ICAI VIEWS ON THE CONSULTATIVE PAPER

NOTE: Overall views are given in "SECTION A" and Responses to the Questions are given in "SECTION B"

SECTION A

OVERALL VIEWS (THE "PREAMBLE")

We appreciate the efforts of the Monitoring Group in bringing out this Consultative Paper(hereinafter referred as "Paper") which suggests various options for reforms to strengthen the governance and oversight of the International Audit related Standard - Setting Boards (SSBs) of IFAC in the Public Interest, also, detailing therein the structure of SSBs, role of PIOB and role of Monitoring Group.

We welcome some options for reforms suggested in this Paper mainly those relating to timeliness of projects, funding pattern, role of PIOB, technical staff. However, we have different views on some other options for reforms discussed in the Paper.

The Paper mentions several "guiding principles" for suggesting various options for reform. These guiding principles include one overarching principal, i.e., Public Interest and six supporting principles, i.e., independent, credible, cost effective, relevant, transparent, and accountable. The Paper states that the current standard-setting model does not fully satisfy a number of the principles outlined in the Paper. However, the Paper has not given tangible evidence on how the supporting principles mentioned in the Paper i.e. independence, credible, cost effective, relevant, transparent, accountable and the overarching principal of public interest are not fully satisfied by the current standard-setting model.

Further, the Paper states that acting in the public interest requires standards that not all stakeholders necessarily agree with. However, no tangible evidence has been given in the Paper to validate this view also.

Our item wise views on major options for reforms are as below:

1.   **OVERARCHING PRINCIPLE OF PUBLIC INTEREST**

       The prime concern raised in the Paper is that the current model is not able to fully safeguard the public interest. In our view, the paper does not mention the specific tangible issues/concerns due to which the current model is not able to fully safeguard the public interest. The issue of public interest raised in the paper is primarily on account of stakeholders' perception of public interest. As recognised in the Paper itself, public interest is not a defined term and it keeps

evolving as public expectations change. In our view, the existing model contains number of safeguards to protect the public interest like:

a) **Public exposure of Standards**

- Exposure of all auditing standards for public comments and due consideration of all the comments received before finalization and issuance of standards.

b) **Membership and Composition of SSBs**

- Limit on number of practitioners members in SSBs to 50% and provision for no less than 3 public members.

- Provision for rotation of one-third of the members each year.

- Term of the members being three years at a time. Before re-appointment, requirement for the Nominating Committee to review the member's performance, during the preceding term based on the performance evaluation system in place at that time.

- Maximum term of the members restricted to six years.

c) **Conduct of IAASB meetings**

- IAASB meetings to discuss the development, and to approve the issuance or withdrawal of International Standards, and to approve the issuance of exposure drafts and other pronouncements, are open to the public.

- IAASB meetings are open for upto 3 observers which are appointed in consultation with the PIOB. These observers may attend IAASB meetings regularly and may participate fully in IAASB debates.

- The Chair of the IAASB Consultative Advisory Group (CAG) has right to attend IAASB meetings or to appoint a representative of a CAG member organization to attend.

d) **Powers given to PIOB to safeguard the public interest:**

- IFAC constitution and IFAC bylaws provide substantial powers to PIOB to provide effective oversight of the SSBs to safeguard the public interest. These include all aspects of standard setting by the SSBs and nominations on the SSBs. Important provisions in this regard are as under:

o   The PIOB has the right to attend, or be represented at, all meetings of the IAASB, including closed sessions, of the IAASB.

o   The composition, terms and operating procedures of independent SSBs needs to be approved by the PIOB.

o   The establishment, dissolution, composition, terms, duties, powers, and operating procedures of the Nominating Committee needs to be approved by the PIOB.

o   The nominations process for the Nominating Committee, CAP, and independent SSBs needs to be approved by the PIOB.

o   PIOB is entitled to nominate a representative to attend meetings or parts of meetings of the Nominating Committee devoted to the selection of nominees for membership of the SSBs under its public interest oversight. Such representative is entitled to participate in the discussions and deliberations at the meeting but does not have voting rights.

o   The Nominating Committee is required to report to the IFAC Board, IFAC Council, and the PIOB at least annually regarding the nominations process and any significant issues that arose as part of that process.

e)   **Overall supervision by the Monitoring Group**

2.   **MEMBERSHIP AND COMPOSITION:**

We do not agree with changing the composition of the board to no fewer than twelve members. We believe that the number of members should not be lower than current numbers i.e. 18 to ensure multi-stakeholder representation on the boards, geographic diversity of the members, availability of multi-skills (strategic, technical and operational).

