

Gerben Everts
Chair of Monitoring Group

Stephen Haddrill
Chief Executive of FRC, UK

Sent by email:
MG2017consultation@iosco.org

Brussels, 31 January 2018

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

Dear Messrs Everts and Haddrill,

Accountancy Europe would like to provide you with its comments to the Monitoring Group (MG) consultation on: *Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest.*

We have included our replies to the questions raised in the consultation paper in the annex of this letter. You may find the key points of our replies in the cover letter below.

Overall, we believe that the consultation paper should be the first step in a longer process of more concrete discussions, consultations and proposals, including transitional measures.

Indeed, the following further information is needed to have a full overview of the proposed reforms and their expected benefits:

- An impact assessment
- The public interest framework
- Confirmation of short, medium and long-term funding arrangements
- Transitional arrangements; there is no need to change what already works well within IFAC

We are open-minded and want to contribute to developing alternative proposals for solutions.

We support change to the current standard setting model. Setting up multi-stakeholders standard setting board(s) and a governance and oversight body should be part of this change. Practitioners should be involved on an equal footing in both the board(s) and the governance and oversight body.

The credibility of the standard setting process depends on its independence from any particular outside influence.

In particular, when looking into the specifics, we would like to raise the following comments:

OVERALL REFORMS:

The principles we support in the reformed model are:

- Distinct and separate roles for oversight and standards' development: governance should oversee the model and due process, but not intervene in the work and technical debate of the standard setting board(s).
- Participation of all relevant stakeholders at both the oversight and standard setting levels.
- A pathway to broad-based funding within a foreseeable timeframe.

This will require structural changes that:

- Redesign the standard setting board(s) and how it/they operate(s) so that all key stakeholders can participate in standards development on an equal footing.
- Design a governance model to serve as guardians or trustees of the model on behalf of all stakeholders.

GOVERNANCE AND OVERSIGHT BODY:

Today's PIOB model evolved to what it is due to lack of trust in the standard setting process.

What is needed is a shift from primarily being focussed on the board(s)' technical agenda and arbitrating on the public interest in the technical debate to serving as trustees or guardians of the standard setting model on behalf of stakeholders.

We envisage a robust and outward looking body that is responsible for the governance and oversight of the standard setting board(s): overseeing the operations of the organisation; monitoring the design and operations of the standard setting board(s) for its effectiveness as well as holding the standard setting board(s) accountable; and managing board nominations.

The governing and supervisory body should be a multi-stakeholder body representative of the global standards' key stakeholders: those with authority to adopt standards, those that regulate and enforce them and those who benefit from and use them. Members should however not represent any group or organisation specifically. In this respect, we see value in exploring the way the IFRS Trustees model is composed.

Offering a veto option to the governance and oversight body will not improve the current trust issue as perceived by some stakeholders. We do not support any option that would result in the governance and oversight body going beyond its governance remit as described above. In this respect, we see value in exploring the way the IFRS Trustees oversight model operates.

Finally, we do not support staged reforms for the PIOB.

BOARD(S):

Any future board(s) should be built on a multi-stakeholder basis. The composition of the board should also depend on its remit of engagements and standards to be covered.

The paper seems to focus primarily on a board setting standards for audits of listed entities or Public Interest Entities (PIEs). There is no reference to the audit of Small and Medium-sized Entities (SMEs) which, together with the public sector, represent the majority of the economy in most European countries.

Furthermore, ethical principles/standards go beyond independence and should be the same for all professional accountants.

Therefore, it is difficult to conclude whether we need one or more boards at this stage. Before taking a decision on this, we need to consider the following key factors:

- Ethical principles or standards are not limited to the issue of independence. Therefore, ethical principles should be addressed together for every service (audit, assurance or other) that professional accountants (auditors, assurance providers, providers of other services) or accountants in business provide. Separate sets of principles/standards could mean separate boards, but not necessarily.

