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June 26, 2012

Mr. Fernando Restoy, Chairman
Monitoring Group

Emailed to: Piob-MonitoringGroup@ipiob.org

RE: Monitoring Group Public Consultation Paper

The American Institute of Certified Public Accountants (AICPA) is the world's largest association representing the accounting profession, with nearly 377,000 members in 128 countries and a 125 year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations, federal, state, and local governments. It also develops and grades the Uniform CPA Examination.

On behalf of the American Institute of Certified Public Accountants (AICPA) I wish to thank you for the opportunity to comment on the Monitoring Group's Consultation Paper. The process of gathering input is an important one and we commend you on your efforts.

The AICPA has reviewed the consultation paper and offer our input to the specific questions in the remainder of this letter. If we did not have a comment on a particular question, we omitted the question from this letter.

Specific comments:

Q1: Do you consider it necessary to enhance representation of the public interest? If so, which additional actions, apart from the appointment of an independent IESBA Chair and redefining the nature of non-practitioner board members, would you suggest to reinforce the mechanisms to safeguard the public interest?

We believe that the public is well served by the current process and that IFAC has appropriately focused its resources and efforts on the public interest through its standard setting, thought leadership and public policy initiatives, and via its compliance program for member bodies. Standards on auditing, ethics and independence will continue to be best served when promulgated via the proper balance between practitioner and non-practitioner representatives. Established procedures, including relevant safeguards and

required consultations, oversight and monitoring strive to ensure that balance continues to create the highest quality standards that are practical and protect the public.

Q2: In the long term, would you favour a different and fully independent standard-setting model completely outside the IFAC structure and if so how could such a structure be funded?

We believe the current standard-setting model, which balances input from practitioners, non-practitioners and the regulatory community - via the PIACs, CAG, PIOB, MG and public exposure of all proposals - creates a robust process for standard setting that has created, high quality standards in the areas of auditing, ethics, independence and education. This model has served the public well for the last seven years. Any change should be supported by evidence that the model has not served the public well. The PIOB provided a self-assessment report to the MG in February, 2010 and generally reported the process was indeed working as designed. Any change should only be based on a similar study in the future. We commend the PIOB and the MG for challenging the process and continually looking for ways to improve.

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

The current system provides a robust level of oversight and monitoring to the standard-setting activities of IFAC. Any additional layers would be duplicative creating inefficiencies and ineffectiveness.

Q4: Would you support the IPSASB being subject to PIOB oversight? Why? What conditions, if any, would you impose on such oversight? Would you see as a factor to take into account the fact that IPSASB deals with accounting rules instead of auditing ones?

We would support IPSASB being subject to PIOB oversight provided that oversight was limited to overseeing due process in standard-setting and informed oversight. Expanding the PIOB's role to include the evaluation of and/or participation in the development of "technical content and standards" is unnecessary, would defeat the purpose of an oversight function (i.e., would be direct participation), would be duplicative with the PIAC and CAG roles, and may require additional skillsets that currently do not exist at the PIOB. We recognize there are challenges to PIOB oversight as articulated in the discussion document, including funding and skillset. We would favor a risk based approach to IPSASB oversight as identified in the PIOB discussion paper on its 2012 work programme.

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?

AICPA would support a compilation document for the entire structure. Not only would a document of this type facilitate understanding of the standard setting, oversight and monitoring processes, but it would highlight where redundancies exist and could create a roadmap for efficiencies. AICPA supports the first of the two options discussed in the Consultation Paper over governance structure rather than stand-alone charter for the entire structure.

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?

AICPA believes that the current name and structure is sufficient.

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

Today, the MG's role is to appoint individuals to the PIOB, which is charged with ensuring due process of the standard-setting activities of IFAC via an informed oversight process, and to monitor the PIOB's activities. If the MG's role were to expand, it would be duplicative or redundant with that of the PIOB. Therefore, we do not recommend that the MG role be expanded. However, it seems logical for the MG to discuss the regulatory and economic environment and its strategic objectives and priorities (via the PIOB's informed oversight process) as part of the PIOB's stakeholder outreach process so that the PIOB has the tools it needs to effectively oversee the work of the PIACs. We do not recommend a direct link to the PIACs since this is the PIOB's primary function.

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?

See response to Q7, above.

Q9: Do you agree with the suggested ways of improving the communication activities? Would you consider it useful for the MG to have in the special occasions above described direct involvement with PIACs?

We believe transparent communication of the MGs monitoring activities are important to the overall understanding by the public of the standard setting activities of IFAC. We do not believe it will be useful for the MG to have direct involvement in the PIAC's activities. We believe that it would be redundant with PIOB's activities. See response to Q7 above.

Q10: Do you have any specific suggestions on how liaison with investors could be improved? In this sense, do you see merit in some portions of the MG meetings having the public in attendance?

We do not have any additional suggestions on improving liaison with investors. Opening certain portions of meetings to the public has merit, but the communication stream with investors should still remain with the PIOB.

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

AICPA believes it would be useful for the MG to engage with organisations representing governmental institutions. The MG should consider which institutions are most relevant to its activities. Those institutions may vary over time, so flexibility should be built into the system to allow the MG to evolve over time as the environment changes.