In our view, the current model of all the members being part time (except the Chair) may continue.

We support the proposals of making composition of both SSBs and oversight more multi-stakeholder and also the proposal of stakeholders drawn from three groups of (1) users (2) regulators and (3) auditors. At the same time, it is important that there is adequate number of current practitioner involvement in the standard setting model at both the standards development and oversight levels. Practice experience and expertise is vital to setting standards that are workable, capable of influencing the right behaviours, and responsive to market developments and innovation. The quality and effectiveness of the standards will be at risk if this is not retained under the reformed model through current number of practitioners on the oversight body, standard setting board(s) and working groups, as well as staff secondments. Hence, we do not support proposal of equal number of members from aforesaid three groups.

Composition must also include representatives of the large, small and medium practitioners from different geographical background.

3. TIMELINESS OF PROJECTS

The current practice of unanimous approval of proposals by the members causes delay in approval of projects thus impacting their timeliness. To improve timeliness, the Paper suggests approval of standards by majority vote if consensus is not reached.

We believe that timeliness of projects needs to be improved. However, approval of projects by simple majority may not necessarily be in public interest since there is a possibility that a particular group(s) of stakeholders e.g. users and/or regulators do not approve a proposal but it still gets approved by other group(s) being in majority.

In our view, efforts should always be made for reaching consensus on proposals. In case consensus is not reached, proposals may be approved by 2/3 of the members subject to approval by at least one member from each group of the members. Moreover, in such cases, 'Basis for Conclusions' document should be given which explains how the views of those for and against the proposal have been dealt with.

4. SINGLE OR SEPARATE SSB FOR AUDITING AND ETHICS

We support retention of separate Boards for auditing and ethics to ensure:

- Independent functioning of these boards, particularly, a separate Board for ethics will better take care of public interest. Auditing and ethics being separate topics, expertise and experience of the members in these topics will be different. Also, auditing requires more specialized knowledge. The potential members may have expertise in one area (auditing or ethics) but not all areas. SSBs require members having specialized skills and knowledge who can provide meaningful contribution to various projects.
- Availability of more time and resources to handle the work which will help in timely completion of projects.
- Focus is not lost on ethical standards which might happen in a single board with broader responsibilities

However, efforts should be made to improve the coordination amongst these boards.

5. FUNDING

The current funding pattern of SSBs (funding solely by the accountancy profession through IFAC) gives rise to concern of independence. There is perception among stakeholders that the accountancy profession is able to

influence the Standard setting process of SSBs. The issue that current funding pattern of SSBs may influence their outcome need to be addressed.

We support the proposal that funding should not be provided solely by the accountancy profession. In our view, funding needs to be broad based comprising funding from multiple stakeholders so that no single stakeholder is able or perceived to be able to influence the standard setting process. However, we do not agree with the options suggested by the Paper to broad base funding. As funding is the significant concern raised in the Paper, we suggest that other sources of funding may be explored .Thereafter, views of IFAC member bodies may be sought on these sources of funding.

We do not agree with the proposal of "contractual levy" on audit firms to fund the SSBs and PIOB since it may encourage different jurisdictions to develop their own national standards. In particular, this contractual levy would be taxing for the small and medium practitioners. Further, contractual levy on audit firms would increase the perception issue of lack of independence from the auditing profession and the profession's ability to exert undue influence over standard setting process.

Further, the current composition of IAASB includes members from three different group comprising 9 practitioners, 5 non-practitioners and 5 public members. This composition rules out scope for influence of any particular group of members on the standards setting process.

