, who have, among others, the responsibility for the financing arrangements)
- Monitoring Group (that oversees the whole structure)

Further recommended improvements within a three-tier system:

- The MG could further improve its strategic role, as well as having more close oversight of the PIOB’s operations. This may require the MG to have part-time staff.
- The PIOB could expand its oversight role. Such expansion should enable the PIOB to not only monitor due process closely, but to also take a broader look at the IAASB’s and IESBA’s projects. We recommend that the PIOB also start assessing whether new projects are driven by public interest objectives.
- The PIOB should have appropriate technical understanding of the projects so as to assess that public interest comments have been sufficiently addressed. This means that members of the oversight bodies and their staff need to be capacitated to appreciate the actual technical issues and receiving the necessary technical support, if required, and not only sign off on process.
- Oversight by the MG and monitoring by the PIOB should also focus on the outcomes.
- Finally, the PIOB should improve its work regarding the design of the processes. Many issues that arose in the Effectiveness Assessment review, such as the issues relating to Technical Advisors, to voting by proxy and to the role of the CAGs, have not been identified by the PIOB.

Two – tier system

In a two-tier system, in the event that the standard setting structures are completely independent of IFAC, the following improvements could be considered:

a) the structure would not be financed in its majority by IFAC;
b) the possibility of a Permanent Secretariat for the Monitoring Group (in a three-tier system a part time secretariat might suffice); and
c) Financing of the PIOB and MG.

In this context, we believe that a two-tier system would be adequate enough to achieve the objective of securing the necessary confidence in the standard-setting activity.

The two layers envisaged in a two-tier system would be comprised of:

- Standard Setting Boards; and
- MG (with strategic role, technical support and oversight of the performance of the standard setting boards).

Conclusion

In conclusion, and with consideration of the recommendations to improve the current three-tier system, we believe that the three-tier system is appropriate until such time as the standard setting activities can be completely independent of IFAC.

Q4: Would you include the IPSASB among the committees under the 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?

Response to Question 4

Although it could appear obvious that new disciplines can easily be accommodated by existing structures and processes, there could be practical difficulties. Public sector accounting, like public sector auditing, is complex and quite different from private sector standards.

We would therefore not support the PIOB to oversee the IPSASB as it could result in a more heterogeneous set of standards subject to oversight by PIOB, which would also require a different skills set amongst the PIOB members.

Currently, INTOSAI (The International Organisation of Supreme Audit Institutions) is responsible for public sector auditing standards. It might be more appropriate to include the public sector accounting standards here. It is understood that this body might not have the required oversight structures; however, the IFAC structures should not be used simply because it has the necessary oversight structures in place.

Another alternative is that the IPSASB should be overseen by the Trustees of the IFRS Foundation which is an organization that currently oversees the International Accounting Standards Board (IASB), the private sector accounting standard setter. There is a better link with IASB’s accounting standard setting work for the private sector, and we therefore suggest that those interested in accounting standards for the public sector explore whether there is merit in liaising with the IASB and/or the Monitoring Board on this. It is clear to us, however, that the MG/PIOB structure is not appropriate for also overseeing the IPSASB.

Whichever option is chosen, we agree that it is important that the IPSASB is subject to independent oversight, given its role in the public sector, which necessarily forms part of the public interest.
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?

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<th>Response to Question 5</th>
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<td>Whichever option is chosen, it will be desirable to demonstrate a clear separation between the different structures to reflect their independence from each other.</td>
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<td>It would probably be best if the “Compilation document” could be organized through the PIOB Foundation. The document should, as mentioned above, clarify the nomination process and governance of each body in the structure to clearly reflect their Independence.</td>
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<td>However, we would also be comfortable to do this as a stand alone document, linking, where relevant, to legal and/or statutory documents for each of the constituents of the structure, clearly indicating that the MG would act as governance body for the PIOB Foundation. This could also better reflect the distinct roles of the PIOB and the MG.</td>
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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?

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<th>Response to Question 6</th>
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<tr>
<td>The reference to ‘IFAC Structure’ do not sufficiently and visibly provide the public with the independent oversight the PIOB and MG provide over the standard setting processes and boards of IFAC.</td>
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<td>It is also not advisable to have names that are too long as they would be abbreviated in any event making the structures even less identifiable by the general public.</td>
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<tr>
<td>As per our earlier responses, we believe that the public interest is mostly at stake with auditing and ethics / independence standards. The name should reflect that.</td>
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Q7: Do you agree with the proposal that the MG should have a more strategic role?

