



**ICAS RESPONSE TO MONITORING GROUP CONSULTATION PAPER
ON STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE
INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS
IN THE PUBLIC INTEREST**

9 February 2018

INTRODUCTION

ICAS welcomes the opportunity to contribute to this Monitoring Group (MG) consultation. We are a leading professional body for chartered accountants with over 21,000 members working across the UK and internationally. Almost two thirds of our working membership work in business; others work in accountancy practices ranging from the Big Four internationally to the small practitioner in rural areas of the UK.

The ICAS Charter requires us to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS is the oldest of the world's professional bodies of accountants and a member of IFAC. We are one of the 30 largest contributors of member subscriptions to IFAC.

We would be happy to discuss our comments further with representatives of the MG. Please contact David Wood, Senior Policy Director at ICAS, dwood@icas.com

KEY MESSAGES

- i. The MG has not sufficiently demonstrated the case for change in its consultation document. However, public interest standard setters do need to be perceived as independent of those for whom the standards are being set. It is essential that any reforms should be carefully assessed as to their impact on fulfilling the public interest and their cost effectiveness.
- ii. We do not believe that there have been any failings of the current boards – IAASB and IESBA - to meet the public interest. However, whether or not there have been any such failings, we believe that the perception of independence of standard setting for the audits of Public Interest Entities (PIEs) is critically important.
- iii. Therefore, we would support the MG's proposal that a new standard setting board which is completely independent of IFAC should be established. A carefully considered multi-stakeholder arrangement of public interest oversight should be introduced to manage the appointment of the new Board's members and to ensure the Board follows due process and produces standards which are workable, timely, and in the public interest.
- iv. This new Board should have responsibility for the setting of auditing standards and related auditor independence standards for the audits of PIEs only. This would ensure that the changes are focussed on the issues which primarily concern the members of the Monitoring Group, namely seeking to ensure the effective functioning of the capital markets and financial stability.
- v. The definition of a PIE should be the same in substance as that in the EU Audit Directive, ie entities listed on a regulated stock exchange, credit institutions and insurance undertakings, and should include the ability for specific jurisdictions to add additional categories of PIE if appropriate to their national circumstances.
- vi. Ethical standards for the accountancy profession other than independence standards for auditors of PIEs should continue to be set by the International Ethics Standards Board for Accountants (IESBA). This board should be subject to review and reform, so as to be more strategic in nature.
- vii. Auditing standards for non-PIEs and assurance standards for all entities, including PIEs, should be set by the International Auditing and Assurance Standards Board (IAASB). This board should also be subject to review and reform so as to be more strategic in nature and more efficient in its operations.

- viii. As noted in vi and vii above, the IESBA and IAASB should continue to set standards for ethics for the profession as a whole and for the generality of audit and assurance engagements, including public sector audit and SME audit and assurance engagements. In the short term the new Board would need to adopt or endorse in totality (ie “grandfather in”) the current suite of ISAs and forthcoming IESBA Auditor Independence Standards (currently section 290 of the extant IESBA Code of Ethics), for PIE audits. Thereafter, it would be more efficient for the new Board to focus on the adequacy of those standards for PIE audits and establishing any additional requirements where it feels they fall short of expectations.
- ix. Revised governance structures should be introduced for both the IAASB and IESBA. It is recommended that a more streamlined arrangement of public interest oversight be established. Consideration should also be given to the value of the respective Consultative Advisory Groups (CAGs) and whether they should be retained.
- x. We would support reforms to the existing boards including the following:
- boards becoming more strategic in their remit and undertaking less drafting as a board – though, as standard setting boards, clearly they do have to take responsibility for matters of wording;
 - standards should be amended to focus more on the objectives and outcomes they are trying to achieve, that is, becoming more “principles-based” or “objectives-oriented”, in order to provide more flexibility and greater effectiveness in facilitating the use of innovations in delivery and in allowing for the use of professional judgement in delivering quality audits;
 - undertaking more “horizon scanning” and stakeholder consultation to better and more promptly identify emerging issues for which new standards or changes to existing standards are likely to be required;
 - whilst unanimity of board members should be sought, approval should be subject to a 75% majority, so as not to hold up the issuance of new standards; and
 - a review of the number of board members should be undertaken, subject to ensuring the necessary representation of experience and expertise in relation to the board’s remit and appropriate multi-stakeholder representation.
- xi. The International Accounting Education Standards Board (IAESB) should be reconstituted as a committee within IFAC. This approach should remove the need for any public interest oversight and for its Consultative Advisory Group.
- xii. The MG is mistaken in its claim that “dealing with any reform in stages will avoid disrupting or otherwise undermining confidence in the current standard-setting process”. The uncertainty created by a phased approach will extend over a far longer period than would be necessary if the complete package of proposals was launched simultaneously. Further, presenting a complete package of proposals would better allow stakeholders to give proper consideration to the totality of the proposals.
- xiii. Far greater clarity is required from the MG on funding, governance and transition to better enable stakeholders to properly assess the appropriateness and viability of the MG’s complete model. It is critical that multi-stakeholder funding is obtained to prevent the perception of any single stakeholder being able to exert undue influence over standard setting for audits of PIEs.
- xiv. We support the proposal mentioned at the 15 January London event for the MG’s final proposals to be subject to a period of consultation. Given the breadth of, and number of options raised in, the current consultation, we believe that it is important for the eventual final proposals to be presented for stakeholder consideration.