- Auditing of SMEs should not be neglected. There is a European Union (EU) requirement for all medium-sized and larger entities to be audited. Small entities are not explicitly required by the EU to have an audit. However, EU Member States can impose an audit on all or part of small entities, albeit the audit should be appropriate for the conditions and the needs of these companies and the users of their accounts¹.
- In principle, we would consider as ideal having the same high-quality principles-based standards for audits of all entities. Truly principles-based standards should be suitable to meet the audit needs for both listed and unlisted entities including small and less complex ones.
- To address the issues of complexity and the difficulties of scalability, it needs at least to be considered to go the route of having separate (audit) requirements for unlisted, less complex and small entities as compared to the requirements for listed entities and PIEs, whereby principles should be the same for all standards. Separate requirements could mean separate sets of standards and separate boards, but not necessarily.
- A board dealing with less complex entity audits should also be equipped with members who have a good understanding of and expertise in SMEs and less complex entities.
- The reliance that can be placed on expert groups and staff is also important to decide how many and which board(s) are needed. It might be possible that separate expert groups, supported by appropriate staff, within one truly strategic board are responsible for different sets of standards covering different topics/engagements.

In addition, when looking into the public sector, most of the public sector entities in Europe are subject to an annual financial audit. In addition, most European countries are using public audit standards which are based on ISAs or on those published by the International Organization of Supreme Audit Institutions (INTOSAI): the International Standards of Supreme Audit Institutions (ISSAIs).

Therefore, we should ensure that standards do not focus solely on listed entities or PIEs and look for ways to at least tailor part of the standards for the public sector. Otherwise, the future standards will not be useful for significant parts of the economy.

Depending on how the board(s) will be composed, Consultative Advisory Group(s) (CAGs) could be retained to fill possible gaps in diversity.

Applying a simple majority voting in the board(s) may lead to systematic exclusion of views of specific members or groups of members. This would undermine trust and the adoption of standards at a global level. It is important to continue ensuring that standards are generally accepted globally, particularly considering that standards are up to the willingness of national standard setters to adopt.

Reducing the number of members and assigning further responsibilities to the staff does not necessarily mean more timeliness in standard setting. It is a matter of the board setting upfront very clear objectives and priorities for new or revised standards.

Board members could be remunerated if the appropriate funding is available.

ETHICS:

Independence is relevant for performance of audit and assurance engagements and therefore independence standards go hand in hand with auditing and assurance standards.

¹ [Audit exemption thresholds in Europe. Update after the transposition of the Accounting Directive](#), Information Paper May 2016, Federation of European Accountants

However, ethical principles are not limited to the issue of independence. As ethics is a key driving force behind the appropriate functioning of the profession, ethical principles go beyond that. We believe that ethical principles should be the same and apply in the same way for all professional accountants, irrespective of whether they are auditors, assurance providers, providers of other related services or accountants in business and irrespective of whether they perform an audit, another assurance engagement, other related services or are active in business.

In the relevant questions below we develop in further detail the available options to address this issue. To reach a final decision on this, the remit of the board(s) in terms of engagements and standards to be covered would need to be clarified in order to determine the relevant composition and governance of a particular board.

ROLE OF IFAC:

Regardless of the final decision, the Monitoring Group should be more transparent on the continuing role for IFAC in relation to standard setting. This would be in relation to responsibilities for which IFAC continues to be best place or related to which IFAC has a widely recognized positive or even outstanding track record.

MONITORING GROUP:

The Monitoring Group should re-assess its responsibilities to avoid duplication of work. The responsibilities of the Monitoring Board in the IFRS model can provide further inspiration on this.

The Monitoring Group should acknowledge stakeholders' concerns that the proposed new model with significant regulator's involvement in the standard setting process will lead to compliance-oriented standards and leave little or no room for principles-based standards and the use of professional judgement. As a starting point, the Monitoring Group could clarify how they see the standard setting process. This could be done by attempting to define what a 'good' standard is, including the use of principles and professional judgement.

We hope you find these points useful. You may find our replies in full detail in the annex below.

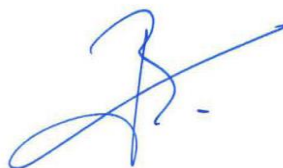
In case you would like to discuss any of our points in further detail or have any further questions, please do not hesitate to contact either Hilde Blomme at hilde@accountancyeurope.eu or +32 2 893 33 77 or Eleni Kanelli at elenik@accountancyeurope.eu or +32 2 893 33 78.

