

The Nordic Federation of Public Accountants

To:
Mr. Gerben Everts, Chairman of the Monitoring Group (MG)
Mr. Stephen Hadrill, Chairman of the MG Working Group

By email: MG2017consultation@iosco.org

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CEOs: Members of the Nordic Federation of Public Accountants

Copenhagen 7th February, 2018

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

The Nordic Federation of Public Accountants (NRF) has noted with interest the publication by the Monitoring Group of the Consultation Paper and call for comments on reforms to the global standard setting process. In addition, NRF attended, at the kind invitation of the Monitoring Group, the very interesting Round Table discussions in London on the 15th January 2018.

NRF is a separate legal institution, founded in 1932, acting on behalf of and under the direction of, the recognized audit and accounting institutes in the Nordic region (FSR – danske revisorer in Denmark, Suomen Tilintarkastajat ry - Finnish Association of Auditors - in Finland, FLE in Iceland, DnR in Norway and FAR in Sweden). Each institute is autonomous. However, the views expressed in this letter are endorsed by these member bodies, each of which is a separate legal entity.

As an organization NRF is committed to promoting the consistent application of high quality audit and accounting standards and practices within the Nordic region as well as worldwide, in the public interest and welcomes initiatives designed to advance these objectives.

NRF has, for some years been of the opinion that reforms of the standard setting process are overdue. In addition, NRF has expressed concern that audit standard setting is at particular risk in terms of maintaining relevance in an environment where technology and disparate stakeholder demands and expectations are challenging the current standard setting process.

NRF recognizes the governance responsibility and public interest commitment of the Monitoring Group and welcomes the issuance of this Consultation Paper.

This response is structured in two sections:

1. Overall comments, setting out the key issues and concerns (pages 2-7) and;
2. Detailed answers to the questions in the Consultation Paper (pages 8-17)

NRF is committed to continue and take an active part in a transparent, positive and constructive consultation and dialogue on this issue. We welcome any initiatives in this regard by the Monitoring Group and other related parties. Please respond directly to Jens Røder, using the above contact details regarding any matters in this response.

Yours sincerely,


Jens Røder
Secretary General & CEO
Nordic Federation of Public Accountants

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Overall comments:

We are broadly supportive of many of the proposals that have been put forward for comment in this Consultation Paper. However, we are also concerned that, so far, many of these proposals lack sufficient evidence concerning their efficacy in addressing existing weaknesses in the current standard setting framework.

The existing standard setting model has been developed in consideration of the public interest. There are currently provisions for the exercise of independent governance in place, as performed by the PIOB. The current standard setting process has resulted in the issuance of high quality standards which have been developed after rigorous due process and successfully adopted in many jurisdictions globally. This process has generally served stakeholders well..

We have noted that the Monitoring Group in its Consultation Paper has stated that it is important to determine what works well in the existing system and consider how best to incorporate this in any new proposals. We support this approach.

The overall principles that we believe should be reflected in the reforms are:

- Distinct and separate roles for oversight and standards setting – independent governance arrangements are needed to secure funding, oversee standards setting and due process, but not to intervene in the technical debate.
- Participation of all relevant stakeholders, including the accounting profession, at both the governance/oversight and standard setting levels.
- Involvement of individuals with up to date practice experience is needed in audit standard setting to ensure operational effectiveness and quality of the audit standards.
- Reform of the standard setting boards and operations, and the governance of it, needs to be agreed by involved stakeholders as a complete and integrated package. We do not support a staged adoption.
- Consideration needs to be given to resolve the growing disparity between the audit of less complex non-listed entities and listed/PIE entities. There are several approaches that ought to be considered, including separate standards setting boards; separate permanent technical committees; a single generic standard for the audit of less complex entities or a “bottom up”, think small first, “building block” application to the whole standards setting approach.
- Standards setting at all levels needs to be designed to encourage the application of professional judgment and skepticism in the audit process, rather than encouraging compliance based on a “tick the box” mentality. This requires a more principles based, rather than a rules based approach.
- The continuing role of IFAC within the standards setting model should be clarified.

We have noted that the Monitoring Group and its Working Party expect to publish the following documents in June:

- An assessment of responses to this Consultation Paper and feedback to respondents
- An impact Assessment, based on the current proposals and initial consultation
- A Public Interest Framework for standard setting
- A White Paper which will include, amongst other proposals, initial suggestions and proposals for the creation of a model for governance and sustainable funding
- Suggestions for transitional arrangements, taking into account the need to retain trust in the standard setting process and considering what already works well within the current model

There is no doubt that this additional material will go a long way to identify the challenges facing a comprehensive reform. NRF wishes to consider this material further before forming a more definite view on the nature and extent of reforms that are needed and can realistically be implemented to address deficiencies in the current standard setting model. NRF believes that all stakeholders involved in this process need to consider solutions that go beyond the current model. We are committed to take an active part in a constructive and positive dialogue for the purpose of presenting proposals for such solutions.

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The following comments and responses to the questions in this Consultation Paper should be considered in the light of the above remarks.