CURRENT PROCESS FOR STANDARD SETTING

1. Over many years the International Federation of Accountants (IFAC) has supported the development of high quality international standards in the public interest, which have obtained the input of a wide range of relevant stakeholders and been subject to rigorous due process. Accordingly, the standards have been accepted and respected globally, and implemented in a large number of countries. IFAC has also supported the public interest oversight arrangements to ensure that the public interest has demonstrably been a prime objective in the setting of standards. We believe these arrangements have worked reasonably well to date. However, we appreciate that there is a need to keep the standard setting process under review and therefore welcome the proposals from the MG as a straw man for helping to determine the future standard setting model that best serves the public interest.

PROPOSED REFORMS

2. Claims have often been made that until the audit related standard setting process is removed from the auspices of IFAC, the IAASB and IESBA would continue to be perceived as being too heavily influenced by the profession and therefore not capable of satisfying the criterion of being independent standard setters. We do not believe that there have in fact been any failings of the current boards to meet the public interest. However, whether or not there have been any such failings, we believe that the perception of independence of standard setting for the audits of Public Interest Entities (PIEs) is critically important.
3. Considerable time and resources have been expended by IFAC, the PIOB and the MG debating the most appropriate standard setting model, whilst the business world moves on at pace, fuelled by the latest technological advances. There is a clear need to best serve the public interest by focussing on the important issues of the day including the development of audit related standards that meet the challenges currently being presented by evolving societal changes, including technological developments, rather than being unnecessarily side-tracked determining the right structure for standard setting. We therefore believe that the time has come to respond to such perceptions by making changes to the current audit related standard setting model so that proper focus can be given to the key challenges facing the audit profession. Equally, it is essential that such changes are appropriately targeted and proportionate. Our recommendations are those which we believe are best suited to standard setting in the 21st century.
4. We believe that it is essential that any reforms should be carefully assessed as to their impact on fulfilling the public interest and their cost effectiveness. Our preferred way forward would be to create a new independent standard setting Board with a narrow focus on PIE audits, whilst continuing to utilise the best of the existing model for all other audits, assurance and related engagements, and the profession's Code of Ethics. We believe that this would be the most effective means of achieving the MG's objectives, whilst not disrupting the important programme of work in these subject areas.
5. We note that the proposals contained in the MG paper are not restricted to Public Interest Entities (PIEs). We believe that this is an oversight by the MG and that its proposals would be more persuasive if this were to be the case. In this regard we believe that the definition of PIEs should be restricted to those entities that are captured by the substance of the definition contained in the EU Audit Directive i.e. entities listed on a regulated stock exchange, credit institutions and insurance undertakings. For the avoidance of doubt, we think that this should include the ability for specific jurisdictions to add additional categories of PIE if appropriate to their national circumstances. This may include entities in the public sector.
6. If the MG's proposals are targeted at the audits of PIEs, then we would support the creation of a new standard setting Board having responsibility for setting auditing and related independence standards for such entities.

