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The Monitoring Group
C/- International Organization of Securities Commissions

By Email: MG2017consultation@iosco.org

Dear Members of the Monitoring Group

PROPOSALS FOR STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST

Thank you for providing the opportunity to comment on the proposals set out in your document "Proposals for Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest" (the Proposal).

I acknowledge the concern the Monitoring Group is attempting to address; being that the public interest may not be best served because of the undue influence of the accounting profession in standards setting. I have several comments on the Proposal under the headings below.

The Public Interest

The public interest is a concept that is very difficult to define because it reflects the behaviour that is generally expected of fiduciaries to a given situation at a point in time.

In my view, the application of the public interest to standards-setting is not readily apparent to the users of the standards. My sense is that, to date, the public interest in standards setting has been interpreted as "integrity of process" and is "ensured" by oversight of the process by the Public Interest Oversight Board.

This approach appears to ignore consideration of the public interest in the development of the standards. In my experience, most standards are reviewed in an incremental fashion, starting with the "status quo", whereas the public interest may require a completely different starting point. The incremental approach is most apparent in the independence requirements in the Code of Ethics which, in my opinion, do not reflect the public interest. The Auditor-General of New Zealand has expressed concerns to the IESBA over many years about deficiencies in the Code of Ethics; particularly about the definition and application of "independence in appearance" which, coincidentally, is the very concern that has motivated the Monitoring Group in the Proposal.

I support the Monitoring Group's emphasis on ensuring that standards properly reflect the public interest. However, I would observe that the public interest is much more than ensuring integrity of process; it must also be the driver for the content of standards. I would also observe that the public interest is not the domain of any one interest group in the standards setting process and it may require outreach to the general public as part of the process of scoping the review of an existing standard or in the preparation of a new standard.

The Proposal envisages replacing one influential group (the accounting profession represented by IFAC) with another influential group (Regulators). The public interest concerns of the Monitoring Group will not be addressed by this approach because, in my view, it is inappropriate for standards setting to be dominated by one group, or another.

Building on this observation, it is my opinion that standards setting must reflect:

- A worldwide viewpoint; and
- A cross-sector viewpoint – private, public and not-for-profit perspectives, and not be confined to the capital markets.

In other words, standards must remain fit-for-purpose across international borders, and for the different sectors of activity. This is only possible if standards are principles-based and consider the full range of issues across the various sectors noted above.

Funding of Standards-Setting

If the standards are to reflect the public interest then the funding of the standards must be derived from the public. Ideally the standards setting activity should be derived from the primary beneficiaries of the standards; the users of financial statements and the general public. This suggests a contribution from the countries who use and value the standards. In-turn that demands accountability by the standards setter to those that fund its activities.

The Proposal suggests that standards setting should be funded by a contractual levy on audit firms. In my opinion, this is a far worse approach to funding than the one that is currently in place if the Monitoring Group is wanting to remove the perception of undue influence of the accounting profession in standards setting. The perception of the accounting profession controlling the standards setting process will be reinforced by contracting directly with audit firms to fund the standards-setting activity; particularly when audit firms are highly successful commercial organisations where the public interest is not emphasised.

The Standards must be Principles-Based

As noted above, the standards must be principles-based. The comments on page 8 of the Proposal about the (lack of) relevance and timeliness of standards because of the accelerating pace of change in audit and the business environment is indicative of a rules-based approach to standards setting. Standards that are principles-based endure over time and can readily cope with most changes in the environment.

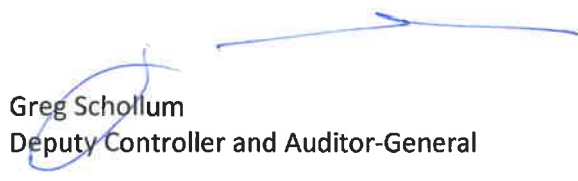
Combining the IAASB and the IESBA

I agree with the recommendation to combine the IAASB and the IESBA. From my observation, it is not always possible to separate ethical considerations from assurance and quality control considerations. Therefore, a single standards setting board that considers ethical matters relating to auditing and assurance services alongside assurance and quality control matters should ensure consistency within the entire suite of standards.

In addition to my view that the independence aspects of the Code of Ethics do not reflect the public interest, my staff have observed instances where the ethical standards of the IESBA are “out of step” with the quality control standards of the IAASB. Despite my staff bringing those inconsistencies to the attention of the respective Board, there has been no urgency to address the deficiency.

If you have any questions about our submission, please contact Todd Beardsworth at todd.beardsworth@oag.govt.nz.

Yours sincerely



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