



## MEMBERS

International  
Organization of  
Securities Commission  
(Chair)

Basel Committee on  
Banking Supervision

European Commission

Financial Stability  
Board

International  
Association of  
Insurance Supervisors

International Forum of  
Independent Audit  
Regulators

The World Bank

## *Monitoring Group Statement on Governance*

The Monitoring Group (MG) is a collaboration of international authorities and organizations committed to advancing the public interest in audit quality and in international standards on auditing and assurance, auditor ethics, and education. This commitment is reflected in the MG's efforts to ensure the public accountability of the standard-setting boards (SSBs) operating under the auspices of the International Federation of Accountants (IFAC)<sup>1</sup> and overseen by the Public Interest Oversight Board (PIOB).<sup>2</sup>

In 2012, the MG undertook a governance review seeking public input on a range of questions regarding the structure and function of a governance model intended to support the quality and accountability of the SSBs' work. The comments received as part of the governance review highlight the need to establish a better understanding among stakeholders of the essential objectives, roles and responsibilities of the SSBs, as well as the manner in which the current governance structure seeks to support them. Accordingly, this statement discusses the objectives underlying audit and audit-related<sup>3</sup> standard setting and outlines how the governance framework supports these objectives. This discussion then serves as an introduction and backdrop to the MG's feedback statement to the public input it has received as part of this consultation process.

The strength of a governance model for standard setting depends in large part on the degree to which its structure provides an environment conducive to achieving the organization's objectives and mitigates against

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<sup>1</sup> IFAC is a global association for the accounting profession. IFAC's mission is to serve the public interest by: contributing to the development of high-quality standards and guidance; facilitating the adoption and implementation of high-quality standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms and to high-quality practices by professional accountants, and promoting the value of professional accountants worldwide; and speaking out on public interest issues. For more information, see <http://www.ifac.org/>.

<sup>2</sup> The PIOB oversees due process in the setting of standards by, and nominations of, the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), and the International Ethics Standards Board for Accountants (IESBA). The Compliance Advisory Panel, while not a SSB, also operates under PIOB oversight. For more information, see <http://www.ipiob.org/>.

<sup>3</sup> For purposes of this statement, the MG refers collectively to the standard-setting activities of the boards operating under PIOB oversight as "audit-related standard setting".

conflicts of interest. The current governance arrangements—established in the previous decade following a number of highly publicized corporate financial reporting failures that undermined confidence in financial reporting and auditing—were borne of practical necessity and resource constraints. At that time, a group of six regulatory and international financial public interest institutions began a dialogue, together with IFAC, on the importance of high quality audits of public company financial statements and the need to restore and enhance public confidence in financial reporting and auditing. The group—which later became the MG—evaluated the merits of (i) establishing new SSBs operating outside of the accounting profession or (ii) utilizing the existing IFAC standard-setting committee structures but with enhancements to improve involvement of public interest constituents and provide for due process oversight. The group decided upon the latter, as a more practical, expedient and cost-effective alternative, and created the MG and PIOB to mitigate certain conflicts of interest.<sup>4</sup>

As the MG observed in its final report on its review of the effectiveness of the IFAC Reforms, operation of the international audit-related SSBs within an accountants’ professional membership organization presents the potential for conflicts of interest that must be addressed by oversight features. The SSBs function, in large part, with the financial and operational support of IFAC, an international professional body for the accounting profession, and with a sizeable role for accounting practitioners on the SSBs. Therefore, the governance model must include features that emphasize accountability to the public interest and counteract some of the effects of the fact and appearance of auditor self-interest in setting audit-related standards.<sup>5</sup>

## **Objectives of Audit and Audit-related Standard Setting**

### ***Role of audit in financial markets***

Efficient financial markets are predicated upon a combination of transparency and trust. An essential element of this transparency and trust is the truth and accuracy of the financial statements that issuers and other preparers give to capital providers and other users. To help ensure the truth and fairness of these statements, regulators, supervisors, capital providers and others often require that the statements be subject to a financial statement audit, by which an independent auditor arrives at an objective opinion about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. The independence and objectivity of the auditor are designed to mitigate against conflicts of interest between management, who prepares the financial statements and who faces a potential

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<sup>4</sup> For further background on the establishment of the current governance arrangements, referred to as the “IFAC Reforms”, and the MG’s 2010 review of the effectiveness of those reforms, see [http://www.iosco.org/monitoring\\_group/?section=ifac\\_reforms](http://www.iosco.org/monitoring_group/?section=ifac_reforms).

<sup>5</sup> The MG acknowledges that the public interest in audit quality and the interests of the profession are not entirely incompatible. Indeed, the profession’s business model benefits from a public perception that audit professionals share an interest in high quality standards for the performance of audit services. However, risks exist for conflicts with the profession’s commercial interests and the general public interest in audits.

conflict of interest in doing so (since their performance as managers may be assessed against what is reported in the financial statements), and outside users of the financial statements. By inserting this independent, objective check, quality audits provide financial statement users confidence that the financial statements are fairly presented in accordance with the relevant financial accounting standards, which, in turn, encourages the efficient allocation of capital.

### ***Principles guiding audit-related standard setting***

The degree of credibility afforded by an audit depends on, among other factors, the technical quality of the standards that serve as the basis of the audit. That said, while the technical aspects of an independent audit are paramount, public perceptions of the quality and integrity of these standards are equally important, and these public perceptions are heavily influenced by the process by which the standards are established. For the public to view these standards as legitimate and high-quality, the standards themselves must not only be designed with financial statement users' interests in mind, but the standard-setting process must be independent and free of undue pressures that run contrary to the interests of those users. Accordingly, the individuals composing the standard-setting body collectively must both demonstrate professional competency and be accountable to the public constituency whose interests the standards seek to address.

### **Objectives in Governance**

The governance structure for audit-related standard setting must promote an environment for **independent** standard setting while simultaneously making the SSBs fully **accountable** to the public and, in particular, to those users who intend to rely on the standards.

As a practical matter, a SSB's accountability to the public is, to a considerable degree, intrinsic: if the standards promulgated by a SSB are not viewed as independently developed, objective and of high quality, investors and other users of the standards will discount them and their value will diminish or disappear. However, while this public accountability is intrinsic, it is also *ex ante*: by the time regulators and other external stakeholders signal an unwillingness to lend a standard much credence, the damage to the SSB has already been done. Consequently, a governance structure acts as a vitally important check to ensure that any concerns of the public and financial statement users that arise (or might potentially arise) are addressed by the SSB *before* they might have an adverse effect on the public's perceptions of the standards.

A governance structure including public authorities charged with overseeing audit standard setting in their own markets, or who otherwise are charged with guarding a vital public interest, is thus able to offer a SSB this necessarily *a priori* public accountability while still protecting the SSB's independence. However, because independence and accountability may compete at times, how a governance structure balances these objectives will be critical to its success.

