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8 February 2018

To The Monitoring Group

by E-mail: MG2017consultation@iosco.org

Re.: Monitoring Group Consultation: Strengthening the Governance and Oversight of the International Audit-Related Standard setting Boards in the Public Interest

Dear Sir(s)/Mme(s),

We would like to thank you for the opportunity to provide the Monitoring Group with our comments on the Consultation: "Strengthening the Governance and Oversight of the International Audit-Related Standard setting Boards in the Public Interest", hereinafter referred to as "the Consultation Paper".

The Institut der Wirtschaftsprüfer in Deutschland e.V. [Institute of Public Auditors in Germany, Incorporated Association] (IDW) represents the Wirtschaftsprüfer [German public auditors] (WP) profession in Germany and is responsible for the issuance of IDW Auditing Standards, which have transposed the International Standards on Auditing (ISAs), and other technical professional standards in Germany for the WP profession. The IDW is currently in the process of adopting the German translation of the ISAs into IDW Auditing Standards and therefore has a keen interest in the nature and content of the ISAs and the IESBA Code and how they are set. Together with the German Wirtschaftsprüferkammer (WPK), the IDW has been a sponsoring organization of members of the International Auditing and Assurance Standards Board (IAASB) and its predecessor, the International Auditing Practices Committee (IAPC), and of the International Ethics Board for Professional Accountants (IESBA), since their inception.

We believe that the IDW is recognized by relevant Ministries of the German government and German regulatory authorities, and by the European

Commission, as a technically competent participant in discussions with them about auditing, auditors and the accounting profession in both the long-term interests of the profession and the overall public interest, which we believe to be in consonance in the long run. We believe this is so because, ultimately, professional accountants, including auditors, must provide services that deliver real added value to users in the public interest as a prerequisite for the long-term success of the profession. We have written our comments on the Consultation Paper from this perspective.

Although we have briefly responded to the majority of the individual questions raised in the Consultation Paper in the Appendix to this letter, our focus in this letter is on identifying the risks arising from the proposals made in the Consultation Paper: we do not believe that the Consultation Paper has adequately addressed these risks. These risks relating to the Consultation Paper proposals arise from the consultation process applied, public perceptions of the Consultation Paper proposals, and substantive matters relating to the quality of standards. Our focus on these risks should not be taken as support for maintaining the status quo: we are open to suggestions to improve the structure of standard setting, but do not agree with all of the proposals made in the Consultation Paper due to the risks that we have identified.

Risks arising from the consultation process applied

The Consultation Paper appears to deal almost solely with perceptions about independence from the profession without looking at the quality of the standards produced and what is needed to maintain that quality. We also note that the Consultation Paper does not appear to be based on outreach with a wide range of stakeholders, does not appear to be based on any systematic analysis, and does not present any evidence as to why change is needed, and in particular, why the changes proposed would alleviate any issues that have been identified other than reducing the perceived influence of the profession. In particular, the Consultation Paper proposals do not appear to have been based upon a sound analysis of whether there are any real – as opposed to just perceived – weaknesses in the current standard setting model. It is important for the Monitoring Group to avoid making changes without having adequately analyzed what the real weaknesses, if any, of the current standard setting model are and what the risks of reducing the quality of those standards through its proposals might be.

Furthermore, the Consultation Paper does not address a number of key foundational matters that stakeholders must know to allow informed decisions about the proposed standard setting model. In particular, the proposed model has not been adequately costed based on the experience of other standard setters, such as the IASB, including potential transitional costs. No impact assessment of the proposals has been carried out and no comprehensive budget with the consideration of the needed short-, medium- and long-term funding has been drawn up. While commitments may have been received from certain parties (the larger international networks) to fund a new model, it is unclear what the timing and amounts involved would be: any such commitments will not represent a "blank check". The proposed model will likely be significantly less cost-effective than the current one.

We also note that the Consultation Paper proposals suggest a "step-by-step" approach to changing the standard setting architecture by addressing primarily the composition and processes of the standard setting Board or Boards, but only providing cursory suggestions with respect to the composition and processes for oversight (PIOB) and governance (Monitoring Group) that would then be further determined at a later date. This involves the risk that parts of the standard setting architecture determined at a later date will not appropriately articulate with those determined at an earlier stage in the process.

Overall, the process leading to the model proposed by the Consultation Paper engenders the risk that stakeholders would need to accept on faith as yet unexplained key elements that will be designed at some point in the future to give effect to the proposals.

