



**IKATAN AKUNTAN INDONESIA**  
**(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)**

Jakarta, February 8, 2018

Ref: 128/DPN/IAI/II/2018

**Monitoring Group**

**Response to the Monitoring Group Consultation Paper**

Dear Sir/Madam,

Ikatan Akuntan Indonesia (Institute of Indonesia Chartered Accountants – IAI) is the recognized professional accountancy organization in Indonesia. Established in Jakarta on December 23, 1957 IAI is a co-founding member of both IFAC and the ASEAN Federation of Accountants (AFA). IAI administers the Chartered Accountant (CA) Indonesia qualification as the country's recognized designation for professional accountants, conducts education and training activities, establishes professional accountancy certifications, and supports the standard-setting activities in Indonesia.

Our current membership is more than 30,000 strong, consisted of CA holders, associate and student members. We are home to Indonesian accountants from different backgrounds; public accountants, educators, private (management) and public (government) sector accountants, tax and forensic accountants, and those in the Sharia sectors.

Regionally IAI acts as the permanent Secretariat of AFA since 2011. Internationally, IAI has been actively participating in the IFAC Council (Ahmadi Hadibroto, 2012-2017) and the IFAC IAESB (Prof Sidharta Utama, 2015-present).

On behalf of the Institute I praise the Monitoring Group's effort to encourage stakeholders' involvement in the discussion on Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest (Monitoring Group Consultation Paper). Stakeholders' and general public's buy in is a fundamental component of a successful global standard-setting initiative, one that we believe has been successfully highlighted in this activity.

Our highest acknowledgement to IFAC that has played its role in excellent manner throughout the years, to lead and work together with the stakeholders in facilitating the development of audit and other standards with the primary consideration of public interest, supporting not only the accountancy and auditing profession, but also the integration of global economy.

We applaud your intention to propose reforms, all of which we believe have been established with good faith and for public interest. Generally, we support the objective of improving the overall quality of the standard-setting process, upholding the interest of the public.

However, we believe that the Monitoring Group (MG) needs to conduct more in-depth and comprehensive assessment of the current practices before proposing any significant reforms to the model that has served the stakeholders well. We are concerned that the proposed initiatives may result in nonessential unclear arrangements that are less effective than present arrangements.

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We are also worry that the proposed reforms will weaken the standard setting development, which is contrary to the intention of upholding public interest.

*Please refer to the attached Appendix for our detailed responses to the Paper.*

We sincerely hope that you will further consider our response.

Thank you.

   
**Prof. Mardiasmo**  
President





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**APPENDIX: RESPONSE TO THE MONITORING GROUP CONSULTATION PAPER**

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

Global standard-setting is a joint effort of different elements of stakeholders, each with their respective characteristics, strengths and limitations. More involvement from wide range of stakeholders representing different types of organizations from different jurisdictions would further benefit and enrich the consultation process. This serves as the basis of our general overview over the proposed reforms presented in the Paper.

**We question MG's process in identifying the key areas of concern and proposed reforms – only based on preliminary discussion with limited number of stakeholders.** We are not convinced that these relatively few stakeholders represent the view of the larger group of stakeholders that have been actively involved in the creation, adoption, and implementation of the standards. We believe that MG needs to conduct further communication with a wider group of stakeholders to identify the key areas of concern and proposed reforms.

**Further, we view that a more comprehensive analysis and evaluation should have been established prior to public consultation and more evidences should have been gathered to support the arguments in the Paper.** For example, evidences should also be gathered from empirical studies and surveys to relevant stakeholders. As explained in the following paragraph, arguments for justifying key areas of concern should not only focus on the risks but also recognize the benefits of the present arrangements, including control mechanism to mitigate the risks.

One fundamental aspect that we think should be highlighted is the benefits that have been garnered under the current model. Despite the risks, IFAC with the support of the stakeholders has successfully facilitated the standard-setting process that is independent, transparent and fair, resulting in high-quality standards adopted by most jurisdictions in the World. A robust oversight and control over the current model has been set to mitigate any risks that are perceived to be attached to the model.

We do recognize that further improvements to the current model are needed in few aspects of the governance and standard-setting process (elaborated below). This we believe, should be the focus of the initiative, rather than proposing significant reforms that are not strongly justified and are questionable in term of the substance and implementation under the current environment.

