



No: 32/President/AFA/II/2018

Jakarta, 8 February 2018

**Monitoring Group**

Submitted via email to: [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

**Comment to the Monitoring Group Consultation Paper**

Dear Sir/Madam,

ASEAN Federation of Accountants (AFA) is an accredited Civil Society Organisation of the Association of Southeast Asian Nations (ASEAN), recognised under the ASEAN Charter. AFA is the umbrella organisation for the Professional Accountancy Organisations of the ten ASEAN member states (Primary Members), supported by seven internationally recognised bodies of accounting professionals (Associate Members)<sup>1</sup>.

Six of our Primary Members are IFAC Members, two are IFAC Associates, and two are in the process of applying as IFAC Associate. Collectively, our members represent almost 200,000 accountants in Southeast Asia, majority of which are in public practice.

We appreciate the opportunity to participate in the discussion based on the Monitoring Group Consultation Paper re: Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest. As IFAC role goes global, we believe that global participation from all elements of the stakeholder in every aspect of the Federation's activities is important in promoting transparency and accountability. In addition to this comment, we also encourage our members to participate in and share their views on the discussion.

In general, we acknowledge the Monitoring Group's efforts to improve the quality of standard-setting to better serve the public interest. The Paper has presented many suggestions that can be further considered to particularly improve standard-setting for auditing and assurance, and ethical standards. However, we are more supportive of efforts to further improve the current standard-setting model – which we believe have served its purpose, rather than the proposed significant reforms. Please refer to our detailed comments in the appendix accompanying this letter.

We also acknowledge the important role that the IAASB and IESBA have played in setting standards that have been successfully adopted and implemented in more than 120 jurisdictions. IFAC has been excellent in supporting the standard-setting and in building relation with stakeholders from around the world, further establishing the global nature of the standard-setting process.

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<sup>1</sup> For more information about AFA please visit [www.aseanaccountants.org](http://www.aseanaccountants.org)



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Please do not hesitate to contact us should you have any inquiries or require any clarification on our comments.

Thank you.

Sincerely,

**Kon Yin Tong**

President

Cc: Executive Director, AFA



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

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

**Question 1**

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

In principle, we agree that the identified key areas of concern are representation of what good governance should be established to support the standard-setting, including those of audit and assurance, and ethics. However, we are of the view that the identified key areas of concern are based on preliminary findings that may not reflect the general view of larger group of stakeholders. Moreover, we believe that the analysis should faithfully represent the current model that has been successfully implemented for years, and controls that have been established to maintain its governance.

We also think that it is debatable whether focus on public interest should mean that standard-setting can only be performed by regulators under a more regulatory model. The current shared public and private model has successfully achieved a balance between good regulation and private participation. Standard-setting should neither be driven solely by any of the parties (regulators and the profession).

We recognise that good, responsible and accountable standard-setting needs to be independent. However, any concerns raised on the independence of standard-setting, particularly on audit and assurance, and ethics, need to be based on proven evidence that represents the stakeholders' view rather than mere perceptions.

**SECTION 2: GUIDING PRINCIPLES (KEY CONCERNS 1-3)**

**Question 2**

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

We generally agree that the identified overarching and supporting principles are reflections of what good standard-setting should be. However, we could not identify any indications that the current model has significantly failed to satisfy these principles.

We highlight the importance of principle-based characteristic of the global standards to ensure acceptance from the global stakeholders and applicability of the standards across different jurisdictions, including SMEs and SMPs as major components of today's economy.





### Question 3

*Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so what are they?*

No further comments.

## SECTION 3: OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS (KEY CONCERNS 1-3)

### Question 4

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

We recognise the potential overlaps between auditing and assurance with ethics, particularly on issues that are relevant to public services. However, we believe that this should not be an indication of a necessity to combine the boards. Each board focuses on subject matters that requires a different body of knowledge, expertise, and experience. Having separate boards would also serve as a check and balance mechanism between the boards, particularly on issues that are relevant to auditing and assurance, and ethics. This would also minimise the risk of potential undue influence of certain stakeholders to auditing and assurance, and ethical standards.

Moreover, we believe there is a considerable public interest in maintaining a Code of Ethics that can govern professional accountants – those in public practice and business, under a unified accountancy profession. Having a dedicated board for ethical standards reflects how the profession sees the importance of ethics – important in building public trust towards the profession. Therefore, we do not support the proposal to bifurcate the ethical standards and to have separate boards to focus on ethics in public practice (together with auditing and assurance) and in business.

### Question 5

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

Yes. We agree that this should remain the responsibility of IFAC.

