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Mr Gerben J. Everts
Chairman
Monitoring Group
C/O International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid Spain

via email: MG2017consultation@iosco.org

Dear Mr Everts

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

We welcome the opportunity to respond to the above Consultation Paper (CP). We are accounting academics and as such members of a key stakeholder group identified in the CP.

Overall, we do not support the proposals outlined in the CP. Our reasons are outlined in the general comments below and in our answers to selected specific questions.

General Comments

The public interest

The development of the public interest framework should precede any changes to the standard setting arrangements. We are of the view that in order to effectively achieve the desired outcomes and ensure that the structures and processes are appropriate we need certainty, clarity and agreement about what these outcomes ought to be. Consequently we believe the current proposals are premature and unsupported by adequate evidence and analysis.

The Monitoring Group (MG) was established in 2005 and is part of the standard setting infrastructure. How does it assess its own performance and evaluate its impact? What metrics or objectives were set and how does performance measure up against them? Who is assessing the overall effectiveness of the standard setting infrastructure, including the performance of the MG?



The language used throughout the consultation paper is, at times, confusing and imprecise. Sweeping and unsupported statements are made. For example, 'The Monitoring Group also ensures public accountability'; 'they drive the auditor to consider external factors and wider implications of events in markets and financial systems with the aim of preventing failures', 'increasing the confidence of users in financial statements'.

The consultation paper also states: 'This group has worked with the International Federation of Accountants (IFAC) with the objective of restoring confidence that standard-setting by IFAC's independent boards is responsive to the public interest.' Was the objective to restore confidence or provide effective standard setting? These two objectives are not identical. They could be achieved or pursued by different means.

We are of the view that the credibility and trust of the accounting profession could be enhanced if it clarifies its purpose, which should include notions of social justice and fairness. The relative silence of the profession in key global issues such as tax avoidance and money laundering undermines its public interest rhetoric. How has the MG and the PIOB addressed these fundamental issues and how have and will they ensure that the profession is responsive to the current conditions that undermine perceptions of trust towards it?

The Code of Ethics

The consultation paper treats auditing standards and ethical standards as if they have the same function and are of equivalent status. We are of the view that there are fundamental differences between a code of ethics and other professional standards. As Frankel¹ states: 'A code embodies the collective conscience of a profession and is testimony to the group's recognition of its moral dimension' (p. 110). Frankel continues (p. 112): 'It would be unfortunate if the emphasis on a code of ethics as a product obscured the value of the process by which a code is developed and subsequently revised. This process is a time of critical self-examination by both individual members and the profession as a whole. The profession must institutionalize a process whereby its moral commitments are regularly discussed and assessed in the light of changing conditions both inside and outside the profession.'

We are of the view that while accounting and auditing standards are public goods and could be set independently of the profession, it is important that the Code of Ethics of the profession is developed by it. Moral autonomy is a fundamental attribute of moral responsibility and as such we do not think the idea that the code of ethics ought to be set independently from the profession as one that can be justified and supported. We, however, see the value of non-accounting experts, such as ethicists and others, informing the development of the code of ethics.

In addition to the unjustified position of setting the ethics independently from the profession, we are of the view that the proposals could result in a distinct profession, that of audit. This is likely to create inefficiencies and complexities, given that professional accountants would have to comply with audit related ethical requirements and other ethical requirements. Further, since these will be developed by separate boards, if the current proposals are adopted, it is not unreasonable to assume

¹ Frankel, M. S. (1989). Professional codes: Why, how, and with what impact? *Journal of Business Ethics*, 8(2), 109-115.

the divergence of language, frameworks and requirements. We would expect the benefits and costs of these potential outcomes to be researched, modelled and understood before any decisions are made.

We would also like to comment on MG's own accountability and transparency. Unlike, the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB), the composition of the MG (in terms of individual persons not organisations) is not publicly and freely available or provided. Also, in terms of transparency, the available information about the MG, its activities and deliberations is extremely scant. It is unclear what it has been working on, where and how. Given that it oversees the governance of the Standard Setting Boards (SSBs) we expect it to be an example of good governance, transparency and accountability.

Specific Questions

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

We do not agree with the key areas identified, as there is no evidence provided that the three key areas represent the views of all primary stakeholders. The areas of concern are presented as agreed upon by stakeholders. Is that the case? What other areas of concern were mentioned, even if not unanimously agreed upon by stakeholders? Interestingly, shareholders/investors are not mentioned in the list of stakeholders, unless they are included in 'etc.'. Have their views been ascertained? Given the extent of suggested changes, we are of the view that appropriate methodologies to identify the valid concerns of relevant stakeholders are required and we are not convinced that the issues have been identified in a manner that could be relied upon to fundamentally alter the standard setting arrangements for audits.

Further, the second issue refers to a risk that standards are not developed fully in the public interest. Has that risk been assessed? Did it actually happen? Also, what does it mean to be fully developed in the public interest? Is public interest best seen as a continuum or is either present or absent?

