



PAFA

PAN AFRICAN FEDERATION
OF ACCOUNTANTS

BUILDING A BRIDGE TO A BRIGHTER AFRICA

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The Monitoring Group

By email

Presented below are the Pan-African Federation of Accountants' (PAFA) views on the issues raised in the consultation paper as issued by the Monitoring Group (MG) on 9 November 2017 titled: *Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest.*

Preamble

Before addressing the specific questions raised by the MG, PAFA believes that no adequate evidence has been presented by the MG that the current standard-setting structures do not meet the seven objectives outlined on page 4 of the MG consultation document. Of particular concern to PAFA, is the innuendo in the third bullet point – **Credibility** - that seems to suggest that the current model, where in addition to other considerations, regional balancing is taken into account in the standard-setting board's composition deprives the standards of credibility. This presents a highly condescending posture on the part of the MG on board representatives from some regions.

The PAFA comments are presented in the sequence of the questions as they have been included in the Consultation document.

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

In this section, the key concerns with the current standard-setting model as identified through a preliminary stakeholder engagement are detailed. Identified as key concerns is:

- 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.

- Partly because of such undue influence, there is a risk that standards are not developed fully in the public interest.
- 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 (e.g. responding in a timely way to the greater use of data and analytics in audit).

Question 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?

PAFA response:

While we recognise that there may be a valid **perception** that the involvement of IFAC, as the global accountancy profession representative that is funded by member organisation, in the management of the nomination process of the standard-setting boards, its funding and various other forms of support provided to the boards provides an opportunity for IFAC to exercise undue influence and thus negatively affect stakeholder confidence in the standards, we do not agree that this can be linked to a risk of standards not being developed fully in the public interest. Our view in this regard an evidential linkage cannot be drawn between the perception and the quality of the standards.

There is however, a case for reforming the management of the nomination process of the standard-setting boards and the funding arrangements.

On relevance and timeliness of standards, the whole essence of a standard, as contrasted to a rule, is a principle that is adaptable to changing circumstances. The standard-setting boards, must produce global standards which require global input. It is therefore necessary to strike a healthy balance between timeliness and global inclusivity. PAFA believes the issue of relevance is a matter of principle and not speed.

The MG has not demonstrated that there is a link between the current standard-setting model and the corporate failures in the early – mid 2000s referred to in the introduction.

The may, therefore, be need to include in the analysis, the identification of the root causes of the failures. It is interesting to note that various assessments by the World Bank Report on Standards and Codes (ROSC) indicate that in many countries, the implementation and enforcement of adopted standards remains weak and impacts on the protection of the Public Interest. The causes of this are many and vary from country to country.

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

<p>In this section, the notion of public interest and the standard-setters understanding thereof is discussed, questioning whether there is a need for it to be strengthened.</p>	<p>a) Do you agree with the overarching and supporting principles as articulated? b) Are there additional principles that the Monitoring Group should consider and why?</p>
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Question 2: *Do you agree with the overarching and supporting principles as articulated? Are there additional principles that the Monitoring Group should consider and why?*

PAFA response:

The MG has highlighted the following principles as necessary to strengthening public interest through due process:

- Independence;
- Credibility;
- Cost effectiveness;
- Relevance;
- Transparency; and
- Accountability.

PAFA agrees that independence, credibility, relevance, transparency and accountability are critical in any process that is intended to enhance and strengthen public confidence in the standard setting process. Furthermore it is reasonable to strive to achieve this in a cost effective manner, however, it must be emphasised that cost effectiveness cannot be placed above any of the other five principles.

PAFA would like to point out that there is no evidence to show that the current model has compromised any of the above principles.

Question 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?*

PAFA response:

The concept of inclusivity should be given due consideration with specific focus on inviting participation in standard setting governance from individuals outside of the profession. This in PAFA's view would be beneficial in also enhancing the perception of independence and credibility. PAFA does note however, that this will require further investigation as these stakeholders' understanding should be appropriate to adequately contribute and add value to the governance process.

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

In this section, the MG discusses the option of a single board aimed at achieving better coordination of ethical and auditing standards. This board would be responsible for setting auditing and assurance standards and ethical standards for auditors, on the basis that ethics and integrity need to be embedded in everything the auditor does.

Question 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.

PAFA response:

PAFA believes that question 4 and question 6 should be addressed in the same breath. The MG's proposal seeks to create two sets of standards for accountants depending on their roles. PAFA would like to submit that frontline accountants being held to the same level of high ethics as the auditors will augment rather than denigrate public interest. Furthermore, the mobility of accountants and auditors means individuals may play either role in some point of their career and therefore holding them to different standards would not be appropriate. To that end, recognising that identified shortcomings are not a factor of the standards themselves but rather adherence, PAFA is of the view that combining auditing and ethics standard setting is detrimental to public interest.

