



# Grant Thornton

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The Monitoring Group

Via email to The Monitoring Group at  
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Dear Monitoring Group Members:

Grant Thornton International Ltd appreciates the opportunity to provide input on the Monitoring Group's Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest (the Consultation Paper).

We are of the view that the current standard-setting model has contributed significantly to enhancing audit quality on a global basis. This success is demonstrated by over 120 jurisdictions either having adopted the International Standards on Auditing (ISAs), or having committed to using them in the near future. We recognise, however, that from time to time it is appropriate, to reflect on the appropriateness and effectiveness of the process by which those standards are set to maintain the established credibility and legitimacy of the auditing standards in an international forum. Auditing standards should be transparently developed and approved, and consistent with the public interest.

Overall, although we are not opposed to changes to the current standard-setting model and its governance, there should be the opportunity for full and open debate, and agreement before reforms to this model are implemented. In this respect, we have the following concerns regarding the matters discussed in the Consultation Paper.

*Defining the need for change* –The Consultation Paper highlights involvement of the profession and the pace of standard-setting as the basis of the need for change, however the basis for this assertion is not clear. For example, the Consultation Paper focuses on the perception of undue influence by the profession due to the practitioners' roles in standard-setting; i.e. through participating Board members and through providing funding, including both direct contributions and in-kind contributions. Our view is that it is just that, a *perception*. It does not necessarily indicate that there is an issue with the current process or that the process needs to change. Further, there is no evidence to suggest that the resulting auditing standards are not

of high quality or that they are not in the public interest. We are therefore of the view that the stated perceptions issue needs to be further researched, including whether it could be resolved through focusing on the governance model and increasing transparency of the current process, before an appropriate action can be determined.

*Public interest framework* – The Consultation Paper neither addresses the meaning of, nor explores the concept of, the public interest. This is fundamental to any proposed changes to the current process and consensus on the meaning of public interest is vital. We note that the Public Interest Oversight Board (PIOB) has been charged with developing a public interest framework, however, until this framework is developed, it is difficult to comment on whether the proposed reforms would be more appropriate than the current model in achieving the goals of that framework.

*Consultation period* – We understand that the Monitoring Group (MG) is proposing to issue a final report in June of this year. We are of the view that this does not allow sufficient time for the proposals to be fully developed. We are strongly of the view that the MG needs to commit to a further consultation that addresses the issues raised from the current Consultation Paper, including those matters such as funding (as noted below) and with a comment period of an appropriate length.

*Funding model* – The Consultation Paper highlights the need for a revised funding model that is designed to enhance independence by sourcing funding from a broader range of stakeholders. However, this funding model has not yet been explored by the MG. The perception of undue influence of the firms in any model will always be a risk whilst the funding comes predominantly from the auditing profession and firms. Standard-setting is performed in the public interest and the sources of funding should mirror such. We therefore believe that it is vital that the MG secures the sustainable commitment of a broad range of stakeholders for funding any proposed reformed model *before* proceeding with any reforms.

*Practitioner involvement* – Practitioners are in a unique position, possessing a combination of relevant technical skills and practical experience, and as such, continued practitioner involvement in the development of auditing standards is essential to the continuing relevance, feasibility and quality of those standards. Current experience would indicate that practitioners make significant contributions to technical debates because of this training and experience. In addition, practitioners conduct detailed root cause analyses, the result of which provide valuable practical insights into the standard setting priorities. The involvement of practitioners in any reformed standard-setting model should be safeguarded in the design of that model.

Finally, it is our view that the successful implementation of standard-setting reforms will depend on the simultaneous reformation of the governance structure, the standard-setting board, the staffing model and the funding model as part of a holistic package, in order to secure the necessary broad stakeholder support and participation in the reformations.

We respectfully submit our detailed responses to the Consultation Paper, which are enclosed. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +44 207 728 2236.

Sincerely,

A handwritten signature in black ink, appearing to be 'AN', written in a cursive style.

Antony Nettleton  
Global Leader – Assurance Services  
Grant Thornton International Ltd

Enc: Responses to Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest

## **Responses to the Monitoring Group's Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest**

The following provides our input in response to the Monitoring Group's Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest.