7. With a new Board setting standards for auditing and auditor independence in relation to the audit of PIEs, questions remain as to how standards should continue to be set for the audit of non-PIEs, SMEs etc and other assurance and related engagements, and how the Code of Ethics for the accountancy profession as a whole will be established and maintained. The two obvious options are (i) for the new Board to take on these broader roles or (ii) for the existing IAASB and IESBA (reformed as appropriate) to be retained to continue to handle these.
8. We believe that the new Board would be effective if it focused only on the auditing of PIEs. This would enable it to meet the needs and expectations of the broad range of stakeholders concerned with PIE audits, without being distracted by other non-PIE responsibilities. Indeed, we do not believe that it would be able to secure the necessary range of expertise and experience within a board of the proposed 12 members to produce quality standards across the broader areas referenced in the preceding paragraph.
9. Consequently, we believe that a reformed IESBA should continue to set ethics standards for the accountancy profession as a whole, and the responsibility for setting standards applicable to audits of non-PIEs and for assurance services (other than audit) provided to all clients, including PIEs, should remain the responsibility of a reformed IAASB.
10. Clearly, having a new Board developing standards, as well as the IAASB and IESBA could very quickly lead to divergence between the fundamental principles for public interest entity audits and non-public interest entity audits and assurance engagements, which could make it very difficult for the profession in practice. Similarly, differences in the fundamental ethical principles between PIE audits and all the other work undertaken by the accounting profession could generate confusion and implementation difficulties for the application of a consistent approach to ethics worldwide.
11. Our preferred approach, therefore, which in our view would be the most cost effective whilst achieving the other objectives set out in the MG consultation document, would be to retain the IAASB and IESBA standards for the profession and the generality of audits and as the benchmark for PIE audits. The new independent Board could essentially “grandfather in” the existing standards for interim use in PIE audits and then over time assess the adequacy of that benchmark for PIE audits and could set supplementary requirements where it feels that benchmark falls short of expectations. It will be essential to have appropriate interaction and co-operation between the new Board and IAASB and IESBA, and we would encourage the fundamental principles of auditing and ethics and auditor independence to be kept as consistent as possible.
12. We also believe that, as a general point, standards should be amended to focus more on the objectives and outcomes they are trying to achieve – that is, becoming more “principles based” or “objectives oriented”, in order to provide more flexibility and greater effectiveness in facilitating the use of innovations in delivery and in allowing for the use of professional judgement in delivering quality audits. We also suggest that the IAASB and IESBA undertake more “horizon scanning” and stakeholder consultation to better and more promptly identify emerging issues for which new standards or changes to existing standards are likely to be required. We appreciate that steps have recently been taken by the existing standard setting boards to better address this need. Of course, “horizon scanning” would also be a key required activity for the new Board.

RESPONSES TO DETAILED QUESTIONS

Our responses to the MG’s detailed questions are included in the Appendix.

We hope that our comments are helpful to the MG. As noted above, we would be happy to discuss these further with you.

APPENDIX

RESPONSES TO DETAILED QUESTIONS

Key concerns

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?*

We note the key areas of concern that the MG through its discussions with stakeholders has identified with the current standard setting model. Considering each of these in turn:

1. The adverse effect on stakeholder confidence in the standards as a result of a perception of undue influence by the profession on two grounds: (a) IFAC, representing the global accountancy profession, manages the nomination process of the standard-setting boards, and directly funds, accommodates, and provides support and staffing for the standard-setting boards – IFAC itself is funded by member organizations and the global accountancy profession; and (b) Audit firms and professional accountancy bodies provide a majority of board members and their technical advisors

We would agree that there is a perception issue that the accountancy profession could have undue influence over the standard setting process, however we do not believe this to have been an actual issue in reality.

(a) Nomination process and funding

We believe there is a need for far greater transparency and openness on the nomination process for standard setting boards, especially those relating to PIE audits. A multi-stakeholder Nominations Committee should be introduced to manage the appointment of the new Board's members, and a multi-stakeholder oversight board should ensure that the Board follows due process and produces standards which are workable and in the public interest. We also recommend that a more streamlined public interest oversight arrangement be established for the IAASB and IESBA.