Accountancy Europe unites [51 professional organisations](#) from 37 countries that represent 1 million professional accountants, auditors and advisors. The accountancy profession remains future oriented and open to change. We are at your disposal to discuss these comments further with you.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
Chief Executive

Annex with responses to questions

Our main comments in the accompanying letter set the context for our responses below.

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?

- 1.a) We relate to the *perception* of undue influence by the profession having an adverse effect on stakeholder confidence in the standards. We believe that no particular stakeholder should exercise undue influence in the board(s), not the profession, not regulators and not ‘users’.
 - We agree that relevance and timeliness of standards are of utmost importance. Quality should also be one of the desired goals of standard setting, which can take time. The right balance between relevance/timeliness and quality of standards has to be found.
 - We have a hard time to accept that the standards would not be seen as developed in the public interest, especially as these standards are already adopted by legislators and/or regulators and are applied globally. In addition, the PIOB has been overseeing the standard setting procedure for several years already.
- 1.b) There is less clarity on how these concerns are going to be addressed. There should be room for alternative solutions that are capable of effective implementation.

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?

- 2.a) Overall, we agree with the proposed principles by the Monitoring Group.
- 2.b) However, we would like to add to these the following missing aspects:
 - Standard setters should indeed be accountable for their actions. Nevertheless, they need to be accountable to the public overall. The same principle should apply to all stakeholders involved in standard setting: regulators, the profession, ‘users’ etc.
 - It is important to respect the due process. Oversight bodies have a key role in making sure this is respected by adopting efficient practices (e.g. improving communication, not creating additional bureaucracy with multiple oversight bodies).
 - Most importantly: oversight bodies should not go beyond their mandate (which should be clarified) while executing their role: the board sets the standards, the oversight body oversees the standard setting, they do not interfere in the standard setting itself.
 - The Monitoring Group principles do not seem to take into account the SME and public sector perspectives. Furthermore, they do not seem to sufficiently address the other related services performed by practitioners beyond audits of financial statements.

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 public interest is about the welfare of the general public, in the long term.
- When addressing the public interest in standard setting, there is a need to hit the right balance between the quality of standards, applicability of standards in practice and their enforceability.

- Public interest is not only about PIE audit and their independence standards. It is also about SMEs and the public sector and other services. Both SMEs and public sector are an important part of the economy and employment in most European countries.
 - Indeed, SMEs make up 99,8% of entities in the EU in the non-financial sector, 57% of value added / Gross Domestic Product (GDP) and 67% of employment in Europe
 - The public sector makes up roughly half of the economy in most European countries.

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.

- Regardless of whether there will be a single board or not, it is crucial to ensure that the composition of every board(s) remain multi-stakeholder. The composition of the board and its interaction with relevant stakeholders will depend on its remit of engagements and standards to be covered.
- We can agree with combining standard setting for **audit and (other) assurance with independence, especially if related to financial statements and reporting**, as independence works as a proxy for objectivity.
- Further attention should be given to standard setting for other assurance and other related services outside of financial reporting. Assurance standards do not only apply to financial statements or reporting but increasingly are experimented with to apply for adding credibility to non-financial reporting like environmental, social and employee matters, respects for human rights, anti-corruption and bribery matters, diversity and governance matters, etc.
- It needs to be considered and clarified further whether the remit of a single global board with only 12 members could be wide enough to cover standards for all these engagements and services, even if the board is a strategic one.
- Ethics is not only about independence and it is not only relevant to audit and assurance. **Ethical principles for all professional accountants**, including for auditors, assurance providers, providers of other related services and professional accountants in business, should be addressed and dealt with together as they apply to every service which professional accountants provide, be it audit, assurance, other services or are active in business.
- Furthermore, as far as audit standards are concerned, experience has shown that it is becoming increasingly difficult to set the same standards for listed/PIEs and consequently more complex entity audits as for non-listed and less complex entity audits. It seems necessary to consider whether there is a need for different requirements **for listed/PIE audits as compared to unlisted/less complex audits** to address the issues of complexity and the difficulties of scalability. Preferably, the more complex standards would be built or based on the less complex ones. For the more demanding requirements for listed entity/PIE audits, enforceability will be much more important than for the less complex ones where adding value for the entity and its reporting would be crucial.
- Similarly, we should ensure that standards do not focus solely on audits of listed entities or PIEs but look for ways to at least tailor part of standards for the public sector. Otherwise, the future standards will not be useful for significant parts of the economy.