<u>For these reasons, the Consultation Paper can only represent a first step in a longer process of more concrete evidence-based analyses of the real – as opposed to perceived – weaknesses of the current standard setting model and of the risks arising from the Consultation Paper Proposals, discussions and consultations with all key stakeholder groups, and comprehensive organizational and budgetary (funding and costing) proposals, including transitional measures. Furthermore, comprehensive proposals covering all aspects of standard setting, oversight and governance, need to be submitted for consideration by stakeholders, rather than seeking input and changes in stages.</u>

Risks arising from public perceptions of the Consultation Paper proposals

The Consultation Paper proposals will also create certain risks that arise from public perceptions about the nature and impact of those proposals. In particular, the consultation proposals in relation to the powers of the oversight body (PIOB) in terms of its participation in technical standard setting (e.g., the right to "veto" standards) would reduce confidence in any independent, properly constituted multi-stakeholder Board or Boards. By merging the roles of participation in, and public interest oversight of, the standard setting process, the Consultation Paper proposals increase the risk that public confidence in the standards developed is impaired.

Furthermore, the Consultation Paper proposals for the composition and powers of both the PIOB as the oversight body (in particular, by denying that the profession is a legitimate stakeholder in oversight over a multi-stakeholder standard setting board that is independent of the profession) and the Monitoring Group itself (i.e., no change from current composition) will suggest to stakeholders that the standard setting architecture is controlled by one stakeholder group: the regulators in the Monitoring Group. Since the credibility of the standard setting process depends on its independence from domination by any particular stakeholder group, the Consultation Paper proposals increase the risk that stakeholders other than regulators will perceive the standards as serving only the needs of the regulators in the Monitoring Group. In this context, we believe that by not having included national standard setters, who adopt or recommend that adoption of international standards in their respective jurisdiction, as a separate stakeholder group, the Consultation Paper proposals only serve to increase these perception risks. The same perception risks apply to the Consultation Paper proposals not having adequately addressed other important stakeholder groups, such as the public sector or SMEs (which may perceive the standards as not being appropriate for the public sector or scalable for engagements regarding SMEs, respectively).

The Consultation Paper proposals to reduce the number of Board members will make it very difficult to constitute a balanced Board in terms of multi-stakeholder and geographic representation. Having a Board lack representation from any major economic jurisdictions for more than a few years will increase the risk that the standards issued by such a Board will lack credibility in these jurisdictions and over time impact the general acceptance of those standards internationally. Similar risks arise if the threshold for passing standards is a simple majority rather than the current 2/3 majority: it is difficult to argue that standards that have passed with a bare majority have general acceptance internationally by all key stakeholder groups in all major jurisdictions.

The entire model proposed by the Consultation Paper is based largely on funding directly from the larger audit firms, rather than the global accountancy profession at large and other stakeholders. This proposal heightens the risk that the public will perceive a lack of independence from these audit firms and also bears the risks that SMPs and the public sector will perceive that the standards are written only for these larger audit firms.

<u>Given the perception risks identified, it would be important for the Monitoring Group to consider clearly separating the independent standard setting role from the oversight thereof, establishing multi-stakeholder (including national standard setters, the public sector, and SMEs) oversight and monitoring thereof, maintaining a larger Board than that proposed with geographically balanced representation from all stakeholder groups (including from the additional stakeholder groups we have identified), and retaining the 2/3 majority for issuing standards. Furthermore, diversification of funding beyond the large audit firms would need to be successfully addressed.</u>

Risks arising from substantive matters, relating to the quality of standards, from the Consultation Paper proposals

Combined Board or Separate Boards

One proposal in the Consultation Paper is to combine the IAASB with the IESBA but to maintain a separate Board within IFAC for ethics for professional accountants in business. It is unclear from the proposal whether reviews, other assurance engagements (that is, other than audits), compilation engagements and agreed-upon procedures engagements would continue to be covered by the combined Board. Together with the proposal to reduce the size of the Board and its level of expertise by reducing the involvement of the profession, the creation of a single standard setting board for auditing and ethics may involve the risk of diluting the focus on auditing and ethics individually, and significantly reduce the current level of technical resources devoted to standard setting for each.