## ***Independence***

A successful governance structure is one that, among other things, safeguards against threats to the independence of standard setting from actual or perceived conflicts of interests. Because international standards such as those relating to audits have an impact on so many interested parties, effective independence necessarily means independence from pressures from groups whose interests run contrary to those of users of audited financial statements. However, because truly effective international standards need to be not just developed under a process that embodies such independence, but also of a high technical quality, an effective governance structure will necessarily draw on individuals with considerable technical expertise. Where standards are highly technical, it is almost inevitable that the greatest source of this technical expertise will come from the profession itself. Further, SSBs at times may be subject to undue political pressures that conflict with the general public interest in high quality, independent audits. Consequently, any governance structure for a SSB should be designed such that these multiple competing elements—the need for technical expertise, the need for independence from the profession, and the need to insulate the SSB from any other undue external interference—are dealt with in a way that enhances the SSB’s credibility.

## ***Accountability***

The adequacy of any SSB’s governance structure depends not just on its functional independence, but also on its accountability to those who rely on the SSB’s standards when making critical decisions. Accountability, in turn, depends on a considerable degree of transparency such that the public perceives that the standard-setting process is conducted objectively and is responsive to stakeholders. Stakeholders and other interested parties should be able to follow the development of a standard from consideration of alternatives to final positions. Furthermore, by allowing for a diversity of stakeholders’ input, the standard setter can evaluate competing views against the overarching objectives that the standards are meant to achieve.

Where an audit SSB is concerned, this kind of transparency not only acts to reinforce the SSB’s accountability to investors, regulators and other external stakeholders, but also helps align the SSB with the public interest. Just as significantly, transparency also reinforces the SSB’s credibility, by allowing all stakeholders and interested parties to see exactly how particular decisions were made and why—a crucial factor where the legitimacy of a given standard depends on technical expertise that may perforce draw heavily from the audit profession itself. Indeed, the degree of independence afforded a SSB depends on public authorities’ perception of the SSB’s accountability to the public interest. Public authorities taking decisions on permissible use of audit-related standards must view the standards as satisfying the public interest and being subject to sufficient due process.

## **Current Governance Structure for Setting Audit-Related Standards—Roles and Responsibilities**

The current three-tiered governance structure used for setting international audit-related standards is built around these independence and accountability objectives. The significant role played by audit professionals in SSB operations introduces the potential for commercial interests in conflict with the interests of users of financial statement audits. Accordingly, the governance model demands a stronger emphasis on measures to realize the objective of accountability, to better align decisions of the SSB with the public interest.

To achieve these goals efficiently, each level of the structure is assigned different roles and responsibilities. These roles and responsibilities should not be duplicative, but rather interlocking and mutually reinforcing. These three tiers are: (1) the SSBs themselves, (2) the PIOB, and (3) the Monitoring Group.

### *The Standard-Setting Boards*

The SSBs operate under a governance structure approved by the MG, with oversight by the PIOB of the SSBs' processes under those governance arrangements. The SSBs are charged with promulgating high quality standards that are developed through a thorough, timely, deliberative due process and are responsive to the need for high quality, independent audits. In assisting stakeholders' understanding of how a given standard contributes to audit quality, the SSBs must ensure that the objective of a given project is clear.

As previously observed, conflicts of interest are inherent to a SSB's operations because they function within a professional membership organization and draw their expertise in substantial part from organizations subject to the very standards that the SSBs are charged with developing. Changes in recent years to increase the number of non-auditors on the SSBs aim to address this conflict of interest while retaining the technical expertise offered by audit practitioners as board members.

The MG believes that further enhancements that bring increased transparency to the SSBs' standard-setting operations could improve understanding of how the balance of professional competence and public interest perspectives contributes to quality standard setting.

***Operational Improvement 1:** SSB meeting materials should clearly note the public interest concerns and needs identified by public constituents. The materials are to include a thorough analysis of pros and cons of alternatives designed to address these stakeholder concerns and needs, and meeting discussions are to devote adequate attention and time to their evaluation and deliberation.*

The preparation of meeting materials in such a manner, accompanied by oversight of SSB decision-making processes, would enable the PIOB and the public to assess the extent to which

public interest objectives are satisfied. If stakeholders are satisfied with the SSB's processes, the objectives of independence and accountability are bolstered. The public perception of the SSB's independent decision making improves if public interest stakeholders view the standard-setting process as fair, transparent and balanced, without the influence of undue outside intervention. SSB-generated materials and deliberations that create a record of how decisions take into account the public interest serve to demonstrate the degree of accountability of the SSB's operations.

In addition to demonstrating the balance of technical competence and due consideration of broad public interests, such meeting materials may help to level the opportunity for advanced preparation of board members who are non-practitioners compared to that of practitioners. SSB board members who are practitioners may be more readily able to draw on greater outside resources when preparing for a meeting. Placing greater responsibility for comprehensive, timely meeting background material on the SSBs would improve the technical support available to non-practitioners and, consequently, their appreciation for issues under deliberation. This may promote balanced debate between current practitioners and non-practitioners.

Another area for improvement is with respect to implementation of a tool contemplated in the IFAC Reforms. IFAC and the MG agreed in 2003 that SSBs would give strong consideration to comments on proposed standards provided by a MG member; further, the SSB would provide direct feedback to a MG member if final decisions on a standard-setting project do not appear to reflect the input provided by the MG member.<sup>6</sup>

***Operational Improvement 2:** The SSBs, in consultation with the MG, are to establish (i) procedures to ensure that all SSB members are aware of and understand concerns conveyed by MG members over the course of a standard-setting project and (ii) a mechanism for feedback to MG members on resolution of the MG member concern.*

This is particularly important as a MG member's concerns likely relate to matters of public interest, to which the final standard should be accountable. A final standard's basis for conclusions should explain key points of public interest addressed by the project. As above, if the SSB's standard processes demonstrate how public interest considerations were duly taken into account in reaching final decisions, the public will more readily understand the degree of accountability of the SSB's work.

### **PIOB**

The PIOB directly oversees critical elements of SSB activities, including the process for nominations of SSB members and standard-setting due process. The PIOB's objective is to hold the SSBs accountable to processes for development of standards in the public interest, thereby

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<sup>6</sup> See section 3.2 of the IFAC Reform proposals at [http://www.ifac.org/sites/default/files/downloads/IFAC\\_Reform\\_Proposals.pdf](http://www.ifac.org/sites/default/files/downloads/IFAC_Reform_Proposals.pdf)

facilitating stakeholder confidence. This begins with overseeing the process of nominating members to the SSBs with the requisite technical competencies and, critically, appreciation for the public interest served by audit-related standards.

