



For the attention of Mr. Gerben Everts
Chairman
Monitoring Group
Submitted via email to: MG2017consultation@iosco.org

9 February 2018

To the Members of the Monitoring Group

***Strengthening the Governance and Oversight of the
International Audit-Related Standard-Setting Boards in the Public Interest***

We¹ welcome the Monitoring Group's consultation paper (CP) on proposed reforms to the international audit-related standard setting model. This is an important step in the broad stakeholder collaboration needed if reforms for the standard setting model are to be successful. We appreciate the opportunity to contribute our views.

Importance of confidence in global standard setting

High-quality standards, recognized and trusted by stakeholders, are indispensable to the effective functioning of our capital markets and economies, and provide a foundation of the auditor's role in those markets. It is vital that the global standard setting model continues to be robust, respected and fit for the future.

The current public-private standard-setting model has significantly contributed to promoting audit quality globally. Confidence built through the public interest reforms implemented in the early 2000's accelerated adoption of the ISAs, ISAEs and Code of Ethics around the world.

Today, however, that model is not without some criticism. Left unattended, that criticism risks undermining the credibility and legitimacy of the international standards. It is important, therefore, to discuss what is needed to retain confidence in the global standard setting model in the future.

Core features of a credible and sustainable model

We believe that core features of a credible and sustainable standard setting model capable of earning broad stakeholder confidence include:

- Distinct and separate roles for oversight and standards development.
- Participation of all relevant stakeholders at both the oversight and standard setting levels.
- Broad-based funding reflective of the public interest role the standards play.

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.



A standard setting model that exhibits those features would:

- Be designed and operate in a way that all key stakeholders can participate in the standards development and strategic decision-making on an equal footing.
- Bring the necessary skills, expertise and experience to bear in the standard setting development process so that the standards produced are robust, workable and effective in influencing the desired behaviours.
- Have a governance/oversight model that serves as guardian of the standard setting board(s) and how it operates on behalf of all stakeholders to ensure the model is robust and operating effectively.

Support for reform but not the package proposed in the Consultation Paper

We believe that there are aspects of the current model that fall short when mapped against these features. Reform is needed.

Our views on the questions posed in the CP on possible reforms are set out in the appendix to this letter. Those comments reflect that we support reform of the overall model, but we have significant concerns with and do not support the full package of proposals in the CP. Key proposals that we do not support include:

- The proposed two-staged approach that would defer more significant reform of oversight and governance to a second stage. In our view, reform of the governing/oversight model at the same time as reform of the standard setting board(s) is critical to having a cohesive model at the outset. We believe this will be vital to getting the necessary support for the reformed model and giving it a chance to succeed. We do not support making changes to the current PIOB as an interim measure.
- The proposals for the oversight function for the interim period before more comprehensive reform is made to the governance model (currently fulfilled by the Public Interest Oversight Board and Monitoring Group). The design of the standard setting board(s) should demonstrably embed the public interest and enable key stakeholders to participate in the decision-making on an equal footing. In our view, the appropriate governance model to oversee it is a trustee model. Clear delineation of the responsibilities of the standard setting board(s) and of the governing body is necessary. We provide more detail in the appendix on the model of governance we think is appropriate. In particular, however, we do not support the governing body intervening in, or overriding, the technical debate. If that is deemed necessary, it is an indication that the design of the standard setting board(s) is flawed.
- The composition of both the standard setting board(s) and trustee model, which we believe must be multi-stakeholder. This is as critical at the governance level as it is around the standard setting table. The success of a global standard setter is dependent on voluntary adoption of the standards by jurisdictions, professional accountancy bodies, networks and firms. They play a



vital role and bring a critical perspective to the table, as well as play an important role in the acceptance of the standards. They need to be represented on the governing body.

- Less attention given than necessary to the types of robust safeguards that will be needed in a multi-stakeholder model to ensure that the necessary technical expertise is brought to bear in the standard setting process. High quality standards depend on bringing necessary skills, expertise and experience to bear so that the standards produced are robust, workable and effective in influencing the right behaviours. A robust skills matrix for the multi-stakeholder standard setting board(s), significantly enhancing the staffing model, and other measures, such as introducing technical advisory groups, will be critical to safeguarding the quality of the standards.
- Moving ahead without clarity on a Public Interest Framework. The proposals include introducing a Public Interest Framework, but it is yet to be developed. Its intended use seems integral to how the standard setting board(s) and oversight are intended to operate. It is, therefore, difficult to see how anyone can commit support for the reforms in its absence. Given the range of stakeholders, we anticipate that reconciling differing, and perhaps even competing, views and perspectives may be one of the more challenging aspects of the reforms but is vitally important – there cannot be a cohesive model without a common understanding of what the model is trying to achieve.
- The lack of a clear pathway to a broad-based funding model in a foreseeable timeline. There will always be a threat to the perception of the independence of the standard setting model whilst the vast majority of its funding is from the profession. The global standards serve the public interest and the funding model should reflect that.

We understand that proposals for the more substantive reform of oversight/governance and the public interest framework will form part of the next stage (i.e., the “white paper”), as will an impact assessment and transition plan. In our view, public consultation on these matters is critical. You will appreciate that we necessarily reserve judgment on our support for the final proposals pending being satisfied with these elements.

There are a lot of operational matters that will need to be considered to underpin effective operation of the reformed standard setting board(s) and model overall. In our responses to the questions, we propose a number of safeguards that we believe are necessary to ensure that the final proposed model is a robust and workable proposal. Not all operational matters can necessarily be resolved in advance, but we believe it will be necessary to develop the model more fully to make informed decisions on a final proposal.

Concluding remarks

Making changes to the global audit, assurance and ethics standard setting model as significant as those being proposed is challenging. The reformed model will need to withstand tests to its cohesiveness, rigour and effectiveness if it is to gain the necessary stakeholder backing and be sustainable.



We believe that reform of the global standard setting model is necessary. However, for the reasons set out above and explained further in the appendix to this letter, we do not believe that the package of reforms in the CP can withstand such tests.

The CP and roundtables have served as a catalyst to bring a wide variety of stakeholders into the dialogue. The level of debate demonstrates the interest of stakeholders, but has also surfaced quite differing views. There is significant effort needed to fully evaluate and reflect on the feedback received, and, in light of that input, shape a comprehensive reform package for the standard setting model as a whole – both standard setting and governance.

We strongly recommend multi-stakeholder participation in that next stage. Many participants in the roundtables said that a transparent and inclusive process is essential to shaping a model that all stakeholders will support. A multi-stakeholder working group to take the reform proposals to the next stage could, in our view, be instrumental to the final reforms being successful.

We stand ready and look forward to working with the Monitoring Group along with others towards that goal.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Jan McCahey, at jan.e.mccahey@pwc.com or Diana Hillier, at diana.hillier@pwc.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert Moritz", written in a cursive style.

