



CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

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Monitoring Group
C/o International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
SPAIN

Submission by email: MG2017consultation@iosco.org

Dear Mr Everts

Monitoring Group Consultation: Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest

Chartered Accountants Australia and New Zealand represents more than 120,000 members providing a diverse range of services, in Australia, New Zealand, the United Kingdom, and many parts of Asia and Europe. We welcome the opportunity to contribute to the discussion in relation to the governance and effectiveness of the international audit-related standard-setting process.

Robust, comprehensive and thorough auditing and ethical standards are vital to maintain a healthy audit profession, and investor and public confidence in the financial reporting process. We support opportunities for evolution and change to ensure this remains the case.

With this in mind, we read with interest the proposals in the Monitoring Group's consultation paper. We support the need for continual review and continuous improvement in the standard setting arrangements and in the standards themselves. This submission should not, therefore, be read as an intent to slow necessary change. Instead, we highlight what we see as potential consequences, intended or otherwise, of the proposed changes. We are concerned that where proposed changes are not well supported by robust evidence and widespread acceptance, this will have a significant cost and impact on the international use of the auditing and ethical standards.

We do not agree with all of the propositions and proposals, and we note there is considerable missing detail. There are statements in relation to concern over the perceived undue influence of the profession in the process of standard setting and some indication that this has reached crisis point. This is not our experience. Our markets do not have a concern in relation to the robustness of the existing due process. We have seen no evidence that there is an adverse effect on financial market participants' confidence in the standards – specifically from those charged with governance or investors – due the current structures. We have seen no evidence that standards are not being set in the public interest.

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As a professional body we have a duty to advance the service of audit and ethics in the public interest. Our key points are the proposals as currently advanced:

- could endanger international acceptance and adoption of auditing and ethical standards resulting in differing standards across the world
- could lead to multiple sets of auditing standards being developed which could lower trust and confidence
- run the risk of resulting in standards which lack rigour or practical application
- do not incorporate clear, good practice, governing principles and could lead to unavoidable conflicts of interest
- could introduce unnecessary confusion, cost and compliance effort by proposing separate ethical standards for auditors
- do not appear to be based on a sustainable funding model.

This submission sets out our views on matters to enhance the standard setting process in the public interest, based on consultation with our members and stakeholders. In Appendix 1 we explain the basis for our key points. In Appendix 2 we provide commentary on the specific questions raised in the consultation paper. This submission adds to our separately submitted joint submission with the Association of Chartered Certified Accountants (ACCA).

Our analysis of the Monitoring Group's proposals suggest that more details regarding the proposed changes are needed. We look forward to contributing to further work on these matters.

In addition, we look forward to the opportunity to discuss the matters raised in this submission further and to be part of the development of proposals which balance a sustainable process with market value. We reiterate the need for a robust and transparent consultation process which involves all stakeholders and is open. This should include providing transparency over the range of inputs and the process and rationale for dealing with conflicting feedback.

This response is prepared on behalf of our membership, who work in a diverse range of roles and have a strong interest in the future of the profession and operating in the public interest. More information about Chartered Accountants Australia and New Zealand is set out in Appendix 3. If you would like to discuss any of the points raised in this submission further, please contact Liz Stamford (liz.stamford@charteredaccountantsanz.com +61280785426).

Yours sincerely



Rick Ellis

Chief Executive Office
Chartered Accountants Australia and New Zealand

Appendix 1: Key points arising from the consultation proposals

International acceptance and adoption

Our key concern is to avoid any change which could jeopardise the international acceptance and adoption of auditing and ethical standards. One set of internationally developed standards consistently applied by all countries is a vital element in the trust and confidence placed on financial reporting in all sectors of our jurisdictions and economies. It is this trust which facilitates capital investment, capital flows, the efficiency of debt markets, and enables accountability. It allows funders, both in the public and private sectors, to have confidence to make investment, and decision makers to have confidence in the reported information.

There are also substantial benefits from having one set of standards across countries in relation to portability of auditing skills, facilitating efficiency in instructing other auditors, often in different jurisdictions, and assessing the quality of audits of components where companies operate internationally.

