

Mr. Gerben Everts, Chair
Monitoring Group

7 February 2018

Response submitted via e-mail to: MG2017consultation@iosco.org

Monitoring Group Consultation Paper: *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*

Dear Mr. Everts

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Monitoring Group Consultation Paper, *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest* (the Consultation Paper).

To begin, it is important to recognize that the current standard-setting model has significantly contributed to promoting quality in audit and assurance engagements globally. The International Standards on Auditing (ISAs) and the International Ethics Board of Accountants' Code of Ethics (IESBA Code) have been developed following appropriate due process and have achieved widespread global adoption. The ISAs and the IESBA Code have served the public interest for many years and have set a widely recognized benchmark for high-quality audit and assurance engagements.

The Consultation Paper, however, contends that stakeholders believe that the current process suffers from the perception of undue influence by the audit profession and that influence directly contributes to the risk that the standards are not developed fully in the public interest. We do not agree that the extant standards have not been developed in the public interest and the Consultation Paper provides no specifics as to which stakeholders hold this view nor evidence to support this assertion. The basis and sources for this assertion should be disclosed. Transparency is necessary to enable all stakeholders to fully understand the concerns, and to be able to determine whether to concur or disagree with them using a fully informed basis to do so.

Nevertheless, we believe there are weaknesses in the design of the current standard setting model that, left unresolved, risk undermining the credibility of the standard-setting boards and the legitimacy of the international standards. Therefore, we believe that fundamental changes are needed.

Our support for, and our willingness to fund, a reformed standard-setting model depends on the achievement of each of the following principles, which were communicated previously by the CEOs of the six accountancy networks to the Monitoring Group in September 2017:

- ▶ Distinct and separate roles for oversight and standards development - governance should oversee the model and due process, but not intervene in the technical debate
- ▶ Participation of all relevant stakeholders at both the oversight and standard-setting levels
- ▶ A pathway to broader-based funding within a foreseeable timeframe

The design of the standard-setting model set out in the Consultation Paper does not meet these principles. Moreover, it is not a holistic approach to reform grounded in a public interest framework that has been subject to appropriate due process. Accordingly, we do not support the Monitoring Group's vision, or its design and implementation plan, for the reformed standard-setting model.

Our principal concerns with the Monitoring Group's proposals are as follows:

- ▶ The timing and contents of the planned public interest framework, which are integral to the reforms, are unknown.
- ▶ The role of the oversight body is not separate from that of the standard-setting board(s) - in fact, it is designed to intervene in the standard-setting development, including having veto power over developed standards.
- ▶ The oversight body does not include the participation of all stakeholders, with the Monitoring Group continuing to appoint only regulators and certain selected non-practitioners to the PIOB.
- ▶ No reform has been contemplated related to the Monitoring Group's composition or role to ensure it is positioned to achieve public accountability for the standard-setting model overall.
- ▶ The mandate of the reformed Board, as it relates to audit and assurance standards, is unclear.
- ▶ There is no articulation of a vision for, or a proposed pathway to, broader-based funding; instead, the standard-setting model is intended to be funded entirely through a contractual levy on the audit firms for an unknown length of time.
- ▶ The implementation of the reforms is planned to be staged, such that the standard-setting board(s) and governance are not reformed on a concurrent basis.

In the remainder of this letter and throughout our responses to the specific questions posed in the Consultation Paper, which are in the Appendix to this letter, we set out the basis for our views as well as our additional or alternative proposals to meet our stated principles and objectives for reform.

The critical importance of the public interest framework and holistic reform

We believe the weaknesses, whether actual or perceived, in the current standard-setting model stem largely from a lack of common understanding and agreement across all stakeholders as to what constitutes standard-setting in the public interest.

The current standard-setting model was designed primarily in response to corporate accounting scandals that had a significant impact on the global accounting and auditing profession. At the heart of that reform was an objective to achieve standard-setting in the public interest. The reformed three-tier structure that is used today was accepted at that time as the appropriate means to achieve this objective.

In the last decade, the global financial crisis resulted in renewed concerns about whether the audit standard-setting model and the audit itself serve the public interest. In this debate, questions have been raised that challenge the fundamental premise of the audit to opine on the fair presentation of the financial statements in accordance with the applicable financial reporting framework. Some

stakeholders seem to have the view that the auditor should have certain responsibilities related to an entity's financial reporting that go beyond those of the preparer. The proposed objectives of international auditing standards set out on page 4 of the Consultation Paper evidence that the current boundaries of the audit are being challenged.

We believe there is a significant lesson to be learned from the outcome of the prior reforms and the challenges raised about the role of the auditor in recent years. The disparity in the views about the weaknesses in the current model and in the audit itself confirm that there is not a common understanding or agreement of criteria for achieving audit standard-setting in the public interest.

In our view, meaningful reform must be grounded in public interest objectives that are accepted by all stakeholders. We strongly support the planned development of a public interest framework. The proposed framework should be subject to public consultation and appropriate due process, such that the views of all stakeholders are appropriately taken into account. This framework needs to be used as the foundational basis for the design of reforms; it should not be a byproduct of the reforms as the Consultation Paper seems to suggest.

Further, as all elements on the standard-setting model are interlinked, we believe there needs to be a holistic approach to reform. Application of the public interest framework to the standard-setting model should drive reforms across all three tiers of the model (i.e., the boards, their oversight and those charged with accountability for the model overall) - and to its funding. The Consultation Paper does not present a holistic integrated approach to reform. Instead, it presents individual proposals for which it is difficult to objectively and fully judge their merits because they are not grounded in agreed public interest objectives.

Because the public interest framework is a foundational element of the standard-setting model and the means by which all elements of the model should be designed and evaluated, we do not agree with finalizing the role and responsibilities of the Board, the PIOB (or its successor), or any other parties involved in the reformed model that are expected to be required to adhere, or judge adherence, to the public interest framework until the framework is developed and approved.

The proposals related to the standard-setting board

We support a single independent standard-setting board (Board) that has responsibility for:

- ▶ A single set of auditing *and assurance* standards that apply to audits and assurance engagements of all entities; and
- ▶ A set of ethical standards that apply to professional accountants in public practice.

We emphasize “and assurance” and “all entities” in our statement above because the scope of the Monitoring Group initiatives for reform appears to be limited to audit-related standards for listed and public-interest entities (PIEs). The Consultation Paper does not explicitly state whether it is intended that the remit of the reformed Board be changed from the current remit of the International Auditing and Assurance Standards Board (IAASB). It is imperative that this be clarified as the many stakeholders of audits of private entities, as well as the users of other assurance services, will be significantly affected by the reforms should the mandate of the Board be narrowed.

In particular, the absence of an international standard-setting body for audits of non-PIEs and other assurance services is likely to result in fragmentation of the current global standard-setting model,

such that these services and standard-setting would be addressed by many reconstituted national standard setters. Fragmentation of this nature would likely have the following negative consequences:

- ▶ Reduced consistency in the nature and design of audits from jurisdiction to jurisdiction and in relation to audits of PIEs versus non-PIEs
- ▶ Reduced consistency in the nature and extent of necessary audit innovation to respond to fast-paced advancements in technology, such as data analytics, big data, artificial intelligence, robotics and digital platforms
- ▶ Reduced ability of audit firms to organize and conduct group audits under a single set of auditing standards
- ▶ Increased market concentration in available auditor providers for audits of PIEs, should certain firms (e.g., small-and medium practices (SMPs)) choose not to participate in what may become a separate market for audits of PIEs that has a separate cost of entry
- ▶ Diverging inspection objectives, results and evaluation by audit regulators, which may lead to challenges for cross-border coordination and cooperation
- ▶ Reduced consistency in standards for assurance services, including those standards that may apply to emerging forms of external reporting by PIEs (e.g., sustainability, corporate responsibility, or integrated reporting).

