



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

Our Ref: T/11

8 February 2018

The Monitoring Group
International Organisation of Securities Commissions
Calle Oquendo 12
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SPAIN

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Dear Sir/Madam,

RE: PUBLIC CONSULTATION: STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to the Monitoring Group's Consultation Paper.

ICPAU, in principle, supports positive suggestions for reform of oversight of International Standard-Setting Boards aimed at improving their credibility and transparency.

We wish to note that the International Standard-Setting Boards mentioned in this Consultation Paper have had significant success over the years. The International Auditing and Assurance Standards Board (IAASB), in particular, has led to high quality standards on audit being adopted in 120 countries globally.

ICPAU is concerned that the Consultation Paper does not acknowledge the successes of the current standards-setting system and the proposals made may therefore reverse the gains achieved under the current system. The Consultation Paper fails to recognise that a number of developing countries are yet to fully implement the auditing, ethics and education standards. The model being proposed will further make it more difficult for many economies to effectively adopt global standards.

More attention should have been given to improving and enhancing the current standard setting model, rather than a disruption.

In our view, the Consultation Paper is flawed in many areas:

- a) It lacks evidence in relation to the perceived risks and weaknesses in the current system.
- b) It lacks evidence that connects the current standard setting model with the corporate financial reporting failures registered in the early to mid-2000s.
- c) It lacks transparency in relation to the specific stakeholders consulted while developing the Paper.
- d) It fails to sufficiently explain how the proposed model will be funded.
- e) It fails to recognize the developing nations perspective and take account of their respective challenges.
- f) It does not articulate a clear vision for standard-setting in the public interest.

The justification for one standard-setting body is not well elaborated. The Consultation Paper fails to recognize that auditing is a specialist technical area whereas Ethics is a broader domain that covers wider concepts, concerns and context. The amalgamation of the existing structures will only serve to weaken concentration on each of these important areas.

ICPAU is concerned about the proposal to have a greater number of prescriptive, rules-based standards rather than the principle-based auditing and ethics standards. In our view, this will lead to less professional judgment and skepticism by audit practitioners and thus result in poorer quality audits.

In our opinion, the Consultation Paper does not articulate the rationale for reform of the current standard-setting system. The radical nature of the proposed reform is therefore uncalled for. ICPAU believes that the current standard-setting model addresses the public interest better than any other model.

We are highly concerned that little consideration has been given to the unintended consequences that may arise from proposals in this Consultation Paper. The funding of the potential changes has not been carefully considered. The proposals therefore do not provide a sustainable and viable approach to standard-setting in the public interest.

Our detailed comments are provided below in the sequence of the questions as they have been outlined in the Consultation document.

We hope you will find our comments helpful.

Yours faithfully,



CPA Derick Nkajja
SECRETARY/CEO
Institute of Certified Public Accountants of Uganda

CL/....

CONSULTATION PAPER: STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST

SECTION 1: KEY AREAS OF CONCERN IN THE CURRENT STANDARD-SETTING MODEL

Q1. 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?

Stakeholder Confidence:

ICPAU believes that the current standard setting model serves the public interest and provides high quality standards. Over 120 jurisdictions have directly or indirectly adopted the standards. Without any clarity on the stakeholders consulted and the nature of their concerns, it is difficult to respond to key concerns raised regarding stakeholder confidence

Public Interest:

The Consultation Paper does not define “public interest” or give a clear indication of the key risks (apart from perceived undue influence) that have led to standards not being developed in the public interest.

Relevance and Timeliness of Standards:

Whereas ICPAU agrees that relevance and timeliness of standards is critical in an ever-changing environment, the Consultation Paper does not demonstrate how the Monitoring Group proposes to keep standards relevant and timely.

SECTION 2: GUIDING PRINCIPLES (KEY CONCERNS 1- 3)

Q2. (a) 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 supporting principles, particularly that the standard setting process should be independent, but with reasonable geographical diversity, credibility, cost effectiveness and relevant.

The sustainability of standard setting is not clearly explained in the Consultation Paper and insufficient attention is given to the funding element. It should be understood that legal authority for the standards in the various jurisdictions arises from diverse sources and that acceptance of the standards is driven by participation and a clear set of principles rather than rules.

The exclusion of audit firms from the standard setting process may negate the Monitoring Group’s objective of credibility, as the process will be devoid of the relevant skill and experience from the firms. The desired position should therefore be to allow a sizeable participation of regulatory bodies, practitioners and corporate players.

