November 26, 2016

Public Interest Oversight Board (via email)
Madrid, Spain

Re: 2017-2019 PIOB Strategy Public Consultation Paper

Deloitte Touche Tohmatsu Limited is pleased to respond to the request for comments from the Public Interest Oversight Board (PIOB) regarding its 2017-2019 Strategy. The Monitoring Group also created a working group to develop recommendations for standard setting reforms. Effective standard setting plays an important role in promoting the proper functioning of the capital markets and serving the public interest. As a result, we support the efforts of the Monitoring Group and the broad stakeholder dialogue that will be part of it.

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.

Q1. Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?

In our view, the current standard setting process, which includes activities of the standard setting boards (SSBs) combined with the PIOB, Consultative Advisory Groups (CAGs), and Monitoring Group (MG) contributions, has been effective in protecting the public interest. However, we recognize that some stakeholders are skeptical of the current processes and public interest safeguards due to the involvement of the accounting profession (financial and personnel) in the standard setting process.

To mitigate such skepticism, we support a periodic review by the PIOB of its due process and oversight framework. However, we believe the evaluation should include an analysis of all participants of the current standard setting process such as SSBs, PIOB, CAGs, MG, and other relevant bodies within the International Federation of Accountants (IFAC).

We believe that during such evaluation, in addition to addressing the perception of bias and increasing stakeholder confidence that the standard setting process is objective, an analysis of the operating model, composition, and due process of the SSBs may be appropriate. Within these three areas, changes such as described below could be considered (examples, not all inclusive):

- Reduction in the current complexity of the overall organizational structure around standard setting (i.e. multiple bodies such as PIOB, CAGs, MG, etc. exist under IFAC umbrella) may contribute to a better understanding by the stakeholders of how public interest is considered and where public interest monitoring resides. The analysis of the current structure can also facilitate an identification of activities currently resulting in a duplication of efforts and address resource and time capacity challenges.
• SSBs should operate increasingly at a more strategic decision-making level, which will likely require changes to the staffing model (i.e. SSB members could be responsible for strategic decision-making and approval with highly qualified staff responsible for leading project development).

• Placing more accountability on the SSBs to demonstrate how due process has been observed may be helpful. For example, the basis for the conclusions reached should be robust and easily available to the public (i.e., included in standards) so stakeholders understand what was debated and how the conclusions were reached. SSBs could also be challenged with making it more clear what public interest issues are being addressed and how.

• Today’s complex business environment and increasing investor expectations require that the audit be more dynamic, multidimensional, and insightful. This requires audit firms, regulators, and standard setters to evolve to remain relevant. Standards need to evolve to be agile to the changing environment and be more scalable to different sizes and types of audits and auditing firms.

Q2. In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?

The SSB composition is a critical element of supporting public trust in the standard setting process. We believe that the SSB composition should be reflective of the key stakeholders – investors, regulators, audit committee members, preparers, and practicing auditors. Retired auditors could also be effective board members, especially as they take various roles in retirement that broaden their perspective and valuable input that they can bring to the SSBs. We acknowledge that some SSBs have representation from stakeholders such as regulators, but we believe that more needs to be done. We believe that the governance bodies charged with the oversight of the SSB due process (i.e., PIOB, CAGs) should have a similarly diverse composition.

In addition to stakeholders, evolution in the profession may translate into the need for individuals with specialized knowledge to participate in the standard setting process. For example, in addition to accountants, the next generation of auditors may include engineers, data scientists, and psychologists who all need to be appropriately trained to deliver quality audits. Consideration should be given by the SSBs to ensure the skill sets of their members are reflective of the current and future technological advancements or explore other ways to make sure that SSBs receive input from the individuals with the right expertise (individual task forces or working groups reaching out to specific experts, advisory panels for certain projects, etc.)

However, the experience and expertise brought to the standard setting process by practicing auditors should not be underestimated. The involvement of practicing auditors, who daily work with and more fully understand the complexities of the auditing and accounting standards and can bring to light causal factors as to why a standard may be challenging or difficult in application, is critical to setting high-quality standards. Other stakeholders may not be able to provide that same level of technical expertise and practical experience, both of which are essential to setting high-quality standards.

We believe that in selecting representatives from the key stakeholder groups, the individual’s competence, as well as their leadership and eminence within their respective communities, should be considered so that stakeholders recognize the quality of contribution each SSB member brings to the deliberations. This is critical to address perception challenges described in the response to Q1.