As a matter of principle, unlike independence as defined by the IESBA Code, which applies only to certain activities of professional accountants (audits, reviews and other assurance engagements), ethics applies to all professional accountants regardless of their role. Separating ethics for professional accountants in business and other professional accountants therefore involves the risk that ethics would no longer be the “glue” that binds the members of the profession regardless of their role. This risk suggests that a separate ethics board for all professional accountants is needed. Independence requirements could then be dealt with depending upon the remit of the combined Board (e.g., if the Board is responsible only for engagement standards for audits, then that Board could also be responsible for independence standards for those audits). <u>Consequently, whether a combined or separate Board for engagement</u>

standards and independence is appropriate depends upon the engagement standard remit of that Board.

Board Composition

The Consultation Paper proposes a multi-stakeholder model for the Board, which we support. However, without the professional expertise of the profession, there is a real risk that standards will degenerate into impracticable requirements that represent “political statements” (rather than practical benchmarks to improve the quality of audits) that firms cannot implement in practice and therefore audit oversight authorities will effectively not be able to enforce (at least not as they are written), which would lead to a widening of the reasonableness gap portion of the expectations gap in the public. The Consultation Paper has not really explained how it intends to “square the circle” of maintaining technical expertise on the Board (the needed technical expertise currently resides in members and their technical advisors from the firms, national standard setters and member bodies) while reducing the influence of the profession. There is therefore a real risk that the technical capabilities of the Board will decline.

The Consultation Paper appears to focus on certain stakeholder groups (investors and regulators) interested in audits of financial statements of listed entities.[1] However, currently, IAASB standards are applicable not only to audits of financial statements of listed entities, but to all statutory and non-statutory audits of financial statements, reviews of financial statements, other assurance engagements (including assurance engagements on green-house gas statements, corporate social responsibility reporting, systems and compliance, prospective information, etc.), and related services (currently compilation engagements and agreed-upon assurance engagements). In addition, the engagement standards of the IAASB apply to all of these engagements when performed in the public sector (the latter of which represents one-third to over one-half of the economy in most jurisdictions) and in the private sector for SMEs and non-governmental organizations (which is the larger portion of the private economy in most jurisdictions). The Consultation Paper proposals do not

1 We refer to listed entities and not public interest entities (PIEs) throughout this comment letter because previous standard setting experience at the IAASB has demonstrated that there is no internationally recognized definition of PIEs. Consequently IAASB engagement standards distinguish between listed entities and non-listed entities. This would not preclude national legislators or regulators, or national standard setters, from extending the requirements, in the engagement standards, that apply to listed entities to PIEs as defined in their jurisdiction.

address these important engagements performed in the public interest and do not address the public sector, SMEs or non-governmental organizations. There needs to be an alignment between the multi-stakeholder composition of the Board or Boards (and their oversight and governance) and the remit of the standard setting Board or Boards.

Furthermore, the Consultation Paper neglects the important role of national standard setters in adopting or recommending the adoption of international standards. International standards cannot be imposed on national jurisdictions. Hence such standards need to be generally accepted by all major jurisdictions so that they will be adopted or implemented by national standard setters in those jurisdictions in some way. The Consultation Paper proposals completely ignore the needs of national standard setters, who are ultimately the "customer" for international standards by making decisions about adoption and implementation.

The suggestion to reduce the size of the Board will make it more difficult to ensure that all of these stakeholder groups and all major economic jurisdictions are adequately represented on the Board so that the standards remain internationally applicable.

The lack of emphasis, in the Consultation Paper proposals for the composition of the Board, on these key stakeholder groups together with the proposal to reduce the size of the Board leads to the following risks:

- There would be insufficient emphasis on the proportionality and scalability of standards that are applicable to SMPs and to audits of SMEs, which would lead to the creation of national standards to deal with proportionality and scalability matters for engagements for this sector; this development may have the side-effect of increasing concentration in the audit market for audits of financial statements of listed entities.
- Lack of representation from important economic jurisdictions for extended periods and from important national standard setters may lead to standards that are not implementable across all jurisdictions worldwide, which may lead to their non-adoption or to additional carve-outs at a national level with the concomitant "balkanization" of standard setting at an international level.
- The standards would not be adequately designed to be applicable in the public sector or for non-governmental organizations and would cease to be adopted or adapted for these sectors

- Engagement standards other than for audits of financial statements, the engagements of those standards for which are also performed in the public interest, will not receive the attention needed or the Board may not have the technical expertise to adequately deal with them.

