

# Monitoring Group Consultation

## London Round Table

15 January 2018

### Welcome Address

**Michael Izza**

**Chief Executive, ICAEW**

#### **I. Introduction**

Good morning, everybody. I would like to welcome you to the London meeting of the Monitoring Group's outreach programme, part of a key consultation they are undertaking on the future of the process for setting international standards covering audits and ethics for accountants. We are delighted to have this opportunity to host this roundtable with the Monitoring Group as these standards are fundamental to our profession and its usefulness to the economy in general.

Now ethics standards are what bind our profession together. The underlying principles and the guidance that supports them cover everything that our members do. Audit standards only address one aspect of our members' work. However, that aspect is very visible and important to many stakeholders.

It is good practice to stop periodically and think about whether what is being done is producing the right results. That is what the Monitoring Group are doing. Stephen will go through detailed aspects of the consultation shortly so I thought I would take this opportunity, whilst doing the introduction, of mentioning what I see as the key issues being raised by the consultation that need to be considered in formulating the eventual outcome.

#### **II. The Objective of Reforms**

The key points largely revolve around what the reforms are trying to achieve. First, what is the purpose of a standard-setting body? The consultation states that it is, 'To set standards that serve, and appear to serve, the public interest'. I do not think that anyone is going to argue with that.

Although the public interest is referred to a lot it is going to be important to understand what, in this context, the public interest actually is. As a professional body that seeks to act in the public interest, we carried out some thought leadership on what that interest actually is and published a report that sets out a framework for considering the public interest. We recognise that the public interest is very context-driven and involves considering and balancing out different, and not always compatible, interests and objectives, and expert input on what works.

Then, having established what it is the process is seeking to do there is the assessment of whether the current framework is doing that and, if not, why not. If for example the problem is that the actual standards are at fault where there are failures, that is likely to need a different set of corrective measures than if the problem is one of perception that the objectivity of the process is compromised.

### **III. Options for Reform**

At this point, having hopefully fleshed out the answers to these questions we move on to the options for reform and whether they result in an efficient and effective, and visibly effective, balance of objectivity and expertise. Questions to consider include: does IFAC's involvement in various capacities of the current process help or hinder? Would having one board set audit standards and audit ethical standards be a sensible consolidation of work in one highly complex area or an unmanageable combination of technical and behavioural standards risking overlap with ethical standards for accountants in other areas, particularly practitioners whose work is in non-assurance areas? If there is to be a new board, what should the scope of the standards they take on be? Regulators and investors tend to focus on public interest entities as they can have a systemic effect on the economy individually, but in many countries, including the UK, a lot of other entities need to be – or choose to be – audited. Collectively they are also important, but audit needs for SMEs can be significantly different than from larger organisations.

### **IV. Oversight Arrangements**

Then there are the oversight arrangements. The current ones were set to ensure a proper balance between expert input and independence of process. There are currently three tiers: the Monitoring Group itself, the Public Interest Oversight Board and the consultative advisory groups. Is that the best approach?

### **V. Education**

An issue that matters enormously to me is the education of our members and others in the profession, for without that there is no sustainable future. Education standards are alluded to only briefly in the consultation, but we need to think through the impact of any reforms on ensuring that there is an ongoing supply of the right people with the necessary competencies at a time of technological change to ensure high quality audit.

### **VI. Funding**

The last point I want to highlight is the small but important matter of how all this is being paid for. The existing arrangements are already quite expensive. We probably all agree that a broadening of the funding base is the best long-term solution, as it has been for the IASB. In the meantime, is a contractual levy a realistic way to fund extra resource and address the important concerns about the appearance of the profession paying for its own regulation?

### **VII. Conclusion**

In conclusion, as one of the key stakeholders affected by the outcome of this consultation we are still formulating our views on some of these issues, but I am pleased that this outreach programme is recognising that there are a wide range of stakeholders involved, and I certainly look forward to listening to what you have to say.

I would now like to hand over to Stephen Haddrill. Thank you.

## **The Work of the Monitoring Group**

**Stephen Haddrill**

**CEO, Financial Reporting Council, Chair of the MG Working Group**

### **I. Introduction**

Thank you, Michael, and thanks to all of you for turning out on a very wet and windy Monday morning.

I am very glad that a number of key people from the governance structure of audit standard setting are here with us today. I would particularly like to mention Mr Eddie Eddy Wymeersch who is the Chairman of the Public Interest Oversight Board; Arnold Schilder and Richard Fleck, where Arnold is the Chairman of the Standard Setting Board and Richard the Vice-Chairman of the Ethics Board; and Fayezul Choudhury from IFAC. There are a number of other people who I could pick out, but I am sure that we will hear from them shortly. In particular, Gerben Everts, who is Chairman of the Monitoring Group, will join me up on the stage later on and make a few remarks after I have finished.

### **II. About The Monitoring Group**

You have heard Michael use the phrase ‘Monitoring Group’. I do not take it for granted that everybody knows all of the detail about what the monitoring group is. It is there to provide oversight of the structure of standard setting as a whole and these are its members: IOSCO, the Basel Committee, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, IFIA, the independent audit regulators, and the World Bank.

### **III. Objectives**

Let me say a little bit about the objectives of this exercise. When you make your points later on, I would be particularly grateful if you could think a bit about how you see the challenges for standard setting in this area going forward in the future. What should the objectives of this exercise be from your point of view? It is very important that we also discuss the specifics of the proposals, but let us make sure that we have a common sense of where we want to get to for the future.

I must stress that the Monitoring Group is undertaking this exercise to make sure that standard setting is fit for the future. We have the utmost confidence in the standards that have been established by the boards up until now, but we see the world changing around us. The audit profession itself is developing really quite quickly: the introduction of new technology, artificial intelligence and so on coming along apace; the expectations of the public and particularly of investors changing; debates across the world around what the scope of audit should be, and so on; and with economic change happening faster, globalisation, the pace of change speeding up all the time, a challenge in terms of how fast standard setting can

proceed in an international environment where there is a strong premium on the search for consensus.

#### **IV. Key Issues Addressed by the Review**

The goals of the Monitoring Group are to promote high-quality, globally-adopted standards for use in all audit engagements and to build justifiable capital markets confidence in audit and corporate reporting, firstly by strengthening the governance of standard setting in the public interest – and I am sure that we will use that phrase, ‘in the public interest’ many times this morning; addressing risks to independence, whether they are perceived or substantive as a result of the public feeling that the profession has too strong a role in setting the standards that are there in the public and investor interest; and ensuring that standards respond to developments in the market and, as I said just now, are timely.

Those objectives have driven the key issues that we have identified need to be addressed by the review: how is the public interest defined and addressed; what is the best structure for oversight; how to balance expertise and wider stakeholder input, and reflect regional differences; how to ensure decision making is timely and effective; what is the appropriate scope of standards; and how to address public perceptions, especially the perception driven by the source of funding.

Let me comment on one or two of those. How is the public interest defined and addressed? The Monitoring Group has struggled with this. We have asked for some advice from the Public Interest Oversight Board and we have had some. We are not quite there yet, so we certainly welcome views on it. It is very hard to pin down. If we over-define or too-closely define ‘the public interest’ then we will fail to have the flexibility to develop standards in response to change in the economies, the ways companies are governed and the way audit is done in the future.

A lot of what the Monitoring Group has done is try to define what the right process is for the public interest and what some of the outcomes are, but not try to pin it down too carefully. I am sure that people will want to say something about that.

What is the best structure for oversight? We have not yet concluded on that. We have this basically three-tier structure at the moment: the Monitoring Group, the PIOB and then the boards. We decided that we would try to make sure that the governance of the ‘engine room’, if I can call it that, is fit for the future and then look at the levels above it, but we have asked some questions about the oversight as a whole. We have been doing some thinking about that and when we get to the end of this stage of the consultation I expect that the Monitoring Group will want to say something about the future direction in relation to its own future and the future of the PIOB and its role.

How to balance expertise and wider stakeholder input, and reflect regional differences: any international collaboration or effort of this nature obviously has to draw on the experience, expertise, but also the circumstances from around the world. That is one of the reasons why we are having these four consultation sessions, roundtables. We had one in South Africa last week. We have one to come in Washington next weekend, one in Singapore a week or so later. We do recognise that regional variations need to be understood in the standard setting process.

That is probably enough. I will say a bit more about some of the other points as we go through the specifics.

## V. Options

### 1. Structure

In terms of the structure and the options for the standard setting boards – of which there are basically three: ethics, education, and auditing and assurance – the Monitoring Group has been looking for how we can make sure that the boards do not get too bogged down in detail as boards. That detail obviously needs to be worked through and we have been looking at a model that is perhaps a bit more like a classic corporate model with a board focused very much on the strategic questions, setting the agenda for the future, and debating and forming views on the key points, but not turning the pages and going through a line-by-line analysis of the standard, expecting that to have been done by some excellent staff work and by technical work from task groups that, as now, get set up underneath it.

Should that board cover both auditing and ethics? The proposal in the consultation paper is that those two issues should be merged. The reason for that is that regulators, particularly those audit regulators like my own organisation, the FRC, and the other members of IFIA have found that it is actually quite hard to separate out some of the behavioural questions and questions around independence from the technical standards themselves.

The board at the moment has a really quite important piece of work that has been going on, on scepticism. That is being done in the standard setting board, not in the ethics board, but it is about behaviour. That is just one example of where these two things come together. Certainly in the UK and the Financial Reporting Council we have very much found that we need to consider these questions about what technical work needs to be done and, at the same time, what spirit and environment it needs to be done in.

However, I am sure there will be different views on that and we will be very keen to hear them and see where the balance of opinion lies on that.

A second question is: should responsibility for ethical standards for professional accountants in business remain with IFAC or should that also be adopted by the new board as part of its responsibility, or boards if we have two? We get different points of view on this and it is worth pausing a bit on it.

The core ethical standards for all accountants – the things that get instilled in the accountancy profession right from the early days of training and so on – remain absolutely fundamental and important to audit. On top of those standards there are additional requirements and expectations of auditors. The question is: should those core standards be developed by the same body or organisation that is developing the specific audit standards or should they remain with the profession?