Q12: What is your opinion about the current composition of the MG? (i) Do you believe that other organisations (i.e., national or regional regulators) should or could be represented in the MG? If so, which criteria do you think new members should fulfill to become MG members? (ii) Should a maximum be set to the number of MG members? (iii) Would you favour a change on how the Chairperson is appointed?

We believe the current composition of the MG is appropriate, given the current environment. AICPA believes that further study would be needed to better understand how a regional approach to membership on the MG would work, and how it would provide for more effective monitoring and confidence in the system. The process should allow for flexibility to change when needed and a study could help support when and where change would be needed.

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

AICPA believes it vitally important to appoint the best candidates for the role. However, there should be a balance that provides for the most effective oversight. Limitation on “employees” might be considered to preserve the appropriate balance. Additional safeguards might be considered to ensure the directives of the PIOB and the MG are carried out appropriately.

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

AICPA believes that direct hierarchical relationships between the PIOB and MG members do not need to be avoided when roles are clearly defined and positions are filled with the most appropriate experienced representative.

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

AICPA believes the roles and responsibilities of the MG and PIOB are already clearly defined.

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

AICPA believes a regular review of PIOB's due process and oversight framework would be appropriate.

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?

The PIOB should have the flexibility to periodically (versus annually) produce a strategy document that would supplement its business plan. See response to Q7 on the MG's involvement in this process.

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

AICPA is in full agreement with the IFAC response that it's important that the composition of the PIOB is appropriate to ensure that it can effectively and efficiently discharge its public oversight responsibilities. Any proposals to regularly review and alter the composition of the PIOB must be balanced against the need to retain experience and institutional knowledge regarding its activities.

We also agree that, the composition of the PIOB may need to be reviewed to take account of the evolving responsibilities of the PIOB. That is, if the PIOB assumes public oversight responsibilities for the IPSASB, there would be a need for the composition of the PIOB to be reviewed—and perhaps altered—to ensure that it has the requisite legitimacy to speak on matters relevant to the breadth of its mandate, and to share what would be, an increased workload.

There is no necessity that additions to the MG should require additions to the PIOB. That should be a matter of agreement between the MG, PIOB, and IFAC recognizing the impact on operating costs of PIOB of decisions made.

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?

The current composition of the PIACs is appropriate and we do not see merit in a second effectiveness review at this time. The MG should allow time to evaluate the changes implemented from the last MG report before additional modifications are recommended.

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

The role of the CAG is to provide technical input to standard-setters. Given this role, periodic rotation would not necessarily be in the best interest of improving quality if the right person were on the CAG. However, if rotation were deemed to be a best practice and implemented, it may be more appropriate to follow IFAC term limits of two three-year terms.

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?

AICPA believes that while it may not be realistic to attempt to alter the funding structure, it is highly desirable to do so. Please see our response to Q22.

Q22: Do you consider appropriate that IFAC finances the largest part of the PIOB budget? If not, do you consider appropriate that IFAC launches an external fundraising having some contributions of the MG members in the mean time?

AICPA believes that PIOB's funding should be diversified. We believe that robust oversight is enhanced with diversified funding. Diversified funding, independent of any one organization, should be a goal of PIOB and MG. Since IFAC is funded by member bodies, no one body could overly influence the activities of MG or PIOB, therefore IFAC funding is appropriate. However, AICPA recommends MG consider other avenues of funding to supplement IFAC's commitment, for example, private foundations, governments, international agencies, other stakeholders in the financial reporting chain.

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

AICPA does not think it's feasible to have a similar funding structure in place for the PIOB to that for the IFRS Foundation. The PIOB will need to continue to search for funding mechanisms from outside interests to ensure a balance in how the PIOB is funded.

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?

AICPA believes there is merit in having a permanent Secretariat for the MG that will ensure continuity and institutional knowledge that can be carried forward.

Q25: How do you think the governance of the international auditing, ethics and education standards setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?

AICPA agrees with IFAC response to this question stating that IFAC considers that those responsible for the governance of the PIACs should ensure that they always act in the public interest in respect to their responsibilities for standard setting. IFAC is of the view that the work of the PIACs and the manner in which they currently undertake their tasks advances audit quality. It does not see that a major change in governance arrangements is necessary, but acknowledges that all parties must remain vigilant in working to enhance and improve these arrangements.

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?

AICPA believes the current structure is appropriate with one exception.

That exception revolves around education standards. AICPA believes that the IAESB should either be concluded, or its mandate reduced from a standard setting board to one focused on communication of current standards and assistance to member bodies with implementation and compliance. This transition could be effected when the current activity of revising the present eight standards is completed. No new standards should be contemplated given that the cultural, legal, regulatory, and educational differences across member bodies is so substantial. It is far more important to now focus on helping member bodies establish threshold education programs which deliver basic competences.

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?

AICPA believes the current levels of empowerment and responsibility are appropriate.

We would be happy to discuss any of the comments provided to the Consultation Paper and look forward to continued dialogue.

Sincerely,

American Institute of Certified Public Accountants

A handwritten signature in black ink, appearing to read 'S. Coffey', written in a cursive style.

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