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

PAFA response:

PAFA does not support the dismantling of the current standard setting model. Consideration should be given to improvements that will enhance the underlying supporting principles.

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

PAFA response:

See PAFA response to question 4.

Question 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.

PAFA response:

See response to question 5

Question 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?

PAFA response:

PAFA is of the view that the strategic and oversight role in standard setting should rest with the PIOB while the existing three standard setting boards are left to deal with the technical aspect of standard setting.

The question of remuneration is a little more complex in that, remuneration introduces an element of self-interest which has the potential to impair independence of the board especially when considering source of funding in the proposed model which basically places the responsibility on audit firms.

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

PAFA response:

PAFA believes that global standards must as much as possible be based on broad based consultation which results in consensus. Operating standard setting through the first past the post principle will threaten global acceptability of the standards.

Question 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?

PAFA response:

The current standard setting model adequately addresses the issue of composition. There is however, scope for reform on nomination management and inclusion of other stakeholders in the governance arrangements.

Question 11: What skills or attributes should the Monitoring Group require of board members?

PAFA response:

- Technical know-how
- Understanding of the global context
- Strong Ethics
- Innovativeness

Question 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?

PAFA response:

The CAG plays a pivotal role in providing insight to the board on what CAG member organizations' views on the board's agendas and project timetable (work programme), what they consider priority areas as well as any other matters of relevance to the activities of the board. It is PAFA's view that this is a useful body to retain especially from an inclusiveness perspective as it is another avenue through which more stakeholder voices can be heard.

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

PAFA response:

While in theory PAFA is in support of any initiatives that would enhance the focus on public interest, PAFA would like to draw caution to a framework that would be rules based and therefore eliminate the need for professional judgement which is so pivotal to auditing standards. Consequently, PAFA's view is that adherence to the public interest framework under development should only occur to the extent that it does not encourage a box ticking exercise but rather provides guiding principles within which the tasks forces must work.

Question 14: Do you agree with the changes proposed to the nomination process?

PAFA response:

PAFA supports that the standard-setting board nominations process continue to be conducted via an open call for candidates as this enhances the transparency of the process and provides an equal opportunity for all stakeholders to be considered for a place on the board. PAFA further supports the inclusion of additional considerations as per the current model. The PIOB's involvement in approving the members is considered as adequate oversight which further enhances the independence of the process which might be jeopardised should the PIOB take over the administrative process thereof.

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

The oversight role of the PIOB is discussed in this section with detail of how the public interest objective is currently being protected. Options to address concern on the adequate representation of public interest in the standard setting process are outlined, with a predominant focus being on the PIOB's powers over the standard setting boards.

Question 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?

PAFA response:

PAFA deems the current roles and responsibilities of the PIOB as stated in the consultation paper as being appropriate and crucial to protecting the public interest. PAFA would like to draw caution to giving the PIOB veto power on the adoption of standards on the basis already discussed above. PAFA's view is that through their involvement in the approval of board members, the PIOB has satisfied itself of the suitability of board members to perform their role in the public interest. Involvement in operational matters such as the adoption of standards removes the PIOB from a strategic focus of ensuring their independence of the process.

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

PAFA response:

PAFA is neutral to this option.

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?

PAFA response:

See PAFA response to question 3

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?

PAFA response:

An open call for nomination is preferred on the basis that it enhances the transparency of the appointment process while also providing an opportunity for a wider pool of stakeholders for consideration for placement on the PIOB.

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 (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?*

PAFA response:

Retain the status quo.

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

In this section the role of the monitoring group is detailed followed by a proposal for reform in this area.

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?*

PAFA response:

PAFA is of the view that the roles of the MG and PIOB should be merged into one.

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

Section 6 discusses the options proposed to strengthen stakeholder concerns about the independence of the standard setting process. Proposals relate to restructuring the technical staff composition and size.

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?*

PAFA response:

PAFA's earlier comments on the governance structures and standard setting boards refer.

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

PAFA response:

PAFA's earlier comments on the governance structures and standard setting boards refer.

SECTION 7: PROCESS CONSIDERATIONS (KEY CONCERN 3)

The process considerations section aims to address concerns relating to the timeliness and relevance of the standard setting process as well as the overall quality of standards.

Question 23

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

PAFA response:

PAFA believes in principle based standards with application in changing circumstances rather than rules that get outdated in changed circumstances.

PAFA's earlier comments on global standards apply here as well.

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 (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)?*

PAFA response:

PAFA is not convinced by the arguments presented for the abolishment of the current model but would rather advocate for a reform.

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?*

PAFA response:

See response to question 24 above

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

PAFA response:

See response to question 24 above

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

PAFA response:

The MG needs to conduct a thorough review of the causes and courses of past corporate failures and present an evidence based argument to support its position.