As noted above, the credibility of any SSB benefits from independent oversight of adherence to due process. Because the SSBs necessarily receive much expert input from the audit profession itself, the potential conflicts of interest that attend this valuable input makes the PIOB's oversight even more crucial.

Accordingly, the PIOB's emphasis is on due process. Due process oversight addresses whether the outputs of the SSBs' deliberations are appropriate in light of inputs and public interest considerations. At the same time, the role of an oversight body is not to replicate the standard-setting process and second-guess decisions reached by a competent SSB.

The PIOB must be aware of the public interest considerations at stake in a standard-setting project, in order to be able to assess whether or not the SSB is giving due consideration to such interests. This requires an awareness of audit objectives and stakeholders' views. The MG believes that the preparation of thoughtful, comprehensive SSB meeting material, as recommended above, would better position the PIOB to fulfill its oversight role and would lessen the likelihood of the PIOB second-guessing the SSB's technical decisions. In practice, the dividing line between due process oversight and involvement in matters of technical substance can be vague; the failure of the process to appropriately address technical substance, however, is manifested in an inappropriate technical outcome. As above, transparent SSB deliberations would give observers—including the PIOB—insight necessary to evaluate the degree to which standard setting operates independent of undue interference and remains accountable to the SSB's public interest charge.

The PIOB, if properly appointed and attentive to stakeholder interests in audit quality, should be able to assess whether meeting materials and SSB deliberations adequately address public interest considerations raised during development of a standard.

***Operational Improvement 3:** The PIOB is to establish procedures to ensure that it is aware of any issues conveyed by a MG member and other stakeholders that rely on the work of an auditor.*

MG members commit to assist the PIOB's implementation of this improvement by routinely communicating to the PIOB pertinent issues raised with a SSB. Implementation of this recommendation would improve oversight of public interest considerations and enable the PIOB to track how the standard-setting projects resolved these stakeholder concerns. This complements the improvement contemplated in Operational Improvement 2. In addition, just as stakeholder confidence benefits from transparency of SSB operations, additional information about the PIOB's oversight program would help stakeholders understand how PIOB operations support the public interest in audit-related standard setting.

***Operational Improvement 4:*** *The PIOB shall improve transparency of its oversight activities, to both the MG and the public, including by providing periodic information about PIOB meetings and about the PIOB’s assessment of SSB compliance with due process.*

Critically, the PIOB’s interactions with the MG should provide sufficient information to enable the MG to assess the effectiveness of PIOB oversight. Summarized but regular information on oversight activities that is also available to the public would position stakeholders to make similar assessments.

### *Monitoring Group*

The MG provides for ultimate accountability to public authorities responsible for furthering the public interest in audit quality. The MG ultimately is responsible for the design of overall governance arrangements for the PIOB’s oversight role and the SSBs’ processes.

A key responsibility of the MG is to ensure that the PIOB, which is charged with oversight of SSB activities, is equipped to oversee SSB due process, with particular attention to satisfaction of public interest considerations in the SSBs’ work. The MG does this in three main ways. First, through appointment of PIOB members, the MG ensures that the PIOB collectively represents a diversity of public interest perspectives in audit matters. Second, through a robust dialogue with the PIOB, the MG can keep the PIOB current about MG perspectives about the public interest in audit quality, improving the PIOB’s ability to oversee that the SSB processes reflect the public interest. This dialogue also involves communication by the PIOB on its oversight program, such that the MG can monitor PIOB activities. Finally, the MG reviews and provides input to the PIOB’s strategy and work program, which informs the MG’s assessment of use and sufficiency of PIOB resources when it approves the PIOB’s annual budget.

Just as the PIOB’s oversight role does not include second-guessing the technical merits of a competent SSB’s decision, the MG does not intend to play a direct role either in the oversight activities assigned to the PIOB or, collectively, in SSB operations. However, MG members, separate from their role on the MG, participate in activities of the SSBs and contribute to the standard-setting process directly, for example through submission of comment letters and participation in the SSBs’ Consultative Advisory Groups. The MG sees benefit in direct interaction between its members and the SSBs. At the same time, the MG believes that a clear distinction should be drawn between these activities of its members in standard setting (*i.e.*, as contributors to the SSBs’ due process) and the MG’s collective role in informing the PIOB of broad matters of public interest (*i.e.*, in the capacity of monitoring the overall governance structure).

Given the current operations of the SSBs within a representative body for the accounting profession, the SSBs’ opportunity to develop standards independently—and with a greater *perception* of independence—requires stronger accountability measures than would be the case if



the SSBs operated with lesser influence of the accounting profession. The accountability of the SSBs' decisions to stakeholder interest in audit-related standards and PIOB oversight of the standard-setting process, therefore, calls for transparency of MG members' views.

*Operational Improvement 5: The MG is to expand its efforts to improve the quality of its discourse with the PIOB and public transparency of its activities.*

The MG intends to achieve this through regular meetings between senior representatives of MG members and the PIOB to discuss key, high level issues affecting audit quality that are relevant to the SSBs' mandates. Such discussions may include public interest concerns related to current standard-setting projects or, where necessary, audit quality concerns not currently addressed by the SSBs' current agenda. Further, the MG intends to improve public understanding of its activities through more detailed and periodic communications, primarily through press releases.

The MG's consultation document sought views on the possibility of closer involvement with the SSBs, for example through periodic meetings with SSB Chairs or the ability to refer an agenda item to a SSB through the PIOB. While the MG believes that the existing mechanism for referring items individually to a SSB and the requirement for direct feedback are sufficient in structure, the functioning of the mechanism requires improvement and transparency to MG, PIOB and SSB members. This feedback mechanism provides a useful tool for accountability of the SSBs' processes to public interest issues raised, while upholding the independence of their processes. Similarly, the MG believes that occasional meetings with SSB Chairs could be appropriate, in particular when the SSB is considering a project of particular interest to the MG. As with the feedback mechanism, the objective of such a meeting would be to ensure the SSB's understanding of MG views on broad public interest considerations. Meetings of this type are not intended to bypass or duplicate MG members' current avenues for input to the SSBs, but rather would enable focused, high-level discussions of key public interest issues relevant to the SSBs and their missions. To better position the PIOB to assess how the standard-setting process takes into account such matters, the MG would ensure that the PIOB is aware of or, as appropriate, involved in such interactions.

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A fundamental question raised in the MG's governance review is whether the current governance structure effectively promotes the SSBs' primary mission of setting high quality standards, and whether the standard setter is appropriately independent yet accountable. The MG believes that it must evaluate periodically whether the overall governance framework achieves the primary goals of the process begun with the reforms that led to the establishment of the PIOB and the placement of the SSBs under the current oversight structure.