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<tr>
<td>The MG should only have a strategic role. It should not get involved in the roles of the PIOB and the PIACs. This is important to emphasise the independence of the bodies in the overall structure.</td>
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We believe that the MG should focus on whether or not the whole structure continues to meet its strategic objectives, which also includes providing strategic guidance to the bodies involved in the system.

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?

**Response to Question 8**
Yes, we do agree with the proposed objectives; however, such monitoring and guidance must be on strategic issues and at a strategic level. This will ensure that the MG can influence the strategic direction of matters on the PIACs’ agendas and the PIOB’s monitoring thereof.

It will, however, be equally important that the MG receives feedback on strategic issues it wished to be included on the PIACs’ agendas and whether the PIOB has appropriately monitored the PIACs’ responses to such strategic issues. This will assist the MG in determining the effectiveness of its oversight role.

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 described above direct involvement with PIACs?

**Response to Question 9**
We agree with the suggested ways of improving the communication activities, especially with the proposals regarding the issuance of more frequent press releases and improving the website visibility of the MG.

In addition, we believe that it is useful for the MG to have some direct involvement with the PIACs, both through discussion of MG Members’ comment letters, and otherwise if needed (this does not mean that the MG becomes involved with the operations of the PIACs). This may entail the MG giving direct feedback on certain technical issues in standards, or the MG pointing out issues that are currently not addressed in the standards. The limitation that the MG should not have any technical influence on standards, does not seem appropriate in light of the public interest. However, given the strategic role of the MG, such inputs would necessarily have to be related to the public interest. Given the fine balance between the technical detail and strategic direction given to PIACs, it becomes essential for the MG to discern those technical nuances that may impact on broader strategic, public interest issues. An example could be the proposal in the standard dealing with reliance on internal auditors for the external auditor to make use of direct assistance. The MG should
have sufficient appreciation of the impact on the independence of the external auditor to discern whether such a provision is in the interest of the auditor or the protection of the public.

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 public attendance?

Response to Question 10

We note that several of the MG’s members have working relationships with investors. The difficulty in organizing these work streams is that investors tend not to have an international organisation and/or representation. Before the MG starts liaison with investors on its own, it might be worthwhile to learn from those MG members what benefits they have had from investor input and what challenges they encountered, and how they overcame those challenges.

With regard to the proposal to open some portions of the MG to the public, we are unsure whether this would contribute to a better mutual understanding of the MG and its stakeholders. With some of the PIACs already having its meetings open to the public, it might not be necessary to also have the MG meetings in public.

Q11: Would you find it useful that the MG engages with organisations representing governmental institutions? Would the G20 be the most appropriate or should other bodies be considered as well?

Response to Question 11

Given the importance of audit for global financial stability and that it already has been discussed at the G20-level, it seems appropriate for the MG to engage with the G20, as they represent the governments of the 20 most important global economies. We would consider the G20 to be appropriate at this stage, and to explore at a later stage whether there is benefit in considering other governmental bodies.

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?

Response to Question 12

(i) We do not think it is necessary to include other organizations in the MG as current members of the
MG, e.g. IOSCO and IFIAR, already represent both developed and emerging countries from all over the world. The current membership appears appropriate as these organisations already represent their national counterparts. Consideration could be given to include the Monitoring Board if the MG is to foster relationships and engage in some form.

Therefore, on its own, we consider the MG appropriately composed, as it comprises of all relevant international financial regulators. We would not support national organisations to become part of the MG on their own. With regard to regional regulators, the most important consideration seems to be whether they add further value to the MG which is not currently available to the MG. Further, consideration should be given to whether the regional organisation is not also part of an existing member with global outreach.

(ii) Although we believe that the size of MG should not be too large, it might be useful to leave scope for adjustment of the number of members, although the size should not negatively impact on the effectiveness and efficiency of the MG.

Minimum criteria should be that the members exist to protect the public interest and are representative of national bodies.

(iii) The members should appoint the chairman.

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

**Response to Question 13**

The role of the MG is to monitor the PIOB, including its oversight activities and the execution of its mandate. This suggests some healthy tension between the two structures and enhances the confidence which the public has in the oversight mechanisms. In the absence of this, the perception might be created that the structures are not sufficiently independent, whether they are in fact independent or not.