The adverse effect on stakeholder confidence in standards based on a perception of undue influence seems farfetched. Whereas IFAC manages the nomination process of standard setting boards and directly funds these boards, suggestions should focus on strengthening the

Public Interest Oversight Board (PIOB) which oversees and checks the activities of these boards and devising alternative funding mechanisms. Otherwise if standard setting was removed from the profession then the likelihood of less skilled teams coming up with global standards will be real. This may have a negative impact on the quality of standards and on resulting implementation of such standards.

Q2. (b) Are there additional principles which the Monitoring Group should consider and why?

The Standard-setting process should be sensitive to developing nation needs and should be relevant and proportionate to SME/SMP sector.

Q3. 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?

There is need to consider diversity and inclusivity of jurisdictions/economies.

SECTION 3: OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS (KEY CONCERNS 1 - 3)

Q4. 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.

ICPAU does not support the creation of a single independent board to develop both auditing & assurance standards and ethical standards for auditors. Creation of a single board may affect the Monitoring Group's objective of relevancy. In an increasingly changing environment we do not believe that a single board adequately addresses developments to suit both auditing & assurance standards and ethical standards for auditors/professional accountants.

A single board would have too wide a remit to deliver successfully especially if the Board is reduced in size. This will most likely dilute focus on the fundamental areas that each board handles.

In addition, a reduction in the Board size will result in disproportionate representation, inappropriate geographic diversity and insufficient expertise.

In the event that the boards are kept separate, the ethics standards board should continue performing the setting of standards for professional accountants and auditors being a subset of them.

Q5. Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?

We agree that IFAC should retain the responsibility of development of educational standards. The IFAC compliance programme provides robust assurance for the profession that the standards are being implemented and are fit for purpose. The point here is that IFAC and its Member Bodies are in position to set education benchmarks, monitor the standards in practice and later check on compliance by the accountant/auditor.

Q6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

ICPAU supports the retention of the current arrangements for development of ethical standards. Separating ethical standards for auditors from ethical standards for the rest of the profession will create perceptions of a two-tier profession and undermine the strength of the current unified model.

A professional accountant in business is charged with preparing information that will be audited by an auditor. Where the mandate to develop standards that guide their operation is assigned to another board, this may result into poor coordination. We are therefore of the opinion that IFAC should not only retain responsibility for the development and adoption of ethical standards for professional accountants in business, but it should also have responsibility for ethical standards for all professional accountants inclusive of auditors.

Q7. 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.

The Consultation Paper provides very little emphasis on what is working well in the current model. It is preferable that the Monitoring Group reconsiders its approach with a view to retaining what is working well and enhancing those elements that are not working well.

Q8. (a) Do you agree that the focus of the board should be more strategic in nature?

ICPAU does not support the proposal to make the Board more “strategic” in nature. The Consultation Paper does not clearly define the meaning of the term “strategic”. Further still the standard-setting board ought to have discretion as to the level of effort required of each Board member. Restricting the board to focus on strategic matters may deprive jurisdictional participation in standard setting and this is likely to undermine appreciation of jurisdictional difference. The board should play an unrestricted role in standard-setting process.

Q8. (b) And do you agree that the members of the board should be remunerated?

ICPAU does not in principle object to the remuneration of board members. However, the process of their appointment needs to be transparent. It is also necessary to consider the fact that a dysfunctional board may be created, if some members are employed on a full-time basis while others are part-time.

Q9. Do you agree that the board should adopt standards on the basis of a majority?

ICPAU does not approve the development of standards on a majority basis. We believe that the decision to approve standards should be based on the public interest. We further believe that the consensus approach is more transparent. Adoption based on majority has the effect of silencing the minority, yet in principle-based regulation even the minority views may be given room for application.

Q10. 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?

Reducing the Board from its current composition of 18 members may be self defeating. In order to promote standards that are in public interest, there is need to widen participation in standard-setting process. A compromise should be made between trying to cut costs while at the same time developing a more representative board. There should be plans to cater for small and medium practices membership on the boards especially those from the developing economies.

Q11. What skills or attributes should the Monitoring Group require of board members?

- Technical proficiency
- Innovativeness and
- Technologically-abreast

Q12. 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?

We agree that the concept of CAG should be retained as this broadens on the consultation process.