The MG concluded that the current architecture provides an appropriate template to increase confidence that the SSBs' processes are properly responsive to the public interest. Such confidence requires a general understanding of the structure's objectives and the roles and responsibilities played at each level of the framework. The above summary is intended to provide additional clarity to stakeholders in this regard.

The MG continues to support the existing three-tiered structure and believes that, while in need of further operational improvements, the design of the structure remains appropriate at this time. The MG will continue to assess implementation of recommendations made following its review of the effectiveness of the IFAC Reforms. The MG will do so with ongoing awareness of the opportunities for conflicts presented by audit-related standard setting within an accounting professional membership organization. The current three-tiered model is designed to mitigate against the potential conflicts of interest in this arrangement, with particular focus on measures that provide for accountability of the SSBs' process, and the MG will continue to monitor its effectiveness in this regard.

While an independent standard-setting structure outside of the accounting profession would be ideal in the long term, it remains challenging to achieve in the immediate. The MG does not foreclose the possibility of future measures to assess feasibility and implications of such a development in the future.

In the meanwhile, the MG has identified a number of areas for continued improvement in the functioning at and between levels of the governance structure, as noted above and further described in the appended feedback statement. The feedback statement summarizes public input received and MG positions taken following the governance review consultation.

The MG and PIOB, in appropriate coordination with IFAC and the SSBs, intend to work together to implement these improvements and undertake these initiatives, along with monitoring of the effects of implementation of the recommendations from the MG's 2010 review of the effectiveness of the IFAC Reforms, as we continue our shared mission of advancing audit quality.

## Appendix

### Feedback Statement Monitoring Group Governance Review

#### Introduction

This Feedback Statement summarizes comments received in response to the Monitoring Group's (MG) *Public consultation on the governance (with special focus on organizational aspects, funding, composition and the roles) of the Monitoring Group, the PIOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC*, issued in March 2012. The consultation period closed in June 2012. This Feedback Statement also sets out the MG's responses to the comments made.

#### Summary of Responses Received

The MG received 44 comment letters from the organizations and individuals listed in the attachment to this feedback statement. The letters are summarized below by type of respondent and geographical region.

<b>Respondent Type</b>	<b>Number of Responses</b>	<b>Percentage of Responses</b>
Accounting profession	26	59%
Public authorities and standard setters	11	25%
Body or individual affiliated with standard setting board operating under IFAC	5	11%
International financial institution	1	2%
Investor	1	2%
<b>TOTAL</b>	<b>44</b>	<b>100%</b>

<b>Geographical Region</b>	<b>Number of Responses</b>	<b>Percentage of Responses</b>
International	14	32%
Europe	13	30%
Oceania	6	14%

North America	6	14%
Asia	2	5%
South America	2	5%
Africa	1	2%
<b>TOTAL</b>	<b>44</b>	<b>100%</b>

Attachment 1 lists individuals and organizations that responded to the public consultation, while Attachment 2 provides a list of the questions asked in the governance review consultation paper. The following summary of comments received groups these questions and the MG’s responses by general topic. Abbreviations used to cite comments in the summary below are listed in Attachment 1, while all other abbreviations are found in Attachment 3.

## Overall Structure

The MG’s consultation sought input on whether the overall governance structure adequately provided for standard setting in the public interest. The structure includes three tiers: standard setting by standard setting bodies (SSBs); oversight of the SSB process, including the process for SSB nominations, by the PIOB; and overall monitoring of the governance arrangements by the MG. In addition to questions on the overall structure, the MG sought input on the current level of, and possible means to improve, clarity and public understanding of the model. (*Questions 1 – 6, 15, 25, 26 and 28*)

### Input received:

#### *Public Interest Representation*

Many commenters expressed the view that it is too soon after the MG’s 2010 Effectiveness Review to consider further changes to the governance model and, accordingly, whether its design adequately addresses public interests (CA, Deloitte, JICPA, World Bank). Instead, these commenters recommend allowing more time for the recommendations following that review to be implemented and take effect.

Some commenters suggested more public sector representation on the SSBs and consideration of public interest in their work (FEE, Irungu). IFIAR SCWG stated that the level of acceptance of ISAs and the Code of Ethics indicates that the standards are not yet perceived to meet the public interest needs (CPAB also indicated concerns with the Code of Ethics not meeting the public interest); they suggest that this may be because the standards are currently developed to meet a broad range of needs and that a focus on audits of entities participating in the capital markets may expand the use of these

standards. Taking a different point of view, some commenters felt the need for more focus on SME / SMP issues (Edinburgh Group).

Commenters provided various recommendations for improved operations by the SSBs to better represent the public interest. ESMA indicated the need for improvements around due process and standard setting and an enhanced nominations process. A number of commenters raised the need for more diversity in SSB membership, including more non-practitioners and an appropriate definition of non-practitioners. Some also opined that SSB members, in particular non-practitioners, should receive reasonable compensation in order to attract high caliber representatives of the public interest (ESMA, IFIAR SCWG).

The consultation asked whether commenters support, in the long term, a model that places standard setting completely outside of the IFAC structure. All public authorities commenting on this point and the investor commenter advocated for removal of the SSB operations from the IFAC structure (AUASB, AusFRC, ESMA, Hermes EOS, IFIAR SCWG). These commenters generally indicated that the public interest would be better served, in fact or perception, if the SSBs operated independent of the profession. Two commenters from the accounting profession also supported such a structure, with ICAC advocating for a model like the IFRS Foundation's and ICAA offering that, in the Australian experience, an audit board sitting outside of the profession has not detracted from the quality of the standard or the standing of the audit profession. KPMG encouraged the MG to explore other options if it believes that there is a perceived lack of independence in the existing arrangements. PwC suggested alternative models might be evaluated against a desired set of attributes in 4-5 years, with a current focus on reinforcing the present structure.

Most commenters from the accounting profession, however, disagreed with the need to remove the SSBs from the IFAC structure, with several indicating that the current model works well (CNCC CSOEC, IBR-IRE, JICPA, WPK). Some were concerned with potential implications to the quality of the standards (CA).

Several commenters indicated that securing reliable funding for a SSB structure outside of IFAC is a difficult issue (CNCC CSOEC, IDW, JICPA). Hermes EOS did not see the need to conflate sources of funds (including, appropriately, the accounting profession) with the question of where the SSBs are housed (in their view, inappropriately within an accounting professional body). Others suggested a funding model similar to that of the IFRS Foundation (KPMG), including regulatory involvement in the design or contribution of the model (ESMA, IFIAR SCWG).