Robert E. Moritz
Chairman – PwC Network



Appendix – Responses to Specific Questions

Section 1: Key Areas of Concern in the Current Standard-Setting Model

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

- Although we do not agree that there is evidence that the extant standards have been developed without regard to the public interest, we support reform of the global standard setting model.
- The current model has significantly contributed to promoting audit quality globally. The standards have earned the confidence needed to be adopted widely around the world by legislators, regulators and national standard setters in addition to the profession itself.
- However, we recognise that there are weaknesses in its design that, left unresolved, risk undermining the credibility of the standard setting boards and the legitimacy of the international standards:
 - Some stakeholders perceive that non-practitioners do not have sufficient voice in the standard setting process today and, therefore, in their view, the profession is able to exercise undue influence.
 - As a result, the oversight model has evolved to act as a counter-balance to the perceived influence of the profession by intervening to advocate for those not around the board table, and overriding the board’s due process when the oversight body or certain stakeholders are not satisfied with the “public interest” outcome.

Addressing the perception through intrusive oversight is inefficient at best but, more importantly, risks being damaging in the longer term. The more that oversight intervenes and overrides the boards’ decisions, the more it brings into question the credibility of the boards and due process. Ironically, the very actions taken to strengthen the model, undermine it.

- To ensure that the standard setting system is independent, fit for the future and has the confidence of all stakeholders, we agree with the Monitoring Group that reform is needed. In our view, the status quo is not an option, and tweaking around the edges of the current model will not satisfactorily address the underlying weaknesses in the current model.
- The reforms need to look at the model holistically – both the standard setting and governance levels and, given their integral interrelationship, need to be implemented at the same time.

Section 2: Guiding Principles

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 that the overarching principle is that standards must be set, and perceived to be set, in the public interest. Success in the reforms will only be met if the standard setting model is perceived to achieve that goal.
- We also broadly agree with the supporting principles set out in the CP: independent, credible, cost effective, relevant, transparent and accountable.
- We also agree that long term secure funding, a clear long-term strategy and technical competence are necessary to support a demanding and growing workload and critical to the sustainability of standard setting in the long term.
- There are certain attributes that we believe are also important or worthy of greater emphasis. A few years ago, the Global Public Policy Committee of the largest six global networks (GPPC) developed a set of attributes of a sustainable and credible global standard setter. There is significant overlap but the attributes to which GPPC gave greater emphasis than the CP does are:
 - **Due process**, which must be perceived as fair, transparent and able to balance competing interests, without the influence of undue external intervention. Due process is failing if there is a perception that there is a need for an oversight body to intervene or override due process to achieve standards set with due regard to the public interest.
 - **Technical expertise**, which is critical to be brought to bear in the standard setting process. Audit, assurance and ethics standards set technical requirements and guidance for professionals and will only be effective if they achieve the boards' agreed objectives in ways that are workable and capable of influencing the desired behaviours. That requires the involvement of those with deep insight in the relevant subject matters.
 - **Balanced representation** both on the standard setting board(s) and the oversight/governance bodies.
 - **Balanced and sustainable funding model** that is equitable and free from perceived conflicts of interest.
- A number of the points we make in response to the CP flow from these additional key attributes.

Key aims for the reforms

- We believe it is important to drill down to the key problems that the reforms are trying to fix – put another way, what is it about the current model that is putting stakeholders' confidence in it at risk?
- The main issue appears to be the perception of undue influence of the profession in the standard setting process – which is problematic if it raises questions in the minds of some stakeholders that the standards may not be set in the public interest.
- Although the boards' current composition includes practitioners and non-practitioners, the meeting locations and length, the time and cost commitment expected of members for both



board and task force responsibilities, and the detailed level of technical debate around the board table are significant impediments to the equal participation of non-practitioners. Most of the practitioner members are deep technical experts and the current model relies on their significant involvement to lead the projects and bring deep technical expertise and practical experience to the standards development process. Lack of clarity in the definition of “practitioners” and “non-practitioners” has not helped either, as some perceive those identified as being “non-practitioners” as still closely linked to the profession and not truly representative of “users”.

- In response, oversight has been bolstered to counter the perception that the profession has undue influence in standards development. But this is not ideal. At best, it is inefficient – the oversight either duplicates stakeholder outreach to form an independent view on whether the outcome of due process is responsive to stakeholder needs, or only reflects the views of the individuals on it. It can protract standards development if intervention late in the process results in further iterations. But far more importantly, the more that oversight intervenes or overrides the board’s deliberations, the more it undermines the credibility of the board and due process itself.
- For these reasons, we believe that the key aims in structural changes to both the standard setting boards and the oversight/governance model are:
 - To redesign the standard setting boards and how they operate so that all key stakeholder groups can participate in the standards development and strategic decision making on an equal footing.
 - To bring the necessary skills, expertise and experience to bear so that the standards produced are robust, workable and effective in influencing the desired behaviours.
 - To create a complementary governance model that serves as guardian or trustee of the model on behalf of all stakeholders to ensure it is robust and operating effectively.
- To this, we would also add that there is a need to develop a solution to guarantee the independence of funding, because the perception of the ability to influence will always remain while the vast majority of the funding comes from the profession.
- Vitality, the model itself must be internally coherent – there are various elements that must work together – and include important checks and balances so that it is robust and sustainable. We elaborate more on these points in our responses to the later questions on different elements of the model.

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?



Nature and role of the proposed public interest framework

- We note that the Public Interest Oversight Board (PIOB) has been asked to develop a public interest framework that “serves as a mechanism for assessing how the public interest is captured throughout the standard setting process”. We understand that this will be included in the next consultation as an integral part of the final proposals. Its intended use seems fundamental to how the standard setting board and oversight are intended to operate.
- As we note in our cover letter, it is difficult to see how anyone can commit support for the reforms in the absence of this proposed framework – there cannot be a cohesive model without a common understanding of what the model is trying to achieve.
- Furthermore, as the CP observes, the public interest is not a defined term and evolves as public expectations change. Therefore, it is difficult to see how it can be independently evaluated other than through assessing stakeholder confidence in the model and its operations and the standards themselves – which we envisage as a key role of a reformed governing body acting as trustees of the standard setting model.
- Page 4 of the CP refers to the framework as a mechanism for assessing how the public interest is captured *throughout* the standard setting process. In our view, the standard setting board(s), how it operates and its due process, should be designed to embed the public interest as integral to the design itself – i.e., the model delivers standards in the public interest.
- A framework that can be used to demonstrate how the design of the standard setting board(s) and its operations and due process meet the guiding principles would build confidence that the standards are being set in the public interest.
- But, importantly, the proposed framework was not included in the consultation that has been issued for comment. While we are pleased that it will be subject to public consultation separately, it will not be during this consultation period. If the proposed framework is to play a role in due process or oversight, it is difficult to see how stakeholders can finalise their views before being able to comment on the proposed framework and how it is proposed to be used.
- Indeed, while we express our views on the questions posed in the paper, our final view and support for the proposed model is necessarily contingent on how the proposed public interest framework is proposed to be used and whether it is, in our view, fit for purpose.