Many auditors feel that those core standards, particularly where they apply to finance directors, people in business and so on, must be of the highest quality. They point out that very often the problems they have to deal with as auditors are not of their making: they start with the company itself. It is because of that interaction that these two things should be brought together.

On the other hand, if we somehow remove the core ethical standards from the profession, what are we left with? Are we left with professional bodies whose regulatory and public interest roles are depleted and, in effect, they become purely representative bodies? There is quite a big issue to be debated at that point.

## 2. Composition

In terms of the composition of the board, if we have a single board, then the Monitoring Group is proposing that it should have no fewer than 12 members, and probably in the range of 12 to 18, even if it is dealing with ethics and technical standards at the same time. As I said, the board's focus should be strategic. It should not deal with detailed drafting.

We favour a multi-stakeholder model where no one stakeholder group can be over-dominant in the conversation, that it should be drawn from the profession, from regulators, from users including investors and also the corporate world in broadly equal numbers. There should be a balance across the boards.

We asked about whether some members should be full time, perhaps the chairman and a couple of deputy chairmen should have full time, almost executive responsibility. It has been suggested that if we had three like that, certainly one ought to focus on the ethical considerations. We have heard concerns that the technical discussion would, in some way, overawe the ethical discussion if it was in the same board. We would need to make sure that, if we go forward with one board, that risk is mitigated and I am sure that we could find some way of doing that.

There is a question about whether members should be remunerated. There is an assumption about retaining the advisory groups and a taskforce, but these must be consistent with a public interest framework and a multi-stakeholder approach.

## 3. Role of the PIOB

As I said, the Public Interest Oversight Board is not the key focus of this part of the consultation; we will come on to that later, but there are some questions that we would certainly be happy to take views on today. Indeed when we come to June we will want to put out some firmer proposals in this area.

Firstly, does it become the nominating committee for the board and boards? This question of nominations is really important in this space. It lies at the heart of building public confidence in the whole edifice, that we have an open, transparent process in the public interest for populating boards.

Should the PIOB be able to veto standards or just require additional due process? This public interest body, is its role to make sure that the process is working as it should do and then assume that the standards that come out of it are appropriate, are in the public interest, or should it be more deeply engaged in the actual standard setting process? We have had different views on that.

My own view is that you need to see just how the new governance of the standard setting boards is working. I would certainly hope that if a new structure was developing standards that everyone had the utmost confidence in then the role of the PIOB could be focused on process. Maybe we need a bit of a transition period to see how that is going.

Should the PIOB collect funding for the boards and operate somewhat like the IFRS trustees on the accounting side? Should IFAC nominate one or more members to the PIOB or is the link with the profession something that should be brought to an end? How should PIOB members themselves be appointed? That is obviously an important question – 'who guards the guards', and so on. Should the PIOB focus on the new board or boards, or should oversight continue to cover the remaining IFAC standard-setting responsibilities?

#### **4. Monitoring Group**

The Monitoring Group recognises that it must also look at its own role in this in the future and, as I said, we will be turning to that later on in this process.

#### **5. Operational and Funding**

A lot of the public perception questions, and certainly what I hear from investors, is, ‘Whatever you do on governance, if the profession continues to fund it then how can we have confidence that who pays the piper is not calling the tune?’ Particularly if we go down a route where we have a stronger independent technical staff engaged, that increases somewhat the need for funding in that area.

One issue is: should the staff in future be directly employed by the board or boards rather than by IFAC? In fact the staff at the moment are given a pretty independent remit by IFAC, but nevertheless there is that formal connection and the question is: should that be broken?

How could the board or boards make progress improvements to be more responsive and timely in standard setting? We hope that this more strategic focus that I talked about earlier is a big part of that.

How do we get to a funding stream in the medium term – we probably will not be able to manage it immediately – that itself reflects more of a multi-stakeholder approach, the principle of multi-stakeholder that we are looking for in the governance structure itself?

It has been suggested that the profession should continue to fund the board or boards itself, but with a kind of airlock so that there is no possibility of influence through some kind of contractual arrangement. That would be a step forward, although I also think that it is right that other people or organisations, including the regulators themselves, should step forward to fund the organisation. Any of these contractual mechanisms only go part of the way to addressing the perception issue if the profession continues to be more or less a 100% funder.

### **VI. Next steps/Transitional Considerations**

I hope that that has given you a bit of an introduction. If you want to ask any questions about structure and so on as opposed to making points, I would be very happy to answer them during the course. Do feel free, as well as making any observations you want to make; if you want to ask questions then we will do our best to answer them.

The timetable: the Monitoring Group aims to make final proposals and move forward on implementation in June of this year. It will at that stage also produce an impact assessment, and also a more-detailed transition plan. These changes are not going to take place over a few months. They will probably take a couple of years to put in place and we need to make sure that in that transition period the whole standard-setting process is not waylaid in some way, but continues to operate as well as it has been doing so far. We do not want to undermine business as usual.

The consultation closes on 9 February and I have put up the link for submission of comment letters.

I should have said at the beginning that this is being webcast and we will be collecting questions from people on the internet, so clearly it is not under Chatham House rules. What you say will be visible out there for all time to come.

Without any further ado I would like to ask Gerben, who is Chair of the Monitoring Group, to come up and give his take on these steps.

## **Remarks from the Monitoring Group Chairman**

### **Gerben Everts**

#### **Chair of the Monitoring Group**

### **I. Introduction**

Thank you, Stephen, and thank you, Michael, as well for hosting the event today, and Stephen in particular for leading the work stream and the working group which is assisting the Monitoring Group in this work, and Stephen's team, of course.

Before we start the most important thing, of course, the interaction with you, the audience – we will listen to all of those questions and also the questions from the live stream – it is very important to provide you with my own views, a bit of the background on this whole process, what we have done in terms of outreach, what we expect and what we do not expect.

### **II. Addressing Misperceptions**

I have done a lot of outreach already and have learned that that is very important to do because there are some misperceptions – and rightly so because we are doing something new. I would like to take away part of those misperceptions and I am of course happy to listen to your input here, but also in writing in the consultation itself.

Audit standards and international convergence of audit standards is of course very important in establishing a clear and uniform understanding of high quality audit and [inaudible]. We face problems with the quality of audit. This common understanding is crucial in re-establishing the trust in financial reporting and underpins the efficient functioning of the capital markets.

Standard setting governance as it is currently designed has many positive attributes and has worked well to produce valuable audit standards. IFAC has done a lot of good work in overseeing this process and working on the international adoption of those audit standards.

Within the current age it is no longer fitting that in fact or in perception the audit profession has the largest influence over the governance model. Changes, in our view, are needed to make the governance model more robust moving forward.

### **III. An Evolutionary Governance Structure**

To this end the Monitoring Group has taken on the task to carefully lead and manage a reform process towards a new governance structure that is multi-stakeholder in nature and fully responsive to what is in the public interest. This has been a lengthy and careful process. It is not revolutionary in nature, but evolutionary, building on the positive elements that we already see in the current structure and on the positive contributions from IFAC.

It should also be a positive reform. We decided not to address and dig into the negative aspects, the criticism which is there for each organisation on the current model. We look forward to a governance model that will fit and be able to be sustainable in time.



The proposed options for reform aim to evolve the existing governance model into a structure that is very similar to how the IFRS Foundation, for instance, operates vis-à-vis the accounting standards. We see the IFRS model as a best practice, which is why I am happy that Mr Michel Prada, who is Chairman of the IFRS Foundation Trustees, will join us after the coffee break in discussion to share his experience and views on the options for reform as well.

#### **IV. The Consultation**

The consultation that runs from today until next month is an important step in the reform process and is based on extensive outreach we have done with many stakeholders over the last few years. The consultation paper should be seen to reflect the unanimous conviction of the international regulatory community, that reforms are needed, although individuals within those organisations might have a different view, but with an open mind-set to suggestions on how the ideal governance model should look and could be reached. We value and will consider all stakeholder views and innovative ideas today, in the other roundtables and in writing.

So far the responses are very positive from the users, the audit profession and other representative bodies. Obviously the reform is also challenged, especially by those who are currently, let us say, in the driving seat. This is not a surprise. Let me again be very clear that we very much welcome the good work currently done. However, in our view it is not futureproof and we suffer some opportunity losses in the current model.

A careful reader will have noticed that the current consultation does not address every single aspect of the new governance model such as, like Stephen addressed, funding. This is something that we will fully address in the next stages of this process. Like Stephen had on his last slide, we will prepare a feedback statement that will summarise all your responses and also the roundtables before we move forward. We will also do a public interest framework; we will prepare that. It is currently in development in close collaboration with the Public Interest Oversight Board and the public interest framework will be a guiding document for standard setting within the new structure. We will develop the next stage in June, hopefully, with the white paper on the audit standard setting reform following on the consultation as well. We of course apply due process and will have an impact assessment on the final reforms, and will include that.

I hope that this highlights that we have elaborated on our careful process here and the current consultation is of course a very important starting point.

#### **V. The Objective of the Review**

Our main driver, and hence the attention paid to due process and inclusiveness of all stakeholder groups, is that we want to establish a sustainable, new governance model structure building on the existing model, grandfathering the existing standards, supported by firm principles of independence, good governance, clear accountability, stronger procedures and a better strategic focus of the entire board, or boards if we decide to have two, such that we do not have to revise this model in five to 10 years from now, but the structure itself can adjust to changing circumstances and challenges, such that the model will no longer be contested and, just like the IFRS model, is currently something where everyone accepts that it is a model that functions fine.

## **VI. Conclusion**

The goal of the roundtable today is mostly to listen for an hour onwards to your reflections, answer the questions and add more context to the perceptions and misperceptions there perhaps are. I am happy to hear all of your observations and answer questions, especially from the investor community. We have a very large audience here, which is great, but the investor community is the one we do all this for, to make sure that they are protected by high-quality audit standards.

That is it for my introduction. I am happy to be with Stephen here to answer your questions and thank you again for the opportunity to have this organised, and to be here. Thank you.