In any further developments, we would also encourage the MG and all the other participants in the standard setting process to consider the 'undue influence' of regulatory, political, industry and associated lobby groups.

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

As mentioned in our general comments, it is important that the public interest framework is developed before any fundamental changes to standard setting are contemplated and implemented. The public interest in this consultation document is used as in input and as an output, as a principle and as a consequence, to be captured, embedded, served, satisfied, etc.

There is no evidence that the influence exerted by any participants in the standard setting process is 'undue'.

There is also no evidence that the current auditing and ethical standards are not accepted and adopted or that the new standards will be better received and be more effective. A real risk exists that this

consultation (taken together with its many unsubstantiated claims) will undermine the adoption and implementation of auditing standards and the IESBA Code of Ethics.

There is also no evidence of the actions undertaken by the MG and the PIOB to address any identified issues with the current standard setting arrangements to mitigate any real or perceived risks.

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

We have no comment on this 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.*

As mentioned in our general comments, we have not been convinced of the need to proceed with the proposals outlined in the consultation paper. We do not support the setting of the Code of Ethics for any professional accountants independently of the profession. The Code of Ethics reflects the collective values and like any other code of ethics should be set by those who are going to follow it with input from key stakeholders and experts, in order to maximise its utility and value.

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 think the responsibility of development and adoption of educational standards and compliance programme should stay with IFAC.

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

As mentioned in our general comments, we are of the opinion that the current proposal by the MG is premature and underdeveloped. It only deals with audit related standards but it omits the biggest class of professional accountants in public practice, who do not perform audit services. So according to the proposal, these professional accountants would have to comply with ethical standards developed by the proposed 'independent' standard setter and by the standard setter who deals with professional accountants in public practice who perform professional activities other than audits of financial statements.

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 encourage the MG to work with key stakeholders to address any limitations in the current model, obtain credible evidence of issues and develop and test appropriate solutions. The current proposals appear as a knee jerk reaction or individual preferences that have not been adequately researched and tested. The magnitude of the proposals makes ensuring their validity and effectiveness necessary, something that is not currently apparent.

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?*

Given that we are not convinced of the necessity of the new board we have no comment on its objectives and remuneration.

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

Given that we are not convinced of the necessity of the new board we have no comment on this 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?*

Given that we are not convinced of the necessity of the new board we have no comment on this question.

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

Given that we are not convinced of the necessity of the new board we have no comment on this 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 have no comment on this question.

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

We have no comment on this question.

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

We have no comment on this question.

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

In assessing the standard setting infrastructure and identifying any limitations and structural problems, everyone's role and effectiveness ought to be questioned, including those of the MG and the PIOB. After all, the current model has been in operation since 2005. How has the MG and PIOB performed

in achieving their objectives? Why is it that the profession still does not have clarity on what it means to act in the public interest and what the public interest framework is?

Section 4 exemplifies the confusion that exists about the public interest. This section talks of:

- ‘Ensuring that the processes of standard development under its oversight follow due process and are responsive to the public interest’;
- ‘The PIOB should continue to ensure that the public interest is properly represented in the development of standards, by adopting an approach which takes into account the relative threat to the public interest. This will allow the PIOB to deploy its resources where the risk to the public interest is greatest.’ and
- ‘To allow the public interest to be better embedded, the Monitoring Group has asked the PIOB to support it in developing a framework that serves as a mechanism for assessing how the public interest is captured throughout the standard-setting process.’

This confusion around the public interest is a consequence of the lack of understanding of the profession’s purpose and function. This is the reason we suggest that before any changes to the standard setting arrangements, it is necessary to clarify what is the purpose and function of professional accountants that will be reflected in the standards of the accounting profession and its Code of Ethics. Or indeed that we, the PIOB or MG have confidence that the definition and understanding we have of the public interest is sufficient and able to allow identification of ‘where the risk to the public interest is greatest’.

We have no evidence that supports the need for the PIOB to have the power to veto the SSBs outputs.

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

We have no comment on this 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?

We have no comment on these questions.

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 have no comment on these questions.

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?

We have no comment on these questions.

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 have expressed some concerns around transparency and governance of the MG in our general comments.

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 think at this stage these questions are of no great significance and cannot be answered effectively. We are more concerned about the role of the MG and the PIOB rather than that of the existing technical staff of the SSBs.

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

We think it does not create much difference if the permanent staff will be employed directly or non-directly by the board.

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

We have no comment on this 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 (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?*

We have no comment on these questions.

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?*

We have no comment on these questions.

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

We have no comment on this question.

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

Please refer to our general comments at the beginning of this document.

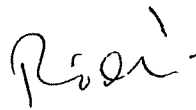
If you require further information on our views expressed in this submission, please contact Associate Professor Eva Tsahuridu, RMIT University by email at eva.tsahuridu@rmit.edu.au or on +61 3 9925 5715.

Yours sincerely



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