### Question 6

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

Referring to our response to Question 4, we support the retention of current model: separation of IAASB and IESBA. Therefore, we do not support the proposal to have separate boards looking at ethics from public practice and business separately. Professional accountants may undertake a range of services (that may involve both public practice and business) throughout their career. Thus, a set of fundamental ethical principles that can cover for both need to be established and be used





as a reference. We believe that the Code of Ethics issued by IESBA has been successfully used in this regard.

#### **Question 7**

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

We acknowledged the positive objective of the proposed reforms. We also recognised the need to improve the current standard-setting model implemented by IFAC. Therefore, we highly encourage the Group to consider working with IFAC and involve larger group of global stakeholders to identify ways to improve the current standard-setting model that are based on proven and empirical evidence. This is important to ensure stakeholders and public' buy in towards the process and further strengthen their trust towards standard-setting.

#### **Question 8**

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

We recognise the board's role first and foremost is to consider the strategic aspects of standard-setting, including but not limited to: development and execution of strategic plan and activities, identification of new standards and amendments to standards, and execution of outreach and networking activities with relevant key stakeholders. However, we also understand that global standard-setting requires participation of stakeholders, including those represented in the boards. It is part of their participation (and not uncommon) to contribute their (board members, advisors, and supporting organisations) time and expertise to the standard-setting process – an arrangement that we believe is working under current global standard-setting environment.

Regarding remuneration, we question the urgency of the proposition, particularly considering the current success that IFAC has built in obtaining buy in from stakeholders in supporting the current standard-setting platform. However, we see the possibility of using the funding to encourage and support more participation from emerging economies. We recognise some limitations that potential representatives from emerging countries might have in term of supporting their travel. We encourage the Group to consider exploring collaboration with development bodies to support the emerging economies in this regard.

In addition, funding can be used to strengthen the supporting technical staff – playing important role in supporting the activities of the board. This should also shift the assumed technical burden upon the board and provide more opportunity for the board to focus on strategic matters. However, we recognise that this would require greater resources. Thus, we encourage the Group to work with IFAC to identify new sources of funding to support the desired improvements to the current model.





### Question 9

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

We recognise that good, responsible and accountable standard-setting takes time, and at the same time need to be flexible in responding to changes affecting the profession. Whilst it is imperative to maintain relevance and timeliness of standards, it is also important to provide sufficient time for stakeholders to participate in the standard-setting process, digest, and make the decision to adopt and implement the standards. This is something that we believe has been overlooked by the Paper. Unanimity in decision making helps to ensure that different views, especially those of the minorities have been considered and not overlooked. Thus, it is also important to ensure that composition of the board is based on an independent multi-stakeholder arrangement, where there is no single group of stakeholders that can have undue influence over the board.

Standard-setting should fairly represent different stakeholders' interest and needs. This is even more relevant in the context of a global standard-setting process that involves stakeholders from different jurisdictions, each with their own capacity in supporting adoption and implementation of the standards. Support from the global stakeholders is important in ensuring public acceptance towards standards issued by the board.

We are concerned that the Group's proposal may impact the role of minorities such as SMEs and SMPs, and emerging economies in contributing to standard-setting, and for their views to be considered in the process. IAASB's current model of extensive outreach ensures that their views are reflected in standard-setting. Therefore, without assurance as to how the views of the minorities can be properly attended in the proposed majority, we rather encourage the Group to reconsider its proposal in this area.

### Question 10

*Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part-time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?*

Referring to our previous comments, in general we are more supportive of maintaining the current board arrangement. However, we do see the merit in revisiting the current board composition, particularly in term of finding the right balance between stakeholder representation and effective standard-setting. In doing this, further analysis need to be done on the current composition and how it can be further improved.

We agree that composition of the boards must consider among others: representative geographic diversity, background, and diversity of views to provide different perspectives of the public interest. One factor that needs to be further accommodated in composition of the boards and very much relevant to our jurisdiction is representation of emerging economies. We believe that emerging





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economies bring with them different set of views and issues that need to be analysed and included in the boards' considerations and reflected in the standards. The IFRS Foundation has even acknowledged this through the establishment of the Emerging Economies Group, specifically looking at financial reporting issues commonly found in emerging economies. With the continuous advancement of technology, we also believe that having board members with expertise and experience in technology will further enhance the quality of standard-setting.

The proposed fewer number of board members may provide less opportunity for larger group of stakeholders to be represented. It is vitally important that the boards have a wide range of expertise and experience from broad and diverse jurisdictions, including SMEs and SMPs. Thus, we caution the Group's proposal to reduce the number of board members.