- In case standards would be set by a single board, it will have very large responsibilities. Therefore, its supporting infrastructure will be crucial to provide strong technical expertise on audit, assurance and independence. This could be dedicated to expert groups, staff, etc.
- This issue of differentiation also arises for oversight and whether it is necessary to have the same level of oversight for all standard setting. In today's practice, innovation requires to provide non-regulated assurance and other, new services. It therefore needs to be considered whether the new governance and oversight body should oversee all standard setting equally.
- Finally, we would like to warn against an overengineered, complex and costly model of standard setting.

Question 5: Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not why not?

- 5.a) We believe that standard on education should remain a responsibility of a board under the auspices of IFAC.
- 5.b) When it comes to the compliance program, this is an issue to be solved between IFAC and the Monitoring Group as this might involve legal issues.

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

- As developed under question 4, ethics is not only about independence and it is not only relevant to audit and (other) assurance but also to some other related services standards.
- As ethical principles are not limited to the issue of independence it should be addressed and dealt with together as they apply to every service (audit, assurance or other) which professional accountants (auditors, assurance providers, providers of other services) provide and for accountants in business.
- Indeed, in practice, auditors often provide audit services one day, assurance services the other day and another business or service the next one. It would not make sense that this auditor is held to other ethical principles depending on the kind of service he or she is providing or business he or she is in.
- Separate sets of standards/principles could mean separate boards, but not necessarily. It should be possible that separate expert groups within one truly strategic board are responsible for different sets of standards or principles.
- Retaining the responsibility for ethical principles within a board under the auspices of IFAC could be an option as well. Instilling ethical principles to the profession means introducing changes to their behaviour. This is a process developing on an everyday basis in which professional bodies play a key role. In this sense it would make sense to keep the responsibility of ethics within the profession, under the oversight of the governance and oversight body.

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.

- Reference is made to responses to other questions where additional considerations are included when relevant.

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?

- 8.a) Standard setting boards in the current model are focusing on too many details like wordsmithing etc. This needs to change. Part of the work undertaken needs to be delegated to the staff and/or technical experts in expert groups. However, it is important for the board(s) to have the final word over what is included in the standards or principles and to be able to propose changes to the wording if necessary. The board(s) has responsibility for the final outcome.
 - That said, a more strategic board which acts as a sounding board providing input for standard setting is appealing. However, it needs to be better defined what strategic means. Does this imply that the board should be more forward-looking? Is it linked to including specific competencies from board members? What would be the expectations for the board and for the staff, respectively?
 - Indicatively, as part of building a strategic board we consider crucial to identify upfront and with full clarity the objectives and the changes standards should bring in practice. A consultation on the stakeholders' needs and corresponding prioritising the board's work can enhance this. The board(s) need(s) to remain up to date with current developments and innovations in markets as well as open to suggestions coming from stakeholders to enable them to respond appropriately and swiftly.
- 8.b) Board members can be remunerated if the relevant funding is secured. The impact assessment would be expected to clarify the benefits in case board members are remunerated.

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

- Although the current practice is a 2/3 majority, the de facto practice within the current boards is to reach a consensus.
- If we want standards to serve the public interest which will be considered fit for voluntary adoption at jurisdiction, firm or network level, we need to make sure a broad, general consensus is sought, however without the option of a veto.
- Having a simple majority can lead to the systematic exclusion of specific board members or a group of stakeholders, which could lead to standards which are not generally accepted. This would undermine trust and the current adopting of standards pretty much across the world.
- Therefore, we believe that at least a qualified majority to adopt the standards which prevents the exclusion of a group of stakeholders would be the best option going forward, like a 2/3 majority.

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?

- 10.a) It is crucial to ensure that the composition of every board(s) remain multi-stakeholder. One third of representatives from regulators, one third from 'users' and one third from the profession seems to be a *good starting point* to achieve that.

