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Dear Sirs

We are pleased to have the opportunity to respond to the proposals laid out in the Monitoring Group Consultation on strengthening the Governance and oversight of the international audit-related standard-setting boards in the public interest. We set out below our overall comments on the consultation, followed by detailed responses to each question raised. In so doing, we are keen to distinguish between where we have comments or concerns in relation to the proposals and our suggestions that you may wish to consider, and have set out the two separately in a table. We trust that you will find this helpful.

Overall Comments

We are concerned at the lack of detail in certain key areas of the proposals, in particular the lack of full costing and an impact assessment of the costs and benefits of the proposals put forward. It is difficult to assess the likely outcomes of the proposals without such an assessment and it is imperative that this is carried out before further progress is made in respect of these proposals.

Further clarity is also required in a number of other key areas, some of which are addressed in our detailed responses below. In summary these include:

- There is no formal definition of the public interest which makes it difficult to assess whether the proposals reflect the public interest more appropriately than the current situation
- The lack of detail on funding of the proposals is alarming and, allied with the lack of impact assessment, makes it extremely difficult to assess the proposals put forward
- The role of the Monitoring Group is not discussed in the proposals. In our view, with an appropriate multi-stakeholder board and appropriately appointed PIOB the role of the Monitoring Group itself should be subject to close scrutiny. Otherwise the current perception of one stakeholder group (the profession) dominating the standard process risks being replaced by a system whereby another stakeholder group (regulators) dominates the process.

There are also a number of areas where we believe the proposals are flawed, including:

- As written the proposals focus on a narrow informal definition of the public interest, clearly focusing on the needs of regulators and investors in large capital markets. The current international standards are applicable to entities of all sizes and have been widely adopted around the world. Indeed, audit standards in the US are now looking to align with the ISAs wherever practicable. The proposals risk fragmentation of auditing standards with jurisdictions reverting to setting their own less-stringent auditing standards for other types of entities,

leading to a split between PIE and non-PIE audits and also a lack of global consistency of standards.

- There is a risk that with greater involvement of regulators, and to a lesser extent users, in the setting of auditing standards that those standards are likely to become more “compliance” based rather than judgmental as is the case with the current standards. Whilst there is merit in some industries to compliance based standards, we do not believe these apply to audit and assurance. While accounting standards include the application of judgment it would be, in our view, inappropriate for auditing standards not to reflect the involvement of judgement. Further, compliance based standards are more likely to go “out of date” more quickly in a rapidly changing business environment.
- The proposals do nothing to address the expectation gap that still exists between what assurance can be provided by an audit and what users expect the assurance to be. Further proposals on how this expectation gap can be addressed would strengthen the multi-stakeholder model proposed.

Response to detailed questions

Q	Comments/issues	Suggestions for consideration
1	<p>Whilst we agree that it is always appropriate to review current arrangements to identify where improvements can be made, we do not fully agree with the concerns identified by the Monitoring Group. In particular we are concerned with the view that only regulators act in the public interest and would disagree with the suggestion that the accountancy profession does not act in the public interest.</p> <p>Indeed, the proposals shift the emphasis significantly towards the interests of investors (via regulators) and without a full definition of the “public interest” in the proposals, it could be reasonably argued that these proposals are made in investors’ interests only at a time when globalization and capitalism are coming under increasing scrutiny in many jurisdictions. Further, there is a lack of consideration of the public interest in jurisdictions without significant capital markets and for the SME/SMP sector which is critical to the global economy. This gives rise to a significant risk of the fragmentation of auditing standards with one set of standards for listed entities and jurisdictional standards set for SME audits, which would be a significant retrograde step from the current position.</p> <p>Whilst we agree that there may be a perception of undue influence by the accountancy profession, we believe that a balanced appointments process and appropriately balanced multi-stakeholder model can address this perception. We comment further below in response to detailed questions.</p> <p>We do agree that the timeliness of the standard setting process can be enhanced to ensure continuing relevance of standards, for example in response to innovations such as data analytics. Using professional staff to draft standards for approval by a smaller standard setting Board may assist in this regard. However, in a fast-</p>	<p>The timeliness and relevance of standards can in part be addressed by more imaginative use of tools available to a standard setter, such as issuing less prescriptive guidance materials to reflect innovations (such as data analytics) rather than formal standards.</p>

