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Gerben Everts  
Monitoring Group

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

Dear Mr Everts

**SAICA COMMENT LETTER ON THE MONITORING GROUP CONSULTATION:  
STRENGTHENING THE GOVERNANCE OF OVERSIGHT OF THE INTERNATIONAL AUDIT-  
RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST**

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have over 42,000 members from various constituencies, including members in public practice ( $\pm 30\%$ ), members in business ( $\pm 50\%$ ), in the public sector ( $\pm 5\%$ ), education ( $\pm 2\%$ ) and other members ( $\pm 13\%$ ). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the audit regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We welcome the opportunity to comment on the Monitoring Group (MG)'s Consultation Paper (CP). We view the MG's CP as the first step in a medium to longer term process of bringing about change in the standard-setting process that will be fit-for-purpose.

We look forward to detailed feedback from the MG on the responses received from all stakeholders, particularly where comments were rejected. A transparent process, supported by detailed analysis and research, will allow for robust consultation and avoidance of unintended consequences.

SAICA's response to the CP and the differing views on some of the proposals, should not be misconstrued as SAICA supporting the status quo. Where we differ with a proposal we endeavoured to provide reasons and/ or a different solution.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Lindie Engelbrecht ([LindieE@saica.co.za](mailto:LindieE@saica.co.za)) or Willie Botha ([WillieB@saica.co.za](mailto:WillieB@saica.co.za)).

Yours sincerely

***Signed electronically***

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**Willie Botha**  
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## Overall comments

### *Impact on South African environment*

1. The proposals in the CP will significantly affect all IFAC member bodies and associates, currently consisting of 131 countries. In South Africa, SAICA and the South African Institute of Professional Accountants are members of IFAC and the IRBA adopts and issues the standards of the IAASB for use by registered auditors after due process has been followed by the IRBA. Audits in the public sector will also be affected, as the Auditor-General of South Africa adopted the international standards and, in addition, applies the International Standards of Supreme Audit Institutions developed by the International Organisation of Supreme Audit Institutions, based on the International Standards on Auditing (ISAs).
2. SAICA has adopted the IESBA's Code of Ethics for Professional Accountants (the Code) in its entirety and included additional guidance in Part A to assist local application of certain requirements applicable to all Chartered Accountants in South Africa. The IRBA also adopted parts A and B of the Code and included additional requirements for Registered Auditors in South Africa.
3. Therefore all registered auditors in South Africa, and all SAICA members and associates, whether in public practice performing audits, reviews, other assurance and related services engagements, or whether in business will be affected by the proposals in the CP. More importantly, the clients and organisations for whom these accountancy professionals are performing professional activities, across the entire economy involving all sectors and industries, will be affected in some way or another. Although the proposed changes are intended to affect only public interest entities, the application of the standards is much broader. This should be one of the considerations when the final decision is made on how to proceed with any reforms.
4. In addition to audit engagements, South Africa (registered auditors and SAICA members and associates who are not registered auditors) also apply the standards relating to other assurance engagements and audit-related services engagements which are not mentioned in the CP. It is unclear who will deal with the further development of these important standards which provides valuable information to users, for example on the non-financial information of an entity (taking cognisance of the risks of a divergence in standards, including significant duplication of effort and cost). These engagements are also performed in the public interest.

### *Incomplete picture*

5. It was difficult in many respects to respond to the CP, as the CP did not in all instances provide sufficient supporting evidence or information regarding the problem it wishes to address, why it is a problem (in particular, where the current process has failed), and why certain proposals will address the underlying problem. Furthermore, certain key elements have not been adequately clarified, for example:
  - The Public Interest Framework, without which it may be difficult to take any reform process forward in a meaningful way.
  - How the oversight structures will function in future. A few questions the MG should consider are: Will it also be multi-stakeholder based; will there be clear criteria for these members to be part of oversight; and will all their proceedings and the results of oversight be transparent or made public.
  - A skills matrix to assess the appropriateness of potential board members and technical staff.
  - A detailed and stable funding model, which should precede any proposals of remunerated appointments to the standard-setting boards.

- An impact assessment identifying the benefits and unintended consequence of the proposals.
- The continuing role of IFAC in enhancing and advocating for the global accountancy profession and being a key role player in facilitating the adoption of international standards.
- The full secretariat function for international standard-setting that is currently undertaken by IFAC, including the related resources and funding implications. Comprehensive and continuous secretarial support is essential to enable the boards to discharge their responsibilities efficiently and effectively.
- Transitional arrangements.