An additional issue with respect to Board composition is the proposal to include one-third of the Board composition from regulators. Due to their regulatory role, regulators – even with only one-third membership – will play a disproportionate role in standard setting because other board members directly or indirectly subject to oversight from those regulators will be placed in a difficult position when seeking to disagree with those regulators. If regulators obtain undue influence on the Board, there is a significant risk that their focus will be on the ease of enforcement of standards (pure compliance), rather than on improving the quality and value of the audit. This would tend to change audits into a compliance-driven exercise and thereby reduce the value of audits in the long run. Compliance-driven standards are more likely to hinder, rather than promote, technological innovation in audits, even though impending technological developments have the potential to increase the quality and value of the audit. Compliance-driven standards that reduce the value of audits will also strengthen current tendencies to relegate audit into the status of a commodity, which will lead to further downward pressure on the remuneration of the profession for audit services. Compliance-driven employment activities in audit that are relatively inadequately remunerated will further reduce the attractiveness of the audit profession and will lead to an inability to recruit the highly motivated and qualified staff with the personal attributes necessary to appropriately exercise professional judgment and professional skepticism.

<u>The risks we have identified with respect to Board composition suggest that: 1. considerable participation of the profession in the Board is crucial to maintaining the collective technical competence of the Board, 2. depending upon the remit of the Board, additional stakeholder groups such as the public sector, SMEs and national standard setters need be taken into account in the composition of the Board, 3. neither the number of members of the Board nor the two-thirds majority needed to pass standards be reduced, and 4. consideration be given to reducing the proposed relative number of regulatory members on the Board.</u>

Role and composition of oversight and governance

The Consultation Paper proposals also facilitate the involvement of regulators and the potential for their undue influence through the proposed design of oversight and governance over the standard setting board. Although the

Consultation Paper suggests broadening the membership of the PIOB, the Consultation Paper does not suggest that nomination for membership be open to all stakeholders (including the profession), to establish a transparent nominations process, or to change the composition of the Monitoring Group. Furthermore, the Consultation Paper proposals also suggest involvement of the PIOB directly in standard setting beyond due process, including the right to veto standards. A veto is a very powerful tool because its power derives not from its use, but from the influence obtained through the threat of its use. The risks noted above in relation to undue regulatory influence on standard setting due to direct regulatory membership on the Board would be magnified by the proposed role and composition of oversight and governance.

Based on these risks arising from the proposed role and composition of oversight and governance, we suggest that oversight be limited to matters related to the strategic agenda, funding, standard setting due process (i.e. to not intervene in technical debates or exercise veto rights) and nominations to the Board: oversight needs to be clearly distinguished from standard setting. Furthermore, both oversight (PIOB) and governance (Monitoring Group) need to permit nominations from all stakeholder groups using a transparent nominations process. Who the relevant stakeholder groups are depends upon the standard setting remit of the Board or Boards.

Timeliness of standard setting and staffing

There is a perception that current standard setting is too slow. However, the model proposed by the Consultation Paper actually applies a model similar to that of the IASB, which deals with projects at a much slower pace than the IAASB. The IAASB has also proved to be quicker and more innovative than the PCAOB. Consequently, the model proposed by the Consultation Paper may actually increase the risk of reducing the timeliness of standard setting.

Reducing the number of Board members from the profession (firms, national standard setters and member bodies) and eliminating their technical advisors, who currently bear a considerable portion of the technical work, will massively reduce the technical resources upon which the Boards currently draw, which will not be conducive to increasing the speed of standard setting. Given the very small size of the pool of individuals with the requisite technical standard setting skills in the English language from the several largest networks (most line auditors do not have technical standard setting skills) and from a handful of larger national standard setters, and the experiences of a number of larger national standard setters with whom we are in contact indicating that several years are needed to build up an experienced standard setting team, increasing the number and quality of staff is not a matter that is easily resolvable in the medium-term.

Furthermore, the due process involved in international standard setting generally requires more time and greater effort than for setting national standards because of the need to consult with stakeholders across different jurisdictions with different legal systems, cultures, business practices and languages.

<u>The noted risks to the timeliness of standard setting arising from the Consultation Paper proposals indicate that the Consultation Paper proposals need to be augmented by a realistic and comprehensive plan of how to increase the quality and amount of technical standard setting resources over time as the number of members and their technical advisors from firms, national standard setters and member bodies decrease.</u>

<u>As an overall conclusion</u>, we would like to emphasize that the engagement standard setting remit of the Board (i.e., whether audits of financial statements of listed entities; all audits of financial statements; all audits and reviews of financial statements; all audits and reviews as well as all other assurance engagements; or all assurance engagements, including audits and reviews, and related services) will be the prime determinant of who the key stakeholders of the Board will be. Who these key stakeholders are will in turn determine the appropriate composition and structure of any multi-stakeholder Board, oversight and governance.

