



PIOB
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Spain

Piob-MonitoringGroup@ipiob.org

27 June 2012

Ref.: AUD/PRJ/HBL/SHA

Dear Sir or Madam,

Re: FEE Comments on the Public Consultation Paper on the PIOB Work Program 2012 and Beyond

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Public Consultation Paper on the Public Interest Oversight Board (PIOB) Work Program 2012 and Beyond. FEE is separately also responding to the Monitoring Group Consultation on the governance (with special focus on organisational 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.

Main comments

FEE, its member bodies and their professionals are active in all areas in which the International Federation of Accountants (IFAC) Public Interest Activity Committees (PIACs) or independent Audit, Education, Ethics and Public Sector Accounting Boards are involved as international standard setters. We also work in other areas like accounting, financial reporting, sustainability, integrated reporting, XBRL, etc. which draw on other international standard setting boards for which the current, highly advanced IFAC governance, due process, monitoring and oversight is often put forward as a model. This in itself should be recognised.

In our opinion, IFAC governance, due process, monitoring and oversight are already highly developed and the Monitoring Group recommendations made in 2003 and in 2010 including the establishment of the Public Interest Oversight Board (PIOB) have been eagerly and satisfactorily implemented by IFAC and its independent Boards.

The establishment of high quality standards and practices in auditing and assurance, ethics and education has until now been achieved by the work of IFAC independent

Boards as accommodated by the IFAC governance, funding and other mechanisms, thus balancing public interest considerations with the necessary technical expertise. We strongly believe this continues to be a successful formula for auditing, assurance, ethics, education and public sector accounting standard setting for the future. For instance, the adoption of the Clarified International Standards on Auditing of March 2009 by over 100 legislators, regulators, supervisors and others around the globe is the ultimate confirmation that the objective of setting high quality standards is achieved.

Enhanced focus on monitoring and oversight which might have funding implications

We however support the performance of an assessment of the effectiveness of the 2010 IFAC governance reforms by the PIOB as FEE is open-minded to further enhancements by bringing more public interest considerations into the monitoring and oversight of the activities of IFAC and its independent Boards. This could include further enhancements of the role of the PIOB and in leading the discussions on further IFAC Reforms.

It should be taken into account that improvements usually have a one-off and/or recurring financial and/or resource implications. Therefore, it is crucial to perform a thorough research of alternative funding sources and a cost/benefit analysis before embarking on any further enhancements of IFAC and its independent Boards. Any recommendations the PIOB may have in this respect would be highly welcomed.

Communication of the enhanced monitoring and oversight

We believe that it is not only important to further enhance the governance, monitoring and oversight of IFAC and its PIACs, but it is even more crucial that the establishment and functioning of this governance structure as well as its rigour and independence is communicated clearly and widely. It is not uncommon to hear criticism on IFAC, the PIACs and their resulting standards from a governance point of view, often uninformed and unfounded, which more and better communication could counter.

In this respect, enhanced transparency on the performance of the oversight functions by the PIOB would be very helpful as well. More timely disclosure of the agenda and minutes of its meetings, including an indication of the discussions held, issues encountered, possible differences of opinion concerning the PIAC's execution of due process, resolution of issues and differences of opinion, could be useful to avoid the impression the PIOB might be a body without any real impact.

SMEs and SMPs

One of the key priorities of FEE which is not addressed In the Consultation Paper is the consideration in the standard setting activities of the IFAC independent Boards of issues

relating to, and the involvement of, Small and Medium–Sized Entities (SMEs), including listed SMEs, and Small and Medium–Sized Practitioners (SMPs). Although the interests of the Monitoring Group and its members, and indirectly the members of the PIOB which the Monitoring Group appoints, might, in the majority of cases, be focused on listed, regulated or public interest entities, the output of the IFAC independent Boards is designed to be used globally for all entities subject to audit or assurance and by all accountancy professionals. Therefore, standard setting should take into account to the greatest extent possible a broad scope, different cultures, varying levels of development, and – in addition to large and listed entities - especially the concerns of SMEs and SMPs on which the economy thrives all over the world.

We have considered your preliminary recommendations put forward in the Consultation Paper with great interest and in addition to our main comments above, provide you below with our detailed responses and comments to your questions.

For further information on this FEE¹ letter, please contact Hilde Blomme, FEE Deputy Chief Executive, at +32 2 285 40 77 or via email at hilde.blomme@fee.be from the FEE Secretariat.

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

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Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Johnson', with a long, sweeping horizontal stroke extending to the right.

Philip Johnson
President

Responses to specific questions

Question 1: Do you find the mandate of the PIOB as defined in the 2003 IFAC reforms (“to increase the confidence of investors and others that the public interest activities of IFAC (including the setting of standards by IFAC boards and committees) are properly responsive to the public interest”) still appropriate? Please explain your views.