### **QUESTIONS**

#### **KEY CONCERNS**

**Q1. 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?**

The current model has significantly contributed to promoting audit quality on a global basis. The ISAs and International Ethics Standards Board for Accountants (IESBA) Code of Ethics (IESBA Code) are high quality standards that set an appropriate benchmark for audit quality and other assurance services globally, as evidenced by the widespread adoption in over 120 jurisdictions around the world.

Whilst we are of the view that the current standards have been fully developed in the public interest and are “fit for purpose,” we recognise that there is a perception among some stakeholders that stakeholders, other than those representing the profession, do not have enough influence in the standard-setting process, and as a result the profession has undue influence. Irrespective of whether there is a basis for such perceptions, these criticisms pose significant strategic risks to the continued success of the current model. Therefore, we support considering if reforms to the current model of standard-setting and the governance over standard-setting are necessary.

The Consultation Paper proposes that, as part of the solution to the perception of undue practitioner influence, funding for standard-setting is sourced from a broader range of stakeholders, however, it does not fully explore those alternative options for funding. It is not clear what is envisaged for a revised funding structure, including the stakeholders that would provide such funding and their willingness and ability to do so. We strongly believe that unless this is resolved, and if the funding continues to come predominantly from the auditing profession and firms, the perception of the independence of the model will always be at risk.

## **OVERARCHING AND SUPPORTING PRINCIPLES**

### **Q2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?**

Whilst we are supportive of the principles identified in the Consultation Paper, any reforms to the current model, such as the proposed development of a public interest framework, need to be developed and exposed for public comment to facilitate a full and open debate. Public consultation is critical and it is vital that all stakeholders support the framework by which the standards will be developed and evaluated.

That being said, we agree that the overarching principle of standard-setting should be that standards are set and, are perceived to be set, in the public interest. We also agree with the supporting principles identified in the Consultation Paper.

However, we believe that the following matters are important to recognise, in defining the overarching principle of public interest:

- All relevant stakeholders should be identified and be given equal consideration. For example, in some jurisdictions the public sector, or indeed smaller private entities represent a larger stakeholder group than capital market stakeholders. The Consultation Paper does not specifically acknowledge these groups.
- Public interest concerns are sometimes a blend of auditing and accounting matters, as was evidenced in standard-setting projects such as the auditor reporting project, and in particular going concern and the current estimates project.

We further propose that the Monitoring Group consider the following additional principles:

- Due process –This is a key principle and includes widespread outreach and consultation with stakeholders to allow them the opportunity to provide input and to have their views heard. Appropriate due process also is such that it is not appropriate for the oversight function to intervene or interfere with the technical debates, or second-guess decisions reached by a competent standard-setting board adhering to its due process.
- Effective and practical standards – The framework should explicitly include a principle that addresses the need for standards to be developed that are both effective and capable of being applied. This in turn, highlights the importance of input from practitioners who possess the necessary technical and practical experience, irrespective of the structure and roles of a future board and staff.
- Balanced stakeholder representation –Both the standard-setting board(s) and the governing board should be comprised of members from all stakeholder groups in a manner that ensures that no one particular stakeholder group can assert undue influence over the standard-setting process or its governance.

- Sustainable funding – Developing a sustainable funding model that incorporates balanced contributions across the stakeholder groups is key to allaying perceptions that the profession exerts undue influence over standard-setting. It is essential that this aspect be addressed as part of finalizing any proposed reforms.

**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?**

We do not believe that it is appropriate to finalise or even proceed with any reforms prior to the exploration of the meaning of public interest and the development of the proposed framework. As the overarching principle of the reforms, it is fundamental to determine what acting in the public interest actually means and involves and to obtain consensus from all stakeholders. This is essential to the success of any reforms. We are of the view that, such a framework identify *all* the relevant stakeholders, not just investors in capital markets, and should also be robust and provide sufficient guidance to assess whether a standard has been developed in the public interest.

**OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS (KEY CONCERNS 1-3)**

**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 are of the view that, irrespective of whether the reforms result in a single independent integrated board or two separate boards, it is vital that the board:

- Has appropriate balance and equal representation across all the stakeholder groups;
- Consists of members that have the relevant skill sets; and
- Has an appropriately strategic focus.

