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Submitted by email to; [Piob-MonitoringGroup@iobj.org](mailto:Piob-MonitoringGroup@iobj.org)

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Dear Sir

**Monitoring Group Consultation Paper;**

**Governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the IOB and the standard-setting boards and Compliance Advisory Panel operating under the auspices of IFAC (the MG Consultation Paper)**

and

**Public Interest Oversight Board Public Consultation Paper;**

**IOB Work Program 2012 and Beyond (the IOB Work Program)**

**Introduction**

We are pleased to comment on the above Consultation Papers and apologise for late submission of the response on behalf of BDO. Following consultation, this letter summarises the views of those member firms within the BDO network that provided comments.

BDO is the fifth largest global accounting network, and is represented in 135 countries worldwide. It has a strong European base, which reflects the origins of our network as a European organisation, with its global centre being located in Belgium.

We set out below our combined comments on the MG Consultation Paper and the IOB Work Program. We share the objectives of the Monitoring Group and the IOB to reinforce

the quality and independence of the standard-setting process which will enhance market confidence in financial reporting and in the audits of financial statements. We concur with the assertion that the perception and reality of independence of the three standard setting boards, viz., the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA) is absolutely necessary for the credibility of the respective auditing/assurance, education, and ethics standards and ultimately for confidence in the value of audits of financial statements.

We strongly support the current standard setting model including the oversight process in place and note that significant changes to further strengthen the regime were agreed to at the conclusion of the Monitoring Group's consultation in 2010, most of which have been recently implemented. In our view it would be preferable to defer any further reassessment until after the impact of those changes has been fully considered. We believe that all of those reforms continue to serve the public interest and support audit quality.

### The MG Consultation Paper

***1. 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 would support appointment of an independent IESBA Chair as we believe it would increase the level of protection of the public interest. We do not believe any additional mechanisms are needed to safeguard the public interest at this time.

***2. 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 support the current Monitoring Group structure as we believe that both the standard setting model and the independent oversight and monitoring performed respectively by the PIOB and the Monitoring Group (MG) are held in very high regard by most stakeholders. While improvements are always possible and desirable, we do not believe that the current standard setting or oversight process is in need of significant change as it delivers high quality standards in the financial reporting, corporate governance and regulatory context.

***3. Do you consider the current three-tier system (MG+PIOB+IFAC PIACs) adequate for achieving its objectives, or an alternative model could be more adequate? In the latter case, which model would you suggest?***

We believe that the current three-tier system is adequate for achieving its objectives.

***4. Would you support 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 the IPSASB being subject to PIOB oversight. The use of an expanded PIOB, containing members with recent and relevant experience of public sector accounting issues, would be an appropriate structure to provide oversight of the setting of these key standards.

As the role of the PIOB is to oversee and assess the standard setting process and not the technical content of the standards, the PIOB could play the same critical role in protecting the public interest in the setting of public sector accounting standards.

For the same reason, we do not believe that the distinction between accounting rules and auditing rules is relevant.

**5. Do you see merit in a 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 have no specific views on this question.

**6. 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 do not believe that there is any necessity to modify the name of the structure at present.

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

No. We believe the model is working effectively and we see no compelling reason to increase the MG's strategic role. Furthermore, there is no reason to believe that the model will not continue to work effectively without the MG having a more strategic role.

**8. Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIAC's agendas and receiving appropriate feedback?**

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 as well as duplicating some of the PIOB's efforts.

**9. 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 the PIACs?**

The MG could certainly improve its communication activities but we do not believe the MG should play a more direct involvement with the PIACs as proposed.

**10. 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?**

BDO member firms did not offer any notable suggestions in this area but we would support appropriate portions of MG meetings being open to the public.

**11. 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 instead?**

Yes to both questions although there may be other appropriate institutions also in particular instances including bodies such as the OECD or FSB which have connections to the G 20.

**12. What is your opinion about the current composition of the MG? (i) Do you believe that other organisations should 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?**

We are supportive of the current composition of the MG. We do not believe that other organisations need to be added at this time. For working efficiency, it is likely that a maximum number of members will need to be set for the MG. We have no views on the chairperson appointment process.

**13. 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 necessarily see any inherent conflicts in this scenario. The most important issue is that selection is made of the best available individuals for the PIOB who have adequate time available for the role. We believe there are adequate safeguards to deal with any general perception concerns regarding potential conflicts.

**14. Would you consider it convenient to avoid direct hierarchical relationship between the PIOB and the MG members?**

Not necessarily. We believe that direct hierarchical relationships between the PIOB and MG members do not need to be avoided if the roles are clearly defined and positions are filled with the most appropriate experienced representative.

**15. 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 that the 2003 IFAC Reform paper adequately clarified the respective roles of the MG and PIOB but if there is thought to be confusion about the roles within the MG or PIOB and more clarity would be helpful, we would support additional focussed communications.

In general, we believe that additional communication to stakeholders such as investors and the general public would be helpful in order to improve awareness of the MG and the PIOB's work.

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

Yes.

**17. 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, provided that it was periodic and not an annual strategy document consuming resources continually. It is appropriate for PIOB to review its strategy at regular intervals. However, there is a risk that this becomes a bureaucratic and institutionalised process. PIOB could share its draft strategy document and other plans etc with MG but should not be constrained from issuing them even if MG is not in agreement.