All of these consequences, whether intended or not, adversely affect audit quality and widen the expectations gap, which would not be in the public interest.

Overall, we believe that a single Board with an appropriate design and mandate resulting from agreement by all key stakeholders should be well-positioned to produce relevant and timely standards in the public interest. The design of the Board should include:

- ▶ Clear and effective due process requirements
- ▶ Multi-stakeholder representation
- ▶ An enhanced staff complement, supported by enhanced advisory functions that provide timely access to a broader set of stakeholder input and to deeper technical expertise

As it relates to access to deeper technical expertise, we specifically recommend the establishment of a Technical Advisory Group, on which we elaborate in our response to Q23.

The proposals related to the governance model

The role of the Public Interest Oversight Board (PIOB) has evolved in recent years to its current state whereby the PIOB's responsibilities go beyond oversight to include intervention. We believe this ability is a significant flaw in the current standard-setting model, and it is a key concern that we have about the current model.

The proposals in the Consultation Paper continue to allow for, and indeed anticipate, governance intervention in standard setting. We do not believe that strengthened oversight should be used to

reinforce known or perceived deficiencies in the underlying standard-setting process. In particular, continuing to allow governance intervention and introducing veto powers would fatally undermine the independence of the Board and could critically impair the ability to recruit both highly-qualified board members and staff.

In our view, it would be appropriate to redesign the oversight body as a trustee body (similar to the International Financial Reporting Standards' Foundation Trustees) serving as the guardian of the model and its effectiveness. The governance body also needs to have multi-stakeholder representation, including practitioners, to build confidence in the reformed model across all stakeholder groups, particularly to achieve continued widespread adoption and acceptance of the standards by jurisdictions, national standard setters, and audit firms and networks. We provide further details on our vision for the governance model in our responses to Q15 through Q19.

Regardless, we disagree with the proposed staged consideration of reforms to the governance model. Consistent with the principles described on the previous page:

- ▶ Reform of the standard setting board(s) and operations, and the governance of it, needs to be an integrated package. It is an inseparable component of the design for the standard-setting model.
- ▶ We believe that successful implementation of the standard-setting reforms will depend on the governance structure being reformed at the same time as the Board to achieve the necessary broad stakeholder buy-in to the reformed model.

Transparency of the Monitoring Group consultation process

We also believe that the consultation process that the Monitoring Group has initiated should follow long-standing due process principles (i.e., that the proposals, discussions and comment letter responses are made in the open and available to all in the public interest). We note that the Monitoring Group has proposed that comments can be submitted privately and, thus, shielded from the view of others, yet, presumably, considered in developing revised proposals. Accordingly, this option should be removed promptly and only publicly-available comments be permitted and considered in the development of these reforms.

We would be pleased to discuss our comments with members of the Monitoring Group or its staff. If you wish to do so, please contact Don Zimmerman, Global Vice Chair, Global Professional Practice (donald.zimmerman@eyg.ey.com) or Bob Landwehr, Deputy Director, Global Professional Practice (bob.landwehr@uk.ey.com).

Yours sincerely,

Ernst + Young Global Limited

Appendix: Responses to specific matters on which the Monitoring Group is seeking comments

Section 1 Key areas of concern in the current standard-setting model

Q1. Do you agree with the key areas of concern identified with the current standard setting model?

No. Although the identified key areas of concern may reflect concerns from some stakeholders about the current standard-setting model, we do not agree that there is any evidence that the extant standards have not been developed in the public interest. In fact, the Consultation Paper does not set forth any evidence to support the assertion that the current standard-setting process is fatally flawed in this regard. Accordingly, it leaves the premise for reform unsubstantiated.

The current model has significantly contributed to promoting quality in audit and assurance engagements globally. The International Standards on Auditing (ISAs) and the International Ethics Board of Accountants' Code of Ethics (IESBA Code) have been developed following appropriate due process and have achieved widespread adoption, which has been in the public interest and evidences that the standards are widely recognized as an appropriate benchmark for high-quality audit and assurance engagements. The wide acceptance of the current standards should be more prominently recognized by the Monitoring Group because a single set of high quality international auditing standards provides global consistency for audits, and the quality of those audits, worldwide. This has served the public interest well for over a decade. It is important that the reforms do not put these benefits at risk.

The relevance and timeliness of standards are an appropriate consideration. However, it is also important to recognize that developing standards that are widely accepted and in the public interest requires genuine due process. It requires outreach and public consultation to obtain input from all stakeholders and to take into account their views and needs. The proper conduct of due process takes time to achieve its objectives and benefits; any 'short-cutting' is detrimental, particularly so when the topic is important and requires significant change from previous requirements.

Are there additional concerns that the Monitoring Group should consider?

The role of the PIOB has evolved in recent years to a current state whereby the PIOB not only oversees due process but is questioning the decisions and judgments of the standard-setting boards when the PIOB is not satisfied with the outcome. The perceived need to expand the PIOB's responsibilities beyond oversight to include this ability for intervention is, in our view, a significant flaw in the current governance over the standard-setting model and a key concern to be addressed. Refer to our response to Q15 for our views on the appropriate role and responsibilities for the PIOB, or its successor.

Section 2 Guiding principles

Q2. Do you agree with the overarching and supporting principles as articulated?

We agree with all the overarching and supporting principles included on page 9. We agree with the articulation of these principles with the exception of the second sentence of the "independent" principle. We also believe that the description of "relevant" is incomplete.

“Independent” principle

We do not agree that the working groups must, at each stage, reflect the diversity of key stakeholders. Working groups should be formed based on the need to support staff in project development and drafting, and their composition should reflect the specific needs for the standard-setting project at hand. In our view, the outreach and advisory functions of the Board have the purpose of gathering the views of all key stakeholders. (Please refer to our response to Q13 for further comments on the operation of working groups and task forces).

Because it is the Board that directs staff and working groups on project objectives and scope, as well as evaluating the output of the working groups in making informed decisions, it is at the Board level that multi-stakeholder participation is needed, and is in fact critical to the credibility of the standard-setting process. We also believe that the PIOB, in order to provide credible oversight, should also include the same multi-stakeholder diversity as the Board.

“Relevant” principle

We believe that the description of the “relevant” principle should be expanded to recognize the need to produce standards that are capable of practical implementation on audits and assurance engagements for all entities globally. This includes small- and medium-sized entities, and private entities. We do not believe it is in the public interest to have international standards that only take into account the needs relevant to audits of listed or other PIEs, particularly since the vast majority of audits are not related to listed entities or PIEs.

In particular, all entities, whether listed or PIEs or private, vary in size and in the complexity associated with their financial reporting (e.g., there are small, non-complex listed entities, as well as large, complex private entities). The audit is a public good for all entities that should be scalable based on the size and complexity of the entity and that takes into account the needs and expectations of the users of the financial statements. It is not in the public interest to assume that the needs and expectation of users of private-entity financial statements are less important or significantly different from those of listed or other PIEs.

There also should not be significant differences in the core requirements of an audit to support obtaining reasonable assurance that the financial statements are fairly stated, irrespective of whether it is a listed entity or a private entity. Significant divergence in the auditing standards for private entities from those for PIEs will, in our view, have a significant negative impact on the current credibility of the international auditing standards and the audit. (Refer to our cover letter for further details about likely negative consequences should fragmentation of the current global standard-setting model occur).