1. The successful adoption of global standards requires broad stakeholder agreement and acceptance. Securing such agreement and acceptance requires rigorous and transparent due process and can take time. Overall consensus on broad principles is more easily achieved, whereas retaining this consensus is more difficult when there is a need to obtain agreement on detail. However, we believe that agreement, also on detail, needs to be achieved in advance of implementing any major reforms to the current standard setting framework and process. Otherwise there is a risk of damaging stakeholders trust in the standards setting process and in the standards themselves.
2. We have noted that this Consultation Paper is the first step in a process, which will involve further consultations and proposals, including transitional measures. We believe that this process is necessary but, at the same time, we urge that further consultations and proposals do not result in protracted uncertainties and delays in implementation. The global adoption of international standards is often based not on legislation, but on trust in the standard setting process and the results that it generates. It is essential that this trust is not eroded. Therefore, we do not support a “stage by stage” implementation of reforms to the current standard setting model. This includes dealing with transition, proposals for sustainable funding and changes to the governance structure, including the future role of the IOB and the Monitoring Group itself. Instead, we suggest that all the major components of the proposed reforms are thoroughly researched, considered, consulted and agreed on as a total package. This must also include a robust process for managing the difficulties and challenges of a successful transition.
3. We urge the Monitoring Group to continue to consult widely with its significant stakeholders throughout this process, through open dialogue and transparent consultation, covering all the aforementioned issues.
4. When this exercise has been successfully completed and agreement has been reached on an implementation timeline and process, then there is no reason to delay implementation. We believe this approach will help to ensure broad stakeholder acceptance, contribute to retain trust in the standard setting process and facilitate future adoption of the standards.
5. The credibility of the standard setting process is founded on its independence. This means that, while various stakeholder groups can be involved in the standard setting process, no single group should be in a position to exercise undue influence over the outcome of the standard setting process, either at the governance level or at the standard setting level. We support the establishment of multi-stakeholder standard setting board(s). We also support a model where the exercise of governance and oversight over the standard setting process is founded on multi stakeholder participation. We believe that the accounting profession should be involved on an equal footing with other stakeholders in this process, both at the level of the standard setting board(s) and in the exercise of governance and oversight.
6. Audit practitioner experience and expertise is a key contributor to setting audit standards that are workable; that influence the right behaviours and are responsive to market developments and innovation. The continuing quality and effectiveness of the standards will be at risk if this is not retained under the reformed model.
7. We suggest that the following principles should be applied in consideration of these changes:
 - Distinct and separate roles for governance and standard setting: governance should oversee standards setting and proper due process, but not intervene in the work and technical debate of the standard setting board(s).
 - Participation of all relevant stakeholders, including the accounting profession, at the oversight as well as the standard setting levels
 - The exercise of independent governance and oversight in the public interest should be directed towards those independent standards setting boards that are charged with setting standards in the public interest.
 - A realistic model for broad-based funding needs to be developed and agreed, including a plan for implementation within a foreseeable timeframe.

This will require structural changes that serve to:

- Redesign the standard setting board(s) and how it/they operate(s) so that all key stakeholders can participate in standards development on an equal footing.
- Design an oversight and governance model to serve as guardians or trustees of the standards setting model.
- Ensure public transparency and accountability at all levels of the process in the public interest.

The following components of the standards setting model deserve particular consideration.

The need to address standards for SME/less complex audits:

The consultation paper seems to focus primarily on standards for audits of listed entities and other Public Interest Entities (PIEs), There is no direct reference to the audit of small and medium-sized entities (SMEs), which are important for the economy in most countries.

The increasing complexity of international audit standards, combined with increasing regulatory demands and reporting requirements for listed entities and PIEs has increased the cost and complexity involved in scaling down the international standards for audit to make them directly applicable to the audit of SMEs and less complex non-listed entities. This also needs to be considered together with the growing directional impact of technology in the design of audit applications. The result is that there is a growing need for separate audit standards for the audit of these entities.

This could initially be resolved by allowing for the audit of such entities to be based on separate national standards. However, we believe that this would be a retrograde step and there is a risk, in addition, that the application of a global array of disparate national audit standards will undermine the trust and confidence in audit in general.

Instead we suggest that the Monitoring Group explore and consider a number of options:

- The establishment of two separate audit standard setting boards, one addressing specific audit standards for listed entities and PIEs and the other developing more generic audit standards for non-listed, less complex entities. Listed entities and other PIEs are subject to more complex reporting requirements and much wider accountability to the public at large. Legislation and capital market requirements in recent years have grown, with the consequence that mandatory reporting requirements, procedural compliance and stakeholder accountability has become much more differentiated, not only for the entities but also for the auditors of these entities. This tendency is also reflected in the audit standards that need to address these complexities. Audit standards for small non-listed; non PIE entities do not need to embody many of these additional requirements and can therefore be constructed much more simply without compromising audit quality. This approach would allow for the setting of more principles based and less detailed audit standards for smaller, less complex entities and would help to promote the application of properly evidenced professional judgment and scepticism.
- The adoption of two permanent technical groups, each reporting to the audit standards setting board, one dealing with the specific requirements needed to audit listed entities and PIEs, the other setting basic audit standards that can be applied generically to all entities, irrespective of whether they are listed or not. This approach will help to address complexity and the difficulties of scalability.
- Setting certain standards, based on a “bottom up” approach. This would lead to a “building bloc” approach where a simple audit approach is initially adopted when applying each relevant standard and then additional audit steps are added depending on the complexities of activities and the risk environment of the entity in question. This would eliminate a number of mandatory steps in the current standards and we believe that this approach would also go far to further the application of professional judgment and scepticism during the audit process, rather than encouraging a “tick the box” mentality.