Due process is the foundation of any proposals for change and an integral part of robust, transparent consultation. We therefore recommend that this information be made available to respondents for further public consultation when the MG provides feedback on the responses to this CP. Transparency will be enhanced further if the views of individual MG members are known.

#### *Current processes and determining the real problems that require improvement*

6. The current international standard-setting processes of the IAASB and IESBA under the auspices of IFAC, have also not been fully described. Little or no mention was made of the key elements of these processes and the safeguards that have already been implemented, which could create an impression to respondents that these processes have not delivered high quality standards and that standard-setting has not taken place in the public interest.
7. It has been agreed by numerous stakeholders, including the MG, that the standards that have been produced over the last decade are of a good quality and are in the public interest. During the roundtable discussions the MG stated that they have the utmost trust in the current standards and will grandfather these standards. It is therefore not clear where the real problems lie.

Questions that we have identified as part of our outreach activities, which the MG should give consideration to, are:

- Is there a problem with the standards, the process in setting those standards or are there difficulties in implementing the standards?
  - Is there a problem with the oversight model, and if so, is that not what should be addressed? For example, has the PIOB approved standards that are not in the public interest or has oversight been inhibited in any way in the past.
8. The MG should also consider other means of eliminating perceptions of undue influence by the profession, for example clear communication to and education of users, such as investors, since the current process already provides for numerous safeguards cognisant of the need that international standard-setting must take place in the public interest. We are concerned that through the CP the current standard-setting process and IFAC's involvement in this process may have been misrepresented or under-represented; it is not appropriate as the process has in the main delivered high quality international standards that enjoy broad recognition, acceptance and adoption.

#### *Negative perceptions and the expectation gap*

9. We acknowledge that the negative perceptions around international standard-setting, which the CP highlights, should be taken seriously and as a collective it is our responsibility to respond appropriately to ensure that credibility and trust are retained, and to reconfirm the confidence that has already been shown in international standards as evidenced by its wide adoption by IFAC member bodies. The CP provides such an opportunity to reflect and to consider possible improvements; but it is then important to be honest, but also fair, balanced and realistic. The quality and technical robustness of the international standards must be paramount – if any reforms

do not succeed in maintaining confidence in those standards, it will be detrimental to the entire financial reporting supply chain. One of the most detrimental possible outcomes would be that confidence is lost and/or that the inherent characteristics of a reformed standard-setting model prompt certain countries that have adopted international standards to revert to local standards instead.

10. We acknowledge the growing concerns around an expectation gap, the negative perceptions that may exist and a growing interest in the work and outcomes of audits of financial statements in particular. It is important to continue to be sensitive and responsive to the environment within which the profession and its structures operate. There are certain improvements that could be adopted without major disruption and that would contribute to addressing the concerns of the MG.

#### *Developing a model that is fit-for-purpose*

11. It is our understanding that the MG prefers a model similar to the IFRS Foundation, which is a three tier model. Before such a model is chosen, the MG should note the following:

- The standard-setting board i.e. IASB is mostly made up of members with technical and practical expertise in accounting (i.e. technical knowledge, experience and skills in the particular focus area of the board);
- The monitoring board is mostly made up of members from capital markets authorities;
- The trustees are made up of members with an appropriate balance of professional backgrounds, including individuals with global experience at a senior level in securities market regulators, firms representing investors, international audit networks, preparers, users, academics and officials serving the public interest;
- The trustees are not involved in any technical matters relating to IFRS standards. This responsibility rests solely with the IASB;
- The structure results in standards that are developed over a long period of time, and would not be an effective model if responsiveness of standard setting is a main consideration of the proposed changes;
- Most jurisdictions choose to adopt IFRS without modification which is partially due to the responsiveness of the IASB to suggestions and concerns of its constituents; and
- The IFRS Foundation and IASB model has also on occasion been criticised for being overly exposed to private, commercial interests and having insufficient regard for the public interest.

The oversight model and structure of the standard-setting boards for audit and assurance, and for ethics should be fit-for-purpose, taking into account their particular environments and characteristics (which we highlight as part of our overall comments and detailed responses to the specific questions asked in the CP).

12. The MG, PIOB and IFAC should agree on the best way forward. We do not necessarily agree with the MG's stepped approach to change the manner in which standards will be set in future. Before any changes to the current standard-setting boards are implemented, comments from respondents on the changes to oversight should first be considered and any additional comments that respondents may have on how this affect their initial views on the changes to the standard-setting boards.
13. After all these responses have been considered, a model that is fit-for-purpose should be developed. It might be necessary to start with a clean slate to develop this model rather than using existing models. The model should exhibit broad stakeholder consultation and stakeholder and geographical diversity.