As it relates to other assurance standards, these are used for entities of all size and nature, including listed entities and PIEs. Importantly, the market is experiencing significant innovations in the forms of external reporting that entities are producing. Some of this innovation has been mandated through jurisdiction regulation (e.g., sustainability, corporate responsibility or forms of integrated reporting). It would not be in the public interest for the reformed Board to have a mandate that is not consistent with this evolution. Integrated and other emerging forms of external reporting are gaining greater support and prominence across global markets.

Are there additional principles which the Monitoring Group should consider and why?

Yes, we believe the following additional principles should be considered. Although certain of these may be viewed to be inherent in the principles set forth by the Monitoring Group, we believe that for the sake of clarity and to avoid uncertainty, these principles should be separately identified.

Specifically, the standard-setting process should also be:

- ▶ ***Conducted in accordance with due process.*** The standard-setting process should be fair, transparent and able to balance competing interests, without the undue influence of any stakeholder and without outside intervention (including by the governance body).
- ▶ ***Balanced with regard to its representation (for the Board and its governance).*** Balanced representation means that the Board and its governance include representation from all stakeholders such that no particular stakeholder group is able to dominate the debate or decision-making of the Board, or the oversight of the Boards' activities.
- ▶ ***Balanced and sustainable with regard to its funding model, and such funding should be subject to appropriate financial control and planning for which the Board and the governance body are accountable.*** The funding model for the revised standard-setting model should be broad-based and shared equitably among the key stakeholder groups to ensure that no one group is perceived to have undue influence, which is in the public interest (refer to our further views about funding in Q24 and Q25). Financial control and planning should include that the standard-setting process has realistic and supportable budgets over a reasonable period of time, and spending is appropriately managed against the budgets. Such financial information should also be transparent to stakeholders in order to hold the Board and the governance body accountable for fiscal responsibility.

Q3. *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?*

As expressed in our cover letter, meaningful reform must be based on a public interest framework that sets forth criteria for standard-setting in the public interest and has the acceptance of all key stakeholders. In regard to the contents of the public interest framework, we have concerns about the objectives and factors on pages 4 and 5 of the Consultation Paper that have been suggested to be included. Specifically, we believe several of these are inconsistent with the scope and purpose of the audit under the current standards, which is to opine on the fair presentation of the financial statements in accordance with the applicable financial reporting framework. It is unclear whether it is the intention of the framework to redefine or challenge this fundamental premise of the audit. Regardless, planned inclusion of such objectives or factors increases the importance that the framework is subject to public consultation and appropriate due process prior to finalizing the reforms to the standard-setting model.

The objectives of auditing standards

On page 4, the Consultation Paper includes a view that appears to set out objectives for the international auditing standards. We believe this view requires clarification to reflect the scope of a financial statement audit. Our suggested modifications are marked as follows:

“Standards should ensure that auditors appropriately resource, design and carry out their work in a way that reflects the risks faced by an audited entity that may result in material misstatement of the financial statements; they provide independent and rigorous challenge that ~~ensures~~ enhances trust in the relevance and reliability of audited information; and that they drive the auditor to consider external factors and wider implications of events in markets and financial systems ~~with the aim of preventing failures~~ as they affect the entity and are relevant to its financial reporting.”

Although an audit contributes to the societal aim of preventing failures, it is beyond the scope of an individual audit (or auditor) to carry out that responsibility on its own, and auditing standards cannot be designed to prevent failures. However, we agree it is very much the responsibility of the auditor to understand the entity and its environment in order to facilitate the identification of events and conditions that may give rise to risks of material misstatement of the financial statements, and therefore are relevant to the fair presentation of its financial statements. It is also the responsibility of the auditor to determine whether any of the events and conditions identified may cast significant doubt on the entity’s ability to continue as a going concern and, if so, to determine whether a material uncertainty related to going concern exists and is adequately disclosed.

Proposed factors related to the public interest framework

We entirely agree that a public interest framework should focus on how the public interest is captured throughout the standard-setting process. We, however, have the following comments on the proposed factors related to audit standard-setting that are set out below the ‘objectives’ beginning on page 4:

- ▶ The first bullet includes a factor indicating the output of an audit to be “appropriately communicating the auditor’s key findings and conclusions to those charged with governance and where necessary regulatory authorities”. While those communications are important, the primary output of the audit is an opinion on the financial statements within an auditor’s report to the shareholders or other identified users of the financial statements.
- ▶ In regard to the second bullet, we believe the public interest is brought to bear through due process that is designed such that all relevant stakeholder views are appropriately and fairly considered regardless of the source. Weighting the views of certain stakeholder groups because such stakeholders are considered to have “the greatest concern about and commitment to the public interest in a particular area” is contrary to the construct of an independent standard-setting board and the stated objective to avoid undue influence of any particular stakeholder.
- ▶ The example given in the footnote to the second bullet asserts that the views of safety and soundness may bring standard-setting for systemically important financial institutions (SIFIs) closer to advancing the public interest. We have several observations in this regard:
 - The ISAs apply to all audits of entities, both large and small, and whether public interest (listed or not) or privately owned. It is within the remit of the prudential regulators to set out specific reporting requirements for auditors of financial institutions that go beyond the ISAs. Such additional responsibilities and guidance is unlikely to be applicable, or directly applicable, to audits of all other entities.
 - An audit is directed to obtaining sufficient appropriate audit evidence that the financial statements are fairly presented, in all material respects, in accordance with

the applicable financial reporting framework, and cannot compensate for accounting preferences of any particular prudential regulator(s) when such preferences are not intrinsic in the financial reporting requirements of the applicable financial reporting framework.

- Finally, ‘safety and soundness’ of SIFIs is a qualitative assessment and the responsibility of prudential regulators. It is not an objective contained within IFRS or any other widely-accepted financial reporting framework. Likewise, it is not and should not be an objective within the scope of standards for the audit of financial statements.
- ▶ We believe that audit quality is best supported through principles-based standards, which are in the format of objective-based requirements with supporting application material. These standards are designed to conduct audits and therefore to enable an auditor to determine how to understand, interpret and apply the requirements to design and execute an audit. It allows the standards to be scalable, adaptable to the specific circumstances of any audit and capable of being adapted to evolving environmental and technological developments. We recognize the importance of the use of the standards as criteria for inspections, but we do not believe “enforceability” is or should be a primary attribute of standards in the public interest as indicated in the fourth bullet. That focus could lead to rules-based standards that, in our view, would negatively affect the appropriate and necessary exercise of professional judgment that is fundamental to high quality audits.
- ▶ In regard to the last bullet, we fully support the importance of debate on the role that external auditors can play to support the proper functioning of financial systems and economic activity. However, this factor is too broad to be an integral part of the public interest framework to which the Board and due process are to be held to account.

Applicability to assurance standards

The objectives and factors, as commented on above, only deal with or address audits. If the remit of the Board is to continue to include standards for assurance and related services, which we believe is in the public interest, then the public interest framework should address these services as well. As noted in our cover letter, greater clarity is needed about the intended remit of the reformed Board.

Section 3 Options for reform of the standard-setting boards

Q4. Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.

We support a single independent Board that has responsibility for:

- ▶ A single set of auditing and assurance standards that apply to audits and assurance engagements of all entities; and
- ▶ A set of ethical standards that apply to professional accountants in public practice.

We emphasize “and assurance” and “all entities” in our statement above because the scope of the Monitoring Group initiatives for reform appears to be limited to audit-related standards for listed and

public-interest entities (PIEs). The Consultation Paper does not explicitly state whether it is intended that the remit of the reformed Board be changed from the current remit of the International Auditing and Assurance Standards Board (IAASB). It is imperative that this be clarified as the many stakeholders of audits of private entities, as well as the users of other assurance services, will be significantly affected by the reforms should the mandate of the Board be narrowed.