## **Remarks from the IFAC CEO**

**Fayezul Choudhury**

**Chief Executive Officer, IFAC**

### **I. Introduction**

Thank you, Stephen, and thank you, Gerben, for that. This is incredibly important work for all of the reasons that have been mentioned. IFAC has supported this work for the last three years. It was approximately three years ago when it all started.

### **II. The Current Model**

I would like to start by acknowledging Stephen's comments that the current model has produced high-quality standards, but I would like to put a little bit of flavour around that.

First of all, the current model is a shared public/private model and that is the direction of regulation that we see. The standards have been adopted in over 120 jurisdictions and that speaks to the fact that they are deemed to be credible, and fit for purpose. The credibility of a standard setter in an international context is derived in very different ways from how the credibility of a national standard setter is derived, which is basically under law. In a global context the standard setting board has to be seen to be independent, technically authoritative, diverse in terms of geography of the stakeholder groups represented, and to have a very stringent due process overseen by an independent body. Those are attributes that are there now. There are checks and balances in the system and those checks and balances are overseen by the PIOB.

### **III. IFAC's response to the Consultation**

Let me get out of the way some issues which it behoves me, as the IFAC CEO, to get on the table. I do so just for the record because I do think that there are a lot of good learnings that have derived from this consultation process so far, which provide the basis for moving forward to an even more solid model.

Firstly, an issue that both Stephen and Gerben have touched on is the fact that in our view some of the issues that are deferred for later consideration should have been dealt with concurrently so that there was a holistic view about how some of the specific questions that

are addressed fit in the context of the proposed governance arrangements, the proposed funding arrangements, costs, transition risks and impact assessment. That should have really come collectively. It is a bit like designing a house: you do not say what you want in the house without knowing the size of the family, whether it is in the arctic or tropics, etc., etc. That is something that we would like to have seen.

We fully support the notion of a multi-stakeholder model which both Gerben and Stephen have alluded to, but let us be clear, the current model is that the Monitoring Group, as Stephen has outlined, contains no one from the profession. The PIOB, which has 10 or 11 members, has one nominee from the profession. Those elements of the governance structure are therefore hardly dominated by the profession.

The nominating process does have a heavy profession input, but it is overseen by the Public Interest Oversight Board. We certainly recognise that that is an area that can be improved and we have worked very closely and collaboratively with Gerben to design an ad hoc process for the selection of a new IAASB Chair for when Arnold Schilder retires. That would provide a very good model for how even that element of the overall governance structure could be adjusted.

It is really very important that that governance model be multi-stakeholder in terms of that global acceptability, the legitimacy that the rest of the world would want to see in the standard setting model. It has to be seen to be a true multi-stakeholder model and not one that is dominated by the regulatory community and explicitly excludes the profession.

The notion of the funding is an interesting one. It will obviously be very technically complex to levy audit firms. At the moment the way it works is IFAC levies its member bodies and the large international networks. It is not earmarked funding and the money is made available to the standard-setting boards based on their request, which is overseen by the PIOB. That Funding comes from audit firms, accountants in business, public sector accountants and accountants who are no longer practising. There is no bright line between funding IFAC versus standard setting. That would shift: the standard setting would be funded explicitly by the audit firm under this new model.

Also moving the focus of the technical work and giving the staff the technical pen, certainly the staff will be drawing from the profession. One risk of the proposal is that you move the technical authoritativeness away from the standard setting board, which it has to operate in the sunshine, to the staff who are obviously more shielded from the direct.

#### **IV. Moving Forward**

Leaving all that behind – and, as I say, it behoves me to make those points, and I have made them – there is a lot that we can build upon in terms of moving forward. I would reiterate the view that the governance structure needs to be looked at, at least concurrently and not later. That governance structure needs to be truly multi-stakeholder, perhaps not the Monitoring board, but the oversight group. If we analogise to the IASCF, which an analogy has been drawn, you have the Monitoring Board and then the trustees. Whatever the public interest oversight function is should be multi-stakeholder.

#### **V. Addressing Issues in Perception**

To the extent that there are perceptions out there, you can address a perception because there is a route cause that has to be fixed. There are also perceptions that arise because what is happening is not clearly understood. If you take the issue of funding, that is the perception.

If you take the view of staff not being independent of IFAC, that is the perception. One could address that through the operating procedures and the structure of a new governance body. You could have a sub-committee that looked at the issue of financial oversight to make sure that the funding was not influencing the direction of standard setting. You could have a sub-committee that looked at nominations and performance to make sure that the nominations process was indeed independent and that the performance of the chairs and senior technical staff was done independently. You could look at the issues of due process to make sure that indeed there was a stringent due process properly applied. You could also charge that governance group with the stakeholder relations to look at what the market thinks of the standards and provide that feedback loop independently to the standard setting boards, and also to look at emerging issues and what the market is saying is needed, and feed that through.

There are a number of different ways that perceptions can be addressed, if I can put it crudely, without throwing the baby out with the bathwater, which would be substantive improvements, arguably needed, would provide a clear focus for the market to understand that there was stringent oversight over areas where there could be perceptions of a lack of independence. We would certainly encourage a discussion along those lines.

## **VI. The Question of Two Boards**

In terms of some of the specific issues of one board versus two – the strategic board versus a doing board – those are really very technical and micro-issues that would benefit from deeper analysis. These are not binary options: ‘Is it two boards or one board?’ One can conceive of a situation where you actually analysed all of the audit standards and said, ‘Okay, so which might need an ethical component built into it?’ Or you could look at the ethics code and say which of the standards might in fact more properly sit with the audit board rather than the ethics board. Those kinds of analyses and options need to be looked at before moving to binary choices of leave-as-is or merging into one board.

Likewise, the issue of a strategic board: it is very difficult to define what a strategic board does. People: as I am sure we all know, the dynamics of any board committee is really driven by the behaviours of the individuals in it and it is very difficult to rap someone on the knuckles and say, ‘You are not being strategic enough’ or, ‘You are being too detailed’.

As a solution to a problem that may not be the right answer, but it is certainly some – when I was on the Public Interest Oversight Board I sat on or observed standard setting meetings and was struck, especially for a non-practitioner, by just how detailed those were.

It is a legitimate issue, but there must be other, more cautious ways to proceed with seeing how one can resolve those issues before moving to a fundamental and radical restructuring which may actually not solve the problem that is being addressed.

## **VII. Conclusion**

There are a number of areas that are absolutely spot on and need to be looked at. Stephen has outlined them, but we feel that there are other ways of approaching that: not stringing it out forever; having a very clear timeline; very clear analytical frameworks of how those will be explored and investigated with technical experts acting independently under Monitoring Group oversight, and we would certainly encourage movement in that direction. Thank you very much.

## **Questions and Answers**

### **Stephen Haddrill**

Eddy, I wondered if you might pick up particularly Fayezul's point about public interest and the multi-stakeholder principle being applied to the PIOB, including the profession.

### **Eddy Wymeersch, Public Interest Oversight Board**

Thank you very much, Stephen. The first general statement that I would like to make is that the PIOB is very supportive of the proposals and reforms. These reforms give an answer to many questions that we have raised in the past, and it has not received a good answer.

You have to be aware, it has been mentioned several times that a driving force of the PIOB and the reform in general is the public interest. We should absolutely keep it like this and take the necessary measures to make sure that we keep the public interest central. The PIOB looks very positively to the reform in that sense. It has decided also that with respect to public interest it will not publish its opinion right away, maybe doing that later on. We are now working very hard on a framework for public interest. By the way, this last Saturday some of our people have been working on it and you, Mr Chairman, will probably receive more information later this week. At present these views and the views on the consultation are still private.

The second or most important point I wanted to make to you is this comparison that came about several times with the IFRS model. We know the IFRS model is working quite well, but it is based on another assumption: that the role of the accountant, vis-à-vis the accounting system in a company, is the same as the role of an auditor vis-à-vis the accounting system at the same company. There is a fundamental difference between the two. In the accounting standards, engagement by those outside of the audit firms is very limited and has a very strong reliance approach rather than an active engagement, so what you fundamentally see is that the preparer applies the accounting standard, the auditor makes sure that the accounting standards are rightly applied, but is not himself involved. If you look at the auditor, he makes sure that the audit standards are applied, but it is involving himself, exposing himself to direct risk and is directly his own function that is involved.

One has to be aware that there is a fundamental difference between the balance of the role of the auditor on the one hand, vis-à-vis the accounting system, and on the other hand vis-à-vis the system of auditing.

In all cases this is a challenge as some may consider that public interest oversight is a technical involvement like it is in accounting and that it can be solved with technical means, and that therefore it is also enough to have due process. We have been confronted with this argument several times and each time came the solution that due process is essential and without that you cannot work, like you cannot work without auditors in the standard setting board – it is the same point – but it is not enough.

My last point is a very simple one. Michael, I will refer to what you have said in your exposé: what about the money? We heard the answer you have given.

### **Elizabeth Murrall, Investment Management Association**

I am a Director at the Investment Management Association. We represent UK institutional investors. They have 6.9 trillion in assets invested globally. We very much welcome accounts that are prepared under consistent accounting standards internationally – we invest

internationally – and also those accounts are subject to a quality audit. I am not saying that there have been concerns about the existing suite of auditing standards that are applied, but investors have had concerns about the governance framework under which those standards are set, that it is too close to the profession, and that it is funded and driven by the profession. We very much welcome reforms that are now being tabled, the involvement of multi-stakeholders and the consideration of joining the ethics and standards boards. We are in the course of deliberating and considering our response, but this review is long overdue and very welcome, so thank you very much.

### **Paul Lee, Aberdeen Standard**

Having personally been a member of the UK's Auditing Practices Board and then the Audit And Assurance Council at the FRC for seven very long years, we had the experience there of combining both the standard setting and ethical standard setting. It seemed very logical, it worked and I simply think that combining the two into a single board's responsibility makes sense. Therefore that aspect of the proposal is particularly welcome. It also seemed very bizarre to me to have two separate boards under the IFAC model looking at the two issues. They need to be considered together.