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Klaus-Peter Feld
Executive Director

Wolfgang P. Böhm
Director, Assurance Standards,
International Affairs

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Appendix to the Comment Letter:
Response by Question to Questions for Respondents

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 agree that that some stakeholders' perception of undue influence by the profession may have an adverse impact on their confidence in the standards. For this reason, we are open to suggestions to improve the structure of the current standard setting model. However, reducing the perceived undue influence of the profession should not involve replacing that perception with the perception that another certain group of stakeholders (e.g., regulators) has undue influence, which would also adversely impact confidence in those standards. For this reason, we are not convinced that the detailed proposals in the Consultation Paper appropriately deal with risks of perception of undue influence by any one stakeholder group. The underlying principle ought to be that no one stakeholder group can perceived to be dominating standard setting in the public interest.

We also agree that the relevance and timeliness of standards is a key concern. We are therefore open to suggestions for improving standard setting processes. However, we would like to caution that, given the very different legal, cultural and language contexts across different jurisdictions, standard setting at an international level will always involve a greater due process effort than that at a national level: short-cuts in due process will not lead to standards of sufficient quality that can be applied globally.

Given the needed due process constraints, the balance between timeliness and quality is an important consideration: there are no "quick fixes" to addressing the issue of timeliness and we are not convinced that the proposals set forth in the Consultation Paper have addressed this balance. With respect to the relevance of standards, we would like to point out that the Consultation Paper has not made any concrete proposals of how to address this issue. It seems to us that as long as a standard setter – regardless of structure or composition – deals in its standards with those issues of importance to stakeholders, then the standards must be relevant.

We take exception to the assertion noted in one area of concern that due to undue influence of the profession, there is a risk that standards are not developed fully in the public interest. There is a logical leap in the first area of concern from the perception of undue influence to the second area of concern, which posits a real, rather than perceived, undue influence. We would like to point out that no evidence of real undue influence by the profession is presented in the Consultation Paper. Furthermore, the Consultation Paper presents no evidence that influence of the profession in either Board has affected the ability to set standards in the public interest. Indeed, our experience with both the IAASB and IESBA has been that the only standards issued that are not in the public interest were those where the IAASB and IESBA bowed to narrow regulatory pressure to misuse international standards to achieve regulatory objectives that ought to be legislated at a national level, rather than promulgated at an international level. Furthermore, we note that all of the standards issued by the IAASB and IESBA have PIOB approval: Is the Monitoring Group suggesting that the PIOB approved standards that are not in the public interest?

Question 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 generally agree with the overarching and supporting principles as articulated with the exception of the matters as described below.

First, while we agree with standard setting in the public interest and that therefore standard setting should be independent of the profession, standard setting also needs to be independent of any other single stakeholder group, including regulators. The Consultation Paper also claims that the current standard setting model does not satisfy a number of the supporting principles, but only addresses the issue of independence from the profession. It is unclear to us, which other principles, if any, are not satisfied by the current standard setting model and the Monitoring Group should provide some evidence to support its claim that other principles are not satisfied and make concrete proposals to address these issues.

Second, although we agree that the Board and any oversight body (referred to in the Consultation Paper as the PIOB, but it is unclear whether the PIOB in current form would continue to be needed) needs to be diverse in terms of geography and key stakeholders, mention is also made of working groups also needing to be diverse. If working groups are used by a new Board of new composition within a new structure, then the working groups, which would be accountable to the Board, should be designed for specific purposes and would have a limited number of members. This implies that geographical or stakeholder diversity may not be appropriate for working groups.

Third, mention is made of the skill, experience and knowledge to underpin public confidence. We agree that these are prerequisites for those involved in standard setting, but the Consultation Paper fails to confront the fact that the skills, experience and knowledge of the application of standards in assurance (including audit) and ethics (including independence) reside largely within the current Board members and their technical advisors from the firms, national standard setters and member bodies. The Consultation Paper does not adequately explain how it intends to "square the circle" of reducing the influence of the profession yet maintain public confidence in the skills, experience and knowledge of the standard setting boards.