Factors

- The CP sets out certain factors of which the MG believes that the framework will need to take account.
- We offer the following comments on the proposed aims of standards. Note that the wording highlighted in bold are modifications to the wording in the CP that we believe are necessary; the proposed wording was too broad to be workable.



- Standards should reinforce that auditors appropriately resource, design and carry out their work in a way that reflects the risks faced by an audited entity **that could result in material misstatements in its financial statements.**
- Auditors should provide independent and rigorous challenge **of the judgements management makes in preparing the financial statements, such that the audit builds trust in** the relevance and reliability of audited information.
- An audit involves considering external factors and wider implications of events in markets and financial systems **to the extent that they impact the entity and could cause potential material misstatements in its financial position, financial results and cashflows.**
- Audit contributes to the societal aim to help prevent unexpected failures; but the corporate reporting ecosystem and all of the players in it have a role to play – it is beyond the scope of an individual audit or auditor to be considered capable on their own of preventing failures. We do not believe auditing and assurance standards can realistically be designed to explicitly achieve that proposed objective.
- Furthermore, accounting standards establish the framework for transparent, relevant and reliable financial reporting and the criteria against which auditors perform the audit and provide an opinion. If improvements to financial reporting are to be part of any solution, it is important that such changes start with the consideration of potential change to accounting standards in the first instance.
- We agree that the public interest framework should focus on how the public interest is captured through the standard-setting process. We have the following comments on the factors the MG has proposed in the CP:
 - We believe that audit quality is best supported through principles-based standards that influence the right behaviours. It allows the standards to be scalable, adaptable to the specific circumstances, including to the circumstances in different jurisdictions, as well as “future proof”, in the sense of capable of being adapted to evolving environmental and technological developments. We recognise the importance of the standards being a benchmark for inspections, but do not support elevating “enforceability” to be a primary objective of the standards (top bullet, page 5). That focus could lead to rules-based standards that, in our view, would negatively impact the appropriate and necessary exercise of professional judgments that is so vital to high quality audits.
 - We are very concerned with the proposition that certain stakeholder groups are considered to have “the greatest concern about and commitment to the public interest in a particular area”. We believe the public interest is brought to bear through a fair and balanced due process that is designed to ensure that all relevant stakeholder views are heard and considered.



- The example in the footnote used to illustrate this point asserts that the views of safety and soundness may bring standard setting for systemically important financial institutions (SIFIs) closer to advancing the public interest. The safety and soundness of SIFIs is a public interest responsibility of prudential regulators and the relationship between auditors and prudential regulators is valuable in this respect. We have, however, the following concerns about this assertion in relation to global auditing standards applicable to all entities.
 - The ISAs apply to all audits of entities both large and small and of all types. It is within the remit of the prudential regulators to set out specific reporting requirements for auditors of SIFIs and the dialogue between the Financial Stability Board and Basel Committee and audit networks have been very constructive in that regard. That may require guidance that goes beyond the ISAs that is specifically geared to auditors of SIFIs. Such additional responsibilities and guidance will often not be directly applicable to -- and may indeed conflict with the objectives of -- audits of all other entities.
 - An audit is directed to obtaining sufficient appropriate audit evidence that the financial statements are fairly presented, in all material respects/give a true and fair view in accordance with the applicable financial reporting framework. An audit cannot compensate for perceived weakness in the financial reporting framework itself – for example to favour prudence – if that is not intrinsic in the requirements of the financial reporting framework itself.
- It seems odd in the first bullet on page 4 of the CP that the output of an audit should be described as “appropriately communicating the auditor’s key findings and conclusions to those charged with governance and where necessary regulatory authorities” alone. While those communications are important, the primary objective of an audit is the auditor’s opinion and report to shareholders and/or other identified users of the financial statements. This statement may, in fact, illustrate the potential for fundamental differences of view about the appropriate public interest framework for audit standard-setting.
- We fully support the importance of debate on the role that external auditors can play to support the proper functioning of financial systems and economic activity. But these are matters that need to be debated in the broader public domain; it is far too broad an aim to be an integral part of the public interest framework to which the standard setting board(s) and due process are to be held to account.



Section 3: Options for Reform of the Standard Setting Boards

Before responding to the questions about individual aspects of the standard setting model, we preface our comments on them by noting that our support for any of them are contingent on being satisfied with the package as a whole. The design of various elements need to collectively embed necessary checks and balances and safeguards to mitigate risks that:

- The standards lack technical rigour
- The right expertise and skills are not involved at the right levels
- The standard setting process can be unduly influenced by any particular stakeholder group
- The roles of standards development and governance are blurred

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.

- This is a complex issue, as there are pros and cons to having one board or two, some of which are set out in the CP itself. We feel that further debate is warranted before a final decision is taken to ensure that it is made with a well-informed understanding of possible implications.
- We identify some of the considerations that may be significant in the deliberations. In the interests of brevity, points are not duplicated but an advantage of one model is often a disadvantage of the other.

Retaining two separate boards

- The current board structure recognises that auditing/assurance and ethics, although integrally related, are separate specialisms. The largest networks all have separate audit/assurance and independence/ethics leaders or groups, as the breadth and complexity of the issues in each area are more than one leader or group can manage successfully. Further, the complexity and pace of change in each area is increasing.
- Two separate boards, even if smaller, allow for broader representation of members with appropriate expertise in each of the topics – something that would be much more difficult to achieve in one combined smaller board. As noted in the CP, some potential board members may be more interested in one topic but less so in the other, and a combined board may be less attractive to them.
- With separate boards, each area of remit is given focussed attention. The combined remit is broad, and setting priorities across them may result in one or other receiving less attention at any point in time. The board's total capacity would also be constrained by available agenda time,



potentially delaying projects that stakeholders perceive to be time sensitive and in the public interest.

- Two boards allow the scope of the boards' respective remits to be different – ethics can remain for the profession as a whole (if that is determined to continue to be the preferred option) and the audit/assurance board professional accountants in public practice.
- There are, therefore, valid reasons for the current two board structure and changing it should only be contemplated after careful consideration and confidence that the benefits outweigh the risks.