Q13. Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

Public interest is what standard setting is all about. However, standard-setting in the public interest ought to be principles-based rather than rules-based.

Q14. Do you agree with the changes proposed to the nomination process?

We do not agree with this proposal and do not see any added value from this approach. We support the proposal for an independent chair of the NC (independent of IFAC, MG and PIOB) but a representative selection of membership by both the IFAC and MG. PIOB should not have sole responsibility to nominate members of the board(s) as this is not in line with good governance principles. It should be noted that the PIOB can augment its oversight role through approval of work plans, budgets and appointments to the standard setting boards.

SECTION 4: OVERSIGHT - ROLE OF THE PIOB (KEY CONCERN 2)

Q15. 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 judgments 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 do agree with the role and responsibilities of the PIOB as set out in bullet one, four, five and seven. We disagree with bullets two, three and six as these may result into conflict and disharmony between PIOB and the boards. Because we are of the view that PIOB should not play a role in nominations to the board, it cannot therefore be assigned with the above roles. We are also concerned with granting PIOB veto powers over adoption of a standard as this will undermine the entire standard-setting process. Mechanisms should however, be instituted on how the PIOB may actively streamline its oversight role.

Q16. Do you agree with the option to remove IFAC representation from the PIOB?

We do not agree with the proposal to remove IFAC representation from the PIOB. IFAC, like any other stakeholder, deserves representation at PIOB. It should be noted that IFAC through the various jurisdictional accountancy professional organizations funds over 56% of the PIOB's activities. Depriving it of representation before inventing alternative funding mechanisms would be undermining the very institutions MG is planning to enhance but also may limit contributions from the profession.

Q17. 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 do not have any other suggestions for the PIOB composition. However, we emphasise that the composition of the PIOB should demonstrate diversity and the skill set appropriate to supervise the technical standards board work.

Q18. 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 believe that nominations of PIOB members should be made through an open call from within MG member organizations.

Q19. 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?

There is no logical reason to have separate Boards setting Ethical Standards for the accountancy profession. We believe that the current status serves the public interest better.

SECTION 5: ROLE OF THE MONITORING GROUP (KEY CONCERN 2)

Q.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?

The Consultation Paper explains that no changes to the role and remit of the Monitoring Group will be required in the medium term but that consequential changes may be needed in due course. The Consultation Paper does not provide any further detail on what these consequential changes will be.

More clarity is required as to the future role and responsibilities of both the PIOB and the Monitoring Group.

A strong case exists for a merger of the roles of the PIOB and the Monitoring Group.

SECTION 6: STANDARD-SETTING BOARD STAFF (KEY CONCERNS 1- 3)

Q21. 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?

ICPAU supports the proposal to have a board that is adequately resourced in terms of both numbers and expertise. However, sufficient attention needs to be given to cost of such a structure.

The Monitoring Group should avoid creating a standard-setting model that is more costly, non relevant and does not serve the public interest.

Q22. Do you agree the permanent staff should be directly employed by the board?

ICPAU is neutral to this question

SECTION 7: PROCESS CONSIDERATIONS (KEY CONCERN 3)

Q23. Are there other areas in which the board could make process improvements - if so what are they?

The Monitoring Group is advised to steer away from a rules-based approach which addresses specific areas and can easily be over taken by events. A principles-based standards-setting approach is ideal.

Rather than seek to completely overhaul existing structures, the Monitoring Group should target process improvements that enhance the standard-setting process.

SECTION 8: FUNDING (KEY CONCERN 1)

Q24. 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)?

Any debate for funding standard setting work should be appropriate, cost-effective and sustainable. Mere allocation of cost to an entity (group of entities) without a clear funding model that is inclusive will only make the process laborious and inefficient.

Q25. 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 do not support application of a "contractual" levy on the profession to fund the board and the PIOB. There is no appropriate basis for collecting of such a levy and the justification for the quantum to be paid per jurisdiction. The current model has created sustainability and participation.

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

The Monitoring Group should adequately consider the funding model for its proposals as well as the future roles and responsibilities of both the PIOB and the Monitoring Group.

Q27. Do you have any further comments or suggestions to make that the Monitoring Group should consider?

The need for reform might exist but it should be based on clear evidence of a failed or failing set up. The consultation paper is not very clear or articulate on the wrongs or defects that need to be rectified. There is a lack of impact assessment by the Monitoring Group in making these proposals.