The principle of accountability appears to neglect the question of to whom standard setters ought to be accountable. In our view, accountability ought to be to the public as a whole – not to any single stakeholder group.

In addition to the principles noted, we suggest also addressing the principle of quality of the standards, which involves, among other matters, the balance between their enforceability and how well they can be applied in practice.

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?

The Consultation Paper appears to be directed largely towards audits of financial statements of listed entities. In most jurisdictions around the world, between one-third and over one-half of the economies are in the public sector or controlled by the public sector, whose financial statements are often audited on the basis of standards using the ISAs or derived from them. In addition, within the private sector, most of the audits performed are of financial statements of SMEs and other non-governmental organizations, which generally represent a much greater proportion of the private sector economy and of employment in most jurisdictions than listed entities. Furthermore, professional accountants in public practice perform many other important services subject to standards (e.g., reviews of financial statements; other assurance engagements of other underlying subject matters, such as on green-house gas statements, corporate social responsibility reporting, systems and compliance and prospective financial information; and related services, such as compilation engagements and agreed-upon procedures engagements) that play an important role in the economy. Without proper consideration of these realities in restructuring standard setting, the Monitoring Group may be not be appropriately conceiving the true nature of the impact of the supporting principles and what they imply for such restructuring and for defining the quality of the standards.

This issue ties into our response to questions 4 and 6: without a clear proposal as to the engagement standard setting remit of the Board, it is not clear who the relevant stakeholders are. The engagement standard setting remit of the Board determines who the relevant stakeholders are, which in turn would have an impact on the composition of the membership of any multi-stakeholder Board, oversight (e.g., the PIOB) or governance (e.g., the Monitoring Group).

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

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

We find these questions to be misleading because it is unclear from the proposals in the Consultation Paper as to which engagement standards and which related ethical requirements would be covered by such a combined Board. The proposals note that the focus of the consultation is on those standards that support audit as a public interest activity, but then why is the suggestion made to extend the combined Board's mandate to other assurance engagements for auditors (the term "assurance engagements for auditors" is confusing)? Furthermore, reviews, agreed-upon procedures engagements and compilation engagements (whether required by statute or not) are not any less public interest activities than audits and other assurance engagements (whether required by statute or not), but the Consultation Paper does not allocate the responsibility for standard setting in relation to the former engagements (see response to question 3) to any standard setting board (whether the proposed new combined Board nor a Board at IFAC). The fact that some standard setting activities of the IAASB and IESBA are not covered leaves the impression that those writing the Consultation Paper do not have a clear idea as to the nature of the engagement standards and ethical requirements currently promulgated by the IAASB and IESBA, respectively.

Consequently, prior to answering the question as to whether a combined Board is appropriate, there needs to be a clear proposal as to which kinds of engagement standards ought to be covered by such a Board.

However, as a matter of principle, we believe that there needs to be a clear distinction between independence requirements (both in mind and in fact) and ethical principles. By definition, ethical principles apply to the entire profession – regardless of the type of professional activity undertaken by the professional accountant and regardless of whether the professional accountant is in public practice or business. Consequently, ethical principles ought to remain within a separate standard setting board that covers the entire profession.

On the other hand, independence requirements as defined by the current IESBA Code of Ethics relate only to audits, reviews and other assurance engagements – that is, these independence requirements are closely related to the type of activity undertaken by the professional accountant. For this reason, depending upon the engagement standards remit of the Board, we may be able to support a combined Board for any such service for which the Board promulgates standards. So, for example, if the combined Board were to be responsible for auditing standards, but not standards for reviews or other assurance engagements, then that combined Board ought to be responsible for both auditing standard setting and independence requirements for audits. However, such a combined Board would not be responsible for independence standards for reviews or other assurance engagements or for ethical principles. Likewise, if such a combined Board were responsible for setting standards for audits, reviews, and other assurance engagements, that Board would be responsible for independence requirements for those engagements, but not be responsible for setting standards for agreed-upon procedures or compilation engagements or for ethical principles. Our support for such a combined Board would be predicated on having a Board with sufficient size so that it can collectively incorporate the technical expertise needed for both the covered IAASB engagement standards and related independence standards.

As noted in our response to question 3, the engagement standard setting remit of the Board determines who the relevant stakeholders are, which in turn would have an impact on the composition of the membership of any multi-stakeholder Board, oversight (e.g., the PIOB) or governance (e.g. the Monitoring Group).