Combined board

- That said, we can see that there are valid reasons for exploring the possibility of a combined board.
- One board with responsibility for both audit/assurance and ethics could encourage more holistic thinking about the most effective way to influence the desired behaviour to address identified issues, whereas separate boards focus on solutions within their own area of focus only. This does not necessarily mean that the standards need to be combined – the ISAs (and other performance standards) and Code of Ethics can remain separate sets of standards.
- It may be easier, or even embedded in thinking, to coordinate on issues that impact both audit/assurance and ethics standards. Despite best efforts, this remains a struggle under today's two board model. The fact that the two boards recently concluded that alignment of their strategic and project planning was not possible until 2023 speaks to the challenges faced when there are different boards, with different mandates and different perceptions of their stakeholders' priorities. We have yet to see tangible proposals to bring necessary coordination going forward under the current model.

Other considerations

- Both the IAASB and IESBA have very full agendas. Undoubtedly, if the boards continued to operate with the detailed level of technical review that they do today, a combined mandate would be unworkable.
- In our view, a combined board could only be practicable if the board operated differently. The board would have to operate at a higher level of decision-making – making the strategic decisions and approvals and providing direction on key issues. For that to be successful, a lot of other elements in the overall model need to be in place to mitigate a very real risk of negatively impacting the quality of the standards:
 - The technical expertise now contributed through the deep technical expertise of board members would have to be brought through at the staff level. Project leaders will need to have both deep technical expertise and the demonstrated business and political acumen that board members contribute today. The new organisation and roles will need to be



sufficiently attractive to be able to recruit and retain the necessary talent. The model must not leave this to chance and the complexities involved in building the necessary staff model would need to be thoroughly developed and vetted.

- Staff would need to work in new ways. They would need to have responsibility for, and be held accountable for, appropriately identifying, defining and presenting the strategic and directional issues to the board in a manner that provides a sufficient basis for the board to understand the issues and make robust, informed decisions. Assigning oversight for projects to two of the full time board members (one overseeing the audit/assurance projects, and the other the ethics projects) could help mitigate the risk of the board making decisions with less than full information.
- As we discuss further in our response to Q7, even with highly qualified staff and working groups, we believe independent technical challenge is necessary to retain the rigour and quality of the standards. If that is no longer coming through the detailed technical debate at the board level, we believe technical advisory groups will be necessary. Diligent board members would want to ensure that there has been appropriate technical challenge of proposals to ensure the quality of the proposed standards being presented to them for approval.
- The selection of the board chair, other full time members and technical director are vital to success. This will be of particular importance during the transition as they will set the tone and culture of the new organisation and greatly influence the way it operates going forward. Clear articulation of their responsibilities and accountabilities will be important.
- If two boards are retained, cross representation would help align priorities and agendas on cross-over issues. This could, for example, be achieved by having the two full-time members sit on both boards.
- For these reasons, we feel that this is an area that will require further in-depth exploration. Certainly, for us to support a combined board, we would need to be satisfied that the operating model as whole would interplay to ensure the necessary technical rigour and the right expertise and skills are brought to bear in the decision-making. It would be important that there are appropriate safeguards and checks and balances to provide assurance on technical quality not only at the outset, but over time. It is for this reason that we find it difficult to express a view on this in isolation of decisions on those various other elements.

Question 5 – 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?

- Yes, we agree that the responsibility for the development and adoption of the education standards and the IFAC compliance programme (CAP) should remain the responsibility of IFAC.



- The current arrangements within IFAC are responsibilities expected of a professional body and, in our view, are fit for purpose.
- As noted in the CP, internationally, responsibility for education matters more often than not rests with professional bodies.
- There is an incredibly important role for IFAC in supporting the proper implementation of the standards through learning and development (L&D) on the standards and guidance on their proper implementation. In fact, we believe that IFAC could play a significantly enhanced role in this area – particularly in supporting the non-PIE sector by providing tools and guidance that adapt the standards effectively to their circumstances. We also see opportunity in L&D that supports appropriate ethical conduct and behaviour – something core to the profession as a whole.
- Regarding the CAP programme, it would be very unfortunate if the global accountancy profession did not continue to see the role it can and should continue to play in the public interest in promoting global audit/assurance and ethics standards for all entities – whether or not global standard setting remains under the auspices of IFAC or becomes independent. Monitoring adoption of global standards by member bodies and jurisdictions is an important dimension of promoting adoption.

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

- This is a very difficult question because there is no ideal solution.
- On the one hand, particularly if the outcome of the consultation is a combined audit, assurance and ethics standards board, retaining scope for ethics for auditors, accountants in professional practice and accountants in business as well as standards for audit and assurance would be unwieldy and no doubt beyond the ability of a smaller board to manage effectively.
- On the other hand, the fundamental principles and conceptual framework are core to the professional as a whole. Increasingly there is recognition of the importance of the role that all professional accountants play in the public interest, and how respective roles and responsibilities need to fit together and be considered “in the round”. It is also not easy to see how the current Code of Ethics could be effectively split and would require considerable investment to do so thoughtfully.
- There are, however, examples where responsibilities for audit, assurance and ethics standards have been combined (for example, in the UK) and have been very effective. The same underlying knowledge of audit and assurance are required. Many audit issues have an ethical dimension and they can be addressed by the same people holistically. Over time, audit and assurance standards have become more process driven – some would argue overly process driven. Improvement in audit quality may, however, come through thinking about the ethical drivers of the right



behaviours rather than still more detailed auditing standards. A combined board could weigh such matters.

- One alternative could be to have IFAC retain responsibility for the fundamental principles and conceptual framework that are core to the profession as a whole, and the new standard setting model take on responsibility for independence related matters for audit and assurance. The risk in this approach is lack of alignment and divergence between the two groups, and the potential for a less principles-approach to independence.
- We believe this particular element of the model needs more thorough evaluation to fully flesh out the possible benefits and the risks and weigh them intelligently.
- At a minimum, there is an urgent need to bring stronger collaboration and coordination between those with responsibility for ethics standards and those with responsibility for audit and assurance standards. This has not been achieved today at the staff level, nor by corresponding members on the respective boards or working groups. The recent decision that alignment of the IAASB's and IESBA's strategy and work plan cannot be achieved until 2023 reflects difficulty achieving this alignment.

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.

- Yes – the need for technical advisory groups, and assigned liaison responsibilities, as well as robust transition planning. We elaborate on each below.

- ***Technical Advisory Groups***

As we discuss in the cover letter, the right technical expertise involved in standard setting is critical. Audit, assurance and ethics standards set technical requirements and guidance for professionals and will only be effective if they achieve the boards' agreed objectives in ways that are workable and capable of influencing the desired behaviours. That requires the involvement of those with deep insight in the relevant subject matters. With the pace of evolution in the current audit ecosystem, due in part to evolution of technology, access to and involvement of those with up-to-date experience and expertise will be vital.

We support the proposal that the standard setting board(s) operate at a more strategic decision-making level, setting the project objectives and outcomes to be achieved, providing direction on key decisions and options in the project development, and approving the final standard.