We support the development of a skills matrix to drive assessment of potential board members. Moreover, this could assist IFAC to better manage and plan for the boards' succession and always ensure fair representation of different stakeholders on the boards.

### Question 11

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

We believe that board members need to be equipped with skills and attributes that can support their standard-setting role, and this has been reflected in requirements set in the IFAC Annual Call for Nomination document. We believe that these requirements are still relevant and should be retained. In principle, the composition of the board need to be diverse, providing a breadth of experience, skills and capabilities.

We recognise the difficulty in attracting board members with/or the necessary skills and attributes. Thus, it is also important to ensure that the skills and attributes can be further supplemented by the technical staff. Similar set of requirements (in term of skills and attributes) could also be applied in employing the technical staff.

In addition to technical skills and attributes we believe board members need to have the necessary non-technical (strategic) attributes, particularly to communicate with stakeholders. Communication is important in every aspect of standard-setting, from obtaining buy in from to presenting the standards to the stakeholders. We also believe IFAC need to improve its board members' participation in various public events, particularly those in emerging economies.

### Question 12

*Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?*

We see CAG as an opportunity for larger group of stakeholders to participate in standard-setting. Therefore, we support CAG under the principle that it continues its positive contribution to the board's discussion and represents stakeholders' interest.

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### Question 13

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

In principle we believe that supporting infrastructures established to support the work of the board need to adhere to similar requirements set to meet the public interest. Any review to the current model need to consider feedbacks the boards (main users) and stakeholders might have.

### Question 14

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

In line with our general view of the proposed reforms, we believe the current nomination process has been successfully implemented and resulted in good quality board members that been successful in conducting the standard-setting process. The open call for candidates ensures that fair opportunity be given to all elements of the stakeholders and public with interest in standard-setting.

Improvements to the current process could be done by ensuring that the Chair of Nominating Committee is independent of the Monitoring Group, PIOB, and IFAC, to have a fair representation of stakeholders in the Committee, and establishing criteria to ensure fair representativeness of stakeholders that are currently underrepresented in the boards and committees.

Referring to our comments to Question 10, we believe development of skills matrix could assist IFAC in communicating to public the desired skills and attributes that are expected of potential board members.

## SECTION 4: OVERSIGHT – ROLE OF THE PIOB (KEY CONCERN 2)

### Question 15

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

In general, we have no further comments to the proposed role and responsibilities of the PIOB. However, we believe that it is important for PIOB to provide clarity and communicate clearly to stakeholders their role and responsibilities, particularly in respect to potential overlaps with those of the Monitoring Group. We believe this would potentially enhance public's support to the accountability of the standard-setting.

For PIOB to challenge any technical decisions and judgements made by the standard boards they need to be sufficiently equipped with the right expertise and access to supporting technical





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capacity. We are not convinced that reliance on advice for example from auditing experts with the Monitoring Group would be sufficient and is a sustainable solution. We believe that the PIOB need to focus on the oversight of the standard-setting process rather than the substance of the standards. PIOB's involvement throughout the standard-setting process, particularly by providing guidance as to how the standards are established in the public interest, should be preferable over the power to veto that can undermines the standard-setting work of the boards. We recognise that this has been set as one of PIOB's role, one which have been executed under the current model. Moreover, the PIOB has also been equipped with the capacity to require the boards to address any public interest issues identified prior to the issuance of any standard.

### Question 16

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

We are not aware of any perceived independence issue by having an IFAC representative in the PIOB. We recognise the need to have an IFAC representative in PIOB to maintain effective and continuous communication with between IFAC and PIOB, particularly on standard-setting activities. IFAC remains a key stakeholder and its view should be considered. Moreover, we do not believe that a single representative of IFAC can exert any undue influence in the PIOB and thus, affect its independence particularly over its oversight function.

### Question 17

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

In addition to the proposed skills and attributes, we believe that proven experience in standard-setting will be the key attribute that members of the PIOB should be required to have. Experience in emerging economies would be a plus considering the ever-increasing importance of these stakeholders. In principle, similar to our views on the IFAC boards composition, we support multi-stakeholder representation that can reflect the public's interest in the PIOB.

### Question 18

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

To promote transparency in appointment of PIOB members we believe that an open call for nominations similar to the method currently implemented for appointment of standard board members need to be considered. This decision need to be based on a review over the current PIOB nomination process.

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### Question 19

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

We believe that PIOB should continue to perform its current oversight function.

## SECTION 5: ROLE OF THE MONITORING GROUP (KEY CONCERN 2)

### Question 20

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

In general, we do not have any specific concern over the Group's current role. However, we suggest the Group to consider working together with IFAC in conducting a global multi-stakeholder discussion to identify further ways to improve the current standard-setting model.