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

It is unclear to us what "more strategic in nature" means. It is certainly true that Board meetings should be used less for detailed drafting. On the other hand, words are the only instrument that standard setters have to convey the responsibilities of professional accountants and therefore a "strategic board" cannot mean that the Board does not take final responsibility for the words used in its standards. It should also be noted that what may seem to be an editorial change for one person may be recognized as having a substantive impact by another. If this means that words with a substantive impact need to be changed during a Board meeting, then that is a sign that the meeting is effective by augmenting the quality of the standard in question.

The volunteer members sponsored by the firms, national standard setters and member bodies do not need any remuneration because they are intrinsically motivated to perform due to the potential impact on the content of the standards on their sponsoring organizations or those represented by those organizations. Remuneration for Board members only becomes an issue if members are no longer supported by these institutions due to perceptions of undue influence. Consequently, a Board that is completely independent of any stakeholder groups would require that its members be remunerated. However, the entire model proposed by the Consultation Paper in this respect is predicated upon funding for such remuneration becoming available.

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

Standards at an international level need to be generally accepted by all key stakeholder groups in major economic jurisdictions around the world. Passing standards with a bare majority invites the marginalization of the views of important stakeholders in important jurisdictions and would ultimately endanger the acceptance of those standards, which will reduce their adoption and ultimately lead to the regional "balkanization" of standard setting. For these reasons, we support maintaining a 2/3 majority vote for passing standards and continue to believe that international boards need to strive for consensus (but without any vetoes). Passing standards with considerably more than a bare majority is a major factor in ensuring the quality and applicability of standards on a worldwide basis.

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?

We are not convinced that it is possible to maintain appropriate diversity in terms of both stakeholder groups and geographic balance at an international level with only 12 members. Without members from particular major economic jurisdictions at the table for longer periods of time, the general acceptance of the standards issued by a Board would be called into question. We believe that having 18 members strikes the right balance between diversity and manageability.

Whether some or all members should be full or part-time depends upon available funding. Part-time members would suffer from the perceived lack of independence (whether from the profession or other stakeholder groups) and from the inability to compete with full-time members in terms of time commitment.

The list of stakeholders is very much driven by the focus of the Consultation Paper on the audit of financial statements of listed entities. Given our response to question 3 about the importance of the public sector, SMEs and non-governmental organizations, and services other than audits and their stakeholders, it appears to us that the list of stakeholders should be augmented by the public sector, SMEs and non-governmental organizations if the standard setting board is responsible for services other than audits of financial statements of listed entities.

One important omission from the list of stakeholders is national standard setters. The importance of national standard setters should not be underestimated, since these either adopt or recommend the adoption of international standards in their respective jurisdictions: national standard setters represent the “customers” that the international standard setting boards need to serve. If national standard setters do not regard an international standard to be appropriate for their jurisdiction, they may choose not to adopt (or not recommend adoption) or to make modifications, so without national standard setter “buy-in”, international standards will not be used. National standard setters are a diverse group: some are government-empowered regulators, some are independent, and some are from the profession; they also have different mandates in terms of the kinds of services for which they promulgate standards. Regardless of their nature due to the legal situation in different jurisdictions (it should not be within the remit of any new standard setting structure or nomination process to regulate how national jurisdictions organize their national standard setting), the importance of national standard setters is such that they deserve to be addressed as a separate category of stakeholders.

In an audit context, we are not convinced that preparers should be classified as users (even if they do use the results of the audit): preparers are those whose presentation is being vetted by the auditor on behalf of other users.

We are also concerned with the suggestion at one-third of the Board members be regulators. Due to their regulatory role, regulators – even with only one-third membership – will play a disproportionate role in standard setting because other board members directly or indirectly subject to oversight from those regulators will be placed in a difficult position when seeking to disagree with those regulators. If regulators obtain undue influence on the Board, there is a significant risk that their focus will be on the ease of enforcement of standards (pure compliance), rather than on improving the quality and value of the audit.

However, as noted in our response to questions 3, 4 and 6, the engagement standard setting remit of the Board determines who the relevant stakeholders are, which in turn would have an impact on the composition of the membership of any multi-stakeholder Board, oversight (e.g., PIOB) or governance (e.g., Monitoring Group).