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	<p>moving world, we feel that the timeliness and relevance can also be addressed by more imaginative use of tools available to a standard setter, such as issuing less prescriptive guidance materials to reflect innovations (such as data analytics) rather than formal standards.</p>	
2	<p>We agree with the supporting principles as laid out in the proposals. However, we would argue that the current standard setting process also complies with these principles. Given the concerns we have set out elsewhere about the lack of detail and impact assessment in the proposals, it is difficult to assess whether the proposals as laid out will more fully comply with these principles than the current arrangements.</p>	<p>A further principle which may be considered is a goal of converging the needs and expectations of the standards from all parties (regulators, users, the public and the profession) without which standards will continue to be interpreted in different ways and may continue to create confusion.</p>
3	<p>We believe a full public interest framework, including a formal definition of the public interest, is required. This framework and definition should be much broader than regulators of capital markets and investors and must include the needs of SME/SMP, public sector and not for profit entities.</p>	<p>A public interest framework, including a definition of the public interest is needed. This must be broader than the narrow interpretation in the current proposals.</p>
4	<p>We do not support establishing a single board. The public interest in, and the skills and knowledge required for, standard setting for audit & assurance and ethics are different and therefore the standard setting bodies for these two subjects should be kept separate.</p> <p>Further, there is a risk that the ethical standards would be considered of secondary importance given the nature and importance of audit & assurance standards. It is our view that the ethical standards are of equal, if not greater, significance to the wider public interest and should have their own multi-stakeholder standard setting process. The composition and balance of stakeholders in the two boards may differ (for example, greater technical expertise may be required in audit & assurance standard setting and wider public interest may be of more relevance to ethical standards).</p>	
5	<p>Yes.</p>	
6	<p>We do not agree with either of the options proposed.</p>	<p>We strongly support the responsibility for ethical standards for accountants in business being retained within the responsibilities of a separate ethical standards setting board. Such standards should not be subsumed</p>

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		<p>within a wider audit and ethical standards board, and certainly not set by a separate body. (See also question 4).</p>
7	<p>Our overall comments and answers to other questions set out suggestions for consideration.</p>	
8	<p>We agree that the Board should be more strategic in nature, focusing on setting direction and approving standards prepared by professional staff members.</p> <p>We agree with the remuneration of some or all members of the Board. However, other than the Chairman of the Board we do not consider full time remuneration to be necessary for Board positions.</p> <p>However, as noted elsewhere, we are concerned at the lack of costing of the proposals put forward.</p>	<p>Any remuneration should be linked to performance metrics that have real deliverables to provide clarity on the basis of remuneration.</p>
9	<p>We do not agree that standards should be set on the basis of a simple majority.</p>	<p>A “super majority” process should be adopted whereby a significant proportion of the Board should vote in favour (e.g. two thirds, 70% or 75% depending upon the numbers on the Board).</p> <p>On a multi-stakeholder board it may also be appropriate to ensure that at least one representative from each of the three constituents proposed votes in favour. For example, this may prevent regulators and users proposing auditing standards which cannot be practically implemented by auditors, or auditors and regulators implementing technical standards which are not of interest to users of the statements.</p>
10	<p>We do not disagree with a Board size of approximately 12, particularly in a remunerated model. However, it is difficult to see how a smaller Board would be able to address the diversity of issues it faces whilst allowing for multi-stakeholder representation (see further comments below). Further, reducing the Board to 12</p>	<p>In reducing the size of the Board, it will be necessary to ensure there is an adequately resourced technical team to support the Board.</p> <p>The composition of the Board should be reconsidered to reflect the</p>