We acknowledge that there are advantages and disadvantages to the options presented and there are examples, such as the UK's Financial Reporting Council, where arguably, a combined standard-setting board has been successful and has led to more holistic decisions. With a single board, there will be challenges to achieve the appropriate composition of this smaller combined board. As such, consideration will need to be given as to how an appropriate balance of geographical and stakeholder coverage can be achieved in conjunction with those members possessing the relevant technical skills and competence. Further, it is also important to consider how this would affect jurisdictions where the IESBA Code and the auditing standards are not consistently adopted.

On the other hand, retaining two separate boards will make it easier to identify individuals with the relevant technical skills and will better facilitate successful engagement with relevant stakeholders.

On balance, should reforms proceed based on the options presented, we tend to favour a combined single board with very clear terms of reference that operates at a more strategic decision-making level. Given the complexity of defining the public interest, the terms of reference will need to be sufficiently specific to assist board members to discern the appropriate approach for listed and non-listed entities. It should also facilitate participation of all stakeholders in the standards development on an equal footing. Combining the standard-setting and ethics boards and reducing the size of the combined board will impose constraints that will force the board to operate at a more strategic and less detailed level.

Given the broad remit of a combined board, to maintain the quality of the standards and regulations developed, supporting technical structures, will need to be put into place to advise the board on complex technical matters as they arise.

Such technical structures should include technical advisory groups. These groups could be the appropriate place for a higher level of involvement by the profession without the appearance of asserting undue influence. We are of the view that it is important to have the appropriate level of practitioner involvement in standard-setting to provide practical experience of implementing the standards. In addition, practitioner involvement provides the right level of technical knowledge in developing the standards. This is critical in developing and maintaining high quality auditing standards.

Under a combined board, it will be important to manage the risk that “decision-making speed” overrides “decision-making quality” on major proposals. This could lead to a “proposal and re-proposal” practice, which will ultimately be a slower approach and has the potential to undermine confidence in the quality of the standards, which, in turn, will impact their adoption. In developing the proposed structure, it is imperative that consideration is given to the development of technical alerts or other interpretive or application materials. This is an equally important part of the process and may result in fewer unintended consequences whilst maintaining speed to market.

Further, to maintain credibility and the global adoption of the standards, any new combined board will need to have a clear focus. If this focus is to be the audits of large public listed entities, this will need to be clearly reconciled with a standard-setting mandate that includes standards relevant to SMPs, SME audits, public sector audits and so on. Without this consideration, there is a high probability that there will be multiple sets of auditing standards that may differ by jurisdiction.

Those responsible for advising the board, including staff, will have an important responsibility to ensure the board is apprised of the issues and is able to make informed

decisions. As a potential safeguard, it may be appropriate for a full time board member to be responsible for overseeing the work of those providing the technical support.

We do not believe that it would be preferable to separate ethics for professional accountants in business from professional accountants in practice. The Consultation Paper is unclear as to what the proposed scope of “ethical standards for auditors” would be. For example, would those standards be limited to only those requirements that are different or additional to “ethical standards for professional accountants in business” or would it be an entirely separate code of ethics for each of auditors and professional accountants in business? If the former, it is unclear where the responsibility would lie for the common requirements. If the latter, there is a risk that the respective requirements may become too divergent if developed by different bodies.

If the option of two separate boards is progressed, we are of the view that consideration should be given as to how the two boards can work together to better integrate their separate agendas and approach projects in a cohesive and effective manner. Consideration could be given to establishing two separate boards with a common chairperson presiding over both boards and to holding integrated boards meetings one or two times a year to progress projects that require a significant level of integration.

**Q5. Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not why not?**

Education standards fall under the remit of International Accounting Education Standards Board (IAESB), an independent standard-setting board under the auspices of IFAC. A consistently high standard of education for auditors and professional accountants wherever based is fundamental to quality. We consider it appropriate to maintain a body with standing to develop and promote the adoption of high quality educational standards. However, the drivers for change do not appear to have been raised in the context of IAESB. We consider that the current arrangement is fit for purpose.

Monitoring compliance with the standards is fundamental to the continued success of an international approach and IFAC’s Compliance Program has been valuable in monitoring that compliance. Further, the structural elements, through the IFAC Member Body and Forum of Firms obligations, have been important in driving adoption of the global standards, for example, ISAs, IESBA Code, International Education Standards (IES) and International Financial Reporting Standards (IFRS). However, there may be opportunities to increase the rigour of the Compliance Program, perhaps with the support of a revised governing body, to support adoption.