The Nordic Federation has, for the past four years, been exploring the possibility of developing a separate audit standard for the audit of unlisted, less complex entities. This

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resulted in the public issuance in 2016, for comment, of a draft standard for the audit of small entities. This draft standard generated considerable international interest. Currently, the Nordic region is participating in a geographically broader based initiative that is directed towards developing an appropriate and sustainable proposal for the audit of such entities, that can be considered for global adoption and application and which will not diminish the value of and trust in the audit.

Governance and oversight:

Currently, the PIOB exercises governance and oversight over the standards setting process. The PIOB is committed to fulfilling its role in accordance with its Constitution and bylaws and in the Public Interest. Members of the PIOB are appointed by the Monitoring Group and the PIOB is accountable to the Monitoring Group, to whom it reports as set out in Article 2 of the Charter of the Monitoring Group. IFAC is entitled to nominate one independent member of the PIOB. The current structure was set up some fourteen years ago as a result of a lack of trust in the standard setting process at the time.

We believe that the current structure for oversight and governance needs to be reassessed. However, governance and oversight in the public interest should be exercised over standards that are set in the public interest. The resources devoted to governance and oversight need to match the desired outcomes. We are not convinced that an elaborate governance and oversight structure in the public interest is needed for all aspects of standards setting. There is a risk of over engineering the whole standards setting model unless the model is carefully considered in terms of what it is meant to achieve and how it can be justified within a properly constructed public interest framework for standards setting.

We support the decision by the Monitoring Group to allocate the task of designing such a framework to the PIOB. However, we believe that successfully designing such a framework will require much broader stakeholder input. We urge the Monitoring Group to ensure that rigorous and transparent due process in connection with the public consultation on this framework is exercised, in order to ensure that there is broad stakeholder support for the outcome.

The exercise of independent oversight and governance needs also to be independent from the actual standards setting process. We do not support the proposal where a body, that is tasked with the exercise of oversight and governance over the standards setting process, should be involved in any aspect of this process at the actual standards setting level. This includes the exercise of any form of veto right over the outcome of the technical standards setting process. Credible independent oversight and governance in the public interest requires that the body that exercises such governance is truly independent. Otherwise, there is a risk of blurring public perception and accountability at both levels. In addition, there is a serious risk of compromising the results of proper and transparent due process, if the governance and oversight body is also focused on the board(s)' technical agenda and involving itself in the technical debate of the standards setting board(s).

We envisage that the remit of an independent governance and oversight body could include inter alia; nominations to the standards setting boards; securing and administering funds for standards setting; oversight over the performance of proper and accountable due process of the standards setting board(s); overseeing the operations of the organisation, monitoring the boards' effectiveness as well as holding the standard setting board(s) generally accountable to their stakeholders in the public interest.

The members of the governing and supervisory body should be composed of individuals with appropriate experience and with a broad stakeholder background, including the accounting profession. However, they should not represent any group or organization. We believe that it is important that the governance body should be independent and nominations to this body should be based on an open and public nominations process. At the same time, appropriate mechanisms need to be established to ensure that this body is itself accountable to the broader stakeholder community in the public interest. In this respect, we also suggest that consideration

is given to the way the IFRS Foundation Trustee model is composed, when considering an appropriate governance and oversight model for the future.

Standards setting Board(s):

Future board(s) should be built on a multi-stakeholder basis. We support the suggestion that the standards setting boards need to be more strategic in their direction and we can see some benefits in reducing the size of the board(s) providing diversity is not compromised.

It is difficult to conclude whether there is a need for one or more boards at this stage. Before taking a decision on this, the following key factors should be considered:

- The growing recognition that unlisted and less complex entities need different or less demanding audit requirements, which are appropriate to the needs of users in this market segment.
- Rules on independence need to be considered in relation to public interest considerations governing the role of the auditor and the performance of the audit, be it voluntary or statutory. In this regard there should be appropriate provisions for auditor independence in the audit standards. However, we do not believe that there should be the same rules for independence applicable to the audit of less complex owner managed SMEs, as opposed to the audit of listed entities and PIEs.
- Ethical principles go beyond independence and should be the same for all professional accountants. We suggest therefore, that a separate standards setting board, charged with setting ethics standards for the accounting profession as a whole, be retained within the current service arrangements of IFAC
- The reliance that can be placed on expert groups and staff.

Applying a simple majority vote to adopt decisions on standards setting made by the board may lead to the systematic exclusion of views of specific members or groups of members. The exclusion of significant minority views can undermine trust and the adoption of standards at a global level. It is important to ensure that standards are generally accepted, considering that they are often adopted voluntarily, based on the willingness of national standard setters to adopt. We therefore support the adoption of standards in a way that reflects and protects the views of any significant minority. This could be through the use of a supermajority vote to approve the final adoption and issuance of a standard by the standards setting board.

We are not convinced that the legitimate concerns which have been expressed about timeliness in the standards setting process and ensuring that standards are fit for purpose in an increasingly technology based auditing environment, will necessarily be addressed by an increased focus on strategy and a reduction in the number of board members. In order to design an effective strategy for audit for the future, the standards setting board members must have an operational understanding of audit, based on appropriate professional and/or user or appropriate regulator experience. On this basis, the board needs to offer directional guidance to the technical staff. Simply assigning further responsibilities to the staff will not necessarily result in more timeliness in standard setting, or higher quality audit standards. The board needs to be instrumental in exercising leadership, setting better priorities and considering the material presented to it at board level, to ensure that the standards setting reforms will be successful.

