

Monitoring Group: IAASA comments

To: **MGconsultation@iosco.org**

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

Dear Sirs,

The Irish Auditing and Accounting Supervisory Authority (IAASA) welcomes the opportunity to provide comment on the Monitoring Group's proposals for developing the governance framework supporting the development of international standards on audit-related matters, as set out in its paper issued on 9 November 2017.

IAASA has taken part in discussions of the Committee of European Audit Oversight Bodies (CEAOB) relating to the consultation and agrees with comments set out in the CEAOB's response.

IAASA's mission, is

'To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.'

As such, we support the efforts of the Monitoring Group to pursue continuing improvement of the standard setting process to ensure that any perceived lack of independence in the process is minimised as much as possible.

We understand that the Monitoring Group intends to develop a White Paper and a proposed framework for applying the public interest in the standard setting process, which we support and we look forward to providing further comment in due course.

Our comments relating to the individual questions on which the Monitoring Group requested views are attached.

Should you wish to obtain any further information regarding the views set out in the letter, please contact me.

Yours faithfully

Kevin Prendergast

Chief Executive Officer.

Monitoring Group Consultation Paper: responses to specific questions

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

We agree with the areas identified by the Group and consider it important for there to be confidence that the standard setting process operates in a manner that responds appropriately to the public interest. Key to that confidence is the perception of independence, both in membership of the boards and in funding. While we agree that independent funding would likely improve perception of independence concerns, we also recognise that given the global use of the standards, it may be difficult to achieve non-voluntary funding from any parties. Equally, timely and appropriate updating and amendment in the light of changes in both the business environment and financial reporting requirements is a necessary part of continued and improved confidence in the standards.

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

We consider that the principles set out in the Consultation Paper are appropriate. However, we would suggest that the principle defined as “Relevant” should be renamed “Timely” or perhaps “Responsive”. While the term relevant could relate to whether a standard is appropriate in terms of its content, the explanation in the paragraph refers to the need for standards to be “responsive to the needs of a fast-changing market and the users of financial statements in a timely way”. IAASA concurs with this articulation of the principle,

We also consider that in applying the overarching principle of setting standards in the public interest, it is important to develop a commonly understood description of the public interest in this context, with appropriate analysis of the various groups that may be regarded as constituting ‘the public’ for this purpose in order to ensure that standards strike an appropriate balance.

We also consider it important that the language used in standards is clear so as to support appropriate application and regulation. Standards should also avoid overly prescriptive requirements that could impede effective application of professional judgment and scepticism.

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?

We do not consider further criteria are required. However, as above, we believe it is essential that there is adequate analysis of, and consensus on, what constitutes the public interest in audit, and that the “Relevant” principle should be renamed.

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

We believe that a single board is preferable and provides a means of ensuring a holistic consideration of matters affecting both the conduct of audits and confidence in reporting by auditors. However, due consideration will be needed to ensure that there is an appropriate breadth of expertise on a ‘unified’ board and that appropriate regard is had to the ethical standards applied by the accountancy profession in other areas (see question 6 below).

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?

Yes, we agree that responsibility for educational standards and compliance should remain with IFAC: each of the member bodies is responsible for ensuring that appropriate education is undertaken, both prior to admitting individuals as members and subsequently, to ensure proper delivery of audit quality. We also support IFAC remaining responsible for compliance.

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

We consider it appropriate that responsibility for development and adoption of ethical standards for professional accountants in business can remain in the remit of IFAC, for reasons similar to those set out in our response to question 5. The Consultation Paper does not specifically refer to accountants in practice providing non-audit services, but we consider that IFAC should also continue to have responsibility in this area.

We also believe it will be important that there is appropriate liaison and communication between the audit standard setting board(s) and IFAC on ethical issues to ensure clarity as to areas of responsibility and consistency in appropriate.

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

Whilst supportive of the overall direction proposed in the Consultation, we believe more detailed consideration is needed regarding how interaction between the various groups supporting the standard setting process will operate in the future.

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

We support the proposal that the board's primary focus should be on strategic issues. However, it is vital that board members have sufficient technical knowledge to support both development of effective strategies in the light of new challenges and effective assessment of work undertaken by staff to implement those strategies.

We also support board members receiving an appropriate level of remuneration.

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

We support there being voting arrangements to support decisions being taken by the board on the basis of a majority.

However, we believe it is important that decisions be made based on a qualified majority, not a simple majority. This will allow for views of each of the stakeholder groups be given due consideration without allowing a small number of dissenters to block approval and publication of new standards or related material.

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?

In overall terms, it is important that the board's size facilitate both effective representation of stakeholder views and effective discussion to develop sufficient consensus.

To this end, we support the composition of the board being determined in a way that reflects the different stakeholder groups, including both auditors and investors.

