



Public Interest Oversight Board

overseeing international audit, ethics and education standards for the accounting profession

PIOB Comment Letter to the Monitoring Group Consultation Paper Reviewing the IFAC Reform

September 2010

The Public Interest Oversight Board (PIOB) welcomes the Monitoring Group (MG) assessment of the implementation of IFAC Reform. The agreement of 2003 required this assessment. The formation of the PIOB was a major provision of the 2003 agreement which has been implemented by the operation of the PIOB over the last five years.

This review is especially useful since contact between the PIOB and the MG has not been as closely collaborative and strategic as envisaged in the original reforms. The assessment enables the MG and the PIOB to agree and converge on the parameters of the public interest in the current circumstances. Not only has the general environment of international standard setting changed over the last five years; the standard setting architecture and process have also greatly evolved and large new outputs in the areas of audit, ethics and education have been made public.

In response to the MG request, the PIOB produced its self-assessment report on IFAC reform and submitted it to the MG on February 4, 2010.

General Comment on Content and Process

The reforms of 2003 sought to place the public interest at the core of standard setting and implementation processes, under the aegis of the IFAC. Four Public Interest Activity Committees (PIACs) and three Consultative Advisory Groups (CAGs) were placed within the PIOB's mandate, reflecting a broad definition of areas where the public interest should be protected. Yet the consultation paper focuses only on two of these: The International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). We note the particular emphasis on the input of MG members to standard setting by these two boards. The current interests of MG members are undoubtedly an important element of the public interest and must be respected. However, it is very important that the broader public interest remain at the core of



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oversight, and that no perception is created that activities other than the two Boards analysed in the consultation paper are of inferior or no importance.

The International Accounting Education Standards Board (IAESB) produces standards for professional education that are indispensable for professional development and impinge on the quality of audit. The Compliance Advisory Panel (CAP) is an implementation program for IFAC member bodies which ensures that standards are adopted and their use is promoted by professional organisations around the world. The contribution that the CAP can make to further the general adoption and correct implementation of international standards must not be underestimated. Both these bodies have been closely overseen by the PIOB and have produced significant outputs over the last five years.

The architecture of standard setting includes ongoing inputs from the CAGs, which have become independent entities with more substantial agendas than when the IFAC reform was instituted. Several MG members participate in CAGs along with representatives of a variety of other stakeholders. The PIOB has found that the CAG process - interactive discussion and exchanges motivated by a variety of viewpoints - has enriched the process of standard setting and has proved a valuable component of public interest pursuits. It would be useful for the consultation paper to acknowledge this fact and to offer support to the renewed CAG process. At the same time we recognise that the CAG process cannot and should not be seen as a substitute for the broader consultation undertaken by the standard setting Boards. Comment letters, especially those coming from MG members who represent public interest viewpoints, must be very carefully considered by the standard setters.

Outputs produced over the last five years, especially the clarified ISAs, have received public support from several quarters including some MG members. It is disappointing that the consultation paper does not acknowledge this successful performance and does not draw examples for the improvement of the other standard setting activities from this experience. Furthermore, we are concerned that the silence of the consultation document may create a negative perception on the quality of the clarified ISAs and the considerable efforts that the PIOB devoted to ensure that due process was strictly followed.

The PIOB believes that the International Public Sector Accounting Standards Board (IPSASB) is an increasingly important body from a public interest perspective and that it should be subject to public interest oversight. We look



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forward to working with the MG and IFAC to lay out the ground for such oversight.

The consultation paper makes reference to some perceived weaknesses in the decision making processes of the PIACs. Some of these views apparently come from informal discussions with various individuals. It is a little difficult, therefore, to assess what weight to give to the comments in the consultation paper in this area. The PIOB has worked hard over its first five years to require the PIACs operate in a fully transparent and reportable way, and has discouraged them from operating based on assumptions or perceptions unless those are fully debated or supported by documentary evidence. Thus, we think that the consultation paper should have offered clear documentary evidence of these perceived problems. The PIOB would welcome further discussion on the extent to which there is validity to the concerns expressed.

The consultation paper refers to the issue of MG input to the standard setting process. The PIOB is very ready to work with the MG to ensure that the processes by which MG members inputs are taken into account in the standard setting process are fully satisfactory to both parties. It would be helpful, as all standard setting processes need to be formal, if all MG member input could always be a recorded and transparent part of the process. Interaction outside the formal process is difficult to track - everything should take place within clear terms of reference. We believe that it should be possible to allay rapidly any residual concerns MG members may have about how their inputs are handled and how they are responded to with proper explanation of the decisions.