#### *Three-tier Governance Model*

**General.** Most commenters opined that the three-tier system is adequate for meeting the overall governance objectives. Some suggested improvements to the model, such as clarified roles and responsibilities that are consistent with the aims of the three-level model (CPAB, FEE), and ensuring greater seniority of MG member representatives than PIOB representatives (CA, World Bank). Several commenters pointed to the IFRS Foundation model as a good example for a governance structure (Hermes EOS, ICAA,

ICAC). Some commenters expressed that the structure is cumbersome, complex and, therefore, costly (CPA Australia, CIMA, ICAA).

ESMA supports an eventual transition to a structure that combines MG and MB oversight activities. In their view, as with the current model for these two monitoring bodies, the new three-tiered model would include levels for (i) independent technical SSBs, (ii) Trustees for oversight of the SSBs, and (iii) a monitoring body to oversee activities of the Trustees.

**Roles and Responsibilities.** Views were fairly evenly divided on clarity of the current assigned roles and responsibilities within the current structure. Many believe they are already clear (ACCA, AICPA). Some suggested the need for education or clearer communication to stakeholders outside of the accounting profession about the roles and responsibilities (BDO, Deloitte, Grant Thornton). Some suggested that the 2003 IFAC Reforms document provides appropriate clarity (BDO, E&Y), while others believe clarity could be achieved through a “compilation document” (PwC, World Bank).

**Compilation Document.** Several questions sought input on clarity of the structure, including the usefulness of a “compilation document” and possibly revising the name of the overall structure or bodies within it. Commenters generally supported the concept of one source that explains the structure and the roles and responsibilities assigned to units within that structure. They indicated that this would support stakeholder understanding of the structure (AICPA, JICPA, PwC, World Bank). AICPA suggested that the creation of such a document would help identify overlaps and inefficiencies, enabling improvement.

Views on the nature of such a document varied. Hermes EOS supported a standalone charter. Some commenters did not see the need for the compilation to be a governing document, but rather thought a communication document would be more appropriate to provide clarity about the structure (AICPA, ESMA). Other suggestions for the document included providing links to, or making it available on, all websites of the bodies within the structure (AusFRC, Irungu, ESMA) and a graphical depiction of the structure (AusFRC, E&Y).

**Name of Structure and its Bodies.** Most comments supported keeping the existing names of the entities within the structure, and did not see the need for a name for the overall structure. Some suggested that the current names have become recognized over the period of their use and a change might be confusing; efforts might instead be directed at promoting their recognition (AICPA, Grant Thornton, IFAC, JICPA). Some suggested that a new name might be considered at a later point, if the structure were to move fully outside of IFAC (ESMA, Hermes EOS). Some indicated a preference that the structure not be referred to as the IFAC Structure (Deloitte, E&Y, IFIAR SCWG). Regarding the names listed in the document, some found them too long or supported a name, if any, to be as short as possible (Hermes EOS, ICAC).

## MG Response:

As further explained in the MG's statement on governance, the MG continues to support the existing three-tiered structure and believes that, while in need of further operational improvements, the design of the structure remains appropriate at this time. The MG has identified a number of areas for continued improvement in the functioning at and between levels of the governance structure.

The MG disagrees with the connection made in many comment letters between operation of the SSBs within the IFAC structure and the ability of the profession to participate in the standard setting process, including through membership on a SSB. Indeed, the IASB offers a model for removal of standard setting from the accounting profession and the retained participation of the profession. This is also the case with audit-related SSBs at the national level in a number of countries. Recognizing that audit standards may require more technical input from experienced audit practitioners than is the case with accounting standards, the MG does not suggest that the IASB model is necessarily the appropriate one for the SSBs; rather, the point is that it is possible to fully bring to bear in the standard setting process the experiences and expertise of the audit profession, without the SSBs necessarily being housed within an accounting profession's representative body.

Nonetheless, the MG believes that more effort and analysis would be required before taking a position on feasibility of maintaining a well-resourced structure for standard setting separate from the current arrangements with IFAC. While an independent standard setting structure outside of the accounting profession would be ideal in the long term, it remains challenging to achieve in the immediate. The MG does not foreclose the possibility of future measures to assess feasibility and implications of such a development at a later point. The MG believes that efforts in the immediate to strengthen operations of the existing governance model will be beneficial to the public interest, irrespective of whether the SSBs will sit outside the IFAC structure in the future; it therefore intends to direct its immediate focus to strengthened execution of roles and responsibilities at the various levels of the current governance structure.

The MG agrees that more clarity to the public at large would broaden the general understanding of the governance functions supporting audit-related standard setting. The degree of public confidence, then, could derive from perceptions about operations of the governance model, rather than lack of understanding about the model. To that end, in addition to efforts to improve transparency of operations at all levels of the structure, the MG supports a document that illustrates the governance model and the relationships between the bodies. The MG's governance statement and the 2003 IFAC Reforms document are useful reference points. The PIOB should take the leading role in preparation of such a document, in consultation with the MG and the SSBs / IFAC, for final approval by the MG. The document need not be complex or lengthy; it should concisely set forth the aims and features of the governance arrangements, with links to governing or other documents that provide further details as appropriate. All bodies within the structure should make the document available on their websites.

In the course of finalizing the document, the MG, PIOB and IFAC may consider whether revisions to existing Charters or MOUs are called for and a justifiable use of resources. Additionally, the MG and PIOB should memorialize their agreement on steps to be taken to implement specific operations improvements set forth in the MG's Statement on Governance, to ensure common understanding and the ability to track implementation against agreed measures.

The MG does not see the need to change names within the existing structure or provide an overall name for the structure at this time.

## **Monitoring Group**

The consultation addressed the MG's role, composition, relationship with SSBs, communications, and other operational matters. (*Questions 7 – 12, 24 and 27*)

### Input received:

#### *Role*

The comments received reflect diverse interpretations of what a “strategic” role of the MG means. Some felt that the MG's role should be limited to PIOB appointments and ensuring the PIOB meets its mandate (IFAC). Others thought that MG engagement with the PIOB should include discussions of strategic objectives and priorities in order to better equip the PIOB to fulfill its mandate (AICPA) or that the engagement already was strategic (Swanney).

#### *Composition*

The consultation paper asked about the appropriateness of the MG's current composition, and whether additional organizations should be represented. Most commenters found the MG's composition generally to be appropriate (AICPA, BDO, Swanney, ESMA, Hermes EOS), while views were mixed on whether the MG should further expand membership to include other organizations. Reasons provided in support of national representatives included that they could better participate in funding and provide technical and leadership capabilities to IFAC initiatives (Irungu) and because it would facilitate adoption of the standards at the national level (IBR-IRE). Those opposing national or regional representatives argued that they are already represented through the existing international bodies that compose the MG (IDW, IFIAR SCWG) and that their inclusion may introduce undue influence of national interests (Grant Thornton). CA argued that, while they do not support regional representation, more regional representations should be added to take into account the current and likely future membership of the EC. Some called for inclusion of SME and/or emerging/high growth market perspectives (CPA Australia, FEE, ICAA), while IFIAR SCWG stated that the existing international member organizations already represent developed as well as emerging market perspectives.