That is one aspect of the overall proposals that I welcome. Actually, I welcome all the proposals because it is just sensible. As Eddy said, the crucial question is talking about the money. I find it slightly puzzling that there is a concern that if the profession continues to provide the financing for the standard setters, that there is an issue of independence. We are regulated. At the end of the day, we provide the financing for those regulators and there are a number of regulators that we are subject to. We pay the money; we do not choose whether we pay the money. They are not any less independent or difficult to deal with because, at the end of the day, we are providing the finances. The suggestion that, 'So long as there is an appropriate buffer there might be an issue of challenge to the independence of the boards' is just wrong. The proposals that the Monitoring Board is putting forward are very sensible.

### **Stephen Haddrill**

The point about the buffer is in the international environment you cannot really create a statutory buffer. You end up with something that may look a little less robust than that, but it is good to hear your point of view.

### **Armand Kersten, Dutch Investors Association VEB and European Investors**

Among all the good aspects of what it is that is being presented to us, and there are plenty of things that we really embrace and support, so in that regard I totally agree with the comments that have been made.

One of the primary concerns of the investor community at this point in time, and it is one of the aspects that you are trying to cover, is the relevance and timeliness of standards. If you look at what is currently happening and some of the yet new scandals that arise where for example auditors have apparently failed to detect fraud or at least have failed to be active enough to really make steps towards discovering fraud, if you look at all of the new technical developments then I see that they are being encompassed in the work that you are addressing and your concerns, but I just believe that the investor community at large – if we are talking about restoring confidence and confidence as a general matter – then those are really the key concerns, showing to the outside world that the standard setting community is fully abreast of all such developments and takes them very seriously, and therefore time to market is key.

**Olivier Boutells-Taft, Accountancy Europe**

Good morning, everybody. Thank you, Stephen, for putting me on the spot on a rainy Monday morning. That is lovely.

We have heard the investor community calling for change. That is probably the most important party for whom our standards are being designed and we need to listen to these calls. I believe however that change on a model that we have all agreed is working well is a very delicate exercise.

My concern would be that whilst I understand the proposals and see a lot of sense in the proposals that are being made, there is one element I struggle with, which is to do the impact assessment at the end of the process basically when you intend to put forward your final proposals after the consultation. A sensible way forward would be to consult on these proposals, to hear not only what investors have to say, but all the other stakeholders, continue this exercise to its end and take the next steps gradually, i.e., once you have formed a view or we have formed a collective view on the most sensible way forward we will have to look at the more detailed aspects of it. We will have to very carefully assess the impact and then we can make a fully-informed decision.

It is very easy to call for broad, sweeping change at this point in time. We need to do that on a fully informed basis with full understanding of all the impacts of the changes that we are going for.

**Gerben Everts**

On the latter remark on the impact assessment we have chosen to do a step-by-step approach. In terms of what is the focus, the focus is now the governance structure. We will then focus on the role for the PIOB, then the role of the Monitoring Group and then funding. If we turn it around and start with the funding then we will not make any progress because no one actually knows what the structure would be and why it would be in their interest to perhaps contribute to this new governance structure.

We decided to do this step-by-step and the same is valid for the impact assessment. If we do an impact assessment at the very stage that we are in now then we have so many options. We have decided to have many options in the consultation paper because we simply have our own 'default', but we do not know whether that is the right one. We are testing the waters with the consultation, the roundtables and their outreach. Then we will have common ground. We will have the feedback statement. We know, 'This area will move in this direction'. We will have a thorough debate within the Monitoring Group and then we will decide, 'Okay, this is the line to take. These are the steps we need to take in the process and transition plan', and at that stage we need to do an impact assessment on the default options on which we will consult. There will be impact assessment consulted together with the default options over the summer if we are able to manage that, such that you and all of the others would know that this is, if we do agree the way to go, the impact in terms of benefits, costs, risks, etc. We will do this in parallel, but it will certainly be something which you can consider before giving any input on the very last version of our consultation.

**Martijn Bos, Eumedion**

I represent Eumedion and a corporate governance forum in the Netherlands with 65 institutional investors. We really support the direction of this consultation. In many ways this meets the issues raised in the strategy consultation of the PIOB. It is in many ways spot on. I really like the way Gerben addressed that the step-by-step approach will safeguard that

this process is not trying to encompass all. Again, take a lot of time. It is essential to keep pace and also to show to the public the progress and that substantial process is being made. We have some comments on the board composition that probably many have. One of the things that it highlights to us is that if you want the board to be agile and make high-quality decisions at high pace then the board should not count too many members. The consultation currently specifies a minimum size; I would not mind to specify a maximum size as well to safeguard progress. Let us leave it at that for the moment.

### **Jens Roder, Nordic Federation of Public Accountants**

First of all I would like to say on behalf of the Nordic federation that we commend the Monitoring Group and the working party on producing this document. It is thoughtful, but also – on many points which have already been mentioned – pretty open-ended.

There are two concerns I would like to mention. Obviously there are many. One is the fact that there is not very much in terms of addressing the audit of small and medium-sized enterprises. Michael Izza alluded to that also, but we consider that quite important because the audit of small and medium-sized enterprises will probably have to change, not directionally, but in terms of the approach because of the increasing complexity of auditing standards in general. We would very much like that to be at least part of the considerations going forward.

The other thing is that we see that there is more emphasis on compliance in the auditing process. The standards almost inevitably are becoming more rules-based and that is almost inevitable. However in terms of ensuring that we do not have audit failures in the future, it is not enough to tick the boxes and there has to be a lot of focus on professional judgment, and on the exercise of professionalism in the approach to the audit. I do not know how you build that into a standard, and maybe that can be taken into consideration when combining the boards, but this is a very important issue because ticking the boxes will not avert audit failures for the future.

### **Hilary Lindsay, Patterns of Learning**

I am past president of ICAEW, but speaking from the perspective of an active researcher into CPD and into the role of professions. I want to follow up on that point about standards. My real area of concern with the proposals is around the fundamental ethical principles that all professional accountants sign up to: those principles of integrity, confidentiality, objectivity, professional competence and due care and professional behaviour, they apply to all professional accountants. We all sign up to that code. We sign up to that code whether we work as auditors, in business, in the public sector or not-for-profit. Wherever we work, we sign up to that code. We have signed up to that code throughout our careers as accountants.

I have worked in nearly all of those sectors over my career and have always signed up to the same fundamental ethical principles, and followed those. We need to have the same fundamental ethical principles for both the auditors and professional accountants who are working for the auditees. You cannot have different fundamental principles amongst professional accountants.

Whatever we set up that needs to look at the particular requirements of auditing, please can we keep together in some way – and this is my personal view – the continuing professional development requirements through the education standards board and the fact that all professional accountants need to sign up to a code of ethics. That is what makes us a profession.



**Gerben Everts**

On the latter remark, the reason why we have consulted on the default option, focusing on the auditors and their ethical standards and not so much on the accountants, is because the remit of the institutions I represent as chair is focusing on auditing and not only accounting in this area. Your contribution – and we expect to receive more – will be very helpful, if we want to extend our mandate and say, ‘We have received a lot of input that we cannot separate ethical standards for auditors from those of accountants in business.’ Please come forward with your suggestions on that. This is the reason why we have made the separation between the two.

On the earlier remark by our Nordic colleague, the SME issue has been addressed to us in our outreach which we have done since we launched the consultation paper. It is crucial to look into that. We have not reflected on that yet in our consultation and in our thinking, because we focus, in the first instance, on the large audits for large listed companies, but this is exactly what needs to be addressed in the consultation. Currently, there are the issues between listed companies and SMEs. They will be there in the future and we need to be very clear on the demarcation for standards. Some can apply to all of those companies; some are not [inaudible] for SMEs in terms of strict audit requirements.

On the professional scepticism, it is crucial. As both a securities-markets regulator and an audit regulator, I have no incentive whatsoever to move into a more rule-based model – not at all. We see problems in the execution of the professional scepticism. We are not focusing on, let us say, the details of the standards; we are really focusing on auditors applying professional scepticism in their audits, which needs to be reflected in the audit centres too. You then need to have a bridge between audit standards and ethical standards, because there are a lot of issues in terms of independence, in terms of autonomy of auditors, and in terms of how the organisation is organised, which have an influence on professional scepticism applied.

That is one of the reasons why, for the options we now have on the table, we think that one board might have the benefit that these kinds of issues, with interlinkages between the two, can be on the table. The strategic focus will be there to really reflect the way we are addressing standards: ‘Bottom-up, we need to have a standard for this and we need to have a standard for that. Is that that right approach or do we need a more strategic agenda to leave more room for professional scepticism contrary to a build-up of many new standards and many new details?’ That is a bit of background to why we have chosen this option.

**[Roger Rosman?], Deloitte**

I am also here as the deputy chair of the Global Public Policy Committee (GPPC), which is the discussion platform for the six large audit networks: BDO, Deloitte, EY, KPMG, Grant Thornton and PwC. Stephen, as you know, and as Gerben knows, we have been very supportive of a fundamental review of the current model. First off, we believe that the standards that we have today have brought us a lot of good, and we believe that the standards that we have today – and Gerbert made it very clear in his introduction – are high-quality and have been very conducive to promoting audit quality to the level that we have today. It has been very positive from that perspective.

That said, we do believe, as the large networks, that there are issues. The first issue is the perception, as has been articulated by many people in this room, of a lack of independence from the audit profession. That perception, in and of itself – we do not need to argue whether it is perception or substance – is enough for us to say that we need to have a fundamental

review, because there is no doubt in our mind that the credibility and legitimacy of the standards is of pivotal importance to the capital markets. It is today and it will be on a go-forward basis. Many people have made comments on some of the key developments that we are going to run into. From that vantage point, then, the perception of independence to us is critical.

From that vantage point, we are absolutely positive about the reform and also very much onboard with the direction of travel that has been laid out. That said, there are a number of issues that we believe need to be addressed. There are a lot of operational issues that need to be dealt with because, as some people have said, it is very important, at this critical stage, that we do not throw out the baby with the bathwater. Therefore, the way the transition works needs to be very carefully monitored, engaged, worked on and operated. There are many practical things that need to be discussed.