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

Board members need to have demonstrated strong technical knowledge of the types of engagements, for which the Board promulgates standards, and their relevant independence requirements. They will also need strong English language skills to take part in the discussion – but need not be equivalent to a native speaker. It is important that they contribute to the collegial atmosphere of a Board, but they should also be individually strong enough to take a stand on important issues even if alone on a matter.

As noted above, geographical (major economic jurisdictions) and stakeholder diversity (including national standard setters, public sector, SMEs, etc.) are important criteria for Board membership. However, as noted in our response to question 2, the Consultation Paper does not clarify how the Monitoring Group intends to “square the circle” of reducing the influence of the profession yet maintaining technical competence of the Board.

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

If task forces are needed under the new standard setting model, then they would be accountable to the Board and hence subject to the public interest framework. The exception would be that the membership of such task forces would need to be limited in terms of numbers and hence less diverse and membership would likely involve greater consideration of technical expertise.

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

We agree in principle with the changes, but call into question whether a PIOB or other public interest body overseeing the Boards ought to be charged with the nomination process (see response to question 15).

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

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

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

We are not necessarily convinced that a PIOB in present form or as proposed in the Consultation Paper is appropriate for a diverse stakeholder model for standard setting. If an international standard setting board includes diverse stakeholder and geographic membership, as a matter of principle there needs to be a clear distinction between oversight and standard setting.

An oversight body should administer funding, budgeting, nominations, and oversee strategic planning and due process. Oversight does not include being involved in technical debates, second-guessing decisions of an independent Board, or having a veto over the content of standards, which would diminish the role of an independent Board.

Furthermore, no one stakeholder group should dominate oversight: the composition of any oversight body should reflect the diversity of key stakeholder groups and geography. Membership should therefore be open to all under a transparent due process. Membership criteria would include knowledge of the types of engagements for which standards are promulgated, but the high degree of technical skill as required for Board members is not needed.

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

The oversight body should be responsible for oversight over the Board for whatever the remit of the Board has as noted under our response to questions 4 and 6 – not more or less.

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

We agree that a body is needed to deal with the accountability of an oversight body, such as a PIOB, and to administer nominations for membership in that oversight body. However, this means that a body like this would need broader membership than the current Monitoring Group. In addition, any review of standard setting governance ought to be undertaken once every decade, rather than shorter time periods, so that current standard setting is not undermined.

This implies that there would be a very limited governance role for the Monitoring Group.

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?

We agree that expanded and higher quality technical staff would be advantageous. However, the Board must collectively have the technical skills to lead the decision- making so that the Board is not dominated by staff. Staff needs to be longer-term with leading edge technical, technical writing and people skills. Given the very small size of the pool of individuals with the requisite technical standard setting skills in the English language from the several largest networks (most line auditors do not have technical standard setting skills) and from a handful of larger national standard setters, and the experiences of a number of larger national standard setters with whom we are in contact indicating that several years are needed to build up an experienced standard setting team, increasing the number and quality of staff is not a matter that is easily resolvable in the medium-term, let alone in the short-term.

Having higher quality and more staff will, however, not necessarily lead to quicker standard setting, since the demands of due process and related outreach to stakeholders require time.

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

The permanent staff should be directly accountable to the Board: by whom staff is employed depends upon the legal structure of the governance of the Board.

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

There needs to be a clear consensus on the purpose and scope of standard setting projects at Board level prior to commencing work on those projects so that fundamental issues do not arise later in the standard setting process. Projects should be divided up into smaller chunks (such as limited scope projects) so that they can be managed better.

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

We are not convinced that perceptions of undue influence by the profession will be mitigated if the profession is largely responsible for funding the new standard setting model: sources of funding need to be diversified among all key stakeholder groups. We note that the PIOB has not even had success in seeking external funding for itself let alone the Boards it oversees. In comparison, the IFRS Foundation required over ten years to obtain broader-based funding.

The budget estimates provided in the consultation considerably underestimate how much it costs to fund full-time board members plus an expanded higher-quality staff. Furthermore, no costs have been addressed in relation to the transition. On the whole, the consultation does not provide an adequate budgetary basis for decision-making on a new model.

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

As noted in our response to the previous question, we do not believe that perceptions of undue influence by the profession will be mitigated if the profession is largely responsible for funding the new model. A "contractual levy" will not change such a perception. Applying such a levy to only the large firms would exacerbate perceptions of undue influence by those firms. Our response to the previous question also indicates that more comprehensive budgeting needs to take place prior to considering the extent of needed funding.