## SECTION 6: STANDARD-SETTING BOARD STAFF (KEY CONCERNS 1-3)

### Question 21

*Do you agree with the option to support the work of the standard setting board with an expanded professional technical staff? Are there specific skills that a new standard setting board should look to acquire? How to retain and transfer knowledge and experience of IFAC staff?*

Continuous strengthening of the pool of technical staff is a necessary step that should be focused on regardless of the proposed reforms presented in the Paper. We believe that a stronger pool of staff not only will improve and enrich the quality of the standard-setting and the resulted standards, but also provides continuity and better accountability. It is also important to consider that the staff continuously communicate and build a network with the many stakeholders. Rather than focusing on significant reforms of the boards, we believe that more efforts should be re-directed to strengthening one the foundations of the standard-setting process, which is the pool of technical staff available to the boards. However, we recognise the funding issue associated with this.

A better staff management analysis may be needed to ensure that succession can be done accordingly, to maintain the desired continuity, and retain (and transfer) the knowledge and experience accumulated from the periods of networking and standard-setting process. We support the proposition to vary the term of contracts between the staff to achieve this objective. We also





acknowledge the use of secondments as a great model to support the work of the boards, particularly in dealing with issues that require expertise, experience, and understanding of a certain environment.

#### **Question 22**

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

We believe that the board's main responsibility is on standard-setting. We are not sure as to how the board will have the capacity to manage staff employment. Also, this may potentially create new conflict of interest.

We recognise that the current arrangement has been successfully implemented by IFAC, and has been generally received by the stakeholders. Analysis on staff employment should include whether the current arrangement has compromised the objective, integrity, and quality of the standard-setting. The board can work together with IFAC in identifying any staffing needs, and the required skills and attributed to support the boards' activities.

### **SECTION 7: PROCESS CONSIDERATIONS (KEY CONCERN 3)**

#### **Question 23**

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

No further comments.

### **SECTION 8: FUNDING (KEY CONCERN 1)**

#### **Question 24**

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

We are not aware of any evidence that indicates that the current funding model has been perceived as risky to the independence of the standard-setting. However, should these risks (or perception of it) have been identified, we believe that the Group can work together with IFAC and the stakeholders to identify ways to respond and improve the model.

We support the proposal to identify new sources of funding to support the standard-setting activities, particularly to continuously improve the current model.

#### **Question 25**



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*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?*

In principle, any efforts to further strengthen the integrity, accountability, and independence of standard-setting, particularly in relation to funding, should be supported. However, the fact that the current model is mainly funded and supported by the auditing and accountancy profession should not be an indication of the quality of the standards resulted from the standard-setting process. The collective collaboration of stakeholders within the profession has successfully funded not only current standard-setting initiatives but also the supporting infrastructures including the oversight functions ran by the PIOB.

We recognise the limited resources collectively available to the profession and the need to expand sources of funding available. More importantly, we recognise the need to acknowledge the limited capacity of most PAOs, particularly those from emerging economies, in meeting any potential additional financial burden that may be placed upon them to support any significant changes to the current model. Any additional burden may put unnecessary pressure to these PAOs, to the extent that affecting their ability to grow as a PAO and contribute to the development of the auditing and accountancy profession.

We acknowledge that most of the proposals presented in the Paper are highly dependable on the assumption that additional funding can be secured. Thus, we encourage the Group to conduct further analysis on the funding and how they can be viably secured. More importantly, this would be a key step in securing stakeholders' and public's buy in towards the proposed improvements.

### OPEN QUESTIONS

#### Question 26

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

We believe the current standard-setting model has been successfully implemented and produced good quality standards that are currently adopted and implemented in more than 120 jurisdictions. We encourage the Group to focus its effort to work together with IFAC and the stakeholders to identify potential issues that need to be resolved in and measures that can be realistically implemented for the current standard-setting model.

We also recognise that any significant proposal to the current model should include detailed and thorough analysis on risk, cost and benefit, and how the changes will affect each stakeholder. The analysis should also provide details as to how the proposed changes can be effectively implemented.

We believe that the Group fully understand the global nature of standard-setting today. Thus, it is important to consider how any proposed changes to the current model can benefit the global stakeholders and jurisdictions, particularly those who have supported IFAC and the standard-setting process throughout the years.

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## Question 27

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

Due to the importance of this consultation, it is important to exercise full transparency and accountability throughout the process. Full disclosure over how the comments received will be presented (and be made available to public) and addressed must be included as part of the process.

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