If stakeholders lose confidence in the process of standard setting or in the standards themselves, this acceptance of standards by national jurisdictions is at risk. There are over 120 countries adopting the current standards. Any new proposals need to ensure that these countries remain confident in the process and so continue to adopt internationally developed auditing and ethical standards.

In Australia and New Zealand, auditing standards based on the international standards are adopted as a legislative requirement. They are applicable to all financial statement audits whatever the size or funding structure of the entity. They also apply to non-corporate entities such as Self-Managed Superannuation Funds and charities in Australia, and trustee companies, public sector entities and other non-profit organisations in New Zealand.

If international standards do not reflect the need for audit to cover a range of entity types and sizes, our national standard setters and legislators will have to consider our approach to adopting international standards. One response may be to remove international standards as a basis for domestic standards. This would result in a loss of international consistency. Another option may be to legislate international standards for listed or public interest entities and different standards for other entities. This would result in considerable cost and disruption for entities and markets, the public and other stakeholders as explained below.

Potential consequences of what is being proposed

The approach outlined in the consultation paper runs a very real risk that countries take a nationalistic approach resulting in differing standards which could lead to loss of trust and confidence in international capital and debt markets.

One set of auditing standards

We are concerned that the proposals as set out may push the focus of the auditing standards to be only on listed or public interest entities, leading to a different set of auditing standards being applied to other entities (developed either internationally or domestically). The consultation paper notes that this position could assist potentially finalising or updating standards quicker because there is only one market to address and the board can focus solely on issues relevant to that market. However this does not address the reality of the needs of the various markets and other constituents across jurisdictions. Nor does it recognise the roles played by governments in the capital and debt markets, their need for consistency of audit approach and the assessment of audit risk, and the detrimental impact should differing approaches evolve. We believe that the business and political detriments of adopting such an approach will outweigh any potential operational advantage.

Appendix 1: Key points arising from the consultation proposals

Additional costs to doing business will be incurred if this is a result. For example, companies moving from unlisted to listed may have to change audit firms if their existing audit firm is resourced and trained in one set of auditing standards but listed entities are required to be audited under a different set of auditing standards. The ability of those charged with governance to engage with the audit process will be impacted if they are required to understand the different audit approaches resulting from different sets of standards. This will have a particular impact on the many directors in our region who sit on boards covering listed, non-listed, public sector, not-for-profit and other boards. This situation is unlikely to be unique to Australia or New Zealand.

Auditing firms and public sector auditors, utilise common, standards-based, methodologies to undertake their work, providing a means to ensuring consistency and audit quality. If different auditing standards are developed for different types of entities, firms and others responsible for conducting audits, will need to have (at least) two sets of methodology and train their staff in two sets of standards. This will be cost prohibitive with the likely result of a reduction in the number of firms adequately resourced to audit listed entities. This reduction in competition is not in the public interest.

We understand there is a need for requirements that relate specifically to the audit of listed entities. This can be addressed by developing standards in which the core audit principles and requirements are suitable for all entities, and there are additional requirements added to address risks or circumstances particular to large and complex entities. This is the approach taken in ISA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* in relation to engagement quality review partners for example.

This ensures that:

- the same core standards and methodology are used for all audits
- scalability is enhanced by additional requirements being added to the core (rather than taking away requirements for smaller entities)
- all firms are able to compete for audits (subject to the existing requirements on competency and resourcing) as their methodologies will address the same core principles and requirements and the additional requirements for listed entities can be added to the core methodology
- there are no unintended consequences which could occur with two separate sets of standards where different words are used to cover the same audit objectives
- international consistency is maintained as jurisdictions have one set to follow (some jurisdictions will not have the resource or capacity to adopt and maintain two sets of standards, and so may revert to local standards)
- there are common approaches for public sector auditors especially where they are responsible for auditing, or overseeing the audits of, listed entities.

Potential consequences of what is being proposed

There is a very real risk that multiple sets of auditing standards will eventuate which will potentially lead to variable quality and lower trust and confidence.