- The proposed multi-stakeholder composition and operational model could work, but what is now referred to as ‘users’ should be ‘stakeholders other than regulators and auditors’ in order not to narrow it down too much.
- 10.b) & 10.c) It is very important to ensure diversity in the board(s)’ membership. It is necessary to ensure that the right technical and other backgrounds are included for the different types of standards to be set as well as different nationalities or regions, legal systems, gender, large and small business and public sector representatives, etc. This does not need to be exhaustive but 12 members do not seem to be enough to achieve this level of diversity needed for international level standards, which national standard setters will scrutinize to consider their adoption (or not).
- Therefore, it appears that the type of engagements the standards need to cover should determine the type of stakeholders needed in the board(s). Ultimately this should also determine whether there is a need for one or more boards dealing with one or more types of standards (audit, review, other assurance, related services, quality control standards, independence, potentially ethical principles), for listed entities/PIEs, for unlisted entities/smaller entities, for public sector entities, ... and how many members are to be included in a board.
- The governance and oversight body - considering that it proceeds with reforms itself as well - should be able to review the composition of the Board(s) to ensure an appropriate balance of perspectives and should monitor the effectiveness of its members.

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

- A board should encompass a set of different criteria. Its members should come from diverse, but relevant, backgrounds in order to be able to gain more acceptability and diversity of input into the standard setting process.
- Not all board members need to have a technical background. However, it is key to ensure that all board members have an in-depth knowledge of the issues discussed. The more technical the standards are, the higher the involvement of the technical experts should be. The board and its expert groups should include appropriate and relevant business, professional and technical expertise.
- Another aspect to be taken into account is that there are sufficient structures in place to insulate the board from undue political or other external influence. No particular stakeholder group should be able to exercise undue influence within the board. Any stakeholder member on the board should ensure that they serve the public interest.

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?

- If we can have (a) board(s) and a governance and oversight body with a broad multi-stakeholder representation which is transparent to the broader public, strictly seen, we do not need to keep the CAG(s). This would also respond to the need to avoid an overengineered, complex and costly standard setting model as referred to earlier.
- However, the small size of the strategic board(s) might not achieve a broadly-based representation which could be compensated by a broader-based CAG.
- A precondition in this matter of due process is also having transparency in the board(s)’ operation, including for instance the use of public consultations.

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

- As this is the first and only time the term Task Forces is mentioned in the paper, there is a need for further explanation on what their role would be.
- Task forces or, expert groups as we would refer to them, should be accountable to the board and this re-assures the fact that they serve the public interest.
- Task forces need to be small in numbers to retain flexibility. Technical competence related to the topics or issues within the task force remit is key to their function. Task force members should be experts in their fields depending on the issues they need to address.

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

- We agree in principle with the proposed changes. However, we need to have more clarity on what will be the reformed role of the governance and oversight body (the current PIOB) considering that nominations will be managed by the governance and oversight body.
- As part of its reform, we need to have a multi-stakeholder governance and oversight body with a transparent nomination process. This will increase the chances of nominating standard setting board members that respond to the principles of diversity, expertise and qualifications.

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?

- 15.a) The PIOB needs to be reformed and the new governance and oversight body needs to be a multi-stakeholder body representing global standards' key stakeholders including those with authority to adopt the standards, those that regulate and enforce them and those who benefit for and use them.
 - The new governance and oversight body should have a clear mandate and responsibilities to oversee the operation, design and due process but not intervene in the standard setting's technical debate itself which rests solely within the board(s). We need distinct and separate roles for on the one side the oversight and governance and on the other side for standard setting and the technical debate.
 - We fully support the specific task of the new multi-stakeholder governance and oversight body facilitating funding and approving the board(s)' budget.
 - We also agree with the new multi-stakeholder governance and oversight body managing board nominations.
 - No other responsibilities should be assigned to the governance and oversight body other than the ones named above.
- 15.b) We do not agree with the new governance and oversight body vetoing standards as we do not believe it would solve any issues of improper oversight. The mission of a government and oversight body is to oversee the operations of the board but not to interfere in the standard setting process, which having a veto right would be. There is no similar example that can justify this 'veto' proposal.