There is one fundamental issue that we have a big concern with: the issue of oversight. There are a number of issues that are associated with oversight and I am sure we will have a more fundamental discussion on that later on this morning. First off, we believe it is critical that the public-interest framework is finalised and made available to this group in a very short timeframe. I find it extremely hard to say yes to whatever proposal around the standard-setting process if we do not have agreement of a broad group of stakeholders on what a public-interest framework looks like. That is pivotal, particularly where the public-interest framework will guide the standard-setting board and will be an important frame of reference for governance. Not having that at this stage is problematic and, therefore, is something that we need to have very shortly. That, then, would be one comment around governance and oversight.

The second comment on oversight is that we are very positive, as you know, about multiple stakeholders at the standard-setting board. We think that that is pivotal. It is, however, equally pivotal that there is multi-stakeholder representation at the level of oversight. From that vantage point, at least in the short term, what we see does not meet that. If we look at ourselves to begin with as an important stakeholder in this process, not having any kind of representation as it relates to oversight is problematic from my perspective and, quite frankly, nonsensical. We have heard from a few sides that people do not want the oversight to be dependent on the profession, and I completely agree with that because we want it to be multi-stakeholder. That, however, does not mean no single representation of such an important stakeholder as the people who have to work with those standards.

The third comment I want to make is on the staged approach of governance, and I really would like people to think twice about that. Saying that we are going to continue with the model that we have today and that, over time, we are going to evaluate and adopt it is not the way it should work. We believe that what we should do is design it right from the get-go: to define an oversight body exactly the way you want it, in line with the way you are redefining the standard-setting board. Our deepest concern is that, by not doing not designing the oversight model that you think is ideal over time, and by not implementing it right, right from the get-go, we believe that you are really not giving a new standard-setting board the right starting point. If you do not design it as pure oversight and if you allow the oversight body, at least in the early years, to become too influential in the process, we believe the standard-setting board really does not have a decent chance to start with.

## **Participant**

I have a concern that we have heard a lot about how good the standards are after 40 years of being funded by the profession and by voluntary effort from the profession. If the standards are not broken, why are we focusing on the standard-setting process? Surely, the issue really is about implementation of those standards. If you relate this to the legal system in the UK, for example, you have a government that sets the rule, a police force that finds out where people are transgressing, and a judicial system – all independent – three independent systems to stop people from transgressing and, more importantly, to provide a feedback loop into the standard-setting, so that one is perpetually improving the standards in the light of experience.

It seems to me that the whole Monitoring Group's process has been focused on the rules and not on the implementation of those rules. Earlier on, Gerben explained that the reason putting the Ethics Board and the Audit Board together was about behaviour and about how those audit standards are implemented. Surely, it is not the standards that are wrong, but the implementation, if there is evidence that something has gone wrong. I have to say that one of the things in the consultation paper that I worry about is the complete lack of evidence of anything being wrong.

## **Stephen Haddrill**

I want to stress that this is about trying to make an organisation fit for the future. That does involve a degree of making assumptions about what the future will hold and how we need to change, so we should hold on to that point.

The work to make sure that the implementation of the standards is effective is done through the Independent Forum of Independent Audit Regulators (IFIAR), which is a major member of the Monitoring Group. We feel that, as regulators in that regard, the key starting point is the standards. That is what the firms are working to. We have to get those right at the beginning; otherwise, the regulatory bit will not follow in a smooth and effective way.

## **Gerben Everts**

In addition, we do not want to create a vacuum. We wanted listed companies and other companies to comply with the standards as they are, so we do not want to create a vacuum where we have a lot of criticism on the current standards. There are weaknesses in the audit standards, and there are weaknesses especially in the ethical standards, but the standards are what they are. They will be grandfathered but, in the future, you will see developments whereby the standards will change in this new governance structure. We can have a long debate here about the weaknesses in the current standards, but we opted not to do that. We focus on the structure that we need to reform, we focus on elements in the structure that should lead to high-quality audit standards in terms of timeliness, in terms of very clear accountability lines, in terms of a more strategic agenda, and in terms of input from many others than auditors.

In the end, many others are and have to be connected in a technologically changing environment. That is the reason. To say 'If it is not broken, why fix it?' is something with which I struggle. I do think that there are weaknesses in the system but the standards need to be applied every day. As regulators, we need to get the message across that that is not something on which people can test the waters now. That would not be in the interests of trust in the financial sector.

**Nigel Sleigh-Johnson, ICAEW**

I have been struck, listening this morning to the broad commonality of issues across financial reporting and auditing-standard-setting in this context. With that in mind, I would be very interested in better understanding the rationale behind the proposals for direct and significant representation of regulators on the technical-standard-setting board, and also for a power of veto over the decisions of that technical-standard-setting board, which, I think it is fair to say, is not a position which has been broadly favoured in the long debates about financial-reporting standard-setting.

**Stephen Haddrill**

Part of the advantage that is brought by having a regulator – number to be considered – on that standard-setting board is the point made by the previous gentleman: that there is this linkage and feedback loop that ought to be exploited between what the regulators see as they review audits on the ground, and that experience being brought back into the standard-setting process.

**Nigel Sleigh-Johnson**

There are, however, other ways of having that engagement with regulators, of course.

**Stephen Haddrill**

Yes, we could do it other ways, but having people at the table is, we think, an important constituency, for the reason that I have given.

**Gerben Everts**

What is not yet known to everyone is that those people are full-time board members, so they have a background in terms of having been a regulator or having been connected to the regulatory environment. They have a background, having been a practitioner or a user, or a combination of all of those. It is not necessarily that we want to have regulators onboard; we have the matrix of expertise in which this is an element that we are going to check. To be familiar with that public domain in terms of audit is, we think, an advantage to serve as a board member in a new structure.

**Martijn Bos**

I fully concur. The situation is also quite different from the IASB, where, for example, investors have insight into the results of the financial-reporting standards, which is the financial report. As investors, we cannot look under the hood and see how the audit really has been completed and how effective the standards are, because it is not directly in our sight. There is also much more dependency on the regulator to bring that knowledge to the table.

**Charles Tilley, CIMA and AICPA**

I have two points: first, just going back to the issue of the importance of ethical standards across the whole of the accounting profession, this is a key issue. I would just like to develop the discussion a bit in terms of the importance of the financial-control structure right across the organisation. The audit is at the end of the process but, if you want to have well-run organisations in the public interest, the financial controls are critical. Underpinning those

financial controls are the ethical standards of the whole of the accounting profession. We do not want to lose sight of that particularly important point.

The second point is a structural one. My understanding from the proposed structure is that it is the intention to combine oversight and the nomination process, which seems to, effectively, eliminate oversight. We need to consider those two elements as well.

**Stephen Haddrill**

Could you just elaborate on that last point?

**Charles Tilley**

My understanding is that the structure for the new board will be that they would both be undertaking the oversight but also undertaking the nominations.

**Stephen Haddrill**

That is a possibility but how does that eliminate oversight?

**Charles Tilley**

It seems to me that, at the moment, we have that –

**Stephen Haddrill**

The oversight of nominations – understood. Ladies and gentlemen, thank you very much. I suggest that we take a 15-minute break.

[Break]

**Peter Hofbauer, Audit Oversight Body of Austria**

We fully support the idea of a multi-stakeholder board taking care of ethical standards and auditing standards. However, I have missed the perspective of those charged with governance. We always speak about users being represented on the board, and I have the impression that those users are investors and analysts – capital-market participants directly but not those charged with governance, such as the chairpersons of audit committees. Those should also be represented in a certain way but, up to now, I have not been able to find a global organisation representing those people.

**Stephen Haddrill**

That is a very good point. It is our view that the preparer side, probably through audit-committee chairs, should be involved, and that we should reach out to people from that community. Is there anybody from the corporate or preparers side in the room who would like to offer us a comment?

**Guy Wilson**

One thing that you have not mentioned, which was in your briefing, is consensus. Looking at the structure on the first page of your report, consensus seems to take an awful long time. I just cannot think, in the corporate world, even among the biggest companies in the world, that you would get unanimous decisions at a board. I just wonder whether, in the modern world, where the need for standards to move with the times, consensus is a realistic proposition.

**Stephen Haddrill**

That is a good point. In international standard setting, the organisation that does that, if it is going to be timely, cannot work on the assumption that everybody has to agree with everything. We have debated what kind of majority is appropriate for a vote on the board, so it would not be a unanimous vote on everything. On the other hand, international standard setting is generally not set up on a statutory basis. As I think Fayezul mentioned, it is a public-private arrangement. The question, then, is: what is the source of legitimacy for the decisions it takes? That does drive you down the multi-stakeholder route, so that all the key players do feel that they have a voice. We should not be driven down the route so far that we import some kind of notion of representation, because then you just get completely stuck, as you are suggesting. I think you are right but there is this legitimacy point that we do have to take into account.

**Arnold[?]**

This last point may be something. I am listening intensely because we would like to understand what would be helpful to change. As recognised in the consultation paper, we have offered to pilot and experiment with some of the key concepts that are in the consultation in order to find out what should be different and what it will achieve or do better. For more specific comments, helping us to understand that will be important. Taking the example of consensus, I see this quote that it should no longer be consensus-driven. It is not. We are required to have a two-thirds majority; in other words, of the current 18, 12 in favour. If you take the 12, that would be eight out of 12 compared to seven out of 12 as a single majority. That is not the real issue.

Why we are trying to have consensus as far as possible but not always is because of the global nature of these standards. Behind every vote against or abstention, there would easily be tens of thousands around the world, in Latin America, in Japan or in North America, who would say, 'We have a difficulty with this.' Implementing the standards in practice might then be very difficult. That is why we worked very hard, for example, on audit reporting. We took four years but now we see global implementation going very smoothly. It is because we tried hard over three rounds to accommodate what we had to be better responsive to users' needs and how it should work in practice.

Another example is the strategic board. Of course, this is very appealing, and I can assure that my members would have comments that are too detailed. I try to avoid that and I think we do better. At the same time, the board should have the responsibility for the quality of the technical work. How can you do that without turning the pages and going through a draft that the technical staff or the taskforce have prepared? Again, what we are struggling with is what would be different. We are very open to change – of course, change is normal.