Developing standards fit for the future

Audit is a skill which requires practitioners to have a minimum formal education level, plus additional formal accounting profession qualifications as well as ongoing development, on the job training and experience. Therefore, developing standards for the work auditors must undertake is not something that can be done by someone with no training, education or experience in these areas. The development of standards guiding the development of

Appendix 1: Key points arising from the consultation proposals

methodologies and work processes requires current expertise and current practical experience. The pace of change and complexity in business models, processes, transactions and operations is significant and increasing. Even those who have been out of practice for a few years may not be able to set standards relevant to these changing environments. The standard setting structure needs to recognise that current auditing skills and experiences are required when setting auditing standards that address current and emerging financial reporting issues.

This is not to say that standard setting should be left only to professional accountants and we do not argue for this. People with different perspectives (e.g. preparers, investors and regulators) and with non-accounting or auditing backgrounds are essential inclusions on a standard setting board.

Potential consequences of what is being proposed

The risk that standards are developed which lack rigour or practical application.

Governance vs development

We agree that governance and oversight roles benefit from independent perspectives and from persons with differing skills, competencies and regional and professional backgrounds. We strongly support involvement of all stakeholders from across the financial reporting, user and regulatory spectrums. In particular, we support governance that ensures independence, both real and perceived, and that no single constituent has undue influence. A governing structure in line with contemporary, principles based governance practices incorporates the avoidance of conflicts of interest, both actual and perceived, and undue influence. This can be achieved by governance arrangements which ensure boards are independent of the nominations process, clarity regarding reasons for the size and role of the boards, embedding consultative processes in constitutional documents, and commitment to performance standards regarding timeliness. We do not believe that the proposals as currently articulated meet these objectives or will achieve this good governance.

An oversight body must remain independent of the standard's development process, including not having input into the technical development of a standard, either during development or with a right of veto.

Potential consequences of what is being proposed

The proposed model, in particular the role for an oversight body, runs the risk that regulators will regulate themselves leading to unavoidable conflicts of interest.

Ethical vs auditing standards

A key element of the accounting profession is a strong ethical base. The Code of Ethics for Professional Accountants is one of the foundations of the accounting profession and shapes attitudes, competencies and responsibilities no matter what role the accountant plays. We do not support changing this base by requiring the development of ethical standards aimed solely at auditors.

The ethical standard setting board should set ethical standards for all professional accountants wherever they work and whether they work in business, public sector, not-for-profit or other sectors, or in accounting, audit or other roles or disciplines. The development of these ethical standards should be part of the IFAC structure because it represents the profession and is best placed to set expectations of its member bodies and, through them, of all members. Professional accountants work in a vast array of roles, many not related to

Appendix 1: Key points arising from the consultation proposals

financial reporting or related to any matters under the Monitoring Group remit. It would not be appropriate for a board set up to strengthen capital market financial reporting to be responsible for core ethical requirements for all professional accountants.

We also note that auditors do not only undertake audit work but can utilise their skills in other assurance and non-assurance engagements for many different clients. Having to follow a separate set of ethical standards for different types of work will cause confusion for accountants and their clients and introduce unnecessary cost and compliance aimed at managing separate processes for the same objective.

We recognise that there may be different expectations on accountants working in audit. In this regard we believe it is appropriate for additional requirements for auditors to be set as an overlay to the common ethical standards. This is currently achieved by dedicated sections in the Code of Ethics for Professional Accountants. Specific independence issues can be dealt with through this process.

Potential consequences of what is being proposed

Developing ethical standards for financial statement auditors separately to the core ethical standards applied by all accountants in financial reporting or other roles introduces confusion, cost and unnecessary compliance. Accountants preparing the financial statements will be subject to different ethical standards from those applied to auditors which could impact the integrity of financial statements. Neither of these consequences are in the public interest.

Sustainable process

We note that a key driver for proposing the substantial and costly changes set out in the consultation paper is to ensure the auditing standard setting process remains sustainable in the face of changing public expectations of the audit process. We agree this is an important objective, support the aim and note that constant review is needed. However, we argue that should changes be required to the scope and nature of auditing standards to meet the rapidly changing business and technology environments, this issue needs to be addressed through the involvement of multiple stakeholders in the standard setting boards' agendas and strategies. We believe that proposing an alternative structure which puts at risk international adoption and appears to only meet the requirements of one set of constituents, is a cost which outweighs any benefits.

A sustainable process also requires a solid funding model. We cannot see how the proposals in the consultation paper, that is, moving to a model where funding is obtained directly from audit firms, addresses the concern stated in the consultation paper over the profession's involvement in the standard setting process.