In order to ensure that there is no undue influence from any specific stakeholder group on the oversight board, we believe that its composition should mirror that of the standard setting board itself i.e. it should contain the same degree of multiple stakeholder representation.

As, in our preferred model, the new independent Board should be focussed on the audit of PIEs, there is a need for a multi-stakeholder funding model which obtains contributions from all the stakeholders who would benefit from this new structure, namely listed companies and investors as well as from larger audit firms. Under our preferred arrangements, the accounting profession would continue to fund the IAASB and IESBA and therefore standards that will be required for non-PIE audits, other assurance standards that will apply to all entities, and the accountancy profession's ethical code.

(b) Extant Board members and technical advisors

IAASB and IESBA generally have auditors comprising nine of their membership, with five or six non-auditor members, normally accountants, and three or four public interest members who are not accountants. The Chair has to be a public member or non-auditor.

However, it is essential for a sizeable proportion of these two boards to be made up of those experts who are active in the subject areas for which they have standard setting responsibility, who have the direct experience of applying the standards in practice. This equally applies to the new proposed standard setting Board. Standards need to be conceptually sound and reflective of the public interest but need to be capable of effective application in practice. We should add that auditors and other accountants are required to act in the public interest: the public interest is not solely the preserve of regulators and democratically appointed institutions.

2. Partly because of such undue influence, there is a risk that standards are not developed fully in the public interest.

We do not believe that there has been undue influence exerted by auditors or other accountants against the public interest. Clearly, with the number of auditors and accountants on the two boards, this could be a possibility if there were no other mechanisms to safeguard against it. In particular, the current PIOB ensures that due process is followed and that the standards do follow the public interest. As evidenced by the current MG consultation, the PIOB would seem to have failed in its purpose of convincing broader stakeholders that the public interest has been served in the setting of auditing and ethical standards.

In reality we are not aware of a situation where either the IAASB or IESBA could be accused of producing standards which were not fully in the public interest. There have been difficulties, eg the Non-Compliance with Laws and Regulations project undertaken by IESBA, but these problems largely stemmed from different legal requirements and safeguards for whistle-blowers in different jurisdictions. The role of the accountancy profession in securing a solution to these problems in the public interest, should be recognised. It is self-evident that global standard setters cannot operate in a vacuum and need to take account of the different legal and regulatory requirements across the globe.

3. The relevance and timeliness of standards. The pace of change in audit and the business environment is accelerating. It is essential to ensure that the standards are relevant and up to date in order to underpin audit quality and user confidence. Where the market or the regulatory community identifies a need for a new or revised standard, the Board should be able to respond on a timely basis (eg responding in a timely way to the greater use of data and analytics in audit)

We accept that both of these accusations could justifiably be made. However, in relation to audit data analytics for example, independent regulators across the globe including the US PCAOB and UK FRC have made little progress in responding to this development in a timely fashion. We would also caution that the MG has not produced any substantive evidence to prove that its proposed model would better address these areas of concern. The International Accounting Standards Board (IASB) and the Public Company Accounting Oversight Board (PCAOB) are regarded as independent standard setting boards. Yet, both have received strong challenges with regards to the timeliness of their respective standards especially in subject areas where there has been difficulty gaining a consensus across their stakeholders and where the necessary consultation and due process has therefore been extended. For example, the IASB took over ten years to produce a revised standard on leasing and the PCAOB took considerably longer than the IAASB to revise its standard on auditor reporting. Therefore, greater independence is not of itself a guarantee that standards will be issued on a more timely basis.

We have no additional concerns.

Guiding Principles

Q2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

We are broadly supportive of the overarching and supporting principles as articulated. However, we would draw your attention to a Cogito paper published by Accountancy Europe in 2017. In this paper the principles of legitimacy and balanced membership are also highlighted. We believe that these are essential principles that need to be incorporated in the proposed framework. Although similar to “credible”, we prefer use of the term “legitimacy” as we believe this asserts greater authority for the modus operandi of the standard setter.