As expressed in our response to Q6, we support a separate ethics standards board that addresses ethical standards for professional accountants in business. However, under such an arrangement, it will be important for protocols to be established that facilitate structured coordination between the single Board and the separate ethics standards board. The objective of this coordination should be that the foundational ethical principles are consistent for all professional accountants, such that inappropriate gaps or conflicts in ethical requirements that should be relevant to all professional accountants are avoided.

The reasoning for our view is:

- ▶ *Experiences of IAASB and IESBA coordination evidence the barriers that two separate boards with remits related to auditors and accountants in public practice are likely to face.* Although IAASB and IESBA are proactively exploring improvements to enhance their coordination, absolute coordination is not capable of being achieved due to separate memberships, strategy and work plans, and due process procedures. Further, coordination often is most intense at the working group level, for which only a subset of the membership of each board is fully engaged.
- ▶ *A single Board, with a common mandate, will be well-positioned to deliberate the assurance and ethical implications of an issue concurrently.* This should result in the Board coming to a common (if not consensus) position that can be reflected concurrently in both the assurance and the ethical standards. For certain projects such as non-compliance with laws and regulations (NOCLAR) and, more recently, quality control, the IAASB and IESBA coordination has not been timed for concurrent deliberation or standards revisions, and any coordination has involved what we view as unnecessarily extensive effort and process for decision-making on the part of both boards without necessarily resulting in a mutually agreeable outcome. Further, differences in effective dates of the respective standards do not facilitate coordinated implementation by auditors who are subject to the requirements of both sets of standards.

We provide reasoning for our proposals related to the division of responsibilities for the development and maintenance of ethical standards in our response to Q6. We also believe that a single Board taking on the wider remit of assurance and ethical standards will need access to deeper technical expertise and stakeholder feedback directly relevant to the projects it undertakes. To achieve this, we support retaining a consultative advisory group or CAG (refer to our response to Q12). We also recommend the creation of a technical advisory group (refer to our response to Q23).

Q5. 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?

Educational standards

Yes, we agree that responsibility for the development and adoption of educational standards can remain a responsibility of IFAC. We support the retention of a body with appropriate standing to

develop and promote high quality international educational standards for all professional accountants, as well as maintain them to respond to changing business environments. We agree that developing skills and competencies of auditors is fundamental to quality and that such development is a key responsibility for the profession.

Compliance program

Retaining a compliance program that promotes and monitors the adoption and acceptance of the international standards is key to the continued success of international standard-setting. IFAC Member Body and Forum of Firms obligations are important structural means by which adoption of the international standards is supported, and such programs should continue to be formally supported in the revised model.

Yes, we agree that the compliance program can primarily remain a responsibility of IFAC, but we also believe that the Monitoring Group or the PIOB have a role to play in promoting the adoption of the international standards and monitoring any barriers to their adoption or acceptance (see our response to Q20 regarding the need for structured coordination between the Monitoring Group and IFAC and the member bodies).

Q6. *Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.*

Yes, we agree that IFAC should retain responsibility for the development and adoption of ethical standards for professional accountants in business. However, we also believe that it is critical to the fundamental integrity and credibility of the profession for all professional accountants to be subject to the same foundational ethical principles. The profession has a responsibility to develop and maintain the ethical values and behaviors of all its accountants, and thus should play a central role in setting and monitoring compliance with ethical standards. As expressed in our response to Q4, the creation of separate boards to address ethical standards for professional accountants will require the establishment of structured protocols to ensure that a common foundation between the standards continues to exist.

Our reasoning for this approach is:

- ▶ *The restructured IESBA Code provides a solid foundation of ethical standards for all professional accountants through its fundamental principles and conceptual framework; this foundation can be retained by both boards. With a firm foundation in place, we do not see the need for ongoing significant changes to the fundamental ethical principles that apply to any professional accountant. Instead, we see increasing specific market needs and demands related to ethics that are likely to benefit from separate consideration of the implications for professional accountants in public practice versus those in business. We also see specific demands or needs relating to auditors, in particular as it relates to independence.*
- ▶ *A single Board for auditing, assurance and ethical standards can be nimble in setting its project agenda to respond to the priorities set forth by its stakeholders. The relative pace of change and priority for projects related to audit and assurance standards versus ethical standards is likely to vary over time such that some periods can have more focus on one discipline versus the other. Also, such prioritization can result in a consensus decision as to which projects are to be undertaken at what time. Under the current IAASB/IESBA structure, the boards have not been able to agree upfront on when it is appropriate for the boards to take on a project with*

implications for both underlying sets of standards. This has resulted in after-the-fact coordination that has not been highly effective.

Q7. Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standards setting boards? If so, please set these out in your response along with your rationale.

The scope of the Monitoring Group initiatives for reform appears to be limited to audit-related standards for listed and public-interest entities (PIEs). The Consultation Paper does not explicitly state whether it is intended for the remit of the reformed Board be changed from the current remit of the IAASB. It is imperative that this be clarified as the many stakeholders of audits of private entities, as well as the users of other assurance services for all entities, will be significantly affected by the reforms should the mandate of the Board be narrowed. Further, the global credibility and adoption of the standards may be put at risk.

As expressed in our response to Q2, we strongly believe it is in the public interest for the reformed Board to have a standard-setting mandate that includes auditing and assurance standards that are suitable for services performed for all entities, regardless of nature, size and complexity. This includes small and medium-sized entities (SMEs), private entities and the public sector. Deliberate consideration is needed by the Monitoring Group, in our view, as to the suitability of reforms for the stakeholders of these entities.

Also, we believe it is important, as part of the consideration of the options for reform, to focus on the necessary supporting advisory and outreach processes to facilitate timely and relevant dialogue with relevant stakeholder groups throughout the standards development process. (See our responses to Q12 and Q23 for our suggestions in this regard).

Q8. Do you agree that the focus of the board should be more strategic in nature? And do you agree that members of the board should be remunerated?

Yes, we agree that the focus of the Board should be more strategic in nature; however, in order for the Board to operate in this manner, this will require an 'up-scaled' staff (in both quantity and capabilities) with much more experience in the development of technical standards along with very clear terms of reference for both the Board and the staff. Further, we recommend establishing supporting advisory and outreach processes in order to promote greater confidence that a Board with a strategic focus will have a thorough and effective decision-making process that results in standards that are widely accepted by all stakeholders (see our response to Q12 and Q23 for our suggestions in this regard).

We also agree that the members of the Board should be remunerated on a market-comparable basis with boards of similar nature and responsibilities. Further, providing remuneration for Board members is likely to enable the Board to attract the highly-experienced and qualified members who otherwise may not choose or be able to serve on the Board.

Q9. Do you agree that the board should adopt standards on the basis of a majority?

No, we disagree with the proposal of the Board adopting standards on the basis of a simple majority.

The Consultation Paper states that "This could allow the board to be more decisive, avoid unnecessary delays and reflect the fact that acting in the public interest requires standards that not all stakeholders necessarily agree with." We strongly disagree. It is not in the public interest to adopt standards that

entire stakeholder groups, or a significant amount of relevant stakeholders, do not support. Achieving consensus is important to setting high-quality standards in the public interest. However, we agree that requiring unanimity is impractical.

Adoption of a standard should occur when the Board determines that a standard meets the objectives that were set by the Board for its development or revision, having regard to the public interest and with adherence to due process. We would expect that this criteria would be embedded in the public interest framework as well.