We would therefore caution against MG members appointing full time employees of the MG organisations as PIOB members as it could result in conflicts of interest, whether real or perceived.
Q14: Would you consider it convenient to avoid direct hierarchical relationship between the PIOB and the MG members?

Response to Question 14

Refer to our response to Question 13. Whether or not a hierarchical relationship exists, the MG and PIOB should not have representation from the same organization. Alternatively, such membership should be balanced by sufficient other ('independent') members.

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

Response to Question 15

The MG should play a more strategic role while the PIOB interacts more with the PIACs, other than the situations in which the MG may wish to interact more directly with the PIACs, as mentioned above.

The current structure is also very complex and any steps taken to clarify it would be helpful. It could also be useful to analyse the roles and responsibilities of each party in order to assess if there are synergies and overlap which could be avoided.

Clarification could be considered in the following areas:

- The overall responsibilities in the system (which remain with the MG)
- The oversight of compliance with the agreed processes (which is the task of PIOB)
- Whether and how public interest is ensured (this is possibly a joint responsibility, but it could be further clarified into tasks that could be attributed to either the PIOB or the MG).

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

Response to Question 16

It is always useful to review due process and oversight, although these should not be changed too often. Reviews are useful to highlight areas for improvement and contribute to transparency.

It also helps to ensure that the work from the PIOB is responsive to what those interested in auditing standards expect them to do. It could be considered whether the PIOB should do this review, or whether this should be part of the MG’s regular work.
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?

Response to Question 17

A Strategy document would be useful in order to communicate the long/mid term planned activities of the PIOB, but it should be prepared independently of the MG. The strategy could be exposed for comments in a similar manner that IFAC and the IAASB expose its strategies for public comment. We support the fact that the PIOB currently exposes its proposed strategy for public comment.

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

Response to Question 18

A periodic reconsideration of the PIOB composition has benefits as it opens the opportunity to adapt the PIOB to changing circumstances. A change in the MG could act as a trigger for such review, although it could also be decided to do that at periodic intervals.

As already mentioned above, it might not be ideal to have the MG and PIOB represented by the same organisations (the PIOB is a ‘mirror image’ of the MG). However, given that this is presently the case, it would be useful to include additional members on the PIOB to ensure that there is no conflict of interests, whether real or perceived. This will also enhance the independence of the PIOB from the MG.

We further suggest to reconsider the size of the PIOB. As per our responses to the PIOB’s work plan consultation paper, we propose some limited changes to the PIOB’s oversight. In our view, these shifts would be best supported by more work being done by PIOB staff in overseeing whether proposed standards sufficiently meet the public interest. We propose reconsidering whether a board of 10 persons would be needed to perform PIOB’s tasks, or whether a smaller Board would be sufficient.

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?

Response to Question 19

Some members believe that the current composition of the PIACs is appropriate. They support the idea to maintain the portion of practitioner members as they can provide useful information regarding changes and current developments in the accounting and auditing environment, as well as practical
problems which arise from the application of the standards. The experience of practitioner members would help balance the practical aspects of the standards with the aim to serve public interest.

Some members, however, support an increase in the number of non-practitioners. They believe that it could be considered that audit knowledge and experience can also be obtained from members who are not working in an audit firm, and it should also be borne in mind that those working in an audit firm do not automatically have recent audit experience. This could be further explored in a second effectiveness review.

In order to ensure an adequate balance between audit experience and the public interest, our recommendations under Question 1 are critical, as achieving the desired balance is not necessarily a question of getting the ‘numbers’ right. The boards must demonstrate that, in substance, the public interest is foremost in standard setting activities – this can be demonstrated in a number of ways other than concentrating too much on quantity. Our recommendations under Question 1 are mostly focused on getting the right quality inputs in order to protect the public interest.

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

Response to Question 20

While rotation of representatives of CAG member organisations is appropriate, the nine year period appears too long. While longer periods of membership would ensure continuity, staggered rotation can achieve the same objective.

A period of 5-6 years would appear more appropriate and if the same member organisations continue as CAG members, there should also not be any loss of institutional knowledge.

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?