But it carries some very real risks for which it is crucial to the quality of the standards that safeguards be put in place:

- The risk that the board(s) makes uninformed decisions because they have not dug deeply enough into the subject matter to fully appreciate the underlying issues and pros and cons of alternatives.



- The risk of unworkable, weak, or misguided standards being drafted because the necessary technical expertise and experience is not brought to bear.

As discussed further in Q 11, board members need to be sufficiently literate in audit, assurance and ethics to be able to understand the issues and make informed decisions.

Even then, we believe the robustness of the proposed new structure will be at risk without introducing subject matter Technical Advisory Groups through which the board(s) can exercise their due diligence that appropriate technical challenge is brought to bear as options are considered and standards are drafted.

Any diligent board member – particularly non-practitioners – should be asking as part of their own due diligence: “Will this achieve the objective we set out?”, “Will these requirements work?”, and “What are the possible unintended consequences?”.

Highly competent technical staff and project task forces that include practitioners will be key to effective leadership of project development. That alone is not, in our view, enough. Experience in the current model demonstrates time and time again the importance of technical input and challenge to proposals to ensure they are robust and workable. Relying on discussion papers or exposure drafts alone risks the need for multiple consultations, and the project development process would be streamlined if there is greater dialogue throughout the process.

- ***Assigned liaison roles***

With the potential of smaller boards or possibly only one standard setting board, it is inevitable that not all stakeholders will be around the table. Yet setting global standards applicable to all audits requires a solid understanding of the perspectives of a wide variety of interested parties – jurisdictions, member bodies, national standard setters, regulators, business, investors groups, financial institutions, preparers. The boards’ Consultative Advisory Groups, IFAC’s SMPC, the National Standard Setters group, the Forum of Firms serve this function in part. But not fully. There is a risk that a perceived reduction in the level of engagement could lead jurisdictions or groups to feel their views are not being taken into account in the standard setting process and lose confidence in the global standards. In the worst case scenario, it could lead them to revert to national standard setting. Such fragmentation would have a detrimental effect on audit quality, which is clearly not in the public interest.

We believe that a robust stakeholder map and assigned responsibilities – to both board members and staff – for proactive liaison with different jurisdictions/groups and making sure their views are brought to the table will be important. This has been recognised as best practice in corporate governance in some jurisdictions, whereby non-executive directors are given responsibility for understanding and contributing the views of particular stakeholder groups in the board’s discussions.



- **Effective transition planning** will be critical to maintaining high quality standards and not losing momentum during the change-over, especially in the period before the envisaged staff complement is in place.

Section 3 cont'd: Current Composition and Role

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?

- Yes, we believe that the board(s) can and should operate at a higher level of more strategic decision-making. We also agree that board(s) members should be remunerated on a market-comparable basis with boards of similar nature and responsibilities. Both will enable the board(s) to attract members of high stature from all of the key stakeholder groups who can more effectively participate on an equal footing with one another – which is important to addressing the perceptions of unequal influence in the standard setting process.
- However, as we said in our overall remarks on page 10, this will only be effective if other elements of the reformed model are in place, including that:
 - Board members necessarily have sufficient technical literacy to understand the issues and make informed judgments.
 - An enhanced and upskilled staff is in place to take leadership on project development.
 - Sufficient technical expertise is in place through an enhanced staff, expert working groups and, importantly, subject matter Technical Advisory Groups so that sufficient rigour and technical challenge is brought to bear in developing the standards.

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

- We feel very strongly that it is in the public interest that the approval threshold of two-thirds of the board be retained, as well as the added safeguard that at least one member from each stakeholder group has voted in favour of approval.
- We agree that there are risks in insisting on full consensus – it creates an effective right of veto by any board member and is susceptible to manipulation to achieve a particular outcome.
- By definition, however, if only a simple majority of the board support a standard (or other matter), nearly one half of the board do not. That is clearly not in the public interest. It risks expediency over considered and informed decision making. It also significantly increases the risk of non-compliance by jurisdictions that do not support the position and do not feel that a simple majority is sufficient to convince them that they are in a minority. If nearly half of the board has issues with a proposed standard, it is in the public interest to understand their concerns and identify ways to resolve the concerns.



- A “super-majority” threshold is, in our view, an important due process safeguard as it ensures that the standard setting board invests sufficient time to fully understand views that are strong enough to vote against a proposal.
- We believe that the voting protocol should go a step further than requiring a two-thirds vote. As noted above, we believe that in addition there should be at least one member from each constituency in support of the matter put to a vote. We feel strongly about this because if the composition of the board is as proposed with equal representation of users, regulators and auditors, even a two-thirds majority could mean that a constituent stakeholder group as a whole could have voted against the proposal. If all users voted against a proposal, it may be indicative that the outcome does not meet their needs. If all regulators voted against a proposal, it may be indicative that the outcome fails to meet their regulatory objectives. If all auditors voted against a proposal, it may be indicative that the proposed standard is unworkable in practice, or is unlikely to influence the desired behaviours. None of which are in the public interest.
- A further safeguard we would support is greater transparency around the reasons for dissenting votes. It would be in the public interest that written reasons be included in either the standard, or the accompanying basis for conclusions (rather than in the board minutes, as is the practice today).

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?

- We support reducing the size of the board(s), although we think that 12 members is unlikely to be sufficient to achieve an appropriate geographical and skills balance – particularly if the final model is one combined board. Fifteen members feels right to be sufficiently representative without becoming unduly large and unmanageable.
- A mix of users, regulators and auditors feels right. Respected audit committee members and investors (collectively “users”) would bring a valuable user perspective.
- We believe there is merit in having some full-time board members. Particularly if there is a combined board, in addition to the board chair, two additional full-time members can have responsibility for overseeing the board’s projects and liaison with staff on the ethics and the audit and assurance agendas, respectively. It also increases the board’s capacity for outreach.
- On the other hand, part-time members who are users, regulators and auditors bring valuable insight into developments in markets and practice. Rather than undermine their independence, we believe this brings necessary experience, expertise and insight to the table. With the type of disruption to markets and audit and assurance with rapid technological developments, it is more



important than ever that the majority of board members be on the front line and bringing that experience to the boards' deliberations.

- We acknowledge that there is a risk of a board member coming to the table with a particular agenda or bias. The nomination process is an important safeguard in this respect, as will be regular evaluation of the board chair and all members – both full time and part time. The multi-stakeholder governance model we discuss in Q 15 would provide further safeguards as appointments would only be made when those key stakeholders are satisfied that a rigorous nominations process has been undertaken and the nominees have the necessary attributes, including a commitment to global standards and due process.