When a standard has the support of only a simple majority, this would seem to suggest that a significant portion of the Board, guided by the same public interest framework, does not believe relevant objectives have been appropriately met. We do not consider approval of a standard under these circumstances to be an appropriate outcome.

For a Board of 12 or 18 members, we believe that a 2/3rds majority would be appropriate. Regardless, the voting requirements should be accompanied by effective due process procedures that require the views and legitimate concerns of all stakeholders to be appropriately taken into account. Further, we believe that transparency around the reasons for dissenting votes is in the public interest and that such reasons should continue to be documented in the Board's basis for conclusions or similar documentation about the Board's decisions to adopt revisions to the standards.

In response to the view expressed in the Consultation Paper that a simple majority will improve the timeliness of standards, we strongly believe that this proposal is not the appropriate solution to address the concern. Timeliness can be appropriately addressed and improved, in our view, by expanding the capacity of the Board through both changing its focus to be more strategic in nature and by expanding the capacity of its staff, both in competencies and quantities. Also, understanding the needs and views of stakeholders on a more timely and ongoing basis throughout project development can be accomplished through the Board's use of enhanced advisory and outreach functions. This should allow the Board to more fully understand the views of key stakeholders and to reflect this understanding in its proposals, which in turn should reduce the risk of stakeholder rejection and time consumed in preparing re-proposals.

Q10. *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 support a single independent Board comprised of multi-stakeholder representation. We also support an equally proportionate number of full-time and part-time members (that is also appropriately proportionate across the stakeholder groups).

As it relates to the proposal for the composition to be equally divided into three groups, we do not believe the "user" group has been appropriately defined. These stakeholders - particularly investors and preparers - do not have common objectives or needs (unlike the auditor and regulator groups) and therefore we are not sure it is appropriate that this is a "group". However, we do agree that these stakeholders require representation. Considering the increasing importance placed on the role of audit

committees, who oversee audits of entities on behalf of investors, we believe this stakeholder is also in need of specific representation in the composition.

It is also important that the Board composition be viewed as consistent with the mandate of the Board. The three stakeholder groups appear to be defined only in context of relevance to audits of listed entities and PIEs.

In regard to the total number of members, there will be challenges in achieving appropriate geographical and organizational coverage that can truly represent the wide international community of relevant stakeholders, particularly with a smaller board of potentially only twelve members. We are not opposed to a smaller board, but we believe that further consideration needs to be given to the range of stakeholder input and feedback mechanisms and processes that will be available to the Board to be able to determine the appropriate number of members.

In particular, we indicate in our response to Q23 that we believe the standard-setting process, and a more strategic Board, would significantly benefit from the creation of a technical advisory group as well as continued consultative advisory and outreach functions. With these functions and processes in place, the Board will have formalized methods for obtaining broad stakeholder input during the standards development process, which in turn should increase the viability of a smaller single Board (of no fewer than twelve members).

In regard to the diversity of the Board members, we support the proposal for members to be drawn from a diverse group of countries and backgrounds. In particular, we believe that gender diversity, as well as diversity in industry and organization backgrounds are important. Diversity is also an important consideration in the membership of advisory groups. Notwithstanding the importance of diversity, diversity should not be achieved in a manner that compromises or lessens the necessary qualifications of the Board members, for which we are supportive of the development of a skills matrix.

Q11. *What skills or attributes should the Monitoring Group require of board members?*

The Board members should be highly knowledgeable in the disciplines relevant to the mandate of the Board (i.e., audit, assurance and ethical standards for auditors). In addition, the Board members should have demonstrated leadership and stature in their respective stakeholder communities. While recognizing that Board members do not need to be deep technical subject matter experts, all Board members need to have sufficient subject matter competence to be able to:

- ▶ Understand the issues at hand
- ▶ Make informed strategic decisions (e.g., when determining the Board's agenda, the objectives for each of the standard-setting projects and evaluating the detailed developed work of staff)
- ▶ Take into account the input of technical or other advisory groups, as well as the results of any outreach

As an international standard-setting Board, it is particularly important that Board members are committed to international standards and do not see their role as narrowly representing the perspective of their particular jurisdiction. We see particular importance in members having relevant background or experience that is globally-focused, or at least of such a nature that evidences experience in reconciling multi-jurisdictional differences related to, for example, market and user needs, or implementation of the standards. Nevertheless, we believe it is important that the Board obtain jurisdiction-specific input and feedback. This is best done, in our view, through formal outreach

and advisory processes, such as that currently performed for National Standard Setters. (See our response to Q23 for our further views about the importance of advisory and input processes to support the new Board).

Q12. 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?

In order to achieve a standard-setting model that includes a smaller board with a strategic focus, we support retaining the concept of a consultative advisory group (CAG) in order to obtain broader stakeholder input and feedback on a timely basis during the standards development process. However, we believe the remit and membership of the CAG should be changed.

The current role of the CAG has become integrated into the due process procedures of the current standard-setting boards, such that CAG sign-off is required before the Boards can vote on project proposals, exposure drafts and final standards. This inflexible process can result in unnecessary delays in the standard-setting process and also takes an amount of time that we believe is disproportionate to the due process benefits received.

We believe this integration came about due, at least in part, to the perception that the standard-setting boards are not sufficiently representative of all stakeholder groups. The proposed reforms of the model build into the Board itself appropriate multi-stakeholder representation and a strategic focus.

In light of the revised composition and remit of the Board, we believe changes are warranted to the composition and remit of the CAG. We recommend the following:

- ▶ *Changing the composition of the CAG to be from organizations or specific segments of stakeholder groups (e.g., geographies, levels of economic development, industries) that are not represented in the Board.* This composition allows for the gathering of a broader range of geographic and stakeholder views than can be represented through Board membership alone while reducing the risk that certain individual stakeholders have a greater voice or influence than others.
- ▶ *Including representation from organizations beyond those in the defined stakeholder groups that advise the Board on technology and other topics of critical relevance on an ongoing basis.* Audit and assurance services face ongoing challenges to timely adapt to emerging trends in technology and other innovations that have significant effects on both how entities do business and the information needs of their users. In particular, there is an overall shift in how the world works from 'people supported by technology' to 'technology supported by people'. The impact of technology, and other forms of innovation like blockchain, or other pervasive business risks like cybersecurity, have to be at the forefront, not an afterthought, when determining the scope and objectives of standard-setting. To be able to achieve this, the Board and the staff need ongoing access to organizations that are versed in the trends happening and can advise as to the potential effects and the need for change in audit and assurance services.
- ▶ *Streamlining the CAG processes to be commensurate with the due process benefits to be gained from this advisory function.* Similar to the role of the US PCAOB's Standing Advisory Group, the Board should have the ability to seek the input it needs on the topics that it believes warrant a broader representation of views and at the time in the process that the Board determines appropriate (which may vary by project). Due to its nature, the CAG should

continue to not be required to provide a consensus view, but a change should be made such that the Board is not be required to respond or report back to each individual comment received. Nevertheless, the Board's processes should include transparency about the feedback received.

Q13. *Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?*

Our view of the appropriate process for undertaking detailed development work is that all such work should be led by highly experienced staff who work at the direction of the Board and are accountable to the Board. With an expanded technical staff as recommended in the Consultation Paper, there should also be the opportunity for projects to have a team of supporting staff, which should reduce the need for working group assistance due to project workload alone. Working groups and task forces should be assembled when necessary to support staff in analyzing issues and project development.

In our response to Q23, we set forth our views on the need for advisory functions to support the Board's ability to retain a strategic focus. For some projects, consultation with the advisory functions (including the technical advisory group that we recommend be established) by the staff team assigned to a project may be sufficient to support staff understanding and analysis of the relevant issues. For other projects, the assembly of a working group or task force may be needed to assist staff throughout the project, particularly for projects of increased complexity or that are in need of specific subject matter expertise that is not resident within the staff.