Response to Question 21

No, we think that currently it is possible to alter the funding structure of standard setting activities. While the major source of funding to support standard setting activities may presently come from IFAC, consideration could be given to the method of collection and management of the funds to create more independence, for example, by appointing a new body that is purely independent from IFAC to manage the funding. Consideration could be given to the IASB funding model and probably the PIOB may develop its funding model to be in line with that of the IASB.
Changing the funding model is also crucial to secure long-term investor confidence in auditing and ethics standard setting. As this is a long process, work on this should start as soon as possible. Also, we note that several MG members are now considering, or already have (conditionally) agreed contributing to the PIOB budget. This shows that there is a realistic possibility that the funding model is capable of change in the immediate term. Further, given the current financial crisis, the importance of high quality regulation is paramount and independent funding will create the necessary confidence that this objective is achievable.

Q22: Do you consider it 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 (until fundraising is able to provide with some funds?)

Response to Question 22

We think that IFAC funding is appropriate for a limited part of the PIOB budget, not for the largest part. The raising of funds via the MG members seems to be a workable solution. We are not in a position to comment on possible IFAC fundraising activities as we are not currently certain how this will be done.

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

Response to Question 23

Yes, we believe that it is feasible and reasonable for the PIOB to consider having a similar funding structure as the IFRS Foundation.

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?

Response to Question 24

We believe that the MG should have some capacity to support administrative work and future duties that may arise from the MG’s plans to perform a more strategic role in the future. This might be in the form of part time staff.

While some members believe that IOSCO should continue to provide the secretariat function, others believe that it might be good for governance and transparency if there is some rotation of the chairmanship.
Q25: How do you think the governance of international auditing, ethics, and education setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?

Response to Question 25

We believe that if the governance of the international auditing, ethics and education standards setting process is well designed and transparent, the standards derived from that process would be a good guideline for practitioners to perform high quality audits. In addition, those who are responsible for governance should take into account the stakeholders’ interest and public interest as their prime objective.

A second objective of the governance should be to secure that the profession does not have undue influence on standard setting.

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?

Response to Question 26

The current structure was an appropriate and balanced step when it was developed and introduced in the early 2000s. However, given the developments since that period, we no longer think that the structure is fully appropriate. Please refer to our answers on the previous questions regarding our suggestions, remarks and proposed 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?

Response to Question 27

We agree that the current levels of empowerment and responsibility of the bodies that compose the current structure are appropriate. However, we suggest that the MG increases the frequency of dialogue with the PIOB and PIACs in a proactive way.

We further suggest to better align the activities of the PIACs between each other. This especially relates to the IAASB and the IESBA as there is often a relationship between these standards.
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?

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<tr>
<td>We appreciate that not all countries have bodies which are members of IFAC. However, for those IFAC members, audit quality will be further achieved when all IFAC members fully adopt international standards, and strictly regulate their members’ compliance with the standards. At the moment it appears that many of IFAC members have not fully adopted the international professional standards, and the level of supervision and regulation of them are not as robust as expected by the public. Therefore, we propose that the MG and PIOB encourage IFAC to enhance the role and resources of the Compliance Advisory Panel to be able to ensure that all IFAC members fully comply with the Statements of Membership Obligations.</td>
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RESPONSE TO
PIOB WORK PROGRAM 2012 AND BEYOND
PUBLIC CONSULTATION PAPER
**Q1: Do you find the mandate of the PIOB as defined in the 2003 IFAC reforms (“to increase the confidence of investors and others that the public interest activities of IFAC (including the setting of standards by IFAC boards and committees) are properly responsive to the public interest”) still appropriate? Please explain your views.**

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<th>Response to Question 1</th>
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<tr>
<td>We believe that the mandate of the PIOB as defined in the 2003 IFAC reforms is still appropriate. We consider that confidence of investors and others on public interest activities of IFAC is always important, and needs to be regained and enhanced, especially after the global financial crisis.</td>
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<tr>
<td>However, we think that the public interest is mostly concerned with the ISAs, with ISQC1 and with the Code of Ethics. We would therefore propose, in line with our suggestions for the MG, to focus the PIOB’s mandate to overseeing whether those standards are set in the public interest. We note that the level of acceptance of the ISAs and, even more so, the Code of Ethics, show that these standards are not yet perceived to be sufficiently meeting Public Interest needs. This may be caused by the fact that the standards are now developed to serve the needs of a broad range of companies, audits and audit firms. The capital markets, however, need high quality audits. While we recognise that the needs from capital markets may be different than those from smaller entities, we believe that this should be better reflected in standard setting, and that auditing standards should be developed so that they better meet the needs of the capital markets.</td>
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<tr>
<td>The current mandate of the PIOB has not fully ensured that the IFAC standards are sufficiently responsive to the public interest. This is evidenced by the number of jurisdictions that have adopted the IFAC standards as their national audit and independence/ethics standards.</td>
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<td>In order to resolve this, we believe that the oversight mandate should focus more on the actual outcomes of the standard setting process, and secondly, that the design of the standard setting processes should be monitored by the PIOB as well. As regards the standard setting processes, we believe that the PIOB (staff) should also focus on technical understanding of proposals to revise standards, of the public interest needs for doing so, and on whether the Boards have appropriately responded to public interest concerns raised. This means that the PIOB should not limit its monitoring to whether due process was followed.</td>
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Q2: Do you agree that the PIOB’s main focus should continue to be to oversee due process and protect the public interest? Are there any other matters that the PIOB should focus on? Please explain your views.

