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Via e-mail only

International Organization of Securities
Commission (IOSCO)
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Berne, 9 February 2018

Monitoring Group Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest

Dear Mr. Everts,

We thank you for the opportunity to comment on the Monitoring Group (MG) Consultation Paper. Below please find the Swiss Federal Audit Oversight Authority's (FAOA) views on the various questions.

1. **Do you agree with the key areas of concern identified with the current standard setting model? Are there additional concerns that the Monitoring Group should consider?**

Yes, we agree with the key areas of concern identified with the current standard-setting model. Specifically, our main concerns are the high potential for perception of undue influence from the profession, as well as the timeliness of standards.

2. **Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?**

We agree with the overarching and supporting principles as articulated. We also believe that the relevance principle includes the increased use of technology in the audit.

3. **Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so what are they?**

Proportionality may be included in the framework for assessing whether a standard has been developed to represent the public interest. Specifically, when developing a standard, it should be assessed whether that standard reasonably accomplishes the particular audit objective and at the same time the public interest objective (cause and effect test).

4. **Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.**

We support a single independent standard-setting Board (SSB).

5. **Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not, why not?**

We agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC, because it is in accordance with the current system in most jurisdictions. It would be risky to completely deviate from an established international best practice, as a number of oversight authorities in various jurisdictions may not be ready or willing to regulate education requirements and standards for numerous reasons.

6. **Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.**

We believe IFAC should retain responsibility for the development and adoption of ethical standards for professional accountants in business, as this is to be considered a private matter.

7. **Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard-setting boards? If so please set these out in your response along with your rationale.**

We believe that the independent SSB should be able to ask for advice from a high-level technical advisory council. The advisory council would meet periodically to advise the SSB on the development of technical auditing issues (e.g. in the field of data analytics) and to make sure standards work in practice. The advisory council would be nominated by the SSB and may include active auditors, public company executives, and other specialists. The technical advisory council would have no decision making powers at all and therefore would not be able to delay the SS process.

We further believe the Consultative Advisory Groups could be dissolved. Please also refer to No. 12.

8. **Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?**

We agree that the focus of the board should be more strategic in nature, and we understand that the operational duties (drafting, etc) would therefore be performed by the board's technical staff, which raises the question of the future usefulness of the CAG (also see No. 12). As mentioned in No. 7, we believe a Technical Advisory Council should be added between the board(s) and the Technical Staff.

As an incentive to attract highly qualified individuals, we agree that the members of the board should be remunerated. To consider is whether remuneration would be high enough to attract specialists from audit firms.

9. **Do you agree that the board should adopt standards on the basis of a majority?**

Yes, we agree that the board should adopt standards on the basis of 2/3 rather than a unanimous vote, as it may be more efficient.

10. **Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part-time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?**

As described in No. 4, we believe there should be a single board, with 12 members. The SSB should be composed of not more than 1/3 of practitioners. All stakeholders should be represented. Part-time activity of up to three quarters of all Board members should be possible. The Chair of the SSB should be full-time.

As for geographic diversity, a research/study on how the repartition is made in the international organizations of the U.N., for example, could help in determining the best way to represent all regions in one Board. Gender diversity should be aimed as well.

11. **What skills or attributes should the Monitoring Group require of board members?**

The skills or attributes required should include the following:

- Profound professional experience in auditing and accounting
- Relevant academic background
- Public interest/regulatory experience
- Technical/IT experience (incl. data analytics) relating to audit
- Reputation (incl. relevant background checks)

12. **Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?**

No, we do not agree to retain the concept of a CAG. We believe the permanent Technical Staff could replace the CAG. We are not convinced that the CAG is vital to the success of the board(s), as it seems their role is limited to providing advice on agenda, project timetable and priorities, as well as technical advice. The Technical Staff could provide that type of input with regard to the board's project activity as well, since they would be supporting the board's work anyway. The Technical Staff would be subject to the PIOB as well. Further, the Technical Advisory Council could be created in parallel to the SBB for technical advice (see No.7).

13. **Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?**

Yes, we agree that task forces (i.e. Technical Staff) should adhere to the public interest framework.

14. **Do you agree with the changes proposed to the nomination process?**

Yes, we agree for the SSB nomination process to continue to be conducted via an open call for candidates. We also agree to the nomination process being administered solely by the PIOB.

15. **Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?**

We believe the PIOB's focus should be limited to nomination processes and fees/finance matters as opposed to standard-setting.

16. Do you agree with the option to remove IFAC representation from the PIOB?

Yes, we agree with the option to remove IFAC representation from the PIOB.

17. Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?

We believe that senior persons with skillsets that can enhance the operation of the PIOB should be contemplated.

18. Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?

We would support a more open, inclusive and transparent appointment process to enhance accountability. Frequent turnover is problematic, and nominations should be made with an eye towards stability.

19. Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

We believe the PIOB oversight should only focus on the independent SSB for auditing and assurance standards, and ethical standards.

20. Do you agree that the Monitoring Group should retain its current oversight role for the whole standard-setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its work, promoting high-quality standards and supporting public accountability?

Yes, we agree that the MG should retain its current oversight role for the whole standard-setting and oversight process. Nominations should be conducted with an eye for more stable membership.

21. Do you agree with the option to support the work of the standard-setting board with an expanded professional technical staff? Are there specific skills that a new standard-setting board should look to acquire?

Yes, we agree with supporting the work of the SSB with an expanded professional Technical Staff. As mentioned above, we also believe that the CAG could be dissolved.

Technical staff skills: drafting skills; project management experience; auditing/accounting experience; IT (technical) experience.

22. Do you agree the permanent staff should be directly employed by the board?

Yes, we agree that the permanent staff should be directly employed by the board. We also believe that a strong Executive Director should be leading the Technical Staff.

23. Are there other areas in which the board could make process improvements – if so what are they?

We have no further suggestions.

24. **Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?**

We believe that even if there are checks and balances that can be put in place to mitigate risks to the independence of the board if funded in part by audit firms or the accountancy profession, the perception of the influence of the profession by the general public would still exist, unless the funding shifts from a "contribution" to a "contractual levy".

25. **Do you support the application of a "contractual" levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those opt for in the paper, and if so what are they?**

We believe a combination of funding through a "contractual" levy on the profession (audit firms network and not through IFAC) along with some contribution from MG members would be a realistic option. An annual (long-term) levy on the profession could be based on the activity of oversight of the MG and on the "services" provided to the profession by drafting and developing audit standards. The levy could take into account the economic importance of the audit firms. A number of audit regulators follow this principle in their jurisdiction. However, since audit firms are not the only beneficiaries of the standard-setting development and the responsibility does not solely lie with them, a contribution from the MG member organizations would be desirable.

We also believe the question of reserves should be decided.

26. **In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.**

We do not have any further suggestions.

27. **Do you have any further comments or suggestions to make that the Monitoring Group should consider?**

The issue of IFAC vs PIOB nominees in the interim nominating process (3 nominations each, with an independent chair) may cause independence perception issues. A 3/3 split creates an appearance of parity and perceived lack of independence. We would support for IFAC's nominees to be reduced to 2 positions or perhaps even one.

Ms. Dieynaba Diabaté (dieynaba.diabate@rab-asr.ch ; +41 31 560 22 33) is pleased to answer any questions you may have.

Yours sincerely,



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