Regardless, the Board retains responsibility for decision-making, including project objectives and scope and determining whether the work of the staff, which may include the involvement of working groups or task forces, is sufficient and provides a sound basis for Board deliberation of issues. Accordingly, we believe it is the Board and the staff that will have the primary responsibility to adhere to the planned public interest framework.

Q14. *Do you agree with the changes proposed to the nomination process?*

Yes, we agree with the proposal for the nominations process to be administered solely by the PIOB, subject to our comments expressed in our response to Q15 about the need for the composition of the PIOB or its successor to be truly multi-stakeholder in nature. Such composition would assist in ensuring that the nominating process continues to be robust and is free of political intervention or other undue bias.

The Consultation Paper states that the Board nomination process is to continue to be conducted via an open call for candidates. And, we agree that the current process should continue in this manner. We also believe the objective of the nominations process is to achieve multi-stakeholder Board representation that comprises Board members who have demonstrated leadership and stature in their respective stakeholder communities and do not narrowly represent the perspective of their respective jurisdictions. In this regard, we believe the proposed development of a skills matrix, which should include expected qualifications consistent with the principles in the planned public interest framework, is of high importance for the nomination process to be seen to have a fair and consistent approach to the evaluation of potential Board members.

Oversight - Role of the PIOB

Q15. Do you agree with the role and responsibilities of the PIOB as set out in this consultation?

No, we do not agree with the role and responsibilities of the PIOB as set out in this consultation.

In our view, reforming the role and responsibilities of the PIOB is key to the success of the standard-setting reforms and earning the confidence of all stakeholders in the process itself, including that neither the profession nor any other constituent has undue influence on the standards being adopted. As stated in our cover letter, one of the three overarching principles that the reformed standard-setting model should reflect is distinct and separate roles for oversight and standards development - governance should oversee the model and due process, but not intervene in the technical debate.

As the proposed public interest framework referred to in the consultation paper has yet to be developed, we are unable to comment on whether the planned framework will be the appropriate mechanism to guide the role of the reformed PIOB and its interactions with the Board. However, if the standard-setting boards are moved into a new independent organization, we believe that it will be critical for the PIOB (in the form of a successor governance body) to have broad governance responsibilities beyond that which are contemplated in the Consultation Paper. For further details on our vision for a reformed governance body, please refer to our response to the question below about whether the PIOB should have further responsibilities.

The importance of returning the PIOB role to oversight

In line with the overarching principle expressed above, we specifically disagree with the proposal in the Consultation Paper for the role or responsibilities of the PIOB allowing for intervention in the redesigned Board's due process.

The role of the PIOB has evolved in recent years to its current state whereby the PIOB not only oversees due process but also questions the decisions and judgments of the standard-setting boards. Such questioning has occurred regardless of the fact that such decisions and judgments were reached following appropriate due process. This results in PIOB intervention occurring outside the bounds of due process in the form of a unilateral and non-transparent determination by the PIOB that the outcome of the decisions made by a board is not satisfactory. This has undermined the credibility of the current standard-setting model and needs to be addressed in the reforms.

As stated in the Consultation Paper, the focus of these reforms is the independence of the standard-setting boards in the public interest. Continuing to allow governance intervention and introducing veto powers would, in our view, fatally undermine the independence of the Board and critically impair the ability to recruit both highly-qualified board members and staff.

Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgments made by the board in developing or revising standards?

No, we do not believe that the PIOB should be able to veto the adoption of a standard, or challenge the technical judgments made by the Board.

When the PIOB intervenes as it does today, it undermines stakeholder confidence in the standard-setting process because it implies that the Board's due process itself is flawed.

Giving the PIOB the power of both intervention and veto also is likely to create a disincentive for qualified candidates to seek nomination to the Board because such a model will essentially call into question the capability of Board members to make appropriate decisions.

We believe it is the PIOB's role to monitor due process throughout the lifecycle of the Board's process. This involves an ongoing evaluation of whether the relevant views of all stakeholders are being taken into account by the Board and that the decisions made by the Board in the circumstances are well-founded based on these stakeholder perspectives. The PIOB also should have the power to reconsider or amend the due process used by the Board when flaws in the process are identified.

Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?

Importantly, we do not believe that the PIOB's role should be limited to oversight of due process. In fact, if the standard-setting boards are moved into a new independent organization, we believe that it will be critical for the PIOB (in the form of a successor body) to have broad governance responsibilities beyond that which are contemplated in the Consultation Paper.

In our view, it would be appropriate to redesign the oversight body as a trustee body (similar to the International Financial Reporting Standards' Foundation Trustees) serving as the guardian of the model and its effectiveness. It should:

- ▶ Oversee the operations of the Board, and its new supporting organization, including managing funding and approving the budget of the Board
- ▶ Make appointments to the Board (in connection with the administration of the nominations process as addressed in Q14)
- ▶ Monitor the effectiveness of the design and operations of the Board, including whether it continues to meet needs and expectations of all key stakeholders, and recommend amendments as needed
- ▶ Act as the advocate for the Board, reassuring stakeholders it is operating appropriately, and building confidence in the standard-setting process and the standards that result from it, thereby monitoring and positively influencing adoption
- ▶ Oversee due process in order to hold the Board to account, including responsibility for evaluating the performance of the chair and members of the Board

Overall, we believe that increased transparency about the PIOB's (or its reformed successor's) own activities and how it fulfills its mandate are important to building confidence in the governance of the model, the operations of the Board and the international standards themselves. This includes increasing the transparency of its observations and deliberations leading up to its conclusions that individual standards were approved by the Board in accordance with due process and with adherence to the planned public interest framework.

Along with revising the governance responsibilities in this manner, we believe it is worth consideration of whether the name of the reformed governance body should be changed to

better reflect the role as described (e.g., using the term “trustees” or “governance board” in its title).

Importantly, significant reform of the oversight function as we have suggested also requires reforming the composition of, and nominations process for, its membership (see our responses to Q17 and Q18).

Q16. Do you agree with the option to remove IFAC representation from the PIOB?

We do not object to the removal of the right for IFAC to appoint a representative to the PIOB. However, we would not support prohibiting IFAC, or any organizations or individuals associated with the audit profession, from nominating candidates or submitting self-nominations for PIOB membership. As we express in our responses to Q17 and Q18, we do not support the proposed non-practitioner composition of the PIOB and believe a multi-stakeholder composition, which includes representation from the audit profession, to be fundamental to reform of the PIOB.

Q17. 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?

In light of our views related to reforming the governance model expressed in our response to Q15, we believe reform of the composition of the PIOB is also needed. In particular, the reformed PIOB should serve as the guardian or trustees of the standard-setting model on behalf of all stakeholders, which means that its membership should reflect the same multi-stakeholder representation as the Board (subject to our views about the Board composition as expressed in Q10).

As stated in our cover letter, one of the three overarching principles that the reformed standard-setting model should reflect is participation of all relevant stakeholders at both the oversight and the standard-setting level. With regard to the oversight body, it is of vital importance that this body provides confidence in the design and operations of the standard-setting process. Stakeholders who have a role in, and authority for, adopting and implementing the standards are those that need to have confidence in the model and the quality of the standards in order to have a justifiable basis for their adoption.

The Consultation Paper states the Monitoring Group’s intention to consider the need for the membership of the PIOB to be representative of the wider *non-practitioner* stakeholder community. This consideration is not wide enough as it does not include practitioners who play a significant role in the adoption, and are primarily responsible for the implementation, of the standards. In addition, practitioners provide a significant share of the representation of the non-PIE constituency.