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

As noted above, we do not believe that it would be preferable to separate ethics for professional accountants in business from professional accountants in practice. We consider that ethical principles should be the same for the profession as a whole. Further, the recent non-compliance with laws and regulations projects undertaken by both IAASB and IESBA highlighted the interaction between ethical standards for those in practice and the roles of senior financial management of public interest entities. This does, however, present a difficult issue if there is to be a combined standards setting and “ethics for auditors” board, as expanding the scope to encompass responsibility for ethics for professional accountants in business will increase the challenges in making appropriate board appointments.

An alternative option may be for the combined board to retain responsibility for all independence matters and for the broader core professional ethics to be addressed by a separate board, such as IESBA.

However, if such a separation was to be ultimately agreed, we would support responsibility for the development and adoption of ethical standards for professional accountants in business being held by either IFAC or IESBA (or any replacement under a new structure).

**Q7. 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 are of the view that the following matters should be further considered by the Monitoring Group:

- As mentioned above, the creation of technical advisory groups may be a way to obtain technical input to support the development of the standards. These groups could be used as a means to obtain both practical and technical advice for standard-setting projects.
- A member of the PIOB currently attends the standard-setting board meetings and contributes to the matters under debate. This member may change between board meetings. Such changes can undermine both the consistency and quality of input provided. If the PIOB are to continue to participate under a reformed board, consideration needs to be given to allocating the role to a specific PIOB representative who is fully apprised of the responsibilities relevant to the role, thus ensuring consistency and quality of representation.
- The Consultation Paper discusses ethics in terms of “ethics for auditors” and “ethical standards for professional accountants in business.” This potentially creates a category of professional accountants that are not encompassed by the

ethical standards, that is, professional accountants in practice that only perform assurance or other types of engagements. Clarity should be given to the ethical standards the proposal expects those professional accounts to be governed by.

- If, based on the analysis of the responses to this Consultation Paper, it is determined that a separate audit and assurance standard-setting board and an ethics standard-setting board is appropriate, we recommend that consideration could be given to appointing a common chair for the separate boards.
- The Consultation Paper highlights the need to improve the speed with which new or revised standards are brought to market. It is important to recognise that firstly, speed to market does not always result in a high quality standard, and secondly, a rushed exposure draft of a standard may lead to the need to re-expose that standard which ultimately results in a slower process. Further, in some circumstances, as highlighted by the IAASB's ISA Monitoring Post Implementation Review, issuing other types of guidance may be more appropriate. For example, the IAASB are currently undertaking a project to revise ISA 315 (Revised).<sup>1</sup> This is an area where additional implementation guidance may have been more appropriate rather than making changes to the standard. Continued evaluation of implementation reviews and firm root cause analysis may provide alternative solutions to enhance quality.

#### **CURRENT COMPOSITION AND ROLE**

#### **Q8. 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 for the board to be strategic in nature. To facilitate this, we believe that the following should be in place:

- Appointed board members should possess sufficient technical competence to understand the issue being presented;
- Appointed board members should be able to provide appropriate direction to the supporting staff or technical advisors / advisory groups; and
- Clear terms of reference must be developed for the board members, members of any technical advisory groups and staff.

We agree that the members of the board(s) should be remunerated on a market comparable basis to boards with similar roles and responsibilities.

Also see our more detailed comments under question 4.

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<sup>1</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*

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

We note that the current process for approval of standards does not require unanimous consensus for approval of auditing standards, however, the boards often seek that level of consensus to approve the standard knowing it is well-supported. This helps to ensure that the standards are of a high quality, meet the needs and objectives of, and are likely to be implemented by all stakeholders.

We are of the view that it is in the public interest to have standards agreed by all stakeholders and that this should not be sacrificed for speed. It is not in the public interest to issue standards that a number of stakeholders disagree with. Whilst majority decisions are possible, we are of the view that such decisions should be infrequent to avoid the disenfranchisement of stakeholders.