2. Comments on Recommendations 13–18.

2.1. Recommendation 13: Role of the PIOB members in the PIOB's oversight work.

The PIOB conducts oversight not only through direct observation but also, since 2008, through the Extended Review Framework (ERF) analysis conducted by staff, as well as through staff-written technical memos in support of each observation conducted.

ERFs include verification that any significant issue raised in comment letters submitted to exposure drafts, or in PIAC and CAG meetings, is dealt with adequately from a due process point of view. Additionally, PIOB members, when conducting direct observations at PIAC and CAG meetings, benefit from staff



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memos supporting their observations. Therefore, it is inaccurate to characterize the oversight activity of the PIOB as limited to the direct observations of members and to suggest that oversight is not sufficient to ensure that due process is followed in dealing with technical issues raised by MG members. What the PIOB does not do is assess the inherent merits of these technical issues nor the substance of the resolutions adopted. The reason for this is clear: if the PIOB were to opine on technical issues, it would override the independent character of the standard setting boards (thus failing to maximize the potential of the current model to benefit from professional expertise) as well as supplant the role of CAG members.

2.2. Recommendation 14: Role of PIOB staff members in the PIOB's oversight work.

The current PIOB oversight model has evolved over time. Staff resources directed at technical analysis have increased as oversight processes have been extended. The current model combines technical analysis conducted by staff with direct observation of standard setting boards conducted by board members. This mixed model of oversight balances well and in a cost-effective manner the respective roles of staff and board members.

The present role of PIOB oversight staff in direct observations of standard setting boards is generally one of technical support. PIOB's direct observation strategy rests on the qualitative difference of a PIOB member carrying out the observation, but always with the support of a staff-written briefing memo highlighting the main issues. In this way, observations are both qualitatively optimum and technically sound. A model in which PIOB technical oversight staff are themselves observers would lose the qualitative excellence of the oversight presently exercised, carry significant costs, and not gain any additional technical depth.

2.3. Recommendation 15: Diversity among the PIOB members.

The PIOB agrees with this recommendation.

2.4. Recommendation 16: Funding of the PIOB.

Point 2.6 of the MG Charter, dated 2007, reads, "As a general principle, both IFAC and the MG consider it to be in the public interest that parties other than IFAC shall fund at least 50% of the cost of the PIOB. IFAC will seek contributions to cover 50% or more of the PIOB costs. Given the public interest nature of the



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oversight activities of the PIOB, the MG members may provide contributions to support the PIOB's activities. The PIOB may also be involved in seeking contributions to cover its costs".

Similarly, the 2007 IFAC letter on assured funding to the PIOB reads: "IFAC and the MG would encourage and solicit contributions from other sources to diversify funding for the PIOB. A subgroup of the MG would work with the PIOB, IFAC, and others as needed to identify potential sources of funding and coordinate the transmission of fundraising letters."

This is one aspect of the reform that has not evolved as expected and merits deeper dialogue with a view towards diversification of the PIOB budget.

2.5. Recommendation 17: Interaction between the MG and the PIOB.

The PIOB agrees with this recommendation.

2.6. Recommendation 18: Longer-term operation of the MG.

The MG is an essential element in the oversight architecture that was put in place in 2005. The PIOB recommends that the MG assesses itself as part of the present process, especially regarding its composition and its relationship with the PIOB. Whereas the existing architecture was born out of the need for reform, the need now is for a long-term stable structure. Given the challenges ahead, the PIOB recommends that the Monitoring Group should be improved by acquiring greater seniority, a stronger global reach, broader legitimacy and accountability, and a more formal structure; it should be subject to agreed due process. We recognise the difficulty the MG has in carrying out its role when it does not have a secretariat. This lack of a secretariat is particularly evident when the MG has to carry out a review such as the present one. We suggest that the MG should examine how it can invest sufficient resources to allow its own operation to become more formalised and effective.

The PIOB recommends that the respective roles and responsibilities of the Monitoring Group and the PIOB should be set out in an expanded charter. In this charter, the terms of the relationship between the Monitoring Group and the PIOB should be drafted jointly by the MG and PIOB in consultation with IFAC and incorporate agreed due process; the draft should be publicly exposed and adopted by mutual agreement, and the Charter should undergo a joint public review every five years.



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3. Other Comments.

The consultation paper twice refers to the PIOB's responsibility to evaluate the adequacy of funding provided to support the three standard-setting boards and the CAP, and acknowledges that this is a matter of significant judgment. The PIOB would appreciate further elaboration of this idea. The resources devoted to standard-setting work by IFAC have increased considerably. The appointment of a full-time compensated IAASB chair is a case in point. The provision of travel subsidy to members coming from developing countries is another. The members' performance evaluation program also requires effort and resources. These were not explicitly contemplated in the reform; rather, they came about as a result of the interaction between the PIOB and IFAC.