We have chosen not to consider the remuneration of board members at this stage, pending further consideration of any proposed funding model. Board members could be remunerated if the appropriate funding is available. Independent remuneration of board members is however, important if the perception of independence is to be strengthened in relation to the concern about the exercise of undue influence by those stakeholders who are funding the individual board members.

Other assurance services

Currently, the IAASB also develops and issues standards for reporting on other engagements, including reviews, agreed upon procedures and compilation. The consultation

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paper does not address standard setting for these services. We believe that the provision of these services should continue to be governed by standards but we see no reason why these standards cannot be set by IFAC, because they do not need to be subject to the same rigorous oversight requirements needed for setting audit standards for listed entities and PIEs in the public interest.

Public sector audits:

When looking to the public sector, which represents a very large part of the economy in most countries, many countries currently use national audit standards which are based on ISAs or on those issued by the International Organization of Supreme Audit Institutions (INTOSAI). We suggest that there is an opportunity here, when considering a new model for audit standard setting, to incorporate audit standards for the public sector into a complete audit standards setting model.

Ethics:

Independence is relevant for performance of audit and assurance engagements and therefore we suggest that independence standards should, in some way, be incorporated into auditing and assurance standards, as already suggested.

However, ethical principles are not limited to the issue of independence. They are inherent to the function of the accounting profession at large and they go beyond the performance of audit. We believe that ethical principles should broadly be the same and applied in the same way for all professional accountants, irrespective of whether they are providing audit or other assurance services. The same ethical principles should also apply to professional accountants who provide other related services, as well as to accountants in business. We therefore suggest, as already mentioned, that IFAC should have responsibility for setting ethics standards for the accounting profession as a whole.

The continuing role of IFAC

Regardless of the final outcome, we believe that the Monitoring Group needs to be transparent about its proposals regarding the continuing role for IFAC in relation to standard setting. We believe that there are significant areas where IFAC should continue to play an important role and assume responsibilities because IFAC is best placed to adopt and exercise these functions. These include the exercise of compliance, provision of agreed services, funding and other activities in connection with proposed revisions to the current standards setting arrangements. We note that there are important areas related to the standards setting process and adoption, where IFAC has already demonstrated a widely recognized track record. We see no reason why IFAC should not continue its involvement within the new standards setting model in areas where the public perception of independence in the standards setting process is not compromised and where this is most efficient.

Monitoring Group:

While we understand that this is not part of the current remit, we nevertheless suggest that the Monitoring Group should re-assess its responsibilities to avoid duplication of work. The responsibilities of the Monitoring Board in the IFRS model could provide further ideas on this.

The Monitoring Group should consider stakeholders' concerns that the proposed new model, which envisages significant regulator involvement in the standard setting process, increases the risk that the process will lead to compliance-oriented standards and leave little or no room for principles-based standards and the use of professional judgement. The Monitoring Group could clarify how these principles can be embedded into the standard setting process, perhaps by describing the essential components of a 'good' standard.

Annex with responses to questions

Our responses to the individual questions should be considered within the context of the above overall comments that we have provided in this response.

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?

- We have noted and understand the concern that many stakeholders have, including legislators and regulators, that the current involvement of the accounting profession creates a perception that the accounting profession can exercise undue influence over the standards setting process. This involvement can create an adverse effect on stakeholder confidence and trust in the standards setting process. We believe that no particular stakeholder group should be able to exercise undue influence in the board(s), this includes the accounting profession and other important stakeholders, including regulators and 'users'.
- Standards need to be relevant and issued in a timely manner. We agree that these considerations are very important. However, in seeking to address this concern we suggest that timeliness should not be at the expense of quality. Furthermore, securing support for the global adoption of high quality standards can take time. Finding the right balance between relevance/timeliness and quality of standards is very important.
- The existing standards setting model, in our opinion, already results in the development and adoption of standards in the public interest. The legitimacy of these standards is evidenced by the fact that they are currently adopted by legislators and recognized by users and regulators in many parts of the world. Furthermore, the governance and oversight of the PIOB and involvement of the Monitoring Group has ensured that public interest considerations are at the forefront during the current standards setting process.
- We believe that the current model can be improved regarding the concerns referred to above, but the Consultation Paper provides less clarity on how these concerns are going to be addressed. The development and issuance of additional materials during the continuing consultation process may identify ways forward, including alternative solutions, that are capable of effective implementation. We urge that these should also be explored.

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 agree with the overarching and supporting principles articulated by the Monitoring Group.
- We believe that it is important to consider that oversight bodies have a key role in making sure that due process is respected during the process of considering the need for and the subsequent development of standards. The adoption and execution of a transparent and efficient practice for due process is paramount in ensuring that standards are subsequently accepted, adopted and implemented globally.
- Oversight bodies should respect and perform their role in the public interest. This means that they should respect and protect the independence of the standards setting board(s) and the process of developing and adopting standards. The role of the oversight body is to exercise governance and oversee the standard setting process. It should not have the right to exercise any veto or otherwise interfere in the technical standard setting process itself.
- The Monitoring Group principles do not appear to take into account the need for resolving the issues affecting the scalability of audit standards for SMEs. Furthermore, the audit of the public sector is not mentioned, as referred to in our general comments.
- The principles do not appear to address other related assurance services that practitioners perform beyond audits of financial statements.

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Question 3: Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so what are they?