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

- Board members should be highly qualified, highly respected representatives of their stakeholder groups, who have sufficient subject matter literacy and collective competence to understand the issues and make informed strategic decisions.
- Qualitative characteristics we would expect of board members include:
 - Interest in promoting and managing audit/assurance quality globally.
 - Strong understanding of audit/assurance/ethics or experience in organisations with an interest in the role played by the profession in capital markets.
 - Understanding/sensitivity to the challenges of adoption and implementation of global standards, including the need for balanced consideration of the views of all stakeholder groups and not simply advancing the views of the group to which they belong.
 - Demonstrated leadership and stature in their respective stakeholder community.
 - Demonstrated commitment to service the public interest.
- As a global standard setter, it is particularly important that board members are committed to global standards and do not see their role parochially from the perspective of a particular jurisdiction.
- We strongly disagree that the chair of the board must be completely independent of the profession. While we fully accept that an appropriate cooling-off period is appropriate, there are many former partners or employees of firms or networks who are very highly respected professionals with demonstrated strategic vision and leadership skills and are fully capable of acting with independence of mind and in the public interest. In fact, some knowledge of accounting, audit, assurance and professional ethics would be an asset, if not a prerequisite, to be able to fulfil the role. Soundings on candidates from all of the stakeholder groups could be a safeguard.



Question 12 – Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?

- We support retaining the concept of a CAG (or CAGs), but do not support continuation of the role of the CAG as configured today.
- It is valuable for the board(s) to have a forum by which it can obtain input and advice from a broad range of different stakeholders – particularly those that may not have the ability to engage more fully in the technical debate.
- Over time, however, the role of the CAG has become integrated into the due process procedures, with CAG sign off required before the board(s) can vote on project proposals, EDs and final standards. We believe this is flawed for the following reasons:
 - The CAG members represent organisations, not individuals.
 - There is usually not sufficient time for those organisations to consult to have and develop an informed organisational view at meetings.
 - The CAG does not take votes or aim for consensus, so each comment made by a CAG member – whether based on careful study and consideration, or an “in the moment” comment – are given equal weighting and demands a response by the standard setting boards.
 - The need for the CAG to provide input before board approvals causes timetable alignment issues because the CAG does not meet as frequently as the Boards (an issue that is likely to be exacerbated under the proposed new board model).
 - Certain organisations are represented on the CAG, on the boards and on the PIOB, raising the potential for uneven weighting given to different stakeholders’ views.
 - The board staff are required to prepare detailed written responses to all comments made by any CAG member, in addition to the analyses requested by the PIOB, the board’s own agenda papers and bases for conclusions – the time and effort required is not commensurate with the due process benefit and should be streamlined.
- We can see an ongoing role for other advisory groups as well – for example, the SMP/SME community, national standard setters and, as discussed elsewhere, technical advisory groups.

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

- It is not possible to provide a view on this question in the absence of the proposed public interest framework. It is impossible to guess what is intended and how it would work.



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

- We would support the nomination process being the responsibility of a *multi-stakeholder trustee-type* governing body. We would not support the nominations process being transferred to the PIOB as currently configured.
- The reformed governing body chair could be accountable for a fair, balanced and open nominations process. The chair would be expected to take soundings of key stakeholders on the “short list” of candidates, as the aim should be to identify board members of sufficient stature and reputation to have the support of all stakeholder groups – an important safeguard to the board composition remaining free of parochial bias. Indeed, for example, we would expect the audit profession to be consulted on, if not a more direct role in identifying, the nominations for, the candidates for the practitioner roles on the board(s).
- The proposal for the interim measure of creating a nominating group with three members from IFAC, three from the PIOB and an independent chair is an acceptable short term interim solution. The more significant issue is, however, reforming the oversight/governance model at the same time as the standard setting board(s), as an integrated, robust model, as discussed below.

Section 4: Oversight – Role of the PIOB

Question 15– Do you agree with the role and responsibilities of the PIOB as set out in this consultation?

- We would support many of the proposed responsibilities for the oversight body – but not all, and only once a reformed multi-stakeholder trustee model is put in place (which, as explained, we believe must be done simultaneously with reform of the standard setting board(s) and how it operates).
- We believe a robust governance model is integral to achieving the aim of a standard setting model in which stakeholders have confidence. In fact, a key aspect of the sustainability of the standard setting model is having a governance structure that is able to withstand public scrutiny. We believe that what is needed is a different model of governance than the PIOB exercises today – more outward looking, acting as trustees of the model and its operations on behalf of stakeholders, advocating for the model and the standards. The type of governance model we believe will be appropriate is a trustee body that serves as the guardian of the standard setting model and its effectiveness on behalf of stakeholders – similar to the IFRS Trustees.
- It is not possible to comment on whether we support the proposal that one of the functions should be to “ensure that standard-setting properly represents the public interest through adherence to the public interest framework” because it is still under development. However, we question how this responsibility is described in any case. We agree that one of the governing body’s roles would be monitoring the standard setting board’s adherence to due process – holding it to account to be able to demonstrate how due process had been observed. But we do



not believe it is appropriate for the governing body of an appropriately designed multi-stakeholder standard setting board(s) to independently arbitrate on whether the outcome of the standard setting process “is in the public interest”. It is both unnecessary and potentially damaging to the public trust in the standard setting body and due process.

- Today’s PIOB model evolved to what it is due to lack of trust in the standard setting process. The wide-reaching reforms of the standard setting board(s) are designed to more directly involve all key stakeholders in the decision-making, re-establishing public trust. Redesigning the approach to governance of the reformed standard setter will be, therefore, both justifiable and appropriate.
- We envisage a robust and outward looking governing body that is responsible for the governance and oversight of the standard setting board(s). Importantly, it is a shift from primarily being focussed on the board’s technical agenda and arbitrating on the public interest in the technical debate to serving as trustees or guardians of the model on behalf of stakeholders. Its relationships and outreach would be key to bringing a robust understanding of the perceptions and views of stakeholders in fulfilling its responsibilities.
- We recommend changing the name to the International Audit, Assurance and Ethics Standard Setting Board (IAAESB) Trustees or IAAESB Governance Board to better reflect this broader remit.
- In collaboration with the other GPPC networks, we developed the following role and responsibilities that we believe set out an appropriate and robust set of responsibilities:

Role and responsibilities

The role of a governing body is not simply a box-ticking compliance check of adherence to an agreed due process. It has broad responsibilities to oversee the operations of the organisation, monitor that design and operations of the standard setting board(s) are effective and continuing to meet the needs and expectations of stakeholders, as well as challenging the standard setting board(s) by holding it to account.

Key responsibilities we believe are appropriate for a multi-stakeholder governing body include:

Operations oversight

- R.1 Contribute to the strategy, priority setting and work plan of the standard setting board(s) and holding the board(s) and chair(s) accountable for achieving them.
- R.2 Governance over the new independent organisation’s operations and effective use of resources.
- R.3 Manage funding and approve the budget of the board(s).