Legitimacy

In order for a standard setter to have any authority i.e. ability to set standards that users will follow, and stakeholders will accept, it must have legitimacy. This may come from having legal power to set standards or, as is currently the norm in the accountancy profession, to have the “gravitas” to command the respect of those ultimately responsible for promulgating and applying such standards. Standards are expected to serve the market’s needs and benchmark best practices among stakeholders. Trust, quality, innovation, responsiveness and timeliness are key factors to determine standard-setters’ legitimacy.

The question that has to be asked is whether the new proposed Board would have legitimacy? The European Commission has always been reticent in requiring the adoption of ISAs within the EU. Would it be more inclined to require the adoption in the EU of standards issued by this new Board? Additionally, would the new Board encourage the US to move towards the use of global standards?

Balanced Representation

Whilst we note that the MG embraces this principle implicitly in its proposal, we believe that it should adopt this explicitly as a principle in itself. The nomination of the new Board members should be transparent and open to everyone from within the respective stakeholder constituent groupings, providing sufficient time for applications. Its members should come from diverse, but relevant, backgrounds in order to be able to gain more acceptability and diversity of input into the standard setting process. Board Members should also possess the necessary technical knowledge, especially if standards are of a highly technical nature.

The Cogito paper published by Accountancy Europe paper can be viewed at:

<https://www.accountancyeurope.eu/wp-content/uploads/170609-Standard-setting-21st-century-June-2017.pdf>

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?*

We believe that it is essential that standards developed in the public interest be capable of application in practice. For this to happen, the input of those applying the standards needs to be obtained and fully taken account of, and there needs to be representation on the board from that constituency to fully understand that input and ensure that it is properly reflected in the standard. For these reasons, we recommend that the new Board focuses only on standards for PIE audits.

We do not believe it would be feasible for the new Board to achieve the breadth of representation to develop standards for all audits and for other assurance and related services. The range and complexity of entities subject to audit and other assurance and related services varies considerably across a wide spectrum, and the composition of the new Board would have to be very wide to have the capacity, expertise and experience - and the legitimacy – to set standards for the non-PIE environment which could reasonably be seen as proportionate and adequately take into account the different factors that apply. Further, we feel that such a breadth of remit would result in a loss of focus and reduction in impact for the new Board.

Boards and their Remits

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.*

As noted above, our preferred way forward would be to create a new independent standard setting Board with a narrow focus on PIE audits, whilst continuing to utilise the best of the existing model for all other audits, assurance and related engagements, and the profession's Code of Ethics. We believe that this would be the most effective means of achieving the MG's objectives, whilst not disrupting the important programme of work in these subject areas.

In response to the question, therefore, we are supportive of having a single new independent Board, but we caveat this with the following:

- To be focused and effective, the new Board should only have responsibility for setting any additional audit and auditor independence requirements for the auditors of PIEs;
- Assurance standards for services other than audit, and the auditing standards applicable to non-PIEs, should remain within the IAASB;
- The ethics code for the accountancy profession and the fundamental principles which underpin it, should remain within the IESBA;
- Clarity is required from the MG on funding, governance and transition to better enable stakeholders to properly assess the appropriateness and viability of the MG's model.

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?*

Yes. However, we believe that the process for dealing with education requirements of the profession needs to be refined. The International Accounting Education Standards Board (IAESB) should be reconstituted as a committee within IFAC. This approach would also remove the need for the Consultative Advisory Group and public interest oversight.

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

We would highlight that IFAC itself does not have that responsibility: it is the responsibility of IESBA. We believe it is essential that a revamped IESBA should retain responsibility for setting ethical standards for all professional accountants, whether in public practice or in business. The proposed new Board should have responsibility for setting specific (or additional) independence requirements for auditors of PIEs.

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.*

We believe that the MG should focus solely on standards relating to the audits of PIEs. This would encompass the setting of auditor independence standards for the auditors of such entities.

Current Composition and Role

Q8. *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?*

Yes, we are supportive of the proposal that the focus of the new Board – and the IAASB and IESBA - should be more strategic in nature. However, as standard setting boards, clearly they do have to take responsibility for matters of wording.