Regarding the size of the MG, most comment letters did not respond to this question, but those that did generally supported a cap on the MG's size. Efficiency and workability were common reasons in support of this position (ACCA, BDO, Deloitte, FEE, Irungu).



Several indicated that the size of the MG is for the MG to determine (BDO, CPA Australia, IFAC, World Bank).

#### *Relationship with SSBs*

The clear majority of commenters did not feel the MG should have a direct role with the SSBs. They felt that this is the PIOB's job and MG involvement with SSBs may undermine the PIOB's role (Hermes EOS, World Bank). Several commenters observed that opportunities for engagement with the SSBs already exist through the CAGs and normal SSB processes for receiving stakeholder input (ACCA, JICPA, World Bank). A number of public authorities, however, supported the MG being able to confer with the PIOB on the SSBs' agenda and get feedback (ESMA, IFIAR SCWG).

#### *Communications*

Most commenters agreed with the MG's proposed means to improve communication, including through press release and website content. Some questioned the effectiveness of MG communications, either because of doubt the MG could find one common voice given its diversity of backgrounds (CNCC CSOEC) or because a need for more communication has not been established (CPA Australia). Most commenters supported making parts of the MG meeting open to the public (E&Y, IFAC, JICPA). A minority of commenters questioned the utility of public MG meetings or warned that it might inhibit debate (Hermes EOS, IFIAR SCWG, Swanney)

Most commenters supported the MG engaging with organizations representing governmental institutions. Some advised that the MG determine and engage with those organizations most relevant to the MG's function (ACCA, AICPA); such engagement would improve the MG's ability to contribute a broader range of public interest considerations to the PIOB and SSBs (BC MoF, Deloitte). CNCC CSOEC made the point that MG members already do represent governmental entities. Regarding whether the G20 is the most appropriate entity for engagement, views were quite evenly divided. Some indicated that if the MG wanted to engage with the G20 it should do so through the FSB (CNCC CSOEC, PwC).

#### *MG Operational Matters*

The consultation asked for comments generally on its operation and specifically about its Chair selection process. Few commenters provided input on the Chair selection, with several indicating that this is appropriately a matter for the MG to decide (CPA Australia, IDW, IFAC, World Bank). Others suggested that the MG elect its Chair from among its membership (FEE, ICAC, IFIAR SCWG).

#### MG Response:

The MG believes that, fundamentally, its role is strategic; it would be difficult to discharge the MG's duty to monitor the overall governance system without having a view on the appropriateness and effectiveness of strategies used to achieve the system's aims. Similarly, its members' views should be appropriately understood by the PIOB and the SSBs as they execute on their oversight and standard setting roles. Therefore, as

described in the statement on governance, the MG feels it should remain able to convey its views on projects and agendas to the SSBs, but to do so in a way that aims to provide information on the public interest matters to which the MG believes the standards must be accountable. The MG observes that the ability of a SSB to operate effectively depends on the perception among public authorities that the standards produced satisfy the public interest objectives of the organization (*i.e.*, they are accountable). The MG's interactions with the PIOB or SSBs on matters of substance are not intended to override appropriate due process, but rather to ensure the SSBs appreciate the public interest concerns to which their final standard will be held to account. The MG agrees that its members' interactions with the SSBs should remain primarily through the existing opportunities for providing input to the SSBs on technical standards (*e.g.*, comment letters, CAG participation). That does not foreclose the merits of periodic engagement with, for example, a SSB Chair and the PIOB, to discuss high level public interest considerations about key projects. Further, the MG intends to keep the PIOB informed of issues it or individual MG members raise with a SSB, as such issues likely are public interest considerations of which the PIOB should be aware as it oversees the SSB's due process.

The MG does not intend at this time to make any key changes to its composition or leadership arrangements. As international organizations with diverse memberships, the MG believes it provides for a broad array of national, regional and market sector perspectives; indeed, most, if not all, of our members' mandates include consideration of SME and/or emerging market issues. As international bodies, our membership is by definition geographically diverse.

As indicated in the governance review paper, the MG intends to expand its communication efforts.

## **PIOB**

The consultation asked for input on the relationship between MG and PIOB members, PIOB reviews of its due process and governance framework and its strategy, current PIOB composition, and other areas for improvements. (*Questions 13, 14, 16 – 18 and 27*)

### Input received:

#### *Relationship between MG and PIOB members*

Commenters had mixed views on the appropriateness of PIOB members being full-time employees of MG member organizations. Some saw a conflict of interest and / or perception issues if a PIOB member was also employed by a MG member (CPA Australia, IFIAR SCWG, Swanney). Others thought the best candidate for the PIOB should be sought, and look to governance safeguards to protect against conflicts of interests (AICPA, BDO, E&Y).

Views regarding a direct hierarchical relationship between the MG and PIOB members were strong, with a majority in opposition. Reasons included to uphold independence of

the PIOB members and to avoid conflicts of interest (Hermes EOS, Irungu, JICPA), and because of the inconsistency with purpose of having separate roles of monitoring and direct oversight (FEE, ICAC).

#### *PIOB review of strategy and its governance and oversight framework*

A clear majority of commenters supported such reviews by the PIOB. Some thought such efforts would assist the PIOB in staying current (GT, IDW, Irungu). Some warned against such reviews because they may become bureaucratic (BDO, PwC) and may distract from the board's focus (Edinburgh Group). IDW warned that, if produced more often than every five years, a strategy document risks becoming more a work plan.

Regarding MG involvement in a PIOB strategy document, many commenters supported MG providing input (Juvenal, CA, CNCC CSOEC), with some specifying that the PIOB should freely express its views, even if different from the MG's (BDO, Deloitte, BDO). A few commenters believe the MG should have no role in such a document (E&Y, ICAC).

#### *Current PIOB Composition*

More than half of those commenting on PIOB composition did not feel it needed enhancement. Some observed that the PIOB's composition was appropriate to its oversight function (CPA Australia, E&Y).

Recommended areas of enhancement include diversity of regulatory perspectives, geographic and general balances (Grant Thornton) and inclusion of investor representatives (Deloitte). World Bank observed the need for appropriate seniority of PIOB members.

Several commenters thought that PIOB composition should be periodically reviewed (FEE, Hermes EOS, IDW, IFIAR SCWG). About one-third of comments suggested reviews of composition when an organization becomes a new MG member (BDO, ICAEW, IFIAR SCWG).