Role and responsibilities – con'td

Design oversight

- R.4 Make appointments to board(s).
- R.5 Seek input and monitor how stakeholders perceive the standard setter and evaluate the significance of any views that may be indicative of due process failure or model's design weakness.
- R.6 Recommend amendments to model and due process following public consultation where there is evidence that change is needed to retain confidence in them.
- R.7 Act as advocate of the standard setting board(s), reassuring stakeholders it is operating as it should, and building confidence in standard setting process and standards and encouraging adoption.

Due process oversight

- R.8 Challenge the board(s) to be able to defend that it has exercised informed decision-making given due consideration to differing stakeholder views – but restricted from intervening in the technical debate.
- R.9 Evaluate the performance of members of standard setting board(s), including chair.
- R.10 Ensure public accountability and transparency.

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?

- No. We believe this blurs the line between governance and execution. Further, as noted in the covering letter, this risks undermining the credibility of the standard setting board(s) and the legitimacy of the standards.
- Similar to the IFRS Trustees, we believe the governing body should be prohibited from directly influencing the technical wording of a standard. More importantly, intervention should not be needed if the design of the standard setting board(s) and due process are robust. To the extent that there is evidence that stakeholders believe there are weaknesses or flaws in the design or due process, those weaknesses or flaws should clearly be addressed. It would be a key role of the governing body to lead the stakeholder consultation to change the constitution and/or due process procedures of the standard setting board(s).

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

- If, and as, the standard setting board(s) moves to become an independent organisation, it will also be critical for the governance body to have broad governance responsibilities for the new entity beyond the oversight contemplated by the Monitoring Group. This is reflected in our list of proposed responsibilities above.



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

- We are not wedded to a specific *IFAC* representative being on the PIOB, but we strongly believe that auditors/practitioners must be one of the stakeholder groups represented on a multi-stakeholder governing body.
- It would be a retrograde step to remove the *IFAC* representative in advance of the more fundamental reform of the governing body that is necessary.

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?

- A global standard setter does not have the authority or ability to mandate adoption of the standards and compliance with them. It is dependent on voluntary adoption of its standards – whether at a jurisdiction or audit firm or network level. Those stakeholders need confidence in the design and operations of the standard setter for the global standard setter to succeed.
- Multi-stakeholder governance, with constituent representation, is the only practical way for an independent standard setting model to be successful. This is vital. Stakeholders who have a role in, and authority for, adopting and implementing the standards need confidence in the model and quality of standards in order to have a justifiable basis to adopt them.
- Importantly, we believe changing the governance model and giving a broader mix of stakeholders a seat at the governance table will be key in bringing those stakeholders along in accepting the reforms – it is, in our view, a critical success factor and its importance should not be underestimated.
- The membership of the governing body should be representative of the global standards' key stakeholders – those who have the authority to adopt the standards, those who regulate and enforce them, those who benefit from them, and those who use them. This would include audit and capital market regulators, professional accountancy bodies and national standard setters, groups representing investors and corporate governance, auditors and practitioners.
- Particularly because the size of the standard setting board(s) will be reduced, it is more important than ever to ensure geographical mix on the governing body, and reflect different constituencies – e.g. small and medium sized practitioners, the public sector audit community, large global networks, mid-sized networks. Clearly, the size of the governing body would need to be increased.
- The stature of the governing body's membership and skills matrix should reassure stakeholders of its strategic focus and ability to robustly hold the standard setting board(s) to account.
- In collaboration with the other GPPC networks, we developed the following description of the composition and nominating process we believe would be appropriate:

Composition and nominations

The aim should be for geographical representation and diversity of skills, expertise and perspectives to fulfil the full range of the governing body's responsibilities.

A governing body able to fulfil that role and those responsibilities should have membership comprised of:

- C.1 Geographical spread that reflects the range of jurisdictions that adopt the standards.
- C.2 Constituent representation from all key stakeholder groups (users, regulators and professional bodies and practitioners)
- C.3 People of high stature, expertise and respected reputation who are able to garner respect across all stakeholder groups

Who the people are and what they bring to the table what they bring to table (expertise, respected reputation) is of equal, if not more, importance to the organisations they represent.

Nominations to the governing body should be through a nominations process that is:

- C.4 Open and transparent.
- C.5 Supported by due process and a skills matrix.
- C.6 Multi-sourced and not restricted to nominations from MG member organisations (although individuals from MG organisations may frequently have requisite attributes, experience and stature).
- C.7 Based on soundings from key stakeholder groups on potential candidates.

Relevant qualitative characteristics of members of the governing body would include:

- Interest in promoting and managing audit/assurance quality globally.
- Strong understanding of audit/assurance/ethics or experience in organisations with an interest in the role played in capital markets. Similar to audit committees, audit expertise and practice experience is integral to the body having the competence to oversee standards development
- Understanding/sensitivity to the challenges of adoption and implementation of global standards
- Demonstrated leadership and strategic thinking, as well as some members with experience in trustee board operations and skills in overseeing an independent non-profit organisation
- Demonstrated commitment to service the public interest

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?



- As described above, we support an open nomination process, in which any party is able to nominate individuals for consideration. Such processes should not be limited to considering candidates nominated by the Monitoring Group. That is not to say that individuals nominated from Monitoring Group organisations should not be considered, as many would exhibit the necessary attributes, skills and stature.
- In the interest of transparency, the call for nominations should be open to any who meet the appropriate criteria and can demonstrate their commitment to support a robust and open dialogue on standard setting that serves the public interest.
- Some stakeholder groups might continue to believe there is merit in coordinating a nominations process to ensure that the “best in class candidates” are put forward. We believe that this could contribute to the nomination process.
- There should also be transparency about the membership of the governing body and their responsibilities.

Question 19 – Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g., issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

- Clearly such activities should be closely coordinated. For example, it would be important to avoid creating inconsistencies in requirements applicable to auditors from those for preparers of the financial statements. However, we would not expect that the reformed governance body should have a direct oversight role over the activities within IFAC.

Section 5: Role of the Monitoring Group

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?

- Effective governance and oversight are critical components of a high quality standard-setting process that operates in the public interest. All levels are important, are integrated and are part of the checks and balances that safeguard the system as a whole. Therefore, it is appropriate to be considering the role and responsibilities of the Monitoring Group and we believe it should be part of the overall reform package.
- An important role for the MG is to provide a formal link between the new governing body and public authorities. Today the MG is comprised of global financial institution, capital market and audit regulators – groups who have the ability to influence the adoption of the standards. That is



appropriate and should continue. Looking at the composition of the Monitoring Board for the accounting standards model would be a good check on the composition and balance of the Monitoring Group. We note, for example, that in the letter of the Chief Accountant of the US Securities and Exchange Commission, he made the point that greater representation of capital markets authorities that have enforcement responsibilities for audit quality is needed. We support that view.