**SECTION 2: GUIDING PRINCIPLES**

In principle, we agree with the identified principles. However, the Consultation Paper (CP) does not provide any strong evidences to justify that the current model fails to satisfy the principles. Any significant proposal of reforms to the current model need to be supported by proven evidences that are scientific, based on reliable data, and not simply based on perceptions, particularly from few stakeholders who may not represents the general view of the population.



### **SECTION 3: OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS**

#### **Current Number of the Boards and Their Remits**

The Paper presented arguments as to why consolidation of the audit and assurance with ethic boards would be a viable option in response to the identified concerns. **However, we believe that despite the potential overlaps on various issues that are relevant to both, a dedicated board for each is still necessary.** Thus, we strongly support the retention of the current model. The subject matters, required skills and attributes, expertise and experience, and body of knowledge for members in the two boards are quite distinct, particularly in the context of public service. In addition, separate boards would enable a check and balance mechanism between the two boards, particularly on issues that are relevant to auditing, assurance, and ethics. Under the combined board this could not happen. Further, the combined board approach increases the risk of undue influence of certain stakeholders to both standards.

Ethics is highly important in supporting public trust towards the accountancy profession. Ethics apply to all types of the accounting profession, not only those in public practice, but also the private sectors. Accounting is a profession and as in other professions, professional accounting organizations (PAO) need to develop and enforce their own code of ethics. Thus, **it is highly crucial for IFAC** which is an umbrella organization for more than a hundred PAOs to **maintain a separate board to focus on ethics and lead the effort in building public trust towards the accounting profession.** In line with the preceding argument, we concur with the position of MG that the development and adoption of education standards should remain a responsibility of IFAC.

#### **Current Composition and Role**

**We recognize the need for the boards to be more focused on the strategic nature and activity of the standard-setting process.** We acknowledge that this can only be achieved should the IFAC technical staff supporting the boards be further strengthened to take more responsibilities in the technical and detail parts of the standard-setting from the boards.

**Remuneration of board members will require significant additional funding.** We believe that any proposal to support reform of this significance should convince the stakeholders that **sources of funding have been identified and can be viably obtained.** Now, we are not convinced that the Paper has given the necessary information on how this can be realistically achieved.

On adoption of standards based on majority, we believe that **more analysis need to be done on whether any perceived relevance and timeliness issues are indeed due to the boards' decision making which are mainly done on consensus.** We suspect that the perceived timeliness issue may arise from any parts of the lengthy due process procedures, which aim to assure that the proposed standard is relevant and obtain support from stakeholders. This may result in trade-off between relevance and timeliness. We encourage MG to coordinate with IFAC to examine whether the perceived issues are indeed existing and more importantly, affect the quality of the standards produced.

About the board composition (standard setting board, CAG and PIOB), **more emphasis on the need and interests of stakeholders from emerging economies should be highlighted,** due to the rising importance of these economies in any global initiatives including standard-setting. We believe that IFAC should strive in ensuring more representatives of these stakeholders to sit on the boards, whilst keeping the balance with the necessary pool of knowledge required for the boards to function and





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achieve their objectives. **With proposed fewer number of board members, we view that it would make it more difficult to achieve diversity in board members, while extant studies suggest board diversity results in better board decision.** Thus, we caution MG's proposal to reduce the number of board members.

We also agree with the proposed identification of a skills matrix to be used in assessment of potential members. The matrix can also be used as the basis for board succession plan, ensuring fair representation of the different stakeholders at all time.

#### **Current Nomination Process**

On nomination of board members, we do not foresee any issues that significantly tainted the integrity of the standard-setting process and/or the standards produced. We believe that **the current nomination process should be maintained; however, the composition of the Committee's members may need more representations of key stakeholders of the accounting profession. We do not agree that PIOB should administer the nomination process** since this may impair the independence of its oversight duty. We encourage MG to cooperate with IFAC in identifying ways to further strengthen the integrity of the nomination process.

#### **SECTION 4: OVERSIGHT – ROLE OF THE PIOB**

In principle, we recognize the need for more thorough and frequent communication on the role and responsibilities of the PIOB and Monitoring Group. This is important to provide clarity and avoid any confusion and unnecessary questions from the stakeholders on what seems to be overlaps between the two organizations. PIOB can work with the boards in discussing and finalizing the boards' strategy and plan in setting the standards.