6. **TECHNICAL STAFF**

We agree that the Board should be adequately supported by technical staff. The staff should have adequate technical skills to do their job. Current staff model of SSBs is cost effective model. SSBs have limited technical staff and the members and their technical advisors for technical projects perform various tasks which may be performed by staff.

We support the proposal that SSBs needs to strengthen technical team which should be capable of handling technical projects. Strengthening the technical team will significantly lessen the burden on the members and will help in members able to play more strategic role in SSBs. Further, it will help in moving the projects quickly. However, for assessing the feasibility of the proposal cost benefit analysis should be done.

In our view, technical staff should be directly employed and remunerated by SSBs to address the concern of independence.

However, getting the right kind of staff is a challenge. Besides, necessary visa requirements and formalities to get them on board is an additional challenge.

To cope up with the pressure of timelines and the quantum of work in hand, we suggest that the Board should explore co-sourcing the load with the jurisdictions who are competent and willing to do that.

7. ROLE OF PIOB

The proposals allow for, and indeed anticipate, PIOB intervention in the standard setting. In our view, the PIOB should not – nor need to – directly intervene in work of the SSBs and technical debate on the standards. The credibility of the standard setting process depends on its independence from any particular outside influence.

The oversight body needs to be multi-stakeholder to build the confidence across all stakeholder groups –constituent representation from all key stakeholder groups rather than limited to regulatory representation alone. Particularly if the standard setting body becomes independent from IFAC, broad representation across key stakeholder groups will be critical to building the confidence needed to achieve voluntary adoption of the standards by jurisdictions, national standard setters and audit firms and networks.

8. OTHER VIEWS ON THE PAPER

- The existing IFAC structure is essential to promote the Accountancy Profession worldwide.

- There are two separate factors for effectiveness of auditing standards. First factor being Standard is based on robust principles on Auditing and second factor being the proper Implementation of standards. In our view current standard setting process is working well, however to make implementation of the standards more effective focus may be more on implementation issues. The implementation issues may be dealt with by providing training and implementation guidance to practitioners on auditing standards. Moreover, the current ISAs are principles-based standards allowing auditors to exercise professional judgment in their audit engagements.

SECTION B:

ICAI's RESPONSES TO THE QUESTIONS GIVEN IN THE PAPER:

Question No. 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?

Question No. 2: Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

Question No. 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?

Response to Questions 1 to 3

We do not agree with the key areas of concern identified with the current standard setting model and overarching and supporting principles as articulated.

The Paper states that the current standard-setting model does not fully satisfy a number of the principles outlined in the Paper. However, the Paper has not given tangible evidence on how the supporting principles mentioned in the Paper i.e. independence, credible, cost effective, relevant, transparent, accountable and the overarching principal of public interest are not fully satisfied by the current standard-setting model.

Question No. 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.

Response

We support retention of separate Boards for auditing and ethics to ensure:

- Independent functioning of these boards, particularly, a separate Board for ethics will better take care of public interest. Auditing and ethics being separate topics, expertise and experience of the members in these topics will be different. Also, auditing requires more specialized knowledge. The potential members may have expertise in one area (auditing or ethics) but not all areas. SSBs require members having specialized skills and knowledge who can provide meaningful contribution to various projects.

- Availability of more time and resources to handle the work which will help in timely completion of projects.

- Focus is not lost on ethical standards which might happen in a single board with broader responsibilities

However, efforts should be made to improve the coordination amongst these boards.

Question No. 5: 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?

Response

We agree that responsibility for development and adoption of educational standards and the IFAC compliance programme should remain responsibility of IFAC along with auditing and ethical standards setting.

> **Question No. 6:** Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

Response

We believe that IFAC should not only retain responsibility for the development and adoption of ethical standards for professional accountants in business but also for practicing members.

The consultation paper does not elucidate the reasons in favour of changing the responsibility for the development and adoption of ethical standards for professional accountants in business. So, we request further information/explanation on the matter.

Also, in view of the mobility of professionals from practice to business & industry and vice versa, the ethical standards should be holistically one only.