**18. 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 a full member of the MG?**

We believe the current composition of the PIOB is appropriate. If IPSASB comes under its purview the PIOB membership could be enhanced by appointing a member with public sector accounting experience. We would support a review by the MG of the composition of the PIOB every time a new body becomes a full member of the MG.

**19. 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 a majority of non-practitioners and a majority of public members?**

Yes. We consider the current composition of the PIACs to be appropriate. We remain supportive of the mix of practitioners/non-practitioners and do not see the need for a second effectiveness review so soon after the previous review.

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

We believe that a nine-year rotation cycle is reasonable practice for a representative of a CAG member organisation given the role of such persons to provide technical input and the need to refresh the sources of such technical knowledge.

**21. 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?**

No, we do agree with this view. Whilst it may be difficult to do, as indicated in our answer to Question 10 in the PIOB consultation (see below), we believe that the standard setting process would benefit from greater diversification of funding and in particular from sources outside the profession. We see adequate safeguards in the current model such that the reliance on IFAC funding does not negatively impact on the standard setting process.

**22. 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 that it is undesirable that IFAC finances the largest part of the PIOB budget as it could be perceived as affecting the PIOB's independence notwithstanding the safeguards in place to prevent such conflicts.

We believe that the MG should launch its own efforts to diversify the funding sources including from its own members. Interim collaborative efforts with IFAC in this area are to be applauded however.

**23. 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?**

Whilst it would be very desirable, we do not believe that such a funding structure is achievable in the immediate term given the economic constraints on the IFRS Foundation funders etc.

**24. 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. IOSCO would be an appropriate source of resources for any permanent MG secretariat.

**25. How do you think the governance of 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 the main objective of the governance model around the respective standard setters is to ensure that the public interest is taken into account in their respective activities. This will continue to help improve audit quality through dissemination of well considered, high quality standards.

**26. 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 the current structure is appropriate for setting high-quality standards and would not propose any changes.

**27. Do you agree that the current levels of empowerment and responsibility of the bodies that comprise the current structure (MG, PIOB, PIACs) are appropriate? If so, do you have any suggestions for improving the dialogue and interaction between the different bodies? If not, how could these levels of empowerment and responsibility be improved?**

Yes. We agree that the current levels of empowerment and responsibility of the said bodies are appropriate. We have no suggestions for improvement at this time.

**28. 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. We are of the view that the current structure is functioning effectively in this regard.

#### **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.**

We believe that the mandate of the PIOB remains appropriate. However we support the PIOB mandate being extended to include the International Public Sector Accounting Standards Board (IPSASB).

The confidence of investors and other stakeholders in the standard setting process is imperative if the accounting profession is to continue to command respect and be seen as serving the public interest. Rigorous and independent oversight of the standard setting process is essential to these imperatives including the composition of the standard setting boards.

***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.***

Yes we agree. In our view the principal mandate of the PIOB continues to be to oversee that due process is being undertaken in the setting of standards and that these processes are performed to best serve the public interest.

We would like to see increased and better communication of the PIOB's oversight activities. We believe that there may be a perception that the PIOB should do more to communicate with investors, regulators and other key stakeholders in order to be seen to endorse and advocate the strength and robustness of its work.

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

Yes.

***Q4: Would you suggest any other avenues for the PIOB to further improve its oversight of the PIACs?***

No. We believe the oversight assurance models as described in the Consultation Paper are thoughtful and appropriate, but their application will need ongoing consideration. We also fully support the PIOB's view that oversight must encourage continuous improvements.

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

Yes.

***Q6: Given the implementation of the Oversight Assurance Model in place of the 100% direct observation model, do you think that the achievement of a sufficient level of oversight comfort by the PIOB will itself provide stakeholders with a sufficient level of comfort that the public interest is being protected? Please explain your reasons.***

We understand the arguments, in terms of enhanced efficiency, for the Oversight Assurance Model but we believe that the 100% direct observation model offers significant benefits and that these might outweigh the likely additional costs over the Oversight Assurance Model.

***Q7: Do you 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? Please explain.***

PIOB communication with the MG and other stakeholders is critical to the effective oversight of the PIACs. We agree that consulting with stakeholders through an active communication policy will help the PIOB to form its opinion on the agenda-setting public interest priorities. We believe that such consultation will also help to educate all stakeholders about the scope of the PIOB's processes.



**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?**

Yes to both questions.

**Q9: Do you agree that the PIOB mandate requires an active communication policy explaining the processes of standard setting and their public interest focus? 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.**

Yes, we do believe that the PIOB mandate requires an active communication policy. We do not believe the present minimalist policy is sufficient and are strongly of the view that the PIOB should do much more to raise awareness of its work and how it goes about protecting the public interest.

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

We agree that it would be preferable for the funding of the PIOB to be more diversified and less dependent on IFAC as there is a risk that this harms the credibility of the PIOB's work. Regardless of whether further funding diversification is achieved, we believe that the existing funding arrangements and structures in place continue to ensure the PIOB's independence.

We support a significant proportion of the PIOB's funding coming from contributions from MG members in addition to other external fundraising being sourced, specifically from outside the accounting profession.

**Q11: Please suggest alternative sources for diversifying and financing the PIOB budget.**

See answer to Question 10.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at

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