We would also like to echo several comments that it is not just the standard-setting boards but the whole way up to the top. Gerben, I am still struggling with the staged approach because I cannot envisage changes without also knowing how it would work at the top: how would the oversight work? Maybe it is about having a more direct dialogue with these multi-stakeholder representatives. We have many on the boards: regulators, academics and other non-practitioners. That is not the point, however, and we need more direct representatives of regulators and of the profession – not only GPPC but also S&P. We have some preparers and audit-committee representatives. We are really missing investors on the board. Either you get more in or there are other ways of dealing with that.

At least part of my plea here is that we should, at the same time, also address what the concepts might look like at the governance level. That might be part of this experimenting piloting. We would like to experiment with concepts and be accountable to a multi-stakeholder group – ‘How are you doing this?’ – so that we could observe how to change and where, without losing the baby but, of course, cleaning up the bathwater.

### **Stephen Haddrill**

We very much appreciate your offer to do some piloting. We have not taken that up, not yet at least, because we would prejudice the outcome of the consultation if we said that we were getting  $x$  amount. This is an open consultation. We do, however, need to develop a pretty detailed and careful transition plan, and I am sure that you and your board’s input to that would be very much appreciated.

I was in Johannesburg for the first of these consultation sessions last week, and I was very struck there by the view coming out of Zimbabwe and the new Zimbabwean government that the role of accounting and audit is going to be so important to them going forward in terms of strengthening the quality of governance in the country as a whole. They wanted the highest standards from the profession. I hope that, as we look around the world, we get more and more convergence on this idea of quality, and that that makes the role of standard-setting easier. In terms of the things that we have had to deal with in the past, with very different views coming from different regions, I hope that we can really build a consensus around a high-quality set of standards.

### **Gerben Everts**

It has been remarked that the step-by-step approach might not be the most valuable way to approach this, so we need to reflect as the Monitoring Group. In the consultation paper, we have not been clear about what we consider to be a step-by-step approach, so let me explain what we envisage moving forward. We wanted a step-by-step approach and not to have everything in the consultation paper now, but to focus at this stage on the governance structure as we see fit. We are now listening to you and we will read your responses, and then we need to reflect on that. We have explained how we are going to organise that. At that stage, we will take the next step.

In terms of the future role of the Monitoring Group and of the PIOB, that should be in the white paper in June. We will not extend that to a few years from now, because that new model, in our view, should work from the start as we see fit. That should be in 2020 or 2021, as soon as we can establish that, with a very clear transition plan, but it is not true that we would get away with the discussions on the PIOB or Monitoring Group in years from now. This is all on our plate for the months ahead.

### **Stephen Haddrill**

Michel, as chairman of the trustees of the IASB, we would very much welcome your experience from the position that you hold and what lessons you would draw from this exercise that we are pursuing in relation to auditing.

### **Michel Prada, IASB**

Thank you very much and good morning, everybody. It is a pleasure to be here. I have been involved in these issues for a number of years, as some of you may know. I remember the discussions we had in the early 2000s in Sydney, when we were considering endorsing ISAs

to foster cross-border activities, at least for listed companies. This gave way to the reform of the IASC and the establishment of the new IFRS Foundation. I was also part of the discussion that took place a few months later with regard to audit standards and the setting up of the monitoring of the PIOB, so I feel like a member of the family.

I suppose that most of you know a lot about the IFRS Foundation but, to summarise, this is an organisation that brings together nearly 150 staff, with a budget of around £25 million. This is an organisation that has evolved over time. Today, it is an organisation with a three-tier structure, as we have set up a monitoring board in 2009 which did not exist initially. At the outset, the organisation was a not-for-profit foundation, with a board of trustees, a standard board, specialised committees and advisory councils, an interpretation committee and a number of working groups and committees. It was a two-tier organisation with a board of trustees and a standard board.

What happened is that, in the course of the development and the adoption of IFRS across the globe – and, I have to say, possibly because of some EU institutional concerns – it was decided to set up a monitoring board that would provide oversight and legitimacy to this organisation that was not familiar to everybody around the globe in terms of its structure, because there was no political legitimacy and parliaments sometimes wondered how it was that these guys above the clouds would set up the rules for the world without being accountable to any public authority. We had to think about the way to deal with this question.

Of course, this question is usually dealt with when you have a treaty-based organisation with governments that come to an agreement together and organise a public organisation on the basis of international law. This is not what was wished, for many reasons – you know better than I – but the question, nevertheless, was how we deal with the issue. We found the solution of the monitoring board, which is composed of securities regulators and public authorities in charge of financial-market supervision, both at the global level, with the IOSCO, and at the national level for most significant securities regulators from around the world, with the Basel Committee as an observer.

Today, in terms of how the governance is organised and how it works, the board of trustees – 22 people from different regions and with different skills – is in charge of designing the organisation's global strategy. It appoints the people, the board members, the members of the IFRIC, and the trustees. It manages the budget. It looks into what we call human-capital issues: remuneration policies, social policies, education and training, for example. It looks into and oversees the internal functioning of the organisation. It has an audit and finance committee. It also deals with what we call education and content activities. We have a lot of publications. We organise events. We manage our intellectual property (IP) and trademark.

Finally, its fundamental role, from the standard-setting point of view, is to oversee the board and the way it deals with standard-setting with regard to due process. We have a due-process committee that functions along the principles of the Due Process Handbook that is regularly reformed – and we will start a new reform in the next few weeks. This, then, is fundamentally the role of the board of trustees.

The standard board has a technical role and is technically independent. The trustees should not take any views, make any proposals or challenge the board with regard to the substance of the standards, but we have to make sure that the way the standards are analysed, prepared, discussed and then adopted is appropriate, so that all stakeholders have had the opportunity to participate in consultations and to contribute to the thinking of the board through all sorts of process that are in the Due Process Handbook. We also deal with possible criticism by



people who write that they are not happy, saying, ‘This has not been dealt with properly for this and that reason.’ We then go deeply into the details of the way things have gone, and we analyse this and answer accordingly.

This, then, is the role of the board of trustees and the role of the standard board. The standard board comprises 14 people from different regions and different skills – auditors, preparers, academics and former regulators. Then we have the advisory council, which brings together nearly 50 people from different organisations, and that provides advice on how the organisation is run and how it works. IFRIC deals with interpretation.

The monitoring board looks into the nominations process for the trustees. The trustees, when vacancies happen, advertise the position; look into the candidacies – they have a nominating committee that prepares the work; do an in-depth analysis; make their decision; and submit the decision to the monitoring board. There is a very in-depth vetting process to make sure that the people we have identified and proposed are fit and proper, but the monitoring group can also sometimes do its own analysis.

The monitoring group regularly looks into the way the organisation functions. We have regular meetings. We explain what our strategy is, where we are heading, and what the difficulties are and how we deal with them. The monitoring group gives its views and sometimes its direction if really strategic questions are raised, where securities regulators believe that we should take onboard their concerns.

This, then, is the global presentation of the way it works. I should have added that our board members are permanent board members. They have no other activity and they have to be individually fully independent. This is something that might be different from the way other organisations function, with part-time people. Here, we have 14 people devoted to standard-setting, full-time. People are appointed for five years, renewable. Trustees today are appointed for six years, renewable once.

I will stop there because I suppose you are more or less familiar with the organisation as a whole, and maybe it would be more interesting for you to ask the questions that you think relevant to your own thinking about audit-standard-setting. I am, of course, at your disposal to try to answer your questions. There are no bad questions; sometimes, there are questions that you cannot provide an answer to, but that is another story.

### **Stephen Haddrill**

Thanks very much, Michel. If you had representations from the monitoring board that they had serious reservations about the way a standard was emerging, would that not draw you into looking at the substance questions or would you just handle that through a process debate?

### **Michel Prada**

This is a very tricky question because, indeed, both being in charge of the global strategy of the organisation and having to be responsible for the due process, without being involved in the technicalities, is a delicate balance. We have to understand what is going on. We have to be able to understand why the board is taking one position rather than another one. We have to make sure that, to get to this final position, the board has done everything that was needed to understand the substance, to analyse the consequences and, if it is possible, to measure the consequences of their position, if that is possible – and it is not always possible.

We cannot then tell them, ‘We are not in favour of fair value in that case. You should not consider that this transition should go to OCI rather than profit and loss.’ Clearly, we are not in a position to reform a standard. We are only able to make the board aware of the difficulties – by the way, they usually are aware, because they receive a number of remarks or criticisms. Again, however, we would not, in any way, impose on them a technical solution.

When I was appointed six years ago – I should not be here, by the way; I am just continuing for a few weeks or months, until we have found a successor – and when I was interviewed by the board of trustees in autumn 2011, one of the trustees asked me, ‘What would you do if you were fundamentally in disagreement with the position of the board as the chair of the board of trustees?’ My answer was pretty clear: I would do my best to understand and to expose the reasons why there might be a difficult. If I really was in disagreement, however, I would step down. I could not be in fundamental contradiction but I would certainly not try to impose my view on the standard-setter, who should be fully independent. This has never happened, I have to say. I have never had this kind of difficulty, and neither have my fellow trustees.

### **Participant**

You say that the board are full-time members who serve for five years. I know we are considering whether or not there should be full-time board members on the revised structure here. You used to have two part-time members, who were done away some time ago when everybody became full-time. Do you think that, in having full-time board members, the board becomes a little isolated from the preparer and user community that it is working to serve?

### **Michel Prada**

This is not my experience. I suppose the rotation of board members brings new people regularly to the board, coming from the industry or elsewhere. Secondly, the board has an extensive and continuous relationship with the professionals through all sorts of venues, both locally and globally. I cannot imagine that they are not aware of the realities. If you take a difficult issue like the leases standard or revenue recognition, this has been discussed for years. The discussions took place not only between the standard-setters from a theoretical point of view or from a legal point of view, but it was discussed with preparers to see whether the thinking was correct or whether there was any feasibility. You might imagine some solution that is not practicable or that cannot be implemented for practical reasons. The way they work with their relevant stakeholders, be they the preparers, the investors or the securities regulators, makes them fully enshrined in the system. We have, therefore, never had the feeling that there was a risk there, really.

### **Stephen Haddrill**

Do you think we are right to maintain a separation of oversight, at both the trustee and at the monitoring level, for accounting and audit, or do we just need one big oversight body for both? Would there be any advantage in that, from your point of view?