#### *Other Improvements*

ICAC supported oversight to ensure that SSBs take into better account public interest considerations; they observe that the profession determines the content of standards more than national authorities do. Some stated that it is critical that the PIOB challenge the SSBs on significant public interest concerns (CPAB, ESMA).

#### MG Response:

The MG appreciates its role in ensuring the caliber of PIOB members, appropriate to the public interest service the PIOB provides by its oversight function. The MG is committed to seeking quality candidates and to considering ways to appoint a diverse group of public interest-minded individuals.

The MG supports the merits of periodic strategy reviews that outline the mid- to long-term objectives of the PIOB, as well as periodic reviews of the PIOB's governance and due process framework. These are good practices to ensure continued attention to and improvement on the most critical areas of the PIOB's work. The MG looks to the PIOB to determine an appropriate frequency and nature of such reviews, in a way that helps align PIOB activities to its mission and that improves public understanding of the PIOB's efforts. As the MG is responsible for monitoring the overall governance framework and its members are representative of the main public interests the SSBs' work and PIOB oversight seek to address, it would be appropriate for the MG to provide input to the PIOB on its reviews as they are developed. Engagement between the MG and PIOB on the PIOB's strategy will position the MG well in review and approval of the PIOB's budget, reflecting activities that support achievement of the PIOB's strategic objectives.

## **Standard Setting Bodies**

The consultation paper inquired as to appropriate composition of the SSBs, suggested a nine year term limit for CAG members, and sought any other comments on improving operations. (*Questions 19, 20 and 27*)

### Input received:

#### *Composition*

A clear majority of commenters supported the current composition of the SSBs. Many advocated the need for strong technical competence and therefore supported the prominent role of audit practitioners on the SSBs (FEE) with governance safeguards to protect the public interest in standard setting (Deloitte). One commenter observed that the need for technical expertise of practitioners on the board may be reduced in a model with technical staff taking a stronger role in drafting proposals and standards (Swanney). Some commenters expressed concern that, if the balance shifted toward fewer practitioners, quality in final standards may be lost (Deloitte, IDW); this could impair the public trust in the standards (WPK).

Some commenters would find it useful to revisit the definition of a non-practitioner (ICAC). Others indicated that the most important criterion for SSB membership is whether the person has the right skills and background to contribute to high quality standard setting (AusFRC, PwC).

One commenter supported a majority, if not all, of SSB members as non-practitioners; this commenter stated that audit knowledge can come from outside of audit firms (ESMA).

Regarding whether the MG should explore, as part of a second effectiveness review, a shift to majority non-practitioners on the SSBs, about half of commenters did not think this was necessary. As above, they feel that the current balance is appropriate as it offers technical competency and objectivity. Many commenters thought it premature for the

MG to revisit SSB composition, as this was addressed in its 2010 effectiveness review and changes since then have not had time to take full effect (AICPA, CA).

The sole investor commenter saw merit in active consideration of the practitioner / non-practitioner balance in the SSBs (Hermes EOS).

#### *CAG Term Limits*

About one-quarter of those who commented on this question did not support the concept of CAG member term limits. Of the remaining commenters, most supported term limits but many did not explicitly support a nine-year limit, or thought that the actual limit should be a matter for the PIOB to determine (CA, IFAC). Reasons in support of term limits include renewed expertise and dynamism (CPA Australia) and rotation being a best practice (Hermes EOS).

Those not supportive argued that the technical nature of the CAG role and the long term nature of SSB projects justified longer terms; believe that the overriding criterion should be the best person for the job rather than duration on the job; and observed that job turnover tends to naturally provide for rotation (AICPA, ESMA, E&Y, ICAEW, IDW). Further, some indicated that smaller organizations might struggle to identify competent, alternative representatives, which would undermine the quality of input through the CAG (Deloitte, FEE).

#### *Other Improvements*

One commenter suggested that more thought should be given to the roles and responsibilities of the CAGs, and to enhancing their transparency regarding their nominations, deliberations and how SSBs deal with input received from the CAGs (PwC).

Other commenters suggested possible alignment of the IAASB and the IESBA (ESMA, IFIAR SCWG).

#### MG Response:

Appropriate SSB composition is a critical factor driving quality standard setting. The PIOB's oversight of nominations processes is therefore of great importance. The MG acknowledges that changes were recently made to the definition of a non-practitioner. The MG will look to the PIOB for insight into how these changes are manifested in the quality of standards deliberation and final decisions. The MG has agreed to expand its efforts to improve the quality of its discourse with the PIOB; this should include more extensive discussion about oversight, including of the nominations process.

The CAG is an important forum for technical input into standard setting. The PIOB, as part of its oversight of process, should periodically assess effectiveness of CAG operations, including the costs and benefits of potential CAG member rotation requirements.

## **IPSASB**

The consultation paper asked for views on the appropriateness of including the IPSASB in the current MG / PIOB governance framework. (*Question 4*)

### Input received:

Commenters related to the audit profession were in favor of PIOB oversight of the IPSASB. In the case of IFAC and the IPSASB they both indicate that they "strongly" support such a move. A PIOB member (Hafeman) "strongly" favors the move and provides a detailed set of reasons for that.

Most contributors representing the public sector or the general interest are against PIOB oversight of the IPSASB. That is the case of the DGFIP, the CNoCP, the Court des Comptes Advisory Committee, a minority of HoTARAC jurisdictions and the ICAC.

The World Bank supported the PIOB extension of its scope to cover the IPSASB as a practical approach in the sense that it would be the best way forward in the short term. In the medium/long-term, however, the best solution will be to transfer the public sector standards setting to the IASB, something cited as not possible at present due to the reluctance of the IFRS Trustees to take on these additional responsibilities at this time. This position is also shared by the public sector AusFRC and a majority of the Australian HoTARAC as well as by private sector representatives such as the European FEE, JICPA, ICAA, HERMES EOS and to some extent ACCA.

Most commenters in favor of PIOB oversight of IPSASB indicated that the PIOB should review its own composition and possibly its size to make sure the members of the PIOB, as a whole, would have the right profile and experience to carry out the old and new responsibilities. At the same time, certain of these commenters indicated that the fact that IPSASB deals with accounting instead of auditing rules should not be problematic, because the PIOB is supposed to check only the due process and related activities, not the content of technical standards.

Some of the contributors mentioned explicitly that if it is finally decided that the PIOB oversees the IPSASB, this would be a good opportunity to carry out a complete overhaul of the IPSASB environment in the sense that the change should also include the creation of a proper CAG and the setting up of the necessary funding arrangements to make the whole new structure up to date and fully operational.