> **Question No. 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.

Response

Please refer to 'Preamble' above.

In our view current standard setting process is working well so we do not have any further suggestions for reform. Also, the endeavour should be to strengthen existing organisation as compared to creating new organisation.

> **Question No. 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?

Response

We agree that the focus of the Board should be more strategic. Board members should focus on strategy, conceptual issues particularly on monitoring, controlling and supervising functions. However, the standards should be seen in detail by the Board members once finalised by staff, after strategic/conceptual issues are given by the Board.

We support remuneration only to the full time members. Further, the part time members should be entitled to claim travel / stay cost incurred by them.

Question No. 9: Do you agree that the board should adopt standards on the basis of a majority?

Response

The current practice of unanimous approval of proposals by the members causes delay in approval of projects thus impacting their timeliness. To improve timeliness, the Paper suggests approval of standards by majority vote if consensus is not reached.

We believe that timeliness of projects needs to be improved. However, approval of projects by simple majority may not necessarily be in public interest since there is a possibility that a particular group(s) of stakeholders e.g. users and/or regulators do not approve a proposal but it still gets approved by other group(s) being in majority.

In our view, efforts should always be made for reaching consensus on proposals. In case consensus is not reached, proposals may be approved by 2/3 of the members subject to approval by atleast one member from each group of the members. Moreover, in such cases, 'Basis for Conclusions' document should be given which explains how the views of those for and against the proposal have been dealt with.

Question No. 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?

Response

We do not agree with changing the composition of the board to no fewer than twelve members. We believe that the number of members should not be lower than current numbers i.e. 18 to ensure multi-stakeholder representation on the boards, geographic diversity of the members, availability of multi-skills (strategic, technical and operational).

In our view, the current model of all the members being part time (except the Chair) may continue.

We support the proposals of making composition of both SSBs and oversight more multi-stakeholder and also the proposal of stakeholders drawn from three groups of (1) users (2) regulators and (3) auditors. At the same time, it is important that there is adequate number of current practitioner involvement in the standard setting model at both the standards development and oversight levels. Practice experience and expertise is vital to setting standards that are workable, capable of

influencing the right behaviours, and responsive to market developments and innovation. The quality and effectiveness of the standards will be at risk if this is not retained under the reformed model through current number of practitioners on the oversight body, standard setting board(s) and working groups, as well as staff secondments. Hence, we do not support proposal of equal number of members from aforesaid three groups. Composition must also include representatives of the large, small and medium practitioners from different geographical background.

Question No. 11: What skills or attributes should the Monitoring Group require of board members?

Response

Board members should be drawn from different fields/sectors like persons from profession, persons from industry, academicians, regulators, those charged with governance. It will bring multi skills in functioning of the Boards

Skills required of board members

- Members should come from an auditing background.
- Members should have past experience as a member of the standard setting board at the national level.

Attributes required of board members

(1) uphold ethical standards of integrity and probity;

(2) act objectively and constructively while exercising his duties;

(3) exercise his responsibilities in a *bona fide* manner in the interest of the board;

(4) devote sufficient time and attention to his professional obligations for informed and balanced decision making;

(5) not allow any extraneous considerations that will vitiate his exercise of objective independent judgment in the paramount interest of the board as a whole, while concurring in or dissenting from the collective judgment of the Board in its decision making;

(6) not abuse his position to the detriment of the board or for the purpose of gaining direct or indirect personal advantage or advantage for any associated person;

(7) refrain from any action that would lead to loss of his independence;

(8) where circumstances arise which make the member lose his independence, the member must immediately inform the Board accordingly;

(9) assist the board in implementing the best governance practices.

Question No. 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?

Response

CAG is must in standard setting structure and we agree to retain the concept of a CAG with the current role and focus.

Question No. 13: Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

Response

We agree that task forces used to undertake detailed development work should consider the public interest framework.

Question No. 14: Do you agree with the changes proposed to the nomination process?

Response

In our view, the current nomination process may continue. Please also see our response to Question 10.

Question No. 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?