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

The ability to consider and analyse the implications of both immediate and longer-term developments will clearly be needed. This in turn requires that board members communally bring to debates

- a sense of the long term strategic context of the standard setting process into which any individual proposed standard must fit
- a well-developed understanding of current requirements within the reporting timelines required by capital markets
- an understanding of potential issues or shortfalls identified in the course of regulatory activity
- clear articulation of the information needs of users of financial reports and the ability to analyse proposed ways in which auditing standards and auditors respond to emerging issues
- willingness and ability to contribute to development of consensus on how auditors can meet current application issues and emerging needs. .

To provide this breadth of communal knowledge, board members should include individuals with recent experience in the following areas

- auditing
- strategic involvement at board level
- membership of audit committees
- regulatory activity, particularly in the financial sector
- shareholder/investment representation
- development and interpretation of legal requirements affecting audit.

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?

We agree to retain the concept. However, we believe that as the Group's proposals are taken forward, further consideration of both the membership and remit of CAGs, and their interaction with the board, will be needed.

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

It should be a requirement that members of any task force established for a specific task adhere to the public interest framework.

There is also a need to consider the modus operandi of such groups and whether their membership gives adequate representation to stakeholder groups. .

14: Do you agree with the changes proposed to the nomination process? (*of board members*)

We support an ‘open call’ approach to identifying potential board members and an appointment process overseen by the PIOB.

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?

Broadly, we support the proposals regarding the role and responsibilities of the PIOB.

However, we do not support the concept of giving PIOB power to veto adoption of a standard. We believe that there should be a mechanism in place to allow the PIOB to exercise meaningful oversight of the standard setting process in order to ensure that it adheres to the public interest framework, together with an obligation to raise and discuss with the boards any concerns or reservations it may have in this regard and make recommendations.

We also suggest that the board should be required to consider issues raised by PIOB and make a formal response as to how those concerns are to be met, prior to publication of a proposed document.

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

We acknowledge that removing IFAC representation would likely improve perception of independence, however, we also acknowledge that the knowledge such a representative would bring to the PIOB would be beneficial.

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?

In our view, the PIOB membership should reflect all non-practitioner stakeholder groups. We also support the suggested focus on an appropriate geographical mix to foster wide take-up. Skills and attributes required include experience in capital markets, corporate governance and investor advice, as well as the ability to analyse and assess operational proposals.

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 Monitoring Group member organisations or do you have other suggestions regarding the nomination/appointment process

We believe there is merit in an open call for nominations.

Additionally we consider that the process of appointment should be reconsidered to ensure a balanced representation of views from all affected groups.

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?

We support the second option.

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

We support continuance of the current MG role for the time being but consider that there is need for further review of the relationship between its role and that of PIOB.

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

We agree that there is need, particularly given the proposed focus of the board on strategic issue, for an expanded professional staff.

However, we do not consider that this should exclude the use of ‘ad-hoc’ working parties working with the staff on particular issues, in order to ensure that views from both auditors and users of audited financial information, and regulators, are brought to bear within the process of developing standards.

The technical staff should have experience of auditing, including dealing with listed entities and financial institutions.

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

Whilst direct employment by the board may improve the perception of independence, there may be legal issues with the board (likely not a legal entity) entering into employment contracts and it may impact on the attractiveness of the positions. The independence risks (both actual and perceived) of employment by IFAC should be able to be mitigated by transparency and making staff clearly accountable to the board as opposed to IFAC, notwithstanding the employment contract.

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

We have no further suggestions to the proposals set out in the Consultation Paper at this stage. The proposals represent a significant number of separate potential projects and we would suggest that selection of priority projects from this list for rapid implementation would be appropriate.

24: Do you agree with the Monitoring Group that appropriate checks and balances can be put into 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 who would distribute the funds)?

We believe that future funding is best arranged on a ‘multi-stakeholder’ basis. However, we consider that appropriate checks and balances would mitigate risk to independence.

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

As above, we would prefer a ‘multi-stakeholder’ arrangement for funding.

If this is not feasible, funding stemming from the profession, with appropriate safeguards, could prove acceptable. However, the form of a contractual agreement may need to take into account variations in the legal framework of each jurisdiction concerned. Due consideration may therefore be needed to how an effective arrangement can be achieved in a cross-jurisdictional context.

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

As noted in our cover letter, we believe that there is a need for further detail as to how the direction set out in the Consultation Paper may be achieved, and look forward to contributing views on the intended White Paper in due course.

We also consider that it is important to ensure that the audit profession remains fully engaged in the process of developing standards.

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

We consider that it is important for the standard setting process to result in standards that are both proportionate and scalable, given that they apply to the audits of entities of a wide range in types of activities and size.