The SSB members, regardless of the background, should be sufficiently knowledgeable about the issues to effectively participate and make strategic decisions. The individuals should also
have appropriate time, interest and energy to commit to the standard setting activities. Geographic diversity should also be considered.

We are also of the view that it would be advisable for the SSBs to agree to a maximum number of members to keep the size at a workable level focused on strategic decision-making (i.e. finding the right balance between smaller boards (such as 12 members for example) which would still allow for a diverse composition, but would require more representation from non-board members on task forces, etc.)

Q3. Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of SSB members and Chairs?

Yes. However, we favor using the term “independent” (i.e. without conflicts of interest) rather than a “public” member, which draws the focus solely to the individual’s background or position. We believe having an independent Chair would strengthen confidence in the perceived objectivity of the nominating process and add an even greater level of protection of the public interest. However, it would be critical for the independent Chair to have great familiarity with the SSBs, their activities, and talent needs.

For similar reasons, we continue supporting having independent Chairs of the SSBs as currently mandated for the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA).

• Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?
  We believe appointing the highest caliber individuals is the most important consideration, rather than the form of the Nominating Committee. In fact, it may be preferred for the Nominating Committee members to have previous experience with standard setting process and deep understanding of the roles and responsibilities of the SSB members. We believe that public confidence will be enhanced when stakeholders see members of the Nominating Committee representing a broad range of constituencies.

Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?

Not necessarily. We believe that the main objective of all responsible for or involved in standard setting activities should be to act in the public interest in their respective roles, regardless of their backgrounds. However, there is a perception that Public Members have a greater focus on public interest. SSB composition, as described in the response to question 2, may address this perception challenge.

Q5. Do you think that Public Members should receive modest remuneration for their contribution to standard setting in the absence of a sponsoring organization? If so, who should pay?

We believe that remuneration should be considered to attract not only Public Members but also to attract the most qualified members as described in the response to Q2 such as audit committee members, investors, regulators and preparers, who may not be willing or able to commit the necessary time on a voluntary basis.

We recognize that broader funding sources can add to the credibility of the standard setting activities and avoid the perception of undue influence on the standard setting model by the profession. We would welcome the opportunity to engage with the PIOB and the MG to explore funding alternatives.

Q6. Did you come across cases where auditing, ethics and education standards did not adequately respond to your public interest concerns?
We believe auditing, ethics and education standards have adequately responded to public interest concerns. We recognize, however, that it is important to consider views of other stakeholders on this question.

Q7. Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and or task forces?

As we believe the role of the PIOB is to assess due process and not the technical content of the standards, there is no need for the PIOB to be directly involved in the oversight of the working groups or task forces. It is important for the PIOB to be a part of the governance and oversight structure in the standard setting process rather than a part of operations.

We believe with the right strategic-decision power and qualified diverse members as described in the response to Q2, SSBs are in the best position to oversee the activities and progress of the working groups and task forces.

Q8. Where do you see gaps in the PIOB’s oversight?

We have not identified any existing gaps in the PIOB oversight activities. Please refer to our comments with respect to Q1.

Q9. Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?

We believe that the timeliness of standard development should be evaluated in the context of specific projects. Moving too fast or not fast enough both present risks. It is necessary to find the right balance to not jeopardize quality of the standard setting, while at the same time not falling behind in the fast paced environment where technological advancements that have an impact on standards may be revolutionary rather than evolutionary. The dialogue with the multiple stakeholders can add value and quality to standard setting; however, it will likely add time to the process on the front end, but may result in efficiencies at the end of the standard setting process.

We believe that multi-stakeholder public consultation is a critical step in the standard setting process. However, outside of the public consultation, there are many other processes that contribute to timing of each project. Thus, we believe that the right approach should be looking at possible changes to the operating model around standard setting as described in the response to Q1, identifying duplicative activities, better leveraging time of SSB members for strategic decision making, exploring ways to use technological advancements to allow for more scalable due process and timing when warranted based on the matters discussed, etc.

Q10. What topics would you consider – from a public interest perspective - essential additions to the present education curricula?

Technological innovation and the proliferation of data are fundamentally changing the nature of the accounting profession. Investor expectations of what constitutes relevant financial information also continue to evolve. We believe it will continue to be essential for accountants to have a solid technical foundation in the fundamentals, including technical competence in financial accounting and reporting standards and internal control, among others.

- Auditors will need to continue to enhance their ability and expertise to exercise professional judgement and skepticism, while also increasing their ability to think more critically and strategically. Our view is that current educational requirements would benefit from strengthening in this important area and we are aware of, and strongly support, the joint SSB project that is specifically focused on this topic.