- Indeed, a comparison can be made with the already existing IFRS Trustees model, which is well respected for its credibility. The IFRS Trustees are not expected to be involved in the technical debate and accordingly there is no veto right. While exercising their governance responsibilities, the Trustees may reconsider or amend the board(s)' due process or recommend, for example, improvements to the board(s)' outreach activities. In addition, the constitution requires the Trustees to undertake a formal, public review of the structure of the IFRS Foundation, its governance arrangements and its effectiveness in fulfilling the organisation's objectives every five years.
- 15.c) Instead, we propose for the new multi-stakeholder governance and oversight body to strengthen its role on due process oversight by: i) challenging and holding the board(s) accountable in case of no due consideration to differing stakeholders' views; ii) evaluating the performance of board members and particularly the chair and finally by iii) ensuring public accountability and transparency.
 - In addition, it should be able to review regularly, and in a timely manner, together with the board(s) and the staff, the due process activities of the standard-setting activities of the board(s).

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

- Adoption of standards remains voluntary across jurisdictions; thus, trust remains critical in the overall standard setting process. The new governance and oversight body needs to be multi-stakeholder to build confidence across all stakeholders' group (like the board(s)), especially considering that it will take over the responsibility of managing board nominations. The profession should be part of the multi-stakeholder representation in the governance and oversight body. In the execution of the governance and oversight body's responsibilities, the profession should be involved on an equal footing with the rest of the stakeholders. Whether this is IFAC representing the profession or not, is secondary.
- As an alternative, we would propose to redesign oversight as a trustee body serving as the guardian of the model and its effectiveness – similar to the IFRS Trustees, which aims at covering geographical balance but also diversity in professional backgrounds.

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?

- Same as questions 15 and 16. We believe that nominations to the new governance and oversight body should be open to all, with a transparent process. It should be composed of those with authority to adopt the standards, those that regulate and enforce them and those who benefit and use them. Indeed, practitioners together with all other relevant stakeholders should be members with equal rights of the new governance and oversight body. A 1/3, 1/3, 1/3 stakeholder composition for the governance and oversight body of these stakeholder groups would be a good starting point.
- The nomination process should also be supported by due process and a skills matrix.
- It is very likely that the size of the new governance and oversight body would need to be increased to ensure geographical diversity and diversity of skills. Nominations should ensure a broad international basis to maintain an overall geographical balance.
- Members of the governance and oversight body should have a strong understanding of audit, assurance, independence and potentially ethics. Experience in audit committees, audit expertise and practical experience are also key to be able to oversee standards setting process.

- Each member should have an understanding of, and be sensitive to, international issues relevant to the success of an international organisation responsible for the development of high quality global auditing standards.

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 do not support the current PIOB model of governance and oversight body members being appointed by individual MG members.
- The nomination process should be wider, public and transparent. It should call for nominations from those with authority to adopt the standards, those that regulate and enforce them and those who benefit and use them.
- A 'board of trustees' should decide who should seat at the new governance and oversight body. Soundings from key stakeholders groups on nominations could provide useful feedback.

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 focus of the new governance and oversight body depends on how the new board(s) will look like. As developed in our replies to questions 4 to 7, we see issues arising from separating ethics for professional accountants in business.
- Should setting ethical principles/standards remain within IFAC (see our remarks on question 19), then they should be under the auspices of a governance and oversight body. For whatever else is left within IFAC, leave it to IFAC to consider how to organise its oversight.
- One way of doing this could be following the principle that the more the standards cover public interest entities, the more independent oversight might need to be considered.

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?

- If the Monitoring Group and the PIOB remain in place, then we need to have a clear distinction between the roles of the oversight bodies. However, we are not convinced we need two 'oversight bodies'. As already explained, the oversight system should be re-designed more into the direction of the IFRS Trustees model whereby the Monitoring Group becomes a 'board of trustees'. In particular, the Monitoring Board is responsible for i) linking between the public authorities and trustees ii) approving the appointment of trustees iii) reviewing and providing advice to trustees on fulfilling their role iv) meeting the trustees at least annually to provide feedback and exchange views.
- Any proposed reforms should have a clear a stable platform for oversight, no constant or stepped reforms, which could lead to a weak standard setting model. The responsibilities of the Monitoring Group should be listed and distinct.