Although we agree with the principle adopting standards on the basis of a majority vote, as we note above, consensus helps to ensure that the standards are of a high quality and meet the needs of all stakeholders without disenfranchising any stakeholder group. As such, we support retaining the current approach of requiring consensus, defined as a 2/3<sup>rd</sup>s majority, for approval.

**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 generally support the proposed composition of the board in terms of the mix of remunerated full time and part time members, and the stakeholder groups from which these members should be drawn. However, as discussed above, we note the omission of certain stakeholder groups such as the “public sector” and “member bodies” as categories of stakeholders and would recommend that board members from such categories be considered. Further, we are of the view that the investor stakeholder group should be extended to include those beyond investors in listed or public interest entities.

To be a truly representative board, its members need not only to possess the appropriate skills and competence, but the composition of the board also needs to be balanced across all the stakeholder groups, as well as being representative of different geographical and economic backgrounds. We believe that appropriate representation of all stakeholder groups is unlikely to be achieved with a board of only 12 members. We would suggest that all the appropriate stakeholder groups first be identified and defined, and then the

size of the new board be determined based on appropriate representation across these groups.

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

In order to retain its authority and credibility, we are of the view that it is imperative that the board members selected are highly qualified and respected members of each of the stakeholder groups ultimately identified. They must also possess the appropriate level of competence in the subject matter and sufficient and appropriate experience to understand the issues and make informed strategic decisions.

**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?**

Consultative Advisory Groups (CAGs) serve a useful purpose providing input into project proposals as those projects evolve into standards or other guidance. As such, we agree with the retention of some form of CAG, provided appropriate consideration is given to the focus and membership of this CAG.

We are of the view that it is important to explore how the role of CAG should evolve in light of the proposed changes to the process. The role of the CAG should be clearly defined and communicated. Further, if the CAG is to continue to provide input into projects under the new structure, consideration should be given to making changes to its composition to encompass a wider range of stakeholders ensuring that the input from the different categories of stakeholder remains balanced overall. In determining eligibility to serve on the CAG, individual stakeholders should only be members of one body, such as the CAG or the MG, that provides input into the standard-setting process and not members of multiple bodies as can currently be the case.

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

Under the current structure, all Board members and their technical advisors are bound to act in the public interest. As the task forces are currently comprised of acting Board members and technical advisors, the current task forces are also clearly operating in the public interest. We see no reason why this would need to change under a revised framework. It would appear a reasonable assumption that when an appropriate public interest framework is developed, it should be adhered to by all parties involved in the standard-setting process and not just the task forces. However, there is no discussion in the Consultation Paper on this point, nor have the proposals for that public interest framework been developed. As such, we are unable to provide an informed view on this question.

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

We support the proposed nominations process, provided other comments concerning the PIOB have been appropriately addressed.

**Q15. 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?**

We do not agree with providing the PIOB with the right of veto in the adoption of a standard. The governance body should not, nor should it need to, directly intervene in work of the standard-setting board and technical debate, including challenging the technical judgements made by the standard-setting board(s) or by the veto of the adoption of a standard. We are of the view that this may result in an imbalance in input from various stakeholders. Further, undue influence by the PIOB in the technical drafting of standards may also cause delays, which is clearly not in the public interest.

The role and effectiveness of the body governing the standard-setting process will be key to the success of the standard-setting reforms, to earning the confidence of all stakeholders, and to enhancing the perception of independence. This may be through the existing PIOB or through the development of a new governing body. We are of the view that reformation of governance is necessary if the standard-setting and ethics boards are also to be reformed. With a reformed board, all key stakeholder groups will be equally represented and will directly participate in decisions concerning which projects are considered to be priority projects and the development of resulting standards and regulations. As such, it will no longer be necessary for a governance or oversight body to advocate on behalf of the unrepresented stakeholders.

The direction proposed in the Consultation Paper seems to support the current International Accounting Standards Board (IASB) model. Whilst this may be appropriate to inform any proposed reforms, differences between accounting and standard-setting processes and models need to be recognised in the context of how the board(s) and governance would operate. For example, the Consultation Paper proposes reliance on the auditing 'expertise' of International Forum of Independent Audit Regulators (IFIAR) to backfill audit experience that is not possessed by the appointed board members. This is concerning from the perspective that IFIAR is in a position to provide comments on inspection issues and likely advice from a strategic standpoint but are likely not to be able to provide practical advice.