Potential consequences of what is being proposed

There is a risk that the proposals will replace a funded and tested model with an unsustainable process which has an adverse impact on the quality and adoption of auditing standards.

Appendix 2: Responses to the consultation paper questions

QUESTION

- 1** *Do you agree with the key areas of concern identified with the current standard-setting model? Are there additional concerns that the Monitoring Group should consider?*

We do not agree that there is a general concern in our markets in relation to the perception of independence of the international auditing and ethical standard setters. We have seen no evidence that there is an adverse effect on financial market participants' confidence in the standards – specifically from those charged with governance or investors – due the current structure. We have seen no evidence that standards are not being set in the public interest.

While we support a review of current arrangements, we have not seen evidence of the key areas of concern identified in the consultation paper.

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

We agree that standards must be set in the public interest as the role of the audit of financial statements is to provide an independent opinion to the users of the financial statements. In the capital markets, those users are investors. We agree with the overarching principles.

The interests of investors are a priority for a number of participants in financial markets – notably government and market regulators and independent non-executive directors. These interests are also a priority for the independent auditor because if the investors do not see the value of, or have confidence in the audit, then the service is not meeting its objective.

In Australia and New Zealand, our governments have legislation requiring adoption of standards based on international auditing standards. The standards are applicable to all financial statement audits whatever the size or funding structure of the entity. They also apply to non-corporate entities such Self-Managed Superannuation Funds and charities in Australia, and trustee companies, public sector entities and other non-profit organisations in New Zealand. This approach was determined on the basis of the process and consultation robustness involved in setting the international standards. We would be concerned if any substantial change to the process endangered this adoption.

We consider that it is of paramount importance that there is one set of international auditing standards that can be applied by auditors of all entities and in all jurisdictions. The value to global capital markets of knowing that reporting entity information in financial statements is consistently prepared and consistently audited has been considerable. In addition, there are cost savings in relation to regulatory frameworks from this consistent basis. It also assists the portability of audit skills across borders which can help maintain quality.

We believe it would be a significantly backward step for the efficiency and effectiveness of global capital and debt markets should arrangements impact this position. There appear to be areas in the current proposals which may cause a challenge in this regard although there is insufficient information in the paper to assess this risk sufficiently.

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QUESTION

3 *Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so what are they?*

A critical element for ensuring robust standards which represent the public interest is the level and breadth of consultation and transparency over the process. Controls in place also ensure the public interest is fully explored and incorporated into the process. These controls include open access to meetings, full and unfettered access to papers under deliberation and decisions taken, and the level of adoption of resulting standards. Geographic representation is another important element for ensuring a comprehensive view of public interest is embedded in the development process.

4 *Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.*

We do not support a single board covering both auditing and ethical standards.

We believe there should be a separate standalone board that develops and promulgates ethical standards for all professional accountants. The current Code of Ethics for Professional Accountants developed by the Ethics Board, covers a number of areas which would be duplicative and unnecessarily costly to reproduce for a standalone code for financial statement auditors.

We believe that additional considerations specific to accountants undertaking audits of financial statements are relevant and can be incorporated in a separate section as is currently seen in section 290 (a section of the Code of Ethics for Professional Accountants dedicated to audit independence issues).

For the reasons outlined in our covering letter, we do not support moving the setting of core ethical standards for professional accountants outside of the IFAC process.

5 *Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?*

Yes

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

We believe there should be one board covering the development and promulgation of ethical standards for all professional accountants, whether in business or in practice. Professional accountants undertake a range of services, both concurrently and as part of an ongoing career and the ethical requirements should be common for all members regardless of where they may work. See also our response to question 4.

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QUESTION

7 *Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard-setting boards? If so please set these out in your response along with your rationale.*

We believe it appropriate that the standard setting arrangements and associated boards should be subjected to regular review and that, when doing so, the following points are vital:

- The standard setting boards' remits should be to set strategic direction, approve matters to be covered in standards, and evaluate and challenge draft standards and changes against the stated need for change and against the principles.
- The detail of the standards should be written by staff and/or work groups or advisory groups.
- Each party's role in the process of development should be clearly articulated. The process undertaken should be transparent.
- Approval of standards should be by the boards.
- The oversight structure should be appropriate and streamlined.
- Conflicts of interest must be avoided in the structures.
- No element of the model (operations, governance or oversight) should be dominated by any one stakeholder group.
- People appointed to the proposed boards must have current expertise and practical experience.