- As an aside, it is not clear whether the Monitoring Group in its current role promoted the use of ISAs and the IESBA Code. For instance, in the European Union, the European Commission, a Monitoring Group member, did not take up its mandate in article 26.3 of the audit directive 2014/43/EC for adoption of ISAs in all 28 EU Member States, their adoption in 26 of the 28 EU Member States was each time based on a decision in the national jurisdiction.

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?

- 21.a) We agree with the proposed option. The board(s) should collectively have technical savviness in order to lead the decisions to be implemented by the staff. The board members should be able to rely on the staff for taking forward their strategic decisions.
- 21.b) There is a need for more, more experienced and longer-term staff, with appropriate / leading-edge technical, writing and people skills combined with up to date practice experience.
 - The board(s) should reflect how the staff can get the necessary skills in relation to digitalisation and how to interconnect the skills and responsibilities of staff with the expert groups and board(s), or combination thereof.
 - It should be noted however that further delegation of work to the staff (and expert groups) will not necessarily lead to improving the speed of the standard setting process. The reason for the observed delays lies into the practice of ensuring that all views are taken on board before concluding.

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

- We agree with the proposal that the staff should be employed by the entity to which it is accountable. This would require the board to be a legal entity which may raise a number of issues.

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

- Having clear objectives when the board(s) decide(s) that a standard need to be revised or issued is crucial. This was too often lacking in the current standard setting model.
- Standards should be issued when they are needed. Standards should be timely and responsive to current developments and innovation in the market. The board(s) should also be more strategic on deciding which are the major projects that require fundamental changes and thus need to be dealt at board level.
- Timeliness of standards is objectively an issue which needs to be improved. However, applying cross-cutting voting methods or delegating work to the staff does not necessarily mean it will improve this. In order to have highly developed governance and standard setting processes respecting legitimacy and due process, sufficient time is needed.

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 (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)?

- It does not appear to be in the public interest of have the accountancy profession pay for the standards against which they will be measured. Work on a pathway to broad-based funding within a foreseeable timeframe should start as soon as possible.
- With the public interest in mind, funding needs to be diversified as much as possible. Considering that there is a perception issue of undue influence exercised by the profession, the funding sources should be widened. Apart from the larger audit firms, national standard setters, securities market regulators, larger and smaller businesses, the public sector or other stakeholders can also be considered as potential contributors of funding.
- We believe that the biggest issue will be to have a good estimate of the budget needed to put the proposals into operation and to secure the funding needed to cover for it. A clear estimation of the expected costs (including the costs of transition) should be shared in order to see what the best way to diversify funding is.
- We observe that the current PIOB has little experience and has shown little motivation in the past to widen their own funding, let's alone the funding of the board(s) they oversee. The new governance and oversight body should have this as one of its priorities. As a comparison, it took the IFRS Foundation over 10 years to secure a wider basis for their funding.

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?

- 25.a) No stakeholder will accept to sign a levy without knowing how much this will cost. There is a need for further information on expected costs before taking any final positioning.
 - It appears impossible to make such contractual levy mandatory, therefore, it can only be voluntary and thus not secured.
- 25.b) As raised in the previous reply, funding needs to be opened up to additional stakeholders. If the profession continues to cover the costs on a sole basis, the perception of undue influence will not be addressed successfully.

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

- Any proposed reforms should have a clear timeline to ensure stability and trust in the system. We cannot afford recurring reforms in the years to follow.
- Before reaching any final decisions, the Monitoring Group - in consultation with relevant stakeholders - should consider what will be the benefits of the proposed reforms and whether the expected cost will bring the desired results. There is a need for further evidence before taking any decisions on reforms, which we expect to see in the impact assessment. The cost of transition should be taken into account as well.

- Adopting standards is based on a voluntary approach. The purpose of any reforms should be to open up the discussion to the stakeholders and ensure diversity. National standard setters should see benefits in adopting the international standards.

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

- Reference is made to responses to other questions where additional suggestions are included when relevant.