Response to Question 2

Signing off on due process may not be sufficient going forward. As stated in the Consultation Paper, it is critical that the PIOB avoids the risk that oversight of the due process is applied in a mechanical way with little judgment exercised over its public interest implications. Respect for due process may not always guarantee public interest protection, so the PIOB needs an understanding of the substance and the implications of a new standard to make a determination of whether the public interest was served in its development.

We therefore agree that the PIOB’s main focus should continue to oversee due process and protect the public interest. However, in addition, it is also important for bodies that are IFAC members to fully adopt the international standards, and strictly regulate their members to comply with the standards. Therefore, we further propose that the MG and PIOB encourage IFAC to enhance the role and resources of the Compliance Advisory Panel to be able to ensure that all IFAC members fully comply with the Statements of Membership Obligations (where applicable).

The focus should therefore not only be on the process. We would support shifting the focus to rather analyzing what public interest should entail, and how protecting the public interest is best achieved. That would also include looking for areas currently not covered by standards and other audit quality related matters.

Q3: Do you find the PIOB model of informed oversight the best possible model to guarantee public interest protection?

Response to Question 3

Although informed oversight will contribute towards the governance processes of the PIOB, the matters raised under Q2 above are also important.

There seems to be too much focus on the process and communication, and too little on the content. Rather, we suggest improving dialogue with investors and the MG, and focusing on desired outcomes.
Q4: Would you suggest any other avenues for the PIOB to further improve its oversight of the PIACs?

Response to Question 4

As commented in the MG Governance Review, it is important to provide the PIOB members with technical capacity and support to better understand the impact of technical matters on the public interest, if required.

The PIOB should look more into technical issues, by monitoring whether public interest concerns raised by MG members or other regulators have been given sufficient weight and thus have been addressed appropriately. This should be a focus point for the PIOB when reviewing a project. Also, the PIOB could look into the background of projects, and whether a project is needed from a public interest perspective (for example, we would regard allowing direct assistance from internal to external auditors not needed from a public interest perspective, as was proposed in the recent exposure draft of the standard on reliance on internal audit – PIOB members should therefore be in a position to sufficiently appreciate the impact of technical provisions on the public interest).

The PIOB should also do more work regarding the standard setting processes, as stated above. Many of the issues that arose in the effectiveness assessment report had not been identified by the PIOB, such as the timeliness of preparing papers for the CAG meetings, voting by proxy and the role of technical advisors.

Q5: Do you agree with the medium term strategic objectives for the PIOB? Please explain otherwise.

Response to Question 5

The PIOB should increase its proactive engagement with bodies such as IFIAR so that they can understand particular concerns. These concerns may not be picked up from overseeing due process only.

The PIOB should also participate in the development of a definition of public interest to assist them in overseeing the appointments to boards.

The medium-term strategy focuses too much on process (inputs), instead of on outcomes. That
does not contribute sufficiently to its mandate of being responsive to the public interest.

Also, it seems inappropriate that the high risk work on setting Auditing Standards is not attributed the highest oversight intensity, but somewhat less, although we appreciate that the board may believe that they have achieved the desired level of oversight comfort. As indicated before, we believe that the public interest is mostly at risk with ISAs and with the Code of Ethics.

**Q6: In a scenario of less than 100% direct observations, do you think that the achievement of a sufficient level of OC by the PIOB will itself provide stakeholders with a sufficient level of comfort that the public interest is being protected? If not, what additional steps do you think the PIOB should take to satisfy stakeholders?**

**Response to Question 6**

While 100% direct observation is not necessary, the proposed models and methodology appear too mechanical to arrive at the required oversight comfort.