We believe that any reform of standard-setting boards, their operation and governance should be part of an integrated package and would not support the proposed staged

consideration of reforms to the governance model. Successful implementation of the standard-setting reforms will be dependent on the governance structure being simultaneously reformed.

As the standard-setting board(s) move out of IFAC and into an independent organisation, it will be critical for the governance body to have broad governance responsibilities beyond the public interest oversight contemplated in the Consultation Paper. Such responsibilities should also include oversight of operations, design and due process.

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

The Monitoring Group's proposals for reform include the concept of balanced multi-stakeholder participation. It would therefore seem appropriate that IFAC has the ability to propose a member for consideration in a fully representative PIOB. IFAC, as an organization, will have much to contribute to the future of standard-setting and it would be disadvantageous to lose such knowledge and experience.

Further, we are of the view that it is essential that a governance body include individuals with experience in auditing. This could be through representation of the preparers, users or auditors of the financial statements.

**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?**

Similar to the proposals for the composition of the new standard-setting board(s), the governing body should also have multi-stakeholder representation from the same stakeholder groups as the standard-setting board(s). Such multi-stakeholder representation should include individuals who:

- have previously served in governance roles
- represent the geographical range of jurisdictions that have adopted the standards
- are of high stature, expertise and reputation across all the represented stakeholder groups
- possess recognised skills, experience and knowledge in auditing, financial statement preparation and ethics
- understand and are sensitive to the challenges of adoption and implementation of global standards
- demonstrate commitment to serving 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 are of the view that the MG should accept nominations to the governing body through an open nominations process from all parties of individuals that meet the identified criteria, not just MG member organisations. The nominations process should be supported by appropriate and transparent due process and a skills matrix by which to assess the candidates.

**Q19. Should PIOB oversight focus only on the independent standard-setting boards for auditing and assurance standard and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?**

We see no reason why the PIOB should not continue to oversee standard-setting for all accountants. Educational standards and ethical standards for professional accountants in business equally should be set in the public interest.

#### **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?**

We have significant concerns about the proposals for the governance model contained in the Consultation Paper. Effective governance and oversight are critical components of a high quality standard-setting process that operates in the public interest and as such, we believe that the roles and responsibilities of the MG should also be considered as part of a fully integrated reform package. There is a danger that staged considerations of reforms would not result in a cohesive governance model or fully consider and address all the potential consequences that could result from any reforms. An extended period over which reforms are considered and implemented may also detract from the role that governance should play whilst these various stages of reform come to fruition.

Changes to the composition of the MG should be considered in conjunction with proposed changes to the PIOB in order to achieve broad representation from multiple stakeholder groups. The remit of the MG should provide for equality of all stakeholders and transparency of all decisions. Further, we believe that it is imperative that the composition of the MG reflects not only the stated objective of the new board to set

standards for both public interest and private entity audits, but also encompasses stakeholders from other groups not recognised in the Consultation Paper, such as those in the public sector. As we noted above, in some jurisdictions, the public sector market is far in excess of the private sector and, more specifically, of listed or public interest entities. Similar to our comments on the composition of the standard-setting board, we believe that appropriate representation of all stakeholder groups should determine the size of the MG.

The process of appointment to the MG and its activities should also be transparent. The names of the officers, meetings and decisions relating to the standard-setting process should be made public. The observance of appropriate due process by the MG when performing its oversight duties should also be evidenced.

#### **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 new standard-setting board should look to acquire?**

A smaller, more strategic board would naturally need to be supported by an expanded professional technical staff, with the appropriate skill set. The proposed staffing model that provides for both long-term and short-term employees is an appropriate means to drive cost-effectiveness, whilst ensuring that technical skills remain up-to-date and market-focused. However, further consideration should be given as to how, practically, a model of direct employment, evaluation and compensation of the staff by the Board would be operationalised and funded.

A streamlined board also will need strong support from a highly technically skilled advisory group, in addition to an expanded staff. Consistent with other similar organisations, consideration should be given to the creation of a technical advisory group for auditing standards and for ethics and independence standards. These groups could be a useful and flexible mechanism through which the board gains access to technical input thereby supporting the permanent and seconded staff.