8 *Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?*

We support the proposal that the board should have a strategic focus. Focus on strategy should not mean that the board does not also need to understand the audit practicalities and processes or the implications of mandated procedures. The board will need to understand these elements in order to assess and approve standards. It is difficult to see how this might be achieved without current audit practitioners on the board.

The board must also be involved in the development of the standards from the beginning, setting the remit and direction of the requirements, and ensuring their experience is utilised during development. There will be an adverse impact on quality and efficiency if the board limits their involvement to strategy and issue resolution only.

Remuneration introduces clarity and transparency (compared to in kind contribution). However, the practicalities of being able to offer sufficient remuneration to attract appropriately experienced people will be an issue. Finding parties willing to provide additional funding may also be a challenge which must be addressed should the proposals be advanced.

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

Yes, but we believe this should be a 75% majority. The value of standards arises in part from widespread acceptance of the process and subsequent adoption. We believe if markets and jurisdictions internationally believe that standards are being adopted based on the interests of only half of the board members, belief in the process will be compromised and value jeopardised.

Appendix 2: Responses to the consultation paper questions

QUESTION

10 *Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part- time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?*

Current regulators would have a conflict receiving remuneration for being board members. Therefore it seems that the “Regulator” members would be individuals who had retired from, or left, a regulator. Under the proposed model, this brings the risk of lack of current business experience by at least a third of the board membership. We do not support this option.

We therefore suggest membership be no more than 50% from the audit profession with the remainder nominated on the basis of appropriate mix of skill or experience. With 75% agreement required to issue a standard, this would address any perception that the audit profession was controlling the process.

In relation to the optimum number of board members, this may depend on the remit of the boards. If the boards retain a technical and representative remit, more than 12 members would be required. If the boards move to a more strategic role, the optimum number may be 12. However, it will remain vital that geographical representation is an intrinsic part of the standard setting process.

Countries with less developed or emerging markets, and countries where auditing standards are used for all types of entities, need to have confidence in the standards. We propose that representation needs to be reflected in the standards development process. While this could be achieved through actively managed participation on task forces or advisory groups, unless the recognition and implementation of regional representation clear (including accountability for recognising and addressing regional views), there is a high risk that standards are adopted by fewer countries.

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

We believe that the board be made up of no more than 50% audit practitioner representatives. Board members need to demonstrate a mix of:

- Independent thought
- Current, up to date, business experience (whether in commerce, regulation, practice or other field)
- Ability to collaborate
- Commitment to act in the best interests of those relying on information in audited financial statements
- Understanding of the audit process and the role of the audit in financial markets and in regulatory frameworks
- Strategic thinking and competency
- Understanding of political dynamics
- Understanding of the cross over between capital markets and public sector accountabilities.

Appendix 2: Responses to the consultation paper questions

QUESTION

12 *Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?*

Advisory groups are essential as they are a mechanism to provide representation to many of the varying groups that have an interest in auditing and ethical standards, whether due to size, nature or geography. Advisory groups are also able to provide more detailed technical and practical insights and can, through thoughtful choice of membership, address political dimensions or representation. Both of these elements will be particularly necessary if the board sizes reduces to 12

The clarity and transparency of the requirements of the role are vital elements. It is essential to ensure advisory boards do not take on a monitoring or quasi standard setting role.

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

Without sight of the proposals for a public interest framework we cannot answer this question. Standards should be developed in line with the business case for change, agreed up front by the board, and all of the principles for standard setting.

Transparency over the process for developing the standards, including the assessment of, and action taken in response to, submissions and feedback as part of the consultation processes, will ensure accountability for meeting the principles.

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

We agree that a nomination process needs to be clear and transparent (that is nominations made in relation to pre-identified criteria, following an open process) with accountability for decisions embedded in the process.

With these safeguards in place, we would support appointments being made by IFAC or an alternative board. We note that we have no evidence to suggest the current model is not working effectively or in the public interest.