- In addition, the audit profession is exploring the value it can drive in areas that are more
critical to clients today such as sustainability and nonfinancial disclosures. Auditors are being engaged to provide assurance in diverse areas that extend well beyond the financial statement audit, and with this brings the need for additional specialist and technical capabilities, not directly addressed in the current education standards.

- At the same time, accountants of the future will need highly practical knowledge and expertise in managing and analyzing data (including big data) and in using analytical tools and technologies to gain insight, reach conclusions, and derive audit evidence.

- For auditors, many current audit data analytics tools are focusing on making auditor risk assessment process more effective, which can result in more effective substantive procedures. Understanding how to conduct an effective risk assessment to hone audit procedures on the risks of material misstatement is critical.

- A further area of continued and vital focus for auditor education is that of internal control. The findings of regulators across the world continue to highlight internal control as an area where auditor capabilities need to continue to be addressed, particularly as auditing standards and corresponding auditing techniques continue to evolve. Education requirements in this area are in place; however, our view is that there is a need for more practical guidance on the construction and implementation of effective learning in internal control, including controls around clients’ IT systems.

- Elements like fraud, bribery, corruption, money laundering are increasingly becoming the topic of conversations between auditors, audit committees, and management. The public interest around these topics is elevated as well. Inclusion of the broad topic around corporate compliance in the curricula may be warranted.

- The way in which audits are delivered is an area of significant focus within the audit profession currently, and there is a significant trend toward using remote delivery centers to undertake specific, or specialized, areas of the audit work as a means to enhancing audit quality. The trend suggests a need for careful consideration of the impact that this emerging audit delivery model will have on the required capabilities, and so the educational needs – both of those working in such delivery centers, and those conducting audits that utilize the work of delivery centers.

Defining the skillset of future accountants should be a collaborative effort among academia and various stakeholders – investors, regulators, audit committee members, preparers and practicing auditors, which further emphasizes the need to reassess the composition of SSBs and their strategic focus. These global environmental changes should guide future educational curricula.

Q11. Can you suggest how the PIOB might enhance its understanding of the public interest issues relevant to international accounting education standard setting, and to accounting education practices and processes?

We believe that understanding the trends impacting the accounting profession is key to addressing public interest. Innovation and globalization are extremely dynamic areas. For example, investor needs are evolving. Investors of the future may want more real-time financial data. Also, investors are expecting consistent audit quality and comparable financial statements globally to make decisions more easily. Such trends need to be proactively identified, continuously monitored, and considered for the standard setting process to address public interest. The bottom line is that all organizations are expected to innovate in the current environment, and the standard setting process and accounting profession are no exception.

We believe that looking at the composition of the SSBs as described in the response to Q2 where members of the SSBs are representatives of the key stakeholder groups will facilitate a better understanding of the public interest issues. It is also essential that the PIOB composition is
appropriately representative of the individual’s understanding of current and evolving trends impacting accounting profession, and that those directly involved in the oversight of the work of the SSBs have the ability and opportunity to appropriately leverage the knowledge of their PIOB colleagues around such trends.

Q12. In your opinion, what else could the PIOB do to encourage adoption and implementation of international standards (ISAs, the Code of Ethics, and the IESs)?

We appreciate the PIOB’s efforts with regard to adoption and implementation of international standards. The PIOB can play a greater role by publically communicating the rigor of its due process, and that a standard has received the approval of the PIOB.

Q13. Do you find the PIOB Quarterly Updates useful?

Yes. However, we support taking additional actions to provide greater transparency into the activities of the PIOB to oversee standard setting activities and adding more clarity for stakeholders who do not have a clear understanding of how the current model works. Such activities may include making public summaries of the observations and comments made by PIOB members at each of SSB meetings. More transparency in this area would better link the PIOB mandate to actions that are carried out to represent and protect public interest.

Q14. Is there anything the PIOB could do to improve the understanding of its role as a defender of the public interest?

As described in the response to Q1, we believe that the key challenge for the PIOB and standard setting process is to overcome the perception of the profession’s undue influence by some stakeholder groups. We believe that the most effective way to overcome these perceptions is to evaluate the operating model, composition, and due process around standard setting rather than focusing solely on the incremental changes to the PIOB mandate. There is also a need to involve those who are currently challenging the focus on the public interest in the debate.

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We appreciate this opportunity to comment, and would be pleased to discuss our letter with you further. Please contact Panos Kakoullis at +44 20 7007 3337 or via email at pkakoullis@deloitte.co.uk or Bill Platt at +1 203 761 3755 or via email at wplatt@deloitte.com.

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