We are not against remunerating board members, but we do caution that this will add considerably to the operational cost of the boards and the resulting benefits of such an approach remains to be seen.

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

We believe that there is greater merit in standards being adopted on the basis of a qualified majority. This builds in an additional safeguard in the public interest to mitigate the threat of a poor quality standard being inadvertently adopted. We would expect 75% of board members to have to support a proposed standard for it to be approved. This would apply to the IAASB and IESBA going forward, as well as the new independent Board created by the MG.

As a global standard setter, a board needs to be aware of the needs of a wide range of stakeholders and jurisdictions. It would be unfortunate for the legitimacy of the standard setter for the needs of a minority stakeholder or jurisdiction to be consistently overridden. Therefore, whilst approval should be subject to a 75% majority so as not to hold up the issuance of new standards, we would encourage unanimity of board members to be sought if at all possible.

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?*

In relation to a board that is focussed solely on PIEs then we are not opposed to the MG's proposals in this respect. However, for the IAASB and IESBA, where the scope is wider than just PIEs, then we would have real concerns regarding how the board could ensure that its standards were proportionate and also that the board composition was capable of dealing with the wide range of matters to be considered. Such matters would include application to entities of different sizes and also related ethics requirements. The IAASB has sometimes struggled in relation to matters of proportionality as evidenced by the deliberations in relation to the draft revised ISA 540 (on the audit of accounting estimates) published in May 2017. This issue would only be compounded further by a reduced number of board members.

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

As for the existing boards of IAASB and IESBA it is essential that different board members possess certain key skills but that they also bring a broad range of other skills to the table. Collectively, board members should have practical experience of audit, either as a practitioner, user or regulator; and have appropriate technical knowledge to allow proper consideration of the subject matter. The fundamental ethics principles in the IESBA Code also provide a good starting point for assessing the required characteristics of board members i.e. these individuals require integrity, objectivity and professional competence, and need to demonstrate due care and professional behaviour.

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 would not be committed to retaining the concept of a CAG for the proposed new Board, unless the small size of its board and the range of experience and expertise of its board members required some form of mechanism to capture the views of wider stakeholders. We also believe that consideration should be given to removing the need for IAASB and IESBA to have their own respective CAGs. They involve a wide range of stakeholders, but we question the value which these currently provide and in particular whether they come up with any new or different perspectives from those arising within the boards of the IAASB or IESBA. Representatives from the key stakeholder communities should be represented equally on the new standard setting Board and on the related oversight board. We therefore believe that there may be little additional benefit that a CAG could bring to the standard setting process.

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

Yes, we believe that this is essential at every stage in the standard setting process.

Current Nominations Process

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

We are supportive of an independent nominations process for the new Board.

Oversight – Role of the PIOB

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 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 that the current MG-PIOB oversight model for IAASB and IESBA is over-engineered, and that it should be simplified and made more effective. There is need for a more streamlined oversight arrangement combining in a more effective way the key roles of the PIOB and MG.

We do not believe that an oversight body should be able to veto the adoption of a standard or override the technical judgements made by the board in developing or revising standards. The role of the oversight body should be to ensure proper due process is followed and to challenge the board to ensure that a strong public interest approach has been taken in the development and finalisation of standards.

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

The composition of both the new independent Board and its oversight arrangements should be truly multi-stakeholder and should therefore include representatives of the audit / accounting profession. As the global representative of the profession, it would be appropriate for such representation to be obtained through IFAC. For the oversight body for the IAASB and IESBA, IFAC representation would also be appropriate and beneficial, as part of a, multi-stakeholder model. Clearly, for perception reasons, the Chair should be independent of IFAC.

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 have?

The composition of the oversight group should mirror that of the standard setting board with multi-stakeholder representation on each. It should have a broad mix of stakeholder representatives with the necessary experience and background to provide the structure with legitimacy.

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?

In our view there is a need for far greater transparency and openness on such matters. Members of the oversight board should be subject to an open call to the world at large and not restricted to nominations from within individual MG members or from within MG member organisations.

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?