To further support its credibility in overseeing the due process for technical standards, the PIOB should include representation from the audit profession in its composition. And, this representation should include current auditors, which will embed technical expertise, directly derived from applying international auditing and accounting standards, in its membership. In our view, PIOB access to IFIAR - who are regulators and not auditors - is not an adequate substitute for having current practitioner expertise resident in the PIOB (or its successor) itself.

In addition, the membership should include geographic diversity that reflects the range of jurisdictions that adopt the standards, as well as people of high-standing and expertise in their respective stakeholder communities who are able to garner respect across all stakeholder groups.

All members of the PIOB (or its successor) need to possess recognized skills, experience and knowledge relevant to the mandate of the Board order to underpin the public confidence in the oversight process. Other relevant qualitative characteristics of members of the governance body include:

- ▶ Desire to promote and manage audit and assurance service quality globally
- ▶ Experience that demonstrates an awareness of the process for, and barriers to, adoption and implementation of international standards
- ▶ Demonstrated leadership and strategic thinking, as well as some members with experience in trustee board operations and skills in overseeing an independent non-profit organization
- ▶ Demonstrated commitment to serve the public interest

Q18. *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 believe that the nominating process for PIOB members should continue to be limited to only considering candidates nominated by Monitoring Group members or from within Monitoring Group member organizations. Instead, the process to identify individuals for appointment to the PIOB should be conducted via an open call for candidates. The nominations process for the governance body should also be supported by due process and the use of a skills matrix to evaluate potential candidates.

Q19. *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?*

We do not believe that direct PIOB oversight of the work of other standard-setting boards that are proposed to remain within IFAC is necessary. However, the activities of these boards should be closely coordinated with the new Board in order to avoid conflicts or unnecessary inconsistencies in requirements that are, or should be, applicable to all professional accountants. We believe that the PIOB oversight of the new Board could include oversight of agreed coordination processes, such as those we suggest related to ethical standard-setting in our response to Q4.

Section 4 Role of the Monitoring Group

Q20. *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?*

Effective oversight and monitoring of the standard-setting model as a whole, and oversight of the appointment process and work of the PIOB or its successor, are critical components of a high quality standard-setting process that operates in the public interest. Taking these responsibilities together, we

agree that the role of the “top tier” of the standard-setting model is to provide ultimate accountability to stakeholders and to the public for the standard-setting model overall.

Although we agree with the current responsibilities for the Monitoring Group, we believe additional reforms should be considered. As expressed in our cover letter, we see the planned public interest framework to be the foundational basis for reform across the entire model. Application of the framework in designing the reforms should include determining what comprises public and stakeholder accountability and the necessary role and responsibilities of the “top-tier” to achieve this accountability. This in turn should drive the necessary “top tier” composition.

The Monitoring Group membership is currently comprised of representatives from global regulators of capital markets, audits and financial institutions. This membership provides an important connection between the standard-setting model and these public authorities, which in turn enhances the public accountability of the model and influences the adoption of the international standards. Therefore, we support the Monitoring Group continuing to play a key role in oversight of the standard-setting model.

Consideration should be given, however, to whether the current composition of the Monitoring Group is sufficient, in light of the agreed mandate of the new Board (e.g., it may be appropriate to involve relevant oversight authorities for non-listed and non-PIE entities) and the public interest framework to be developed. Alternatively, consideration could be given to developing formalized outreach or consultation processes that assist the Monitoring Group in determining whether it has achieved its role for accountability to all stakeholders.

The need for structured coordination with IFAC

Assuming that the standard-setting organization is removed from IFAC but IFAC retains the responsibilities for managing the compliance program that promotes and monitors the adoption of the standards, we believe there is a need to design structured coordination with IFAC as part of the reforms to the standard-setting model. Acceptance and adoption of the standards, in our view, is a key measure about whether the standard-setting model is achieving its objectives.

Establishing formal structured coordination processes with IFAC will facilitate a connection to its member bodies and the Forum of Firms, which are the organizations that commit to adopt and implement the international standards. Alternatively, some other interface with these groups directly (such as the formation of an advisory group) may be designed. In designing these coordination processes, it may be appropriate for the PIOB (or its successor) to be the level at which IFAC coordination occurs. Regardless, the PIOB or the Monitoring Group should have a responsibility to understand the outcome of the compliance program on a periodic basis, including any barriers to adoption identified, as well as a responsibility to consider whether there are opportunities to increase the rigor of the compliance program.

Increasing transparency of the Monitoring Group membership and activities

In order to increase transparency and bolster public trust in the process, we suggest that appointments to the Monitoring Group, the roles and responsibilities of the Monitoring Group, minutes of meetings and documentation of decisions relating to the oversight of the standard-setting process be made public.

Section 5 Standard-setting board staff

Q21. *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?*

Yes, we agree that a single Board with a strategic focus would need to be supported by an expanded professional technical staff. We also agree that this will require a significant increase in permanent technical staff in addition to the use of secondments or a Professional Fellowship program to expand capacity when necessary based on the project volume or the need for specialized knowledge or expertise. We support the proposed secondment model or a Professional Fellowship program as appropriate means to drive cost-effectiveness, while increasing the ability for staff technical skills to remain up-to-date and market-focused.

The increased staff complement for the Board should include supporting staff of high-standing and technical expertise who can lead project development and stakeholder outreach. Communication skills, both written and verbal, and project management skills are also critically essential to facilitate effective issue analysis and decision-making by the Board.

Even with an expanded professional technical staff that involves an ongoing secondment pipeline, we believe that the Board and its technical staff will require just-in-time access to technical expertise relevant to the projects at hand. Having the ability to consult with appropriate technical experts and practitioner groups as necessary throughout the standards development process is important, in our view, to achieve the objectives of relevance and credibility. To obtain this access, we recommend the creation of a technical advisory group (see our response to Q23 for further details).

Q22. *Do you agree that permanent staff should be directly employed by the board?*

We agree that the composition of the technical staff would be optimized by including a mix of permanent staff as well as shorter-term seconded staff. We recommend further consideration be given as to how, practically, a model of direct employment, evaluation and compensation of the staff by the Board would be operationalized. Consideration needs to be given to forming a separate legal entity along the lines of the International Accounting Standards Board (IASB).

Section 6 Process considerations

Q23. *Are there other areas in which the board could make process improvements - if so, what are they?*

A single Board means a reduced membership from the current 36 members of the two existing standard-setting boards to 18 members (or less), which will reduce the breadth of stakeholder representation in its seats. In addition, changing the Board's focus from detailed technical debates to strategic decision-making means the Board must be provided sufficient and well-reasoned analyses, both from a technical and stakeholder impact perspective, on which decisions can be based.

An expanded professional technical staff will provide the means by which such analyses can be assembled, but the staff will not in itself have all the necessary stakeholder and technical input that we believe the Board will require in order to have a complete understanding of the issues and the related stakeholder views. Further, the projects undertaken by the Board often result in significant changes in standards, which may have significant consequences not only for accountants or practitioners, but

other stakeholders as well. Outreach, consultation and validation across stakeholder groups are critical to the standard-setting process and also assist the Board in evaluating whether the changes are capable of being implemented as intended, which is important to achieving stakeholders' confidence in the resulting standards.

We therefore believe it is important, as part of the consideration of the options for reform, to focus on the necessary supporting advisory and outreach processes to facilitate timely and relevant dialogue with relevant stakeholder groups throughout the standards development process.