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	<p>members will require appropriate investment in technical staff to support the Board in its duties.</p> <p>We have no strong views on the number of remunerated vs. non-remunerated roles over and above our comments elsewhere.</p> <p>We are, however, concerned as to how the Monitoring Group intends to recruit members to the Board from certain groups, in particular users. In our view it is difficult to see how a role on a board discussing such technical matters will be attractive to those outside of the profession and regulatory bodies, particularly in the early days of the Board's operation. We suggest therefore that more flexibility be built into the composition of the Board rather than simply four representatives from each of three constituent groups, but with minimum and maximum representation from each constituent. We do not consider that 50% of the Board being comprised of those from the profession would give the profession undue influence, particularly when allied with a super-majority voting system as set out above.</p> <p>With regards to the proposed composition, we do not feel it is appropriate for only four of 12 members to represent the profession. Comparing this to, say, the airline or medical industries, would we really want airline and medical safety standards to be set with a body of 12 individuals, of whom only four were representative of that profession.</p> <p>We are also concerned that only having four representatives from the profession, given they are most likely to be seconded from or released by audit firms, are likely to come from the largest global firms/networks meaning there is likely to be a lack of representation from the mid-tier and smaller networks in standard setting, with a consequent lack of emphasis on the audit needs of smaller and medium sized entities.</p>	<p>concerns we have laid out, with an increase in representation from the profession.</p> <p>We further suggest a more flexible composition for the Board with minimum and/or maximum representation from each group.</p> <p>The Monitoring Group should consider how it can ensure broad representation of the profession on the Boards, to avoid only large networks/firms being represented and reinforcing the focus on a narrow definition of the public interest.</p>
11		<p>Board members should be able to demonstrate the following as a minimum:</p> <ul style="list-style-type: none"> • Technical competence • Appropriate knowledge of auditing • Understanding of the public interest in auditing (in its widest definition) • Sufficient time to commit to the role

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		<ul style="list-style-type: none"> • Credibility to represent the sector/constituency for which they are appointed • Credibility with regulators/markets • Diplomacy • Open minded • Cooperative
12		<p>The role and composition of the CAG could be adapted to ensure representation of, and consultation with a wider range of stakeholders including all sectors of the economy, for example providing input on areas such as emerging economies, smaller and medium sized enterprises etc.</p>
13	<p>As noted earlier a fully defined public interest framework is essential and needs to be developed. Once this framework is defined, then all aspects of the standard setting process must adhere to the public interest framework. However, public interest must not be restricted only to regulators and capital markets but must also incorporate the SME/SMP market and others such as the public and not-for-profit sectors.</p>	<p>A full public interest framework, including formal definition of the public interest, should be developed. The public interest must be wider than just large capital markets.</p>
14	<p>Yes, the proposals for a nominations process based on open call and administered by the PIOB are reasonable.</p>	
15	<p>We agree that the role of the PIOB is to oversee the process of standard setting and ensure that standards are set in the public interest.</p> <p>We do not agree that the PIOB should have the right to veto the adoption of a standard. The reconstituted standard-setting board is intended to provide broader stakeholder input to the standard setting process (see our comments above) and with our proposals for the introduction of “super-majority” voting to limit the influence of any one group, the public interest will have been considered in finalizing the standard.</p> <p>We would be concerned that, with the proposals for MG to appoint PIOB members, the power to veto standards could give rise to a</p>	

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	<p>perception that regulators have undue influence in having a second chance to veto any standards they did not agree with.</p> <p>It is possible that, in exercising its responsibilities overseeing the process of standard setting, that the PIOB may raise challenges to the standards. However, this can only be permitted where the PIOB has reason to believe that due process was not followed in finalizing a standard. The impact on the timeliness of standard setting of giving PIOB the opportunity to challenge standards should also be considered.</p>	
16	<p>Whilst we understand the need for the PIOB to be independent of the profession, we believe that, for the PIOB to fully represent all stakeholders acting in the public interest, representation from the Profession should be included in the composition of the PIOB. A single member of the profession on a wider stakeholder group does not necessarily mean that the PIOB is not independent of the profession. Whether or not this representation is provided by IFAC is less important than that the perspectives of the profession be represented.</p>	<p>Whether or not IFAC is represented on the PIOB, there should be representation from the Profession on the Board.</p>
17	<p>As the PIOB is intended to provide oversight in the public interest, its composition must reflect the widest definition of public interest once this is defined in the public interest framework.</p> <p>The skills and attributes required will be dependent upon the final roles and responsibilities of the PIOB. However, the skill set is unlikely to be significantly different from that required on the standards board with the exception of the need to have in-depth technical knowledge.</p>	<p>The PIOB should be a wide-ranging multi-stakeholder group to represent the broadest definition of the public interest.</p>
18	<p>The consultation focusses on perceptions of undue influence by the profession. The proposals to remove IFAC representation from the PIOB and that nominations be managed by and from the Monitoring Group increases the risk of shifting the emphasis of overdue influence by the Profession to undue influence by the Monitoring Group itself.</p> <p>We do not believe that it is appropriate for members of PIOB to be appointed solely through MG members. We refute the inference that only regulators act in the public interest.</p>	<p>Nominations for the PIOB should be through open call with representation from a broad range of stakeholders, not just regulators, to ensure the Board acts in the public interest in its widest sense.</p>