### **Michel Prada**

That is a very difficult question. It is not the same activity exactly but it is very complementary. Maybe you could imagine some kind of coordination. Let me take it the other way around and be a bit provocative.

**Stephen Haddrill**

I thought I was being provocative enough.

**Michel Prada**

This will be absolutely personal. Since the early 2000s and the scandals and the discussions on the Public Company Accounting Oversight Board (PCAOB), as a securities regulator – and again, speaking for myself – I have been a bit unhappy with the way the community of auditors provided substantial feedback on the true risks and on the substance of risks to the rest of the community. We have been focused on process. By ‘we’, I am talking collectively of the securities regulators, the IASB and the PCAOB etc. We have been focused on process: how people deliver their audits, whether they have the relevant training, standards and resources, whether there are conflict-of-interests and how they manage the different audit and non-audit activities. This is clearly of the essence.

However, how is it that we, collectively, have not been able to identify the fact that externalisation of risk by banks in these fancy special-purpose vehicles were possibly creating a major risk for the market? We missed the point: the prudential regulators, the securities regulators and the community of auditors.

I am talking for myself because I have not thought about it and there may be great operational difficulties, but if there is any merit in organising a better link between the community of auditors, the accounting-standard-setters and the securities regulators, it would be to try to integrate, from a substantial point of view, the approach to how it works in the field. What are the next risks that are currently developing, hidden in the system, and which we have not been able to identify together? This is possibly the link. It is a very tricky one because, sometimes, on the other hand, people tell us, ‘You, the accounting-standard-setter, should not be influenced by the auditors.’

On a very specific issue, I want to explain here, because it was a very serious difficulty for us: we had been criticised because, in our funding, which is an issue we should also address, it happens that, today, we receive a fairly significant contribution from audit firms – the big four and the second-tier ones. Some people have said, ‘You are influenced in a bad way by the big firms’, which I believe is nonsense, but the appearance of it is such that some people said, ‘You should not receive voluntary contributions from the audit firms’ – hence, by the way, the decision we took last year to negotiate with the firms a fundamental change in the way they participate in the funding. This will be implemented next year, whereby, instead of providing voluntary contributions, they will pay for IP and trademark on a basis that becomes commercial and not voluntary in a *rapport de force* which could be criticised.

This, then, is a tricky issue but I have to say that, if we could find a way whereby the community of auditors, without talking of individual cases without abandoning professional secrecy, would be able to think together and say, ‘Something is developing. It might blow up in the future. Maybe we should talk to the securities regulators or to the prudential regulators. This is a bit worrying.’

**Stephen Haddrill**

Thank you very much indeed. You are free to stay. We are into our last half hour now but I am sure there will be other questions from the floor. Let us turn back to the consultation as it stands. We are getting a few questions in from the Internet, Mark. Are there any that you would particularly like to highlight?

**Mark Babington**

There is one question about whether or not the Monitoring Group considered the IFRS model and replicating it for audit and, if not, why not.

**Gerben Everts**

The fact that Michel is here is a clear example that we tested the waters two and a half years ago by looking into the different models that apply for global standard-setting in the area of the International Public Sector Accounting Standards (IPSAS) and in the area of accounting standards etc. We have done a lot of outreach at the initial stage in terms of what could be a model that we could copy or learn from. Then we have taken elements of the different models which we consider to be the main elements of good governance and standard-setting, whether it is audit or other standards. These seven principles that the new model should adhere to are the very first stage in this process. We are not going to copy the IFRS model in full because we have the open opportunity now to create something even better. That has always been on our agenda over the last two and a half years.

However, in the consultation, you can now see a lot of commonalities with the IFRS Foundation model, because they have had the experience since 2000, and before in their former capacity, of learning. We have just understood how a monitoring board could be an improvement, how the trustees have developed from part-time to full-time participation on the board, and what the pros and cons are. It is an organisation that is closely linked to audit, which is recognised worldwide has a good structure, and which, in terms of implementation, has done a tremendous job. All the countries in the world, apart from the US and a few others, have said that they are going to adopt this global standard, so, in my view, it has an excellent track record.

We are going to benefit from elements of this model. We are going to weigh the pros and cons of some elements that are criticised vis-à-vis the IFRS Foundation. We have the opportunity to do something else but, in essence, there are many commonalities where we can benefit from copying part or a large part of this model.

**Mark Babington**

A couple of people have asked about timing, and there is perhaps a degree of confusion over it. When does the Monitoring Group consider that this process will be concluded? We have talked about things in stages and a transition plan. People are interested to know when it is complete.

**Gerben Everts**

The consultation will last until next month. We will then develop a feedback statement, a public-interest framework, an impact assessment and a new white paper. We hope that that can be issued in June this year, if everything goes well. Like I just said, all of those elements – the future role of the PIOB trustees and of the monitoring board – will be addressed in this paper as well. That will be out for a full consultation that has now lasted for three months. In autumn this year, perhaps moving to the end of the year if there are any hiccups in the process, we will have the input from all of you and from many others on what we consider to be the default moving forward. That is, let us say, 1 January 2019.

It will then take at least a year for the transition, so we will have a transition plan as part of this consultation as well, and we have to execute that transition plan. It all depends on how long a smooth and decent transition and due process lasts. If it lasts a year, we will have this

new structure up and running in January 2020. If we consider that it is better to take a bit more time, it will be summer or perhaps 1 January 2021. I do not consider it necessary to extend it even longer. 2020 or 2021 is our aim to have this new structure functioning in full.

### **Annette Köhler, University of Duisburg Essen**

I am a former member of the IAASB. Thank you for your clarifications, which I found extremely helpful. There is, however, one point that I am really missing. A key feature makes the IAASB so unique, and that is the wide array of standards. We are not talking about auditing standards only; we are not talking about audits of large listed entities only. I also think we talk about standards for other assurance engagements, like reviews etc. We are also thinking about standards that are used by the public sector. We are talking about agreed-upon procedures, compilations and all the other standards that are in the remit of the IAASB for very good reasons. As you already mentioned, the stakeholder community is very diverse.

My question is: why have you not mentioned that unique feature of the IAASB and what response do you expect in that consultation phase? I am not quite clear what we should assume in our responses to that paper. What is the underlying rationale? What is the remit of the future board, whether it is one board or two? Without a clearer understanding of the remit of that future, it is very difficult to come up with appropriate, constructive feedback and responses in that consultation process. I need more clarification on these features as well in order to provide input, which I think will be key also in demonstrating that the outcome of that whole process and, of course, the result and the future structure will be in the public interest.

### **Gerben Everts**

Your question is very good, so I would like to invite you not only to address it here but also in writing. We have focused on the overarching elements of this reformed structure. As I said at the beginning, this is an improvement – we have a positive note. We do not want to do away with the existing features. We are going to grandfather existing standards, so it should be an improvement and not a risk in terms of process which we will follow over the coming years. In terms of all the issues and examples that you gave, we need to maintain that – let me be very clear – because that is something that has crystallised over years and which has helped the market to function in terms of auditors, issuers and users. We need to keep those standards and reflections in place.

In terms of the composition of the boards, as well as the geographic balance and different backgrounds, that needs to be onboard in the one or two boards that we envisage. We would like to strengthen the staff and the taskforces, so that all those work streams can continue over time. Looking at it from a bit more distance – and that is our focus – the core essential elements of well-functioning governance is what we are focusing on and what we have done the consultation on. Let me be very clear, however, that all the good work streams need to remain intact, and we need to keep intact all the contributions coming from practitioners and to extend that with the contribution of others. Whether that is exactly as is in the governance model as it is now or whether we should have a different model is something on which we will consult and listen to and read carefully your contribution.

One issue is important: we are in an age of disruption, which you see in accounting and in the world out there. You will also see it in auditing. If you now decide on the future agenda of audit standard-setting, financial technology is of the essence. That is one of the strategic

agendas where a new board and also the trustees and those who need to look into the execution of the strategy will really need to have a mental mind shift, because the world is changing. That is one of the reasons why we need to reform it now in order to be able, in five years' time, to say that we were just in time in terms of making sure that how the new economy is functioning can have assurance on the core elements of the economic activities. If you do something completely differently to what we do today, they will look at audit as a commodity, which is not in the interests of providing assurance to the economy, and we simply cannot afford that.

### **Bob Landwehr, EY**

I represent our global network and the common views of our GPPC networks. I just want to carry on about the remit. I observed the support for high-quality globally adopted standards that apply to all audits but there is very little text in the consultation paper about all audits. It largely has a focus on listed entities or PIEs. The fact is that the vast majority of audit opinions issued in the world are not of listed entities or PIEs, but are privately held entities. That does not always mean that they are SMEs; there are large, private and complex entities, as well as very simple listed entities. The standards need to cover the whole gamut of audits, and it is in public interest to do so. Today's listed entity was yesterday's private entity. Having that transition to listing include switching audit standards is not a very attractive feature. Many SMEs, although we call them SMEs, are multinational and have to use audit standards cross-border, so it is incredibly important that we continue to have the single audit standard-setter for audit standards that are used globally.

A lot of work was done over the last decade and more, following the financial crisis, to get the global standards implemented everywhere around the world through the compliance programme and other things, so that aspect is critical for success to have consistency in application of standards. Diversity in this case is not a great feature. Unfortunately, what I have heard from many and various countries is this concept that the new board will be focusing only on PIEs – or at least it makes them feel that way – and you are starting to hear of reasserting national standard-setting or private-company standard-setting. It would be a shame to lose what has been accomplished over the last decade and a half to get that kind of consistency. It is important for all stakeholders to be represented in the standard-setting and oversight process, and that includes the other half, which is far greater than half, of private-entity audits.

### **Stephen Haddrill**

People are perhaps reading a little too much into what is not there and assuming that that is because we are not interested in that. I totally agree with you that this board's remit should be about all of auditing, not just about PIE auditing. The gold standard has to be largely driven by the capital markets, for the reason that you gave, which is that we want to see companies coming into the capital markets and we do not want a big gear change as they move from one state to the other. That, of course, gives you a problem in terms of the smaller entity and whether we are posing, either on the smaller audit firm or the smaller company, too high a burden.