Advisory functions and processes that could be used for the purposes of obtaining broader and jurisdiction-specific stakeholder and technical input include:

- ▶ Retaining the concept of a CAG(s), reformed as explained in our response to Q12
- ▶ Retaining a process for input and feedback from National Standard Setters
- ▶ Determining an appropriate interface with IFAC, or creating an advisory group, in order to obtain input from member bodies (see our response to Q20)
- ▶ Considering how best to obtain input from small and medium practices, through retaining a SMP Committee or another method
- ▶ Structured outreach processes whereby members of the Board or staff may have assigned stakeholders or groups
- ▶ Establishment of a new technical advisory group (see below)

Establishment of a Technical Advisory Group (TAG)

As expressed in our response to Q8, we agree that the focus of the Board should be more strategic in nature, resulting in less technical debate in Board deliberations, including by the practitioners that serve on the Board. This should result in a change from current experience where the more technical the matter under discussion, the less the participation by non-practitioners. Nevertheless, this Board is charged with developing technical standards, which requires appropriate technical experience and expertise directly involved in the standards development process in order to produce standards that are technically robust and capable of being implemented in practice. To facilitate this, we recommend the creation of a technical advisory group (TAG). The TAG could be a useful and flexible mechanism through which the Board gains access to technical input, including as a useful source of resources for working groups and task forces, thereby supporting the permanent and seconded staff.

In our view, creation of a TAG (or separate TAGs for auditing and assurance versus ethics), would have the following benefits:

- ▶ *Ensuring the technical robustness of the standards, and reducing practical implementation challenges.* On any project, the ability to produce responsive and widely-accepted standards on a timelier basis means that risks that jeopardize timely issuance of standards or their adoption need to be reduced. A technical advisory group can provide technical input and challenge during project development, which would reduce the need for time-intensive outreach for the purposes of obtaining technical expertise. It can also reduce the nature and extent of adverse feedback contained in comment letters during the exposure process. The

TAG could also provide an ongoing forum for staff to vet ideas and alternatives for addressing technical issues.

- ▶ *Increased ability to timely respond to market-pressing issues and innovations in assurance services.* Dealing with innovation in assurance services (such as assurance on integrated reports), innovation in audit techniques (such as data analytics), and developing issues of current importance and relevance to audits (such as cybersecurity and ongoing innovations in technology) will require the Board to have timely and direct access to appropriate technical expertise and experience, which is not likely to be resident in the staff in many circumstances (even with the use of rotating or short-term secondments). The ability to appropriately respond to these issues on a timely basis requires insights of specialists in the related topic or field throughout the standards development process. The creation of a TAG that may have some extent of rotating membership based on the topics or issues that the Board is pursuing would reduce the need for ad hoc establishment of project advisory panels that are sometimes used under the current standard-setting model (e.g., data analytics and integrated reporting).

We recommend that consideration be given to the structures used by the IASB in determining an appropriate model for the TAG(s).

Section 7 Funding

Q24. *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)?*

We do not agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk or perceived risk to the independence of the Board as a result of it being funded *predominantly* by the audit firms or accountancy profession. We do not believe that the fact that the funding is collected and disbursed by the PIOB or any new foundation will eliminate this risk or perception of undue influence, particularly since this is the core driver for reform.

Although the Consultation Paper acknowledges the importance of broadening the funding base and the Monitoring Group's intentions to further explore diversification, the Consultation Paper presents no proposals in this regard. Instead, the proposal appears to be for the audit firms to provide the entire funding necessary "over the medium term".

Regardless of the model that is proposed and the extent of reforms and enhancements made, stakeholder concerns about the audit profession's undue influence in standard-setting will never be mitigated until the model is funded in a manner that is agreed to reflect the public interest. Therefore, we believe the approach to funding needs to be developed as part of, at least in parallel to, the public interest framework, which must be the foundation for the suite of reforms contemplated in this Consultation Paper.

As expressed in our cover letter, our support for and willingness to fund a new standard-setting model depends on the core principles of:

- ▶ Distinct and separate roles for oversight and standards development - governance should oversee the model and due process, but not intervene in the technical debate

- ▶ Participation of all relevant stakeholders at both the oversight and standard-setting levels
- ▶ A pathway to broader-based funding within a foreseeable timeframe

Audit standard-setting is a public good and its sources of funding should reflect that. In order to operate in the public interest, it is important that the reformed standard-setting model has sustainability and diversity in its funding sources. The funding model for the revised standard-setting model should be broad-based and shared equitably among the stakeholder groups. Consistent with our view in our response to Q2, this is a missing guiding principle for the reforms. Balanced and sustainable funding is vital to the ability to restore stakeholder confidence in the independence and operability of the reformed model.

Further, the reformed standard-setting model must be established with reasonable associated costs. Post establishment, the Board and the governance body need to be accountable for appropriate financial planning and control, which is also expressed in our response to Q2.

Overall, we expect that the reformed standard-setting model will involve significantly increased costs from the current model, in particular related to the creation of an organization independent of IFAC that includes compensated Board members and a significantly expanded professional staff. If a viable diversified funding approach is not achieved and implemented concurrently with the reforms, this will only exacerbate the public perception of the model's dependency on the audit profession.

In-kind contributions under a reformed model

We are not convinced, and in fact it would be concerning, if there would not be a need for the reformed Board and its staff to seek current practitioner technical expertise to inform its project development. As expressed in our response to Q23, we see a need for enhanced advisory functions, including as it relates to subject matter technical expertise, to enable a more strategic Board and its expanded staff. We assume that such support would be appropriate to be given, in part, through in-kind contributions from audit firms.

Q25. 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?

No, we do not support a “contractual” levy on the profession primarily because this levy perpetuates, and in fact increases the formality of, the audit firms being the sole source of funding for the reformed model, and for an undetermined length of time. The imposition of such a levy is completely contrary to the importance of an independent standard-setting model.

We are concerned that no alternative funding mechanisms will be feasible or viable if such mechanisms are not substantively explored and addressed in the Monitoring Group's response to this consultation and in its ensuing proposed reforms.

Consistent with our response to Q24, the primary source of the funds submitted to the new organization cannot be directly or indirectly obtained from the audit firms; otherwise the independence of the model from the profession continues to be compromised. Instead, the funding should be broad-based and shared equitably among the key stakeholder groups.

Assuming that an appropriate level of funding from audit firms can be agreed, we still remain concerned about the use of a contractual levy to collect it. A consequence of the use of a “contractual” levy is that smaller networks may choose not to participate in the market for audits of PIEs (assuming this levy would represent the cost of entry to that market) and the fact that the costs are not shared by professional accountancy organizations (i.e., IFAC member bodies), SMPs or other segments of the audit profession. If such a contraction in the market comes to fruition, this will result in greater market concentration in available audit providers for listed and public-interest entities.

Regardless, assuming that numerous small and medium-sized networks and firms will participate in funding of the standards, we see challenges in the practicality of managing direct contractual levies with all these firms individually. Instead, it may continue to be appropriate for the member bodies and accountancy organizations to act as intermediaries to assist in collecting and remitting funds.

Overall, it would not be appropriate for the agreed funding from the audit profession to be only from those networks or firms for which direct contractual commitments can be feasibly executed. Funding from the audit profession should be shared equitably among all audit firms and practitioners that use the standards.

Open questions

Q26. *In your view, are there other matters that the Monitoring Group should consider in implementation of their reforms? Please describe.*

We have no further suggestions other than those we have made in our responses to the other questions posed in the Consultation Paper.

Q27. *Do you have any further comments or suggestions to make that the Monitoring Group should consider?*

Please see the comments in our cover letter related to the critical importance of the public interest framework and holistic reform.