As with any proposed substantive change, effective transitional provisions are imperative to maintain high quality standards during the changeover, especially in the period before the envisaged staff complement is in place.

#### **PROCESS CONSIDERATIONS**

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

Permanent staff involved in setting auditing standards should be selected from candidates that possess the appropriate level of technical expertise and practical knowledge. We believe that whether such staff is directly employed by the board or not is of secondary importance. However, if a direct staffing model is to be pursued, further



consideration should be given as to how that model would be operationalised and funded.

Overall we are of the view that it is important for the staffing arrangements to be resolved before action is taken with regard to the proposed reforms.

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

We recommend the following process improvements:

- Consideration of how to make the standard-setting process more proactive. To remain relevant, it is important that standards are issued timely and can be adapted to future technological and environmental changes.
- To be more responsive to stakeholder needs:
  - Increased acknowledgement of the time-sensitivity of developing standards and further efforts to streamline the process to issuance.
  - Consideration of alternatives to standard-setting that may address audit quality issues.
- Further exploration of the role of the CAG (as discussed above).
- Consideration of the creation of technical advisory groups (as discussed above).

**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 (eg 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 that effective safeguards can be put in place, the perception of the independence of any model, current or proposed, will always be at risk whilst the funding comes predominantly from the auditing profession and firms, irrespective of whether such funding is collected and disbursed by the PIOB or directly contributed.

Standard-setting is a public good and its sources of funding should reflect this. It is important that a route to broad-based funding within a foreseeable timeframe is put in place. For any reforms to be credible and effective, a broad source of diversified sustainable funding should be secured as a matter of priority. Both the sources and quantum of funding remain matters to be resolved in the proposed reforms. Support for a funding model is unlikely to be obtained if the extent of the funding needed and to be requested is unknown.

It is important to recognise that in-kind contributions, such as the time spent by firm's employees on developing and updating standards, cannot easily be translated into further

cash contributions. The standard-setting system must be established with reasonable associated costs and be capable of being adequately funded.

**Q25. Do you support the application of a “contractual” levy on the profession to fund the board and the PIOB? Over what period should the 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?**

We do not agree with the imposition of a contractual levy on the profession to fund the board and the PIOB. In addition to the reasons stated above, whether contributions are voluntary or contractual does not change the source of those contributions and therefore does not address the stated issue of a lack of perceived independence. Further, a contractual levy may dissuade some firms from operating in the audit market, reducing competition, increasing concentration of firms performing audits and exacerbating the perception of the lack of independence.

**OPEN QUESTIONS**

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

We are of the view that the MG should consider the extension of the comment period for this proposal and that it should commit to a further consultation that:

- Addresses the issues raised from the responses to this Consultation Paper;
- Better defines the issues to be resolved;
- Includes a definition of the public interest;
- At a minimum, an outline of the proposed public interest framework, and
- Proposes sustainable resolutions to the funding issues.

We further believe that a realistic comment period should be provided on that consultation. Rushing to a solution without sufficient input or consensus amongst stakeholders would not be appropriate.

If the proposed reforms as described in the consultation paper, or other far-reaching reforms are enacted, it is important the attention is not diverted from the critical issues that are facing the auditing profession today. The current standards are fit for purpose and attention should only be placed on their revision when the time is appropriate.

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

We note the following matters for further consideration by the MG:

- The Consultation Paper does not ascribe the same level of importance to the IEASB as it gives to standard-setting. Education of professionals is fundamental

to the production of competent professional accountants whether in business or practice.

- The Consultation Paper does not discuss any proposals for future of the International Public Sector Accounting Standards Setting Board. It is unclear what future, if any, is proposed for this Board.
- Consideration should be given as to whether a program of reforms should extend to boards other than IAASB and IESBA.
- We would also like to reiterate the importance of transition provisions in a program of reform. Absent effective transition provision, there is no guarantee that the reforms will be successful or will result in standards of at least the current quality being developed in a more effective and efficient manner.
- We recommend that the subsequent consultation give consideration to where the board and its staff should be physically located. Flexibility in this respect may help to alleviate the challenges currently experienced in securing high quality staff members.
- Finally, it is important to note that the auditing standards alone are not in and of themselves the sole contributor to audit quality.