- The public interest in standard setting needs to take into account stakeholder expectations; transparency and accountability during the process of standards setting; the quality of standards; the applicability of standards in practice and enforceability. Striking the right balance between these considerations will define the success of standards setting in the public interest.

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.

- Independence is relevant for the performance of audit and assurance engagements and therefore we suggest that independence standards should, in some way, be incorporated into auditing and assurance standards.
- However, ethical principles are not limited to issues of independence. They are inherent to the function of the accounting profession at large and they go beyond the performance of audit. We believe that ethical principles should be the same and applied in the same way for all professional accountants, irrespective of whether they are providing audit or other assurance services. The same ethical principles should also apply to professional accountants who provide other related services, as well as to accountants in business.
- We therefore suggest that IFAC should have responsibility for setting ethics standards for the accounting profession as a whole.
- Regardless of whether there will be a single board or not, it is crucial to ensure that the composition of every board(s) remain multi-stakeholder.
- The increasing complexity of international audit standards, combined with increasing regulatory demands and reporting requirements for listed entities and PIEs has increased the cost and complexity involved in scaling down the international standards for audit to make them directly applicable to the audit of SMEs and less complex non-listed entities. This also needs to be considered together with the growing directional impact of technology in the design of audit applications. The result is that there is a growing need for separate audit standards for the audit of these entities.
- This could initially be resolved by allowing for the audit of such entities to be based on separate national standards. However, we believe that this would be a retrograde step and there is a risk, in addition, that the application of a global array of disparate national audit standards will undermine the trust and confidence in audit in general.
- Instead we suggest that the Monitoring Group explore and consider the adoption of two separate audit standard setting boards, or perhaps two permanent technical groups, one dealing with the specific requirements needed to audit listed entities and PIEs, the other setting generic audit standards that can be applied to all entities, irrespective of whether they are listed or not. This approach will help to address complexity and the difficulties of scalability.
- Another approach that may help to resolve the growing problems associated with scaling down increasingly complex standards would be to fundamentally revise the approach that the Board adopts to creating a standard. By adopting a “building bloc” approach where a simple audit approach is initially adopted and then additional audit steps are added depending on the complexities of the activities and risk environment of the entity in question. We believe that this approach would also go far to further the application of professional judgment and scepticism in the audit process, rather than encouraging a “tick the box” mentality.
- We suggest, as already mentioned, that there is an opportunity, when considering a new model for audit standard setting, to incorporate audit standards for the public sector into a complete audit standards setting model.

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?

- We believe that standards on education should remain a responsibility of IFAC.
- IFAC is ideally suited and equipped to resource and run a global compliance program in the public interest. Currently the program is independently monitored, in the public interest, by the PIOB.
- Any proposals need to be considered in the light of whether provisions will be put in place to ensure that IFAC will continue to have the necessary resources in the future to run a global compliance program.
- There are also important legal and procedural issues to settle, amongst others potential liability issues and scope – will the program be charged with registering compliance or will it have a monitoring or an enforcement role? There is also the question of accountability – to the Monitoring Group directly; to the PIOB; or another governance and oversight board. There is also the issue of how to interface with national regulators/oversight bodies, where international standards are embodied in national standards or law. Ultimately these and other issues associated with such a program will need to be resolved between IFAC and the Monitoring Group.

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

- We have already responded to this question when addressing Question 4 above.
- The reason why we suggest retaining the responsibility for developing and adopting ethical standards for the accounting profession within a board under the auspices of IFAC is that individual professional bodies have a role and responsibility to ensure that their members adhere to stringent rules of professional ethics. We believe that introducing changes to professional behaviour must require that the connected professional bodies play a key role because ultimately, they are instrumental in their adoption and enforcement. We believe that IFAC is best placed to ensure that global standards in this area are recognized and complied with.

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 refer to our general comments to this Consultation Paper as well as to our responses to the individual questions. Additional considerations are included where relevant.

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

- We agree that the focus of the board should be more strategic in nature. However, in order to design an effective strategy for audit for the future, the standards setting board members must have an operational understanding of audit, based on appropriate professional and/or user or appropriate regulator experience. On this basis, the board also needs to offer directional guidance to the technical staff. Simply assigning further responsibilities to the staff will not necessarily result in an efficient execution of an agreed strategy, including more timeliness in standard setting, or higher quality audit standards. The board needs to be instrumental in exercising leadership, setting better priorities and considering the material presented to it at board level, to ensure that the standards setting reforms will be successful. This also requires that individual board members have sufficient technical insight and relevant experience to perform their functions in an appropriate manner.
- Standard setting boards in the current model are focusing on too many details. This needs to change. Part of the work undertaken needs to be delegated to the staff and/or technical expert groups. However, it is important for the board(s) to have the final word over what is included in the standards. The board(s) has responsibility for the final outcome.
- We suggest that further consideration needs to be given regarding what is meant by “strategic in nature”. Does this relate to the function of the Board(s) collectively and how

will this impact on the specific competency requirements of board members individually? We would refer these questions in the light of our first comment to this question above.

- A consultation on the stakeholders' needs and corresponding prioritising the board's work can enhance the board(s) strategic direction. The board(s) need(s) to remain up to date with current developments and innovations in markets as well as open to views and suggestions coming from stakeholders to enable them to respond appropriately and in a timely manner.
- Board members can be remunerated if the relevant funding is secured. We have chosen not to consider the remuneration of board members at this stage, pending further consideration of any proposed funding model. However, Independent remuneration of board members is important if the perception of independence is to be strengthened in relation to the concern about the exercise of undue influence by those stakeholders who are funding the individual board members.