We believe that the PIOB mandate as referred to above is still appropriate.

Question 2: Do you agree that the PIOB’s main focus should continue to be to oversee due process and protect the public interest? Are there any other matters that the PIOB should focus on? Please explain your views.

We agree that the main focus of the PIOB should continue to be to oversee due process and protect the public interest of the activities of IFAC.

Question 3: Do you find the PIOB model of informed oversight the best possible model to guarantee public interest protection?

We agree that the PIOB model of informed oversight is the right model going forward to guarantee public interest protection.

We would like to add that, in relation to guaranteeing public interest protection, the public interest in its entirety is very wide and should take account of the interests of the economy at large and not only public interest entities but also of Small and Medium–Sized Entities (SMEs) including listed SMEs on which the economy thrives all over the world.

This is particularly important as the output of the PIACs, on which the PIOB provides direct oversight, is designed to be used globally for all entities subject to audit or assurance and by all accountancy professionals. Therefore, standard setting should take into account to the greatest extent possible a broad scope, different cultures, varying levels of development, and – in addition to large and listed entities - especially the concerns of SMEs and SMPs on which the economy thrives all over the world.

Question 4: Would you suggest any other avenues for the PIOB to further improve its oversight of the PIACs?

In the light of the current resources of the PIOB, we do not suggest any other avenues for the PIOB to further improve its oversight of the PIACs, apart from the suggestions in the remainder of this consultation paper as discussed hereafter.

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

Overall, we agree with the medium-term strategic objectives for the PIOB, although we hesitate slightly between OA3 or OA2 for 2012 for the IAASB and the IAASB CAG, especially in the light of the IAASB project on auditor's reporting.

Question 6: Given the implementation of the Oversight Assurance Mode in place of the 100% direct observation model, do you think that the achievement of a sufficient level of oversight comfort by the PIOB will itself provide stakeholders with a sufficient level of comfort that the public interest is being protected? Please explain your reasons.

We applaud the PIOB for having reflected on the experience on oversight of IFAC activities built up since its inception. We therefore believe that a sufficient level of comfort that the public interest is being protected is and will be achieved.

Question 7: Do you agree that consulting the MG and other stakeholders through an active communication policy will help the PIOB to form its own opinion on agenda-setting public interest priorities? Please explain.

We agree that consulting the MG and other stakeholders through an active communication policy will help the PIOB to form its own opinion on agenda-setting public interest activities. However, in this light, we also believe that there needs to be a clear allocation of responsibilities between the PIOB and the Monitoring Group. The potential ambiguity and over-lap between the roles of the PIOB and that of the Monitoring Group would be reduced through a clearer definition of the role of each group.

In this respect, the current role of the PIOB is to provide oversight of the standard-setting process of the IAASB, IESBA, IAESB and CAP, including the standard-setting board member nominations, whereas the MG provides high-level monitoring of these activities of the PIOB. This role of the PIOB could be further clarified in its strategic plan as far as the following is concerned:

- The public interest *mission* to which the PIOB is committed. This can include reflecting on the meaning of public interest as a whole as well as on the strategic objectives which should be achieved in the short and mid-term time frame;
- The *governance* of the PIOB, based on independence and public accountability;
- The *process* to ensure that the standard setting which is overseen is of high quality, meets the requirements of a well-functioning economy and capital market and is implemented consistently across the world;
- The *financing* to ensure that the organisation is financed in a manner that permits it to operate effectively, efficiently and independently.

Question 8: Do you agree that the PIOB has to be fully aware of the implications of its work to protect the public interest and that its informed approach to oversight requires an active interaction with all stakeholders?

FEE is supportive of this recommendation.

Question 9: Do you agree that the PIOB mandate requires an active communication policy explaining the processes of standard setting and their public interest focus? Do you think the present minimalist policy is sufficient? Do you think that raising awareness of the work of the PIOB should be an objective of its communications policy? Please explain.

We agree that the PIOB should have an active communication policy explaining the processes of standard setting and their public interest focus with the objective to raise awareness of the work of the PIOB.

However, the current communication policy is not necessarily minimalist but more in line with the current resources of the PIOB.

Question 10: Do you agree with the view that has been put forward that funding has to be diversified and should not largely dependent of IFAC funding?

FEE agrees that the ideal funding formula would involve many parties, providing the PIOB with a system of financing that permits it to operate effectively, efficiently and independently. It would indeed be great that the governments of all countries which have adopted the standards as issued by the PIACs would contribute to funding of the PIOB.

With the largest part of the PIOB budget financed by IFAC, this is currently not achieved and does not seem feasible in the short term. In this respect, we encourage IFAC to attempt to make the current external sources more permanent and to explore further funding of the PIOB from external sources.

Question 11: Please suggest alternative sources for diversifying and financing the PIOB budget.

We refer to our response to Question 10 in this respect.