We believe that the work of the new independent Board should be restricted to the development and adoption of additional requirements relating to the audit of PIEs.

More streamlined public interest oversight and nomination arrangements should be introduced to manage the appointment of the new Board's members and to ensure the Board follows due process and produces standards which are workable and in the public interest. The composition of the oversight board should mirror that of the standard setting Board, ie it should be multi-stakeholder.

We also recommend that a more streamlined arrangement of public interest oversight be established for the IAASB and IESBA.

Role of the Monitoring Group**Q20. 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?**

No. We would not support the retention of both the Monitoring Group and the Public Interest Oversight Board. We feel that the current governance of the standard setting boards linked to IFAC is over-engineered to try and ensure the actual and perceived independence of the standard setting boards. As demonstrated by the MG's consultation document, the broader perception of independence has not been achieved, and we believe that this is partly due to lack of clarity as to the roles and effectiveness of the PIOB and MG and the absence of clear communication channels to broader stakeholders. Therefore, what is required is a leaner, more transparent, understandable and effective oversight process, which is widely communicated to stakeholders.

Standard Setting Board Staff

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?*

As noted above, we believe that the new Board's scope should be restricted to the audit of PIEs and related auditor independence standards. This new Board would clearly require its own professional staff. Under our proposal for retaining the IAASB and IESBA, we would see little scope for reducing the staff resource currently utilised by those boards.

The expansion of professional technical staff would always be welcome, though clearly additional funding would need to be obtained to fund this expansion.

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

We are supportive of this proposal for the new Board.

Process Considerations

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

We would support the proposed improvements to standard setting by the new Board and by IAASB and IESBA, as follows:

- Although we would encourage consensus to be sought, we would support qualified majority approval of standards (please note that this is not actually a change from the current model);
- We would be happy with smaller standard setting boards in principle, but only if these can include a sufficiently wide range of interests to ensure that the resulting standards were proportionate, of sufficient quality, and able to be applied in practice. In particular, we would observe that stakeholder diversity is more important than geographic diversity;
- Consideration of the number of board members should be accompanied by a consideration of the nature of their roles and remits. This would be affected by a decision on the balance between the board being more strategic or more involved in operational and detailed matters such as drafting.

Consequently, the new Board might be able to be effective with 12 board members, whilst the breadth of remit for the IAASB and IESBA could require more.

Funding

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)?*

If funding for the new Board is sourced from audit firms or accountancy profession, we do not believe that appropriate checks and balances can be put in place to make it appear any more independent than IAASB or IESBA.

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?*

Such an approach, with an intermediate levy body sitting between the funders and the new independent Board could prevent actual undue influence by funders, and may provide a perception of greater separation. However, the substance would remain that the accountancy profession was still at least part funding the operations of the new standard setting Board. This could be mitigated through the design of the levy arrangements and by obtaining funding from a much broader range of stakeholders.

As the new independent Board would be primarily targeted at the audit of PIEs, any such levy should be applied more broadly across those stakeholders who would benefit from this new structure, namely listed companies and investors. Under our preferred arrangements, the accounting profession would continue to fund the IAASB and IESBA and therefore standards that will be required for non-PIE audits, other assurance standards that will apply to all entities, and the accountancy profession's ethical code.

Open Questions

Q26. *In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.*

Yes, there are a number of matters that the MG needs to consider. As highlighted at various places through this response these include:

- The need to provide far greater clarity over the proposed funding model and the proposed transition process;
- How best to ensure an effective and efficient transition process without causing undue reputational damage to the existing suite of standards and standard setting boards and the morale of their respective members and related technical staff;
- The need to ensure that proportionality is properly taken into account in any new standard setting model. In our view this can be best achieved by the new proposed Board only having responsibility for standard setting for PIEs;
- The location of the new Board. This is undoubtedly a matter in which politics will feature heavily; and
- The extent to which there would be interaction and co-operation between any new standard setting board and the existing standard setting boards.

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

There is, a clear need for the MG to present its full proposals in one phase and not to delay its considerations on crucial matters such as funding, governance and transition to a later date. Stakeholders need the opportunity to assess the proposed model as a "whole" and not on a piecemeal basis.