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

- We support the suggestion that the board(s) can adopt standards on the basis of a majority, but we do not support that this is done on the basis of a simple majority. Currently the requirement is a 2/3 majority, however, existing practice within the current boards is to reach a consensus.
- Applying a simple majority vote to adopt decisions on standards setting made by the board may lead to the systematic exclusion of views of specific members or groups of members. The exclusion of significant minority views can undermine trust and the adoption of standards at a global level. It is important to ensure that standards are generally accepted, considering that they are often adopted voluntarily, based on the willingness of national standard setters to adopt. We therefore support the adoption of standards in a way that reflects and protects the views of any significant minority.
- Therefore, we believe that standards should be adopted on the basis of, at least a qualified majority.

Question 10: Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part-time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?

- The composition of the board(s) must be based on multi-stakeholder participation. As a starting point, board members can be drawn equally from regulators, 'users' and the accounting profession. In due course, more clarity is needed to define more precisely what stakeholders are covered under these three different groupings.
- It is also very important to ensure diversity in the board(s). Diversity covers a number of different attributes within the aforementioned stakeholder groups. Some diversity considerations are geographic and gender balance. Other considerations will be to ensure that there is an appropriate balance of the right technical and other backgrounds, that are necessary for the different types of standards to be set. We believe that many of these considerations are more important than whether a board consists of a maximum of 12 members, particularly where a board is strategic in direction. However, we do acknowledge that there will always be a limit to the size of a board if it is to operate efficiently.

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

- All board members should be independent and there should be appropriate safeguards in place to protect individual board members, as well as the board collectively, from undue political pressure and inappropriate stakeholder interference.
- All board members should subscribe to serving the public interest during the process of standards setting.

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- International standards need to be adopted globally to be successful. In order to ensure that there is sufficient input and consideration of wider stakeholder concerns, the board needs to be geographically diverse. Board members must also be open minded and willing to consider and adopt alternative solutions even where these do not necessarily reflect and fit with their own experiences.
- Board members can possess complementary skills and diverse stakeholder backgrounds, so long as these are relevant to the standards setting process.
- All board members must have detailed knowledge of the issues discussed. Board members do not need to have an in-depth technical background but any discussion on very technical standards should be supported by appropriate involvement of technical experts. The board and its expert groups should have sufficient, appropriate and relevant insight, as well as business, professional and technical expertise to ensure that any standards that are adopted and issued are of high quality.

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?

- The answer to this question depends primarily on the future composition of the board(s).
- Smaller strategic board(s) might not achieve the necessary diversity and useful stakeholder input to board decision making. Retaining a broader based CAG(s) could address this.
- A retention of the CAG(s) should not however, compromise a rigorous and transparent due process and broad stakeholder outreach, including public consultations by the board(s). Currently this is already part of the standards setting process and this should continue to be retained as an integral part of the future standards setting process.

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

- The answer to this question depends on how the public interest framework is constructed. At present the actual role envisaged for the task forces is unclear and this needs to be considered further before a satisfactory answer can be given to this question.
- In any case it is reasonable to assume that any task force or technical group that has been created at the instigation of the board(s) should be accountable to the board(s) and therefore subject to the public interest remit of the board itself.

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

- We agree in principle with the changes proposed to the nominations process, which would appear to address concerns relating to a lack of independence in the current process.
- The current nominations process for appointment to the boards includes an open call for nominations for all board positions. This process should be retained.
- We believe that it is essential that the strengths of the current process be retained. That is to say, a robust and thorough interview and assessment process and adherence to the principle of the best and most appropriate person for the job as a guiding principle.
- However, a more complete answer to this question will depend on the future role of the PIOB or any designated body that will assume the governance and oversight functions currently exercised by the PIOB.

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?

- We believe that the current role and responsibilities of the PIOB need to be considered as part of the overall reform of the standards setting model. The reformed governance and oversight body should be an independent multi-stakeholder body, drawing its members from a broad global stakeholder base, including the accounting profession, as well as users and regulators.

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- The new governance and oversight body should have a clear mandate and responsibilities to oversee the operation, design and due process associated with the standards setting process
- However, for the reasons given in our overall comments, we do not support the notion that an oversight body should have the right to intervene in the standard setting boards technical debate or be able to exercise any veto over the outcome of such a debate.
- We support that a multi-stakeholder governance and oversight body should be tasked with facilitating funding and approving the board(s)' budget.
- We also agree that a multi-stakeholder governance and oversight body should be tasked with managing board nominations.
- We suggest that the governance and oversight body also engages itself in:
 - (i) monitoring and supervising the board(s) due process and holding the board(s) accountable for upholding a rigorous and transparent due process that takes into consideration differing stakeholders' views;
 - (ii) evaluating the performance of the individual board members and particularly the chair
 - (iii) ensuring public accountability and transparency of the board(s).
- Further considerations on the role and responsibilities of a new governance and oversight body can be based on the highly credible IFRS Foundation Trustee model, which has been established to ensure that standards for financial reporting (IFRS) are developed and adopted in the public interest. We recognize that differences in the purpose of standards may impact on the overall standards setting model, including the structure of governance and oversight. However, there are similarities that are worth considering. The IFRS Trustees are not expected to be involved in the technical debate and accordingly there is no veto right over the decisions or outcomes of the technical debate. While exercising their governance responsibilities, the Trustees may reconsider or amend the board(s)' due process or recommend, for example, improvements to the board(s)' outreach activities. In addition, the Trustees are required to regularly assess the performance of the board members and its (their) chairs and undertake a formal, public review of the structure of the IFRS Foundation, its governance arrangements and its effectiveness in fulfilling the organization's objectives every five years.