15 *Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?*

We do not support the PIOB having power to veto a standard nor to change requirements which have been approved by the board following a properly run consultation process.

We are concerned that running a board nominations process would not be consistent with a role of an independent oversight body and therefore do not support this proposal as currently articulated.

We recommend consideration of the Public Interest Committee model applied to the International Public Sector Accounting Standards Board.

Appendix 2: Responses to the consultation paper questions

QUESTION

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

We believe the PIOB should reflect multi-stakeholder interests and that membership be drawn from all relevant stakeholder groups, including the audit profession. Whether this membership is an official IFAC appointment, or whether it is achieved through other means, will depend on the final governance structures and roles. However we see value in IFAC being at PIOB meetings to allow the oversight board's deliberations to be understood when undertaking other IFAC activities.

17 *Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?*

We believe that if a similar model is maintained, nominations to the PIOB should be based on skills and attributes matrix as set out at Question 11. Individuals should be from all relevant stakeholder groups so that no single stakeholder group has control (real or perceived). The audit profession is a relevant stakeholder and should be included.

An alternative would be to move to the Public Interest Committee model (as noted in Question 15).

18 *Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?*

We support diverse stakeholder involvement, and for this there would need to be an open call for nominations which would not be restricted to Monitoring Group member organisations.

19 *Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?*

The remit needs to be clear and transparent. There is validity in an oversight body which is properly constituted and accountable for overseeing the work of other standard setting boards.

20 *Do you agree that the Monitoring Group should retain its current oversight role for the whole standard-setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its work, promoting high-quality standards and supporting public accountability?*

The changes outlined in this submission would further embed controls within the process. The remit, scope, accountability and purpose for both the Monitoring Group and PIOB needs to be clear, transparent, principles based, and consistent with contemporary governance models. Any changes here need to be made at the same time as considering the governance of the standard setting boards as they are interlinked.

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QUESTION

21 *Do you agree with the option to support the work of the standard-setting board with an expanded professional technical staff? Are there specific skills that a new standard-setting board should look to acquire?*

Under this model, we agree that additional professional technical staff are required. There will also be a need for project management skills within the staff.

Some of the proposals suggest that the board would take on operational responsibility for example staff recruitment, removal of staff or budget management. We note that these proposals, which we do not support, would require the board to have very differing skills.

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

Staff should be accountable to the board. However, legal employment will need to be separately managed and we believe this can be managed through IFAC. Clear lines of accountability are essential to avoid duplication and conflicting reporting lines or directions.

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

We have no additional comments at this time.

24 *Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?*

Transparency and accountability are the important factors, whatever funding model is chosen.

We believe that the objectives can be met without the cost and disruption of establishing a whole new process.

We have seen no evidence that the current funding has created undue influence in the standard setting process. However we support the Monitoring Group seeking additional funding sources which will assist perception concerns.

We also suggest that in-kind contributions are used for CAG members only, but we recognise that the remuneration of members can be difficult as noted in Q8.

25 *Do you support the application of a “contractual” levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those opt for in the paper, and if so what are they?*

We support the Monitoring Group seeking additional funding sources.

If as a result of consultations, there is a move to a different funding model, this model will need to be clear, transparent and not duplicative. We do not see that a move to a contractual levy on the profession addresses the concern stated in the consultation paper over perceptions in relation to the profession’s involvement in the standard setting process.

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QUESTION

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

The proposals as suggested will result in substantial disruption and costs and potentially undo the gains made in international auditing consistency. There will be considerable additional work to make these alternative proposals a practical option. We have seen no evidence for a need to embark on such a substantial change and cost. We believe it would be better for markets, businesses, governments and the public interest, to revise the current structure rather than spend time and resources on setting up a completely new structure.

We believe changes which would meet the objectives of the consultation would be to:

- Change the management of the funding
- Change the board remit
- Increase the technical staff
- Clarify the roles and responsibilities of all participants.

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

See our covering points. We also note that should the proposals lead to different sets of auditing standards for listed entity audits and for other entities, there will potentially be two boards setting auditing standards and requiring resources and funding. Obtaining funding from market stakeholders is already a challenge as noted in the consultation. We believe that potentially doubling the costs and processes for this part of the financial reporting supply chain is not a sustainable option.

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.