- IFAC and the national public accounting organisations also play a significant role in the global adoption of the standards through their member body obligations and the obligations of members of the Forum of Firms – particularly in the non-PIE, private sector. If standard setting is to become independent of IFAC, consideration should be given to creating a structural interface with IFAC and its member bodies given the important role they will continue to play. One way to do that would be to expand the MG to include them.
- Similarly, auditing standards are used by public sector auditors and we believe INTOSAI should also have a place on the MG as it has the authority to adopt the global auditing standards for public sector auditors.
- One of the stated objectives of the new board(s) is to set standards for both PIE and private entity audits. Changes to the composition of the MG should be considered in conjunction with changes to the governing body (i.e., the PIOB) in order to give representation to public authorities with responsibility for audit/assurance in the non-PIE sector too.
- We also believe there would be benefit in increasing transparency of the MG, its membership, its processes and agendas.

Section 6: Standard-setting Board Staff

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?

- Changing the staff model is vital to the proposed reforms to the board(s) and how it will operate and to our support for it. Changing other elements of the standard setting model without an expanded and enhanced technical staff would undermine the effectiveness of a multi-stakeholder and potentially less technical board(s) and, therefore, will not achieve the objective of restoring public trust in the standard setting process.
- Today, board members and their technical advisors work collaboratively with staff in project development. A more strategic board will need to be supported by an expanded professional technical staff, with appropriate skill sets to lead the project development and stakeholder outreach on their projects.
- The staffing model would be optimised with a mix of permanent and seconded staff. Secondments would contribute to cost-effectiveness, and at the same time ensure that technical



skills in project development remain up-to date and market focussed. Audit, assurance and ethics standards are, at their core, behavioural standards. The current audit ecosystem is evolving so rapidly through, for example, technological disruption, that it is critical that the staff mix include those with recent experience in practice. A number of major regulatory bodies and major standard setters operate this way, which shows that appropriate safeguards to maintain their independence and objectivity can be put in place.

- As discussed in our response to question 7, in addition to an enhanced and upskilled staff, we believe Technical Advisory Groups will be needed to ensure that appropriate technical challenge is brought to bear during the project development process.

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

- Yes, we agree that appropriate accountability would be introduced with the staff – permanent and seconded, employed by and reporting to the board(s). The permanent board members could play a role in oversight and direction of the staff.
- Consideration would need to be given to how a model of direct employment, evaluation and compensation can be practically operationalised.

Section 7: Process Considerations

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

- We support the process improvements set out in the CP, with the exception of the proposal to change the board’s decision to a majority vote (for the reasons set out in our response to question 9).
- We support further efforts to streamline the process to issue standards in order to be responsive to stakeholder needs. Due process takes time and robustness and quality of the debate should not be sacrificed in the interest of expediency. However, there will be ways that technology can be harnessed along with other innovations to streamline documentation, without sacrificing transparency and due process.

Section 8: Funding

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)?

- A solution to broaden the funding is critical to moving forward on the reforms.



- The perception of the independence of the model will always be at risk whilst the funding comes predominantly from the auditing profession and firms.
- We believe that a pathway to broad-based funding within a foreseeable timeframe is necessary. The CP acknowledges the importance of broadening the funding base, but the pathway to broader funding is unclear.
- Standard setting in the public interest benefits all stakeholders and its sources of funding should reflect that.
- But funding support is dependent on buy-in to the reformed model. It is critical, therefore, that this reform initiative continue to work towards shaping a model that stakeholders, including the larger networks, can support. We believe that is possible and will result in a standard setting model that is robust, durable and fit for the future.
- Our support for any proposed new model is contingent on a clear and achievable pathway to broad-based funding within a foreseeable timeframe being agreed.

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?

- Whether through a “contractual” levy or otherwise, if virtually all of the funding is obtained from the profession, the potential for a perception of the ability to influence will remain.
- In the shorter term, funding expectations need to be reasonable – the model can’t be designed believing that PwC and the other global networks can be an open cheque book. That may mean that decisions will need to be made on what are the most important elements of the new model to implement. This will need to be worked through as part of the costing exercise. Any discussion of funding commitments by the profession and networks must be a matter of negotiation.
- Furthermore, as noted in our response to question 24, our support for funding by the profession and networks is contingent on our confidence in the design of the model, including a clear and achievable pathway to broad-based funding that would include contributions from other stakeholder groups.

Open Questions

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

Scope of the boards’ responsibilities – PIE, non-PIE and public sector

- We are strongly of the view that it is in the public interest that the ISAs and the Code of Ethics apply to all audits – PIE, non-PIE and public sector. The intent to cover PIE and non-



PIE audits is mentioned in the CP, but the drafting did not always make clear that is the intent.

- Audit quality globally has been significantly supported and enhanced by having a broadly recognised and accepted global set of auditing standards and common base for ethical standards. It would be a retrograde step to lose that.
- We believe strongly that it is in the public interest that the ISAs apply to all audits –PIE, non-PIE and public sector audits because:
 - It is non-PIE entities that grow to become PIE entities, and transition is significantly complicated if audits of them are significantly different.
 - In group audits, non-PIE components may nevertheless be in scope and managing quality very difficult if non-component auditors are only trained and understand how to audit to a non-PIE set of standards, or if they are confused as to which set of standards should be applied. Particularly with mandatory firm rotation in some jurisdictions, there is a growing likelihood of that being possible.
 - Many non-PIE entities are large entities, with a significant impact on economies.
 - The PIE/non-PIE differentiation is not necessarily reflective of differences in complexity – there are PIEs that have simple operations and accounting requirements, and non-PIEs with complex operations and accounting requirements, such as transactions and assets and liabilities with complex measurement and valuation.
- These issues would be significantly exacerbated if there is further fragmentation of standards, including the possibility of jurisdictions reverting to national standards. Bifurcation of standard setting, particularly if there is further fragmentation with national standard setters reclaiming standard setting for non-PIE in their own jurisdiction, could damage the significant progress made to achieve adoption of a common set of high quality audit standards across the profession and enhance audit quality globally.
- There will remain a very important role for the global accountancy profession collectively to continue its leadership on promoting adoption of a single set of high quality standards by promoting global audit/assurance and ethics standards for all entities – whether or not global standard setting remains under the auspices of IFAC or becomes independent.

Other considerations

- There are also some important matters that the MG acknowledges will need to be an integral part of its consultation on its final proposed reformed model:
 - The public interest framework
 - An impact assessment
 - Robust cost estimate



– Transition plan

- A feedback statement that provides a transparent analysis of the various comments received on this consultation will be important to demonstrate to all of those who responded that their views were heard and considered in finalising the MG's proposed new model.
- What is being proposed is a significant and radical change. A stakeholder management plan to involve stakeholders in the final consultation and implementation process will be critical to success too.

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

- We have nothing further to add.