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19	<p>Please see our response to earlier questions about standard-setting board structure.</p>	<p>The PIOB should continue to oversee the work of all standard-setting boards for auditors and accountants which act in the public interest.</p>
20	<p>As the Monitoring Group is self-appointed by the regulators, and is proposing to be the body which appoints members of the PIOB, we are concerned that the current perception of undue influence by the Profession may simply be replaced by one of undue influence by regulators. As we have noted earlier, the process needs to reflect a much wider definition of the public interest than that currently inferred by the composition of the Monitoring Group and the proposals laid out.</p> <p>We are concerned at the lack of consideration of the role of the Monitoring Group and, in particular, that there may duplication of responsibilities with the PIOB. We look forward to further proposals on the future of the MG itself and its relationship with other bodies. Until such proposals are laid out it is difficult to comment on whether the MG should retain oversight of both the standard setting and oversight process.</p>	
21	<p>Yes, it is critical that the proposed changes are supported by an appropriately skilled and resourced technical staff to provide the Board with the expertise it needs.</p> <p>All standard setting boards would benefit from an increased understanding of what the wider public expects/needs and also how their ideas can be applied commercially, at a time when there is a lack of public willingness to pay for the services expected from the standards, and increased pressure from regulators in certain areas. As a result the permanent staff needs to be representative of a wider stakeholder group than simply technical accountants/auditors.</p>	<p>As with other aspects of the proposals it is imperative that the professional staff represent a broad stakeholder group, in particular ensuring experience of the wider markets (e.g. SME, mid-tier and smaller networks etc.) rather than simply the large entity, capital markets which appear to be the focus of much of this consultation. Technical staff should also include experience from both users and preparers of financial statements, perhaps on secondment from appropriate bodies.</p>
22	<p>Yes, the permanent staff should be directly employed by the Board.</p>	
23	<p>We have no comments on the process changes to be adopted. However, we would reflect on the need to ensure that the quality</p>	

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	of the standards is not compromised by increasing the speed by which they are produced.	
24	It is difficult to comment on whether appropriate checks and balances can be established without knowing the full details of the proposals put forward, including further consideration of funding sources.	
25	<p>Whilst it is appropriate that the profession funds the activities of the Board and PIOB, with the proposals laid out the introduction of a levy, or other funding model from the profession, should only be considered appropriate as part of a wider review of the funding of standard setting.</p> <p>Future funding should reflect the wider stakeholder interests acknowledged in the remainder of the proposals and without further detail of how the MG proposes to fund the changes, as well as full impact analysis and identification of costs, it is difficult to conclude on whether a contractual levy on the profession is appropriate.</p>	<p>Further analysis of the costs of the proposals needs to be undertaken along with more detailed consideration of alternative funding sources before a conclusion can be reached on the appropriateness, and level, of any contractual levy.</p> <p>Other stakeholders contributing to funding may include members of the monitoring group, other bodies represented on PIOB and the capital markets themselves given the emphasis on the interests of investors/markets.</p>
26	See our suggestions for consideration set out in our response.	
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If you would like to discuss any of the points made in our response, please do not hesitate to contact me.

Yours faithfully



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