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

- Our understanding is that the person nominated by IFAC to sit on the PIOB does not fulfil this function as a representative of IFAC. We believe that the governance and oversight body, be it a reformed PIOB or another body, needs to be multi-stakeholder based as already explained. The members should be drawn from a wide range of stakeholders, including the accounting profession. However, we believe that members of the governance and oversight body should exercise their mandate in the public interest. This requires that they are independent from any particular stakeholder interests. As a consequence, they should not represent any particular group of stakeholders, regulatory body or organization.
- There are benefits in securing a wide degree of diversity on the governance and oversight board as this will assist in ensuring the credibility and acceptance of the standards setting model and hence the acceptance of its standards.
- As an alternative, we suggest that consideration be given to redesign oversight as a trustee body serving as a guardian of the standards setting model and its effectiveness – similar to the IFRS Trustees, which aims at covering geographical balance but also diversity in professional backgrounds.

Question 17: Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?

- See also our responses to questions 15 and 16. We believe that nominations to the new governance and oversight body should be open to all, with a transparent process. It should be composed of those with authority to adopt the standards, those that regulate and enforce them and those who benefit and use them. The accountancy profession, together with all other relevant stakeholders should be members with equal rights of the new governance and oversight body. A 1/3, 1/3, 1/3 stakeholder composition for the governance and oversight body of these stakeholder groups would be a good starting point.
- The nomination process should be supported by an explanation of the related due process and a description of the skills and experience that applicants are expected to possess.
- It is very likely that the size of the new governance and oversight body would need to be increased to ensure geographical diversity and diversity of skills. Nominations should ensure a broad international basis to maintain an overall geographical balance.
- Members of the governance and oversight body should have a strong understanding of audit and the need for independence of auditors. Experience, such as in audit committees, audit expertise and other relevant practical experience are critical to be able to oversee the standards setting process.
- Each member should have an understanding of, and be sensitive to, international issues relevant to the success of an international organisation responsible for the development of high quality global auditing standards in the public interest.
- Members should have a reputation and standing that allows them to promote the credibility and acceptance of the standards by a wide range of relevant stakeholders.
- While we support a representative composition (diversity) of the governance and oversight body, we do not support any suggestion that its members should represent any particular stakeholder group. The members should exercise governance and oversight in the public interest and be independent of any stakeholder interests.

Question 18: Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?

- We do not support the current model of PIOB members being appointed by individual MG members and suggest that this process is readdressed as part of the reforms.
- The call for nominations to a new governance and oversight body needs to be open to all individuals and should therefore be wider, as well as public and transparent. This means that the call for nominations should not be limited to the MG member organizations. Placing a limit of this nature on an "open" call could imply that the exercise of governance and oversight in the public interest is limited to individuals from within the MG member organizations. This risks compromising the wider recognition and adoption of the standards. We do not believe that this is in the public interest.
- However, we see no reason why the Monitoring Group should not be able to consider and ratify, as appropriate, any proposals for nomination providing the process itself is open to all individuals with an appropriate background. The Monitoring Group could also oversee the nominations process to ensure that it is conducted fairly and transparently.

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 (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

- This question is difficult to answer as our response depends on how the agreed model for standards setting, including governance and oversight, will be constructed. However, our overall view is that the PIOB or any new governance and oversight body should focus on the independent standards setting board(s) that set standards in the public interest. We

have already responded and expressed our views on whether there should be separate boards for setting audit and independence standards and ethics standards. Furthermore, there is also an outstanding issue regarding how best to construct an appropriate audit standards setting mechanism for the non-listed, SME segment. We also need to consider the public interest framework in the context of the overall standards setting model.

- Where the responsibility for areas of standards setting remains with IFAC then the exercise of appropriate oversight needs to be considered and organised together with IFAC to achieve the best results.
- It is also necessary to consider the type of standards that are issued. For example, standards for education are important. However, we are not convinced that the board that is responsible for developing and issuing educational standards warrants a comprehensive independent oversight mechanism in the public interest. There are also other services that professional accountants provide and which are based on adherence to standards. The development of these standards do not necessarily need to be subject to the same rigorous oversight procedures in the public interest as is the case for audit for example.

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?

- We suggest that the Monitoring Group should reassess its role and responsibilities as part of this reform process.
- During the course of this reassessment we believe that it is necessary to distinguish clearly between the roles and responsibilities of the constituents of oversight, including the role of any new governance and oversight body and the Monitoring Group.
- We suggest that other existing oversight models, global as well as national, can, to some extent, act as role models and thus reduce or eliminate any tendency to “reinvent the wheel”. We have already alluded to the possibility of creating an oversight model that is similar to that of the IFRS Foundation, recognizing that there will be differences.
- It is however important that proposed reforms in this area should firstly be agreed between involved stakeholders and then implemented quickly in order to secure continuing trust in the standards setting process and its outcomes.
- It would be desirable if the Monitoring Group were to assume responsibility for promoting high quality standards and supporting public accountability. However, before assuming such responsibilities in the public interest, it will first be necessary to define more exactly what this entails within the context of the proposed reforms of the current standards setting model, including a determination of the future role of the Monitoring Group.