<u>Response</u>

We do not agree with the role and responsibilities of the PIOB as set out in this consultation. The PIOB's current role and responsibilities include overseeing all aspects of standard setting including the entire nomination process. PIOB should confine to its current role. The proposals of extending its role, may make PIOB an interested party with the resulting risk that PIOB may be able to exercise undue influence over the development of standards.

Power to veto the adoption of a standard or challenge the technical judgements of SSBs

The proposals allow for, and indeed anticipate, PIOB intervention in the standard setting. In our view, POIB should not – nor need to – directly intervene in work of the SSBs and technical debate on the standards. The credibility of the standard setting process depends on its independence from any particular outside influence.

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

Response

We do not agree with the option to remove IFAC representation from the PIOB.

Question 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?

Response

Although we support making composition of both the standard setting board(s) and PIOB more multi-stakeholder, it remains critical that there is adequate current practitioner involvement in the standard setting model at both the standards development and oversight levels. Practice experience and expertise is vital to setting standards that are workable, capable of influencing the right behaviours, and responsive to market developments and innovation. The quality and effectiveness of the standards will be at risk if this is not retained under the reformed model through current practitioners on the oversight body, standard setting board(s) and working groups, as well as staff secondments.

Question 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?

Response

An oversight body able to fulfill that role and those responsibilities should have membership comprised of:

- Geographical spread that reflects the range of jurisdictions that adopt the standards.

- Constituent representation from all key stakeholder groups (users, regulators and professional bodies and practitioners).

- People of high stature, expertise and respected reputation who are able to garner respect across all stakeholder groups.

Who the people are and what they bring to the table (expertise, respected reputation) is of equal, if not more, importance to the organisations they represent.

Nominations to the oversight body should be through a nominations process that is:

- Open and transparent.

- Supported by due process and a skills matrix.

- Multi-sourced and not restricted to nominations from MG member organisations (although individuals from MG organisations may frequently have requisite attributes, experience and stature).

- Based on soundings from key stakeholder groups on potential candidates.

> **Question 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 (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

Response

We believe that PIOB should continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest.

> **Question 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?

Response

We believe that current role of the Monitoring Group should continue. The PIOB and the MG should only oversight.

> **Question 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?
>
> **Question 22:** Do you agree that permanent staff should be directly employed by the board?

Response to Questions 21 and 22

We agree that the Board should be adequately supported by technical staff. The staff should have adequate technical skills to do their job. Current staff model of SSBs is cost effective model. SSBs have limited technical staff and the members and their technical advisors for technical projects perform various tasks which may be performed by staff.

We support the proposal that SSBs needs to strengthen technical team which should be capable of handling technical projects. Strengthening the technical team will significantly lessen the burden on the members and will help in members able to play more strategic role in SSBs. Further, it will help in moving the projects quickly. However, for assessing the feasibility of the proposal cost benefit analysis should be done.

In our view, technical staff should be directly employed and remunerated by SSBs to address the concern of independence.

However, getting the right kind of staff is a challenge. Besides, necessary visa requirements and formalities to get them on board is an additional challenge. To cope up with the pressure of timelines and the quantum of work in hand, we suggest that the Board should explore co-sourcing the load with the jurisdictions who are competent and willing to do that.

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

Response

For SSBs membership, due consideration should be given to membership strength of the IFAC member bodies.

> Question 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)?

Response

We 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 (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)

> Question 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?

Response

We do not agree with the proposal of "contractual levy" on audit firms to fund the SSBs and PIOB since it may encourage different jurisdictions to develop their own national standards. In particular, this contractual levy would be taxing for the small and medium practitioners.

Further, contractual levy on audit firms would increase the perception issue of lack of independence from the auditing profession and the profession's ability to exert undue influence over standard setting process.

OPEN QUESTIONS:

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

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

Response

All our views have been incorporated in the Preamble and responses to the Questions.

CA. Nilesh S. Vikamsey   CA. Naveen N.D. Gupta
 President, ICAI   Vice-President, ICAI

CA. Shyam Lal Agarwal   CA. Sanjay Vasudeva
Chairman,   Vice-Chairman,
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