### MG Response:

The MG, having considered comments received and following further discussion with the PIOB and IFAC management during a joint meeting in September 2012, decided to formally take onto the MG agenda the question of IPSASB oversight. The MG believed the implications to the PIOB's oversight focus on audit-related standards should be carefully considered before reaching a decision. The MG therefore determined to further

evaluate the issue in order to reach a responsible and reasoned view. To that end, the MG hosted a roundtable in February 2013 with certain stakeholders in public sector accounting standards. The MG concluded that its composition and that of the PIOB currently are not appropriate to the needs of stakeholders in public sector accounting standards; expanding the membership at either level to address the current shortcomings in membership would risk compromising the MG and PIOB's ability to fulfill their originally intended role of improving audit-related standard setting. Further information on the roundtable and the MG's conclusions are available on the MG's website.<sup>1</sup>

## **Funding**

The consultation report solicited comments on whether it would be realistic to change the structure for financing standard setting activities, about the appropriateness of IFAC funding the majority of the PIOB's budget, and about the feasibility of establishing a funding model similar to that in place to fund the IFRS Foundation. (*Questions 21 – 23*)

### Input received:

A common theme across responses was that, optimally, the governance model would be financed by sources independent of the accounting profession. Several commenters observed that, while the current reliance on IFAC funds was not ideal, it created more of a perception problem than one of substance (*e.g.*, CA, CPAB, IDW). These commenters observed that adequate safeguards are currently in place to defend the independence of the SSBs and PIOB, despite reliance on IFAC for funds.

A commenter observed that securing funds for standard setting would require the public perception that quality audit-related standards are a public good (E&Y). It would then follow that the public good should be financed by public monies.

A clear majority indicated that IFAC funding of the largest part of the PIOB budget was not appropriate. The perception of PIOB independence was a frequently cited risk under the current funding arrangements (ACCA, AUASB, CPA Australia). Some indicated that funding for the PIOB should come from the regulatory community (*e.g.*, ESMA, FEE), and one commenter stated that the fact that governments and public entities have not been willing to pay should be seriously questioned (Edinburgh Group).

Many commenters noted that the current economy poses a challenge to establishing improved mechanisms for funds from stakeholders, in particular those in the public sector (*e.g.*, BDO, ICAEW, World Bank). Nonetheless, some commenters suggested that, as progress will take some time and require a longer-term initiative, efforts should begin now (IFIAR SCWG, PwC).

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<sup>1</sup> See summary at: [http://www.iosco.org/monitoring\\_group/pdf/Summary-of-Roundtable-on-IPSASB-Governance.pdf](http://www.iosco.org/monitoring_group/pdf/Summary-of-Roundtable-on-IPSASB-Governance.pdf).

One commenter connected the question of funding sources with the longer term view for the governance framework (ESMA). Specifically, if the oversight model was ultimately to align more with that of the IFRS Foundation, a new funding arrangement should be considered, building off of the IFRS Foundation model.

Commenters had mixed views on the feasibility of a funding model similar to the IFRS Foundation's. Some indicated this as the model that should be strived for (*e.g.*, GT, ICAC, PwC), while others indicated, but did not elaborate on, differences in organizational structures that would result in differing funding responses (*e.g.*, CA, CPA Australia).

MG Response:

A secure, stable source of funds for the PIOB, separate from IFAC's commitment to provide funds, has been an issue since the PIOB's establishment. Several MG members in 2013 joined the EC in contributing to PIOB funding. Further efforts are required to achieve the goal set at the time of the 2003 IFAC Reforms of collecting at least half of PIOB's funds from sources other than IFAC.

The MG and PIOB concluded at their September 2012 meeting to address this long-standing matter as a project separate from the governance review.



## Attachment 1

### Comment Letters Received

	<b>Comment Submitted by:</b>
1	David Swanney
2	International Federation of Accountants (IFAC)
3	Denise Silva Ferreira Juvenal and Manuel Rejón López
4	International Public Sector Accounting Standards Board (IPSASB)
5	World Bank
6	Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables (CNCC CSOEC)
7	Japanese Institute of Certified Public Accountants (JICPA)
8	The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
9	American Institute of Certified Public Accountants (AICPA)
10	Felicitas Irungu
11	Michael Hafeman
12	Federation of European Accountants (FEE)
13	Association of Chartered Certified Accountants (ACCA)
14	Institut der Wirtschaftsprüfer in Deutschland (IDW)
15	Wirtschaftsprüferkammer (WPK)
16	Chartered Institute of Public Finance and Accountancy (CIPFA)
17	Belgian Institute of Registered Auditors (IBR-IRE)
18	KPMG
19	Instituto de Contabilidad y Auditoría de Cuentas (ICAC)

20	Edinburgh Group
21	Grant Thornton (GT)
22	Isaac Umansky
23	Canadian Institute of Chartered Accountants (CA)
24	CPA Australia
25	Chinese Institute of Certified Public Accountants (CICPA)
26	Institute of Chartered Accountants in Australia (ICAA)
27	PricewaterhouseCoopers (PwC)
28	Australian Financial Reporting Council (AusFRC)
29	Deloitte
30	Australian Accounting Standards Board (AASB)
31	Hermes Equity Ownership Services (Hermes EOS)
32	Ernst & Young (E&Y)
33	Public Sector Accounting Standards Council (CNoCP)
34	Cour des comptes
35	Jesse Hughes
36	Direction générale des finances publiques (DGFIP)
37	ICAEW, ICAS, CIPFA and Chartered Accountants Ireland (ICAEW)
38	Canadian Public Accountability Board (CPAB)
39	Chartered Institute Management Accountants (CIMA)
40	Australian Auditing and Assurance Standards Board (AUASB)
41	International Forum of Independent Audit Regulators Standards Coordination Working Group (IFIAR SCWG)
42	BDO
43	Government of the Province of British Columbia, Ministry of Finance (BC

	MoF)
44	European Securities and Markets Authority (ESMA)

These letters can be found at

[http://www.iosco.org/monitoring\\_group/?section=governance\\_review](http://www.iosco.org/monitoring_group/?section=governance_review).

## **Attachment 2**

### **List of Questions**

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?

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?

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?

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?

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?

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?

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

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?

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?

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?

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?

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?

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

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

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?

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

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?

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?

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?

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

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?

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?

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?

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?

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?

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?

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?

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?

### **Attachment 3**

### **List of Abbreviations**

CAG	Consultative Advisory Group
EC	European Commission
FSB	Financial Stability Board
G20	Group of 20
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IPSASB	International Public Sector Accounting Standards Board
ISAs	International Standards on Auditing
MB	IFRS Foundation Monitoring Board
MG	Monitoring Group
PIACs	Public Interest Activity Committees
PIOB	Public Interest Oversight Board
SME	Small- and Medium-Sized Entities
SMP	Small- and Medium-Sized Accounting Practices
SSBs	Standard setting bodies