One of the things that happened when the new European audit directive and regulation came into place was that the European Union expanded the definition of a PIE really quite considerably to cover all financial-services entities, virtually, including some that are very small and audited by relatively small audit firms. In my organisation, we found ourselves inspecting something like 50 audit firms rather than the top 10, which I mention because it is

quite hard to know where one would draw a line between the SME and the rest, and how one would do differently. The goal should be to maintain high-quality, consistent standards across the market as a whole, but I am sure there will be other views on that.

### **Fayez[?]**

Just picking up on those two points, 94% of all audits are for non-listed companies. I do not know but I assume that the 6% that are listed companies are probably about 80% of the value, so take your pick as to which is more in the public interest to address. The point about the global adoption infrastructure is a fundamental one because there is a decade's worth of investment – \$150-200 billion to date – in building that global adoption infrastructure, for all the obvious reasons of why global standards are important. I know that you are doing a consultation paper to elicit views but Gerben has mentioned that there has been some other outreach done to specific significant stakeholder groups to get their views and their ideas on the model and what can be changed.

Other national standard-setters are one element of that, because we also hear, albeit anecdotally, that there are certain national standard-setters who have misgivings. On deeper reflection, maybe those misgivings will be allayed and they might revert to national standards, but has there been any outreach to ask the national standard-setters systematically what attributes of the current model that they consider important and that give them comfort that these are high-quality international standards, and to make sure that those attributes are specifically addressed or, if not addressed for good reason, why they are not addressed in what you are consulting on?

### **Stephen Haddrill**

Before I took over this role, the working group was chaired by Brian Hunt, who is the chairman of IFIAR. I do not know if it is true of all IFIAR members, but certainly most are also standard-setters as well as regulators, if you like, of audit. Their views have very much been taken into account, so we do have quite a broad viewpoint.

### **Steve Gale, Crowe Clark Whitehill**

I am from a mid-tier audit firm in the UK. I want to come back to the point around private/public. I agree with the need for a single set of standards, and I know that IAASB is making a lot of attempts at making proportionality the key and building from the bottom up. It is important to keep that both in the realm of standards and ethical requirements. From the governance perspective, however, coming back to this word 'perception', the perception from the mid-tier and others is that the PIEs do dominate. It is absolutely essential that the needs of SMEs and large privates are considered, and it needs to come across that the governance for the standard-setting is in their interests and not just those of the capital markets.

### **Stephen Haddrill**

We take that onboard and we need to consider how to reflect that. I would just make one comment in passing: when my own board at the FRC considered the new set of standards to reflect the new European regulations, and the board was presented with a set of standards based on the ISAs, which ran to over 1,000 pages in the board pack. We wondered whether the word 'proportionality' and the phrase 'principles-based' were being sufficiently captured in the work of standard-setting.

**Michel Prada**

I just wanted to mention a very touchy issue, and maybe you talked about it before, but when thinking of the future framework, of course you need to address the issue of funding. You might not find the solution immediately – it might be something that evolves – but I just want to mention it to you because it has a continuous concern for us. We have seen a change in the way that the funding of the organisation was organised since the inception in 2001 until now. The fact is that, initially, when the foundation was set up, people thought that it would be the role of the trustees to raise funds, as for a charity. There was a very informal arrangement whereby all trustees would go to their home countries and try to find funding from companies or organisations, and it worked fairly well in the beginning.

Progressively, as the adoption process developed, it appeared that this was neither a stable nor a fully appropriate model. Then we consolidated a framework in the past six years or so, and the present situation is as follows: we have what we call a publicly sponsored funding basis, which means that countries that adopt contribute, according to their GDP, nearly two-thirds of the budget. Then we have the contribution of the funds, which will be transformed in the future, and which was there from the inception. Then we have what we call ‘education and content (commercial) resources’ that represent probably 20% of the budget.

The difficulty of the publicly sponsored basis has to be addressed, because, intellectually, it is fairly simple. We say, ‘People, you organise yourselves as you wish but you have to pay a certain amount of money and then you organise it as you like. It may be the ministry of finance, professional organisations, a levy on corporates, exchanges or a combination of all these – it depends.’ The outcome is fairly satisfactory today but a bit unstable and sometimes a source of difficulty with some countries that do not pay or do not recognise the relevance of the model.

This is something that interacts with the way the organisation is set up and managed, and here the role of the monitoring organisation has to be described in a better way. This is an ongoing discussion that we have with IOSCO – and I see Jonathan here – and with our main counterparts around the globe. I do not think that an international organisation that delivers a public good and which is part of the political or constitutional arrangement globally, in the noble sense of it, can be left with the issue of funding without any kind of clear structure and permanent arrangement. I would draw your attention to this.

**Chris Smith, BDO**

Picking up on that point around funding, and picking up Gerben’s timeline, we are onboard with the fact that this should be a multi-stakeholder solution. Just like standard-setting and governance, we should also be thinking about funding multi-stakeholders. The consultation paper was brief around solutions and how we would move away from the profession funding all of this, where there does seem to be the perception of influence, so we have to fix that. The way that we have been thinking about it is dealing with this holistically. One of the observations I had on the paper, coming in, is the difference in how I was thinking holistically versus the phased process that maybe the Monitoring Group was coming at this from. Now that I have heard the timeline, however, as you were describing it, the one part I did not hear is when you would think you would get to addressing how this whole thing would be funded, so maybe you could address that now.



**Stephen Haddrill**

We need to address and set out what our aspirations are for funding going forward pretty soon as part of this early stage, when we have seen some of the responses coming into the consultation. Of course, we will then need to test the practicality of that, to see whether we can deliver on a multi-stakeholder funding model before we can finally sign off on it.

**Gerben Everts**

Funding is a real issue, but I would echo my earlier remarks: you first need to know what the new structure is before you can convince people to commit to such a new structure. That is why we have opted for the step-by-step approach. We are going to grandfather a lot of issues here in terms of standards and good practices, and perhaps we can grandfather the existing funding as a starting point. Then we need to have a very clear transition plan as to how we are going to develop also in terms of funding, in order to have that extension of sources. The ideal model is one whereby we have an extension of resources from different areas – regulators, end-users and auditors – but I do not want this to be a blocking element in making reform. Currently, the issue is that it is paid for by the auditors, so, if we have agreement, this is a good way forward to continue with that – and I understand that it is a weak element – from the current model, which has that exact same weak element in it, and to move to this good model with more explanation sources. That is the way to go.

**Robert Hodgkinson, ICAEW**

We are all excited by the prospect of having the next stage of the consultation in June but probably also recognise the daunting task that you have over the next five months. When you look at how the Monitoring Group works, it is great to get the identification of Gerben and Stephen, because you cannot see from your website who does what. I understand that it is a group of organisations, so is the process one in which all the organisations will have to reach a consensus on proposals by June or do you operate along majority voting? Do the organisations that are federations, such as IOSCO, have to take account of their very diverse membership in reaching a conclusion? How you will present how you have assimilated all the input to come up with what you think is the balanced weighing of the evidence which all your members agree with or think that there has been a due process?

**Stephen Haddrill**

We have had quite a bit of experience over the last few months of managing that process, and Gerben has done a fantastic job as chair of putting it together. It is a consultative process and, in the end, we have to take decisions.

**Gerben Everts**

It is a consensus. There are people from those organisations represented in the Monitoring Group. Whenever we propose a direction – this consultation paper and the next will follow the same example – these proposals are discussed at the different boards of those organisations. It is not that there needs to be unanimity – of course, different elements are brought to the table – but we have unanimous support from all the councils or boards, depending on which organisation is referred to, on this consultation paper, which is easier. Because it is a consultation, it has options. At the next stage, we will need to decide what our road of travel is, which will be a difficult exercise, but still the commitment within all those organisations is that this is the right way forward. I will do whatever I can, with the help of

the working groups and the different work streams within the Monitoring Group, to make sure that we have a convincing case that we will then bring to the boards prior to June.

### **Richard Fleck, Deputy Chairman, Ethics Board**

I would like to take us back, if I may, to where Michael Izza started us in mentioning and pointing out that ethics define the profession, which I think all professions would say is the case. Over the last few years, the Monitoring Group members individually, the IASB and others have urged that ethical standards be set on a pan-professional basis, because they believe – and quite rightly – that the financial-reporting process requires commonality of approach to particular issues.

Over the past years, we have addressed non-compliance with laws and regulations, which has made a lot of difference. Not only do auditors have to behave in a particular way in those circumstances, but so do members of the company and those involved in the preparation in the accounts etc. We on the Ethics Board believe that it is important, however ethics are set, for them to be set on a pan-professional basis going forward. That applies widely across all the constituencies that we deal with and we would urge the Monitoring Group to think about that particular point as carefully as possible.

Second, in the context of the difference between technical standards and behavioural standards, we believe that it is important that there are two boards. Stephen is aware of that fact and I know that you are aware of that fact, but I should make it clear that we believe it is important that there are two separate boards, whilst recognising that coordination between the two boards is also a critical component of that structure. I just thought I should make that clear, because those are two structural points that we believe the Monitoring Group needs to take into account, if at all possible.

## **Closing Remarks**

### **Stephen Haddrill**

Thank you, everyone, for attending today and for a well-informed and a strong debate. We have heard some really quite important points about people's desire to know something about the evolution of the governance above the board as well as the evolution of the board itself, and we will be certainly working on that and have something to say about that when we come out with the conclusions we have reached in June. As Gerben said, this is a process that we are taking in stages, so there clearly will be an opportunity to discuss and debate some of those points in the future. We have heard a lot about funding. [Inaudible] points about funding were well-recognised, and that is also for the next stage for us to get our heads around.

On structure, we have different viewpoints here. What we need to ensure in thinking about that is that what we are talking about is not sticking together two boards; it is creating a new board with a powerful remit across standards for auditing as a whole. We should not see one existing board dominating another in that new board. This is about setting something afresh to be a powerful standard-setting board across the piece. Clearly, there are different views about that and we will need to consider them very carefully and consider how we can make sure that that can work practically on the ground.

Thank you, everyone.

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