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?

- We agree with this option. This will however, also be conditional on the provision of necessary funding. Furthermore, the board(s) must have sufficient technical insight to offer directional guidance to the technical staff. The board members should be able to rely on the staff to be able to implement board decisions.
- The technical skills that are needed to secure high quality audit standards are changing rapidly. Audit, particularly of large and complex global entities, requires skills and insight into the use of new technologies, such as blockchain, as well as knowledge of and ability to harness a wide range of data platforms and use these tools to design audit methodologies that are tailor made for individual industries and even specific entities. Broad based audit methodologies, that can be applied more or less generically, will increasingly become outdated. These developments will place new stresses on standards setting that are currently only just emerging.
- There will be a need for highly skilled short term staff that operate on the cutting edge of audit technology, combined with better longer-term staff, with strong technical, writing and peoples skills to manage the standards setting process. In nearly all cases, theoretical skills need to be closely aligned to up to date practice experience

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

- We support the idea that the permanent staff should be employed by the legal entity that is responsible for the functioning of the board(s). There are different ways of doing this in practical terms and these need to be considered on their merits and in terms of achieving most efficiently the objectives of the standards setting boards.

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

- There are a number of areas where the board(s) can make process improvements, these include processes for the periodic review and revision/update of existing standards; consideration of the relevance of existing standards; putting processes in place that focus on technical innovation (see bullet point 2 above in our answer to question 21); the link between audit methodology and standards; consideration of how best to construct a standard ie. "Think small first" through constructing a building block approach that starts with simple requirements, adding complexities as required.
- Standards should only be issued in a timely manner, when needed and they should be responsive to current developments and innovation in the market.
- The board(s) should also be more strategic on deciding which are the major projects that require fundamental changes and thus need to be dealt at board level.
- There are many other areas where the board(s) can make process improvements. However, ultimately such improvements are the responsibility of the boards themselves.

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 believe that the Monitoring Group needs to consider the issue of funding very carefully before embarking on a large scale reform of the current model. We are concerned that extensive and continuing funding by the accounting profession, however constructed, will impact negatively on stakeholder perceptions regarding the independence of the standards setting process. This will weaken the credibility and ultimately acceptance, of any proposed reforms, particularly by legislators. There are, of course, mechanisms that can strengthen an "arms-length" perception and thus mitigate, to a certain extent, such perceptions. However, such mechanisms will not eliminate the problem.
- In the first instance, the means of actually securing funds needs to be established then various mechanisms can be explored. Creating a separate foundation does not generate funds.
- In the event that the role of the PIOB, or another governance and oversight body, is expanded to cover the distribution of funds this still leaves open the question of how to secure a broad based funding mechanism, as opposed to a distribution mechanism.
- In this regard it should be recognized that funding mechanisms that are successful in national contexts and even regional contexts (the EU) are often very difficult, if not impossible, to put in place globally. The risk is that the funding model becomes biased towards those audit firms and national regulators who have committed to fund the standards setting board and related governance and oversight. This, in turn, can have a negative impact on the perception of independence of the standards setting model.
- As already alluded to above, we do not believe that stakeholders, particularly legislators and many oversight bodies, believe that continued funding by the accounting profession of a standards setting model that sets standards against which the accounting profession is measured, is in the public interest and therefore it cannot be sustainable in the long run.
- Funding needs to be diversified as much as possible in the public interest. Considering that there is a perception issue of undue influence exercised by the accounting profession, the funding basis and sources need to be widened to include all relevant stakeholders and in

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such a way, preferably, that no single stakeholder group can be perceived to be in a position to exercise undue influence through its funding contribution.

- The PIOB in its current form does not have the resources or experience to secure funding. A new governance and oversight body should have this as a priority. This process is time consuming and complex. It took the IFRS Foundation at least ten years to secure a wider basis for its funding.

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

- Any levy directly on the audit firms will require voluntary acceptance. At a very minimum, such a request will be met with a desire to know more precisely how much funding is required and for how long. This will require accountability by the governance body charged with securing the necessary funding.
- We are unsure about what is meant by "a contractual levy" on the profession. If this is a levy that will be imposed on the profession, rather than the accounting firms, by regulators or oversight bodies through national mechanisms, then agreement will need to be sought and obtained bilaterally between each individual national regulator and whatever body that will be charged with sourcing, administering and distributing the levy. Some kind of agreed model for assessment of the levy between countries will have to be agreed. It is possible that, in some jurisdictions, such an arrangement needs to be based on legislation.
- We do not believe that any organization, or firm for that matter, will be prepared to issue an "open cheque", let alone for an unspecified period of time.
- Funding needs to be diversified and include additional stakeholders. If the accounting profession continues to be substantially the sole, or even just the most substantial funder, then this will, as already stated, damage the credibility of any standards setting model that results from the reforms. This will, in turn, limit the adoption of the standards in certain jurisdictions.

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

- Any proposed reforms should have a clear timeline to ensure stability and trust in the system. We have already stated that we are not in favour of any "step by step" implementation.
- Before reaching any final decisions, the Monitoring Group should, as part of its impact assessment, consider whether the benefits of the proposed reforms outweigh the expected costs of implementation (including transition) and of maintaining the new standards setting model.
- Please refer also to our overall comments, in particular points 1-3.

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

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