Proactive engagement with public bodies to ascertain their concerns regarding the protection of the public interest should be considered.

We do not consider direct observation the most appropriate model of oversight. We would urge the PIOB to develop criteria for assessing whether standards meet the public interest benchmark (such criteria could be approved by the MG). Based on such criteria (such as enforceability, clarity of standards, unambiguity), the PIOB should assess whether:

- Projects are in the public interest;
- Exposure Drafts are prepared and drafted bearing the public interest in mind;
- PIAC Task Forces and Boards appropriately address comments raised from a public interest viewpoint, such as comments from MG members and other regulators; and
- The final standard sufficiently serves the public interest.

We believe that this would require that PIOB Members have adequate knowledge of auditing, and that they are supported by staff who have the appropriate level of knowledge of auditing, public interest and regulatory matters.
**Q7: Do you agree consulting the MG and other stakeholders through an active communication policy will help the PIOB form its own opinion on agenda-setting public interest priorities? Please explain.**

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<th>Response to Question 7</th>
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<tr>
<td>We agree that consulting the MG and other stakeholders through an active communication policy will help the PIOB to form its own opinion on agenda-setting public interest priorities as MG members comprise of many international regulators which have as their main responsibility the protection of the public interest. Therefore, communication with the MG would help the PIOB to understand the needs of the public.</td>
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<td>Although there is benefit in communication with stakeholders, it should not be the highest priority on the PIOB’s agenda/work plan. Up to now, the focus on Communications seems disproportionately high as compared to its primary mandate and efforts in this regard should be more limited.</td>
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**Q8: Do you agree that the PIOB has to be fully aware of the implications of its work to protect the public interest, and that its informed approach to oversight requires an active interaction with all stakeholders?**

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<th>Response to Question 8</th>
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<tr>
<td>We agree that the PIOB has to be fully aware of the implications of its work to protect the public interest and that its informed approach to oversight requires an active interaction with all stakeholders.</td>
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<tr>
<td>However, we believe that the MG should be the primary structure to interact with stakeholders. Based on their background and knowledge, MG members could inform the PIOB of the public interest concerns and issues.</td>
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<td>Further, we suggest that the PIOB annually develops an oversight plan, setting out:</td>
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<td>- The projects from the relevant PIACs;</td>
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<td>- The public interest issues and criteria for these projects; and</td>
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<td>- How the PIOB is going to monitor that the public interest is met within these projects.</td>
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Q9: Do you agree that the PIOB mandate requires an active communication policy explaining the processes of standard setting and their public interest focus objectively and listening to stakeholders’ concerns? Do you think the present minimalist policy is sufficient? Do you think that raising awareness of the work of the PIOB should be an objective of its communications policy? Please explain.

Response to Question 9

It is important to raise awareness of the work of the PIOB so that public bodies can proactively engage with the PIOB as they will be better educated on its purpose and mandate.

We agree that the PIOB mandate requires an active communication policy explaining the processes of standard setting and their public interest focus. However, we believe that there should not be a disproportionate focus on communication as the PIOB’s efforts shift more to an oversight role.

The public would be more interested in an annual report by the PIOB setting out its achievements and the outcomes of its monitoring functions. The ultimate success of the PIOB could also be measured by the acceptance of the standards that are produced under its supervision.

It might be more appropriate if communications on the process of standard setting and their public interest focus are primarily done by the standard setting boards, and not by the PIOB.

Q10: Do you agree with the view that has been put forward that funding has to be diversified and should not largely be dependent on IFAC funding?

Response to Question 10

IFAC should not fund the majority of the PIOB costs. The proposal in the MG Governance paper that MG members fund the majority of the costs is more acceptable. Independence is not an issue when funding is downwards and not upwards.

If funding has to be provided by IFAC, then the method of collection and management of that fund could be adapted to be perceived to be more independent by appointing a new body that is independent from IFAC.
Q11: Please suggest alternative sources for diversifying and financing the PIOB budget

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<tr>
<td>If the PIOB is to diversify its funding, we believe that the Monitoring Group Members would be the most appropriate sources of funds, should this be possible.</td>
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<tr>
<td>The current goal of funding through MG members with a minority of the funding coming from IFAC therefore seems appropriate.</td>
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