We do not agree with the proposal for the **PIOB to have the capacity to veto the boards' technical decisions and judgments.** The proposed mechanism in fact presents an independence issue particularly in the context of oversight of the standard-setting process. PIOB in conducting its oversight functions should be involved throughout the standard-setting process to ensure that due process procedures have been conducted properly, rather than to veto the adoption of the standards. We also question how the PIOB will have and viably build a capacity to veto or challenge any technical decisions made by the boards without having the expertise to do so.

*Considering the important role that PIOB plays,* we believe that a representation of IFAC in the PIOB will benefit the oversight process by providing familiarity with the IFAC structure and up-to-date information on IFAC other activities and networking with its stakeholders. *A single representation should not imply any independence issue as it should not be able to significantly affect PIOB's decision over its oversight role.* We also believe that the membership of PIOB can be further strengthened through introduction of representatives with proven experience in standard-setting in emerging economies environment.

On appointment of PIOB members, we believe that the same transparency and independence principle applied in appointment of board members should be applied to the PIOB. **We encourage the MG to explore possibility for an open call for nominations not only from members of the Monitoring Group, but also the general stakeholders with the required oversight experience and expertise.**

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**SECTION 5: ROLE OF THE MONITORING GROUP**

In general, we do not have any significant concern with the MG's current role. However, referring to our comment above in Section 4, we believe that the MG should explore and consider relinquishing its role to appoint PIOB members.

**SECTION 6: STANDARD-SETTING BOARD STAFF**

Continuous strengthening and expansion of the professional technical staff is a necessary step that should be focused on by the MG and IFAC. We believe that a stronger pool of staff not only will improve and enrich the quality of the standard-setting process and the resulted standards, but also provides continuity and better accountability. It is also important to consider that the staff continuously communicate and build a network with the many stakeholders. Rather than focusing on significant questionable reforms of the boards, we believe that **more efforts should be re-directed to strengthening the foundation of the standard-setting process, which is the pool of professional technical staff available to the boards. However, we recognize that the issue would be on how this could be realistically funded.**

A better staff management analysis may be needed to ensure that succession can be done accordingly, to maintain the desired continuity, and retain (and transfer) the knowledge and experience accumulated from the periods of networking and standard-setting process. We support the proposition to vary the term of contracts between the staff to achieve this objective. However, we also recognize the need for further review on how additional funding can be secured to realize this.

We do not agree with the idea of staff employment under the board. We are not certain how staff employment under the boards can be realistically done, considering the limited capacity that the boards have. Also, the board focus should be on the standard-setting objectives, rather than the management aspect of the process. The boards can work together with IFAC to identify any staffing needs, including identification of required set of skills and attributes to support the boards' activities.

**SECTION 7: PROCESS CONSIDERATIONS**

No further comments.

**SECTION 8: FUNDING**

In general, we think that **most of the proposals presented in the Paper are hinged on the assumption that additional funding can be secured to support the costly reforms that still need to be well thought out.** Thus, we encourage the MG to consider presenting a more thorough and comprehensive paper the proposed reform and on how additional funding can be viably secured. The Paper has identified and proposed few funding options to be considered, particularly to strengthen the independence of the standard-setting process and expand the board's funding sources. We believe that the MG needs to discuss further with IFAC and other stakeholders, to provide further and more detailed information on how additional funding can be secured, and more importantly secure stakeholders' buy in and trust that any changes would not put additional financial burden upon them.





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*In the context of funding, we believe that MG understand the different development stages of not only IFAC members (PAOs) but also the wider stakeholders who participated in the standard-setting process, including those who are involved in the adoption and implementation of the standards. Stakeholders from emerging economies must deal with limited resources available to them daily. Any potential burden placed on them might jeopardize their ability to grow and build the accountancy and auditing profession in their respective jurisdictions. In respect to the proposed reforms, our concern is on how any significant changes to the current model may lead to further financial burden, some of which may have to be shared with these stakeholders.*

The current funding model although without its flaw has served not only the standard-setting process, but also the oversight function well. Alternative such as putting a levy on certain organizations may be further considered, if they can be established under full accountability and transparency.

**SECTION 9: OPEN QUESTIONS**

Considering the importance of this consultation, we highly encourage full transparency and accountability to be observed at all time during every aspect of the process. This includes among others, full disclosure as to the comments received which we believe should be fully presented and be made available for public.

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