## *Overall views on proposals in the CP*

### Proposals in the CP that we agree with, but that should be further explored by the MG:

- a. Composition of standard-setting boards: We agree with the concept of multi-stakeholder standard-setting boards (for auditing and assurance, and for ethics), but also agree with the views that have been expressed from a number of sources that this concept should be followed through to the oversight structures as well. This will ensure that any perceptions (current or future) of undue influence by any particular group are addressed. Refer to our detailed response to question 10, where we indicate that the composition of the standard-setting boards is a reform that could address perceptions around undue influence and public interest, without major disruptions to the standard-setting process. However, we do not believe that a smaller board will be sufficient and request that the MG also reconsider the stakeholder groupings as proposed in the CP.
- b. Timeliness of standards: We agree that the timeliness of issuing standards could be improved, but that the quality of the standards should not be compromised. The right balance between timeliness and quality is important; realistically one has to accept that due process at an international level takes time. However, where possible, different means to satisfy stakeholders' needs in this regard should be considered, for example, an option could be to issue non-authoritative guidance on a particular topic before the formal standard is developed. Please refer to our detailed responses to questions 8 and 9 where we indicate that the mechanisms proposed to improve the timeliness of issuing standards are not appropriate.
- c. Nominations process: We agree that the nominations process could be improved but subject to certain reforms that would also be required at the oversight level, as addressed in our detailed response to question 14. It is also our understanding that an interim process will be followed to appoint the next IAASB chairperson where the nominating committee will consist of multi stakeholders: 2 nominees each from IFAC, MG and the PIOB; 1 observer; the chairman of IFAC; and the chairman of the PIOB. The MG and IFAC should analyse this process and the outcome thereof to determine if it will be appropriate for future appointments.
- d. Increase in technical staff: We agree that currently more staff is required to deal with the number of projects that the boards have on their work plans. How to increase the technical staff should be carefully considered by the MG as senior personnel will be required, which will have significant cost implications. The reason for increasing staff should not be to compensate for the proposal of having a smaller board/(s) that focus on strategic matters, as this will diminish the transparency of the current standard-setting process. Please refer to our detailed responses to questions 8 and 21.
- e. Funding: We agree that additional funding should be obtained from sources other than the profession. We do not agree that the current funding model as explained in our responses to questions 24 and 25 necessarily creates independence threats that cannot be reduced to an acceptable level. We do not agree that the proposed levy on audit firms will reduce independence concerns; it actually increases as IFAC currently receives funding from the accounting profession as a whole and not just the audit firms. It is also our understanding that IFAC and the PIOB has over the last decade attempted to obtain external funding without much success.

### Main areas of concern with the proposals:

- a. How the governance framework is depicted in diagram 1 of the introduction. Please refer to the [IFAC 2003 reforms](#) document page 27 which would have provided the full view of accountability, oversight and consultation/advice to respondents.

- b. How the proposals will disrupt current projects of the separate boards. The current projects are significant, for example the quality control project and the accounting estimates project. Changes to the boards and staff could delay these projects. We understand that the proposed changes will take time to implement; the transition plan and process will be important to ensure that the finalisation of projects that are in progress are not delayed or withdrawn.
- c. The proposal of having one board focussing on strategic matters, paying less attention to detail technical matters, linked to an increase in full time technical staff. The roles and responsibilities of each of these boards are highly specialised and require particular areas of expertise and skills. With one board there will not be an appropriate mix of experience and skills to ensure that the standards that are being approved are appropriate or are practical and implementable. The technical capacity of the board will also be significantly reduced. This raises risks with respect to the acceptance and recognition of, and confidence in the standards. Please refer to our detailed responses to questions 4, 8 and 21.
- d. Separating ethics for auditors and professional accountants in business. There should be alignment in the ethical standards that apply to all professional accountants regardless of whether the professional accountant performs the function of an auditor or the function of a chief financial officer of an audited entity, for example. There is a growing realisation that not enough attention is given to the conduct of those on “both sides of the table”. The CP also ignores that the separation of the ethics standards will lead to significant duplication in the cost and effort; not just in terms of the actual standard-setting process, but also in terms of those that need to apply the ethics standards, for example, an auditor doesn’t necessarily only operate in the capacity as an auditor all of the time, and that across a career, a professional accountant may serve in various capacities. Ethical behaviour should be driven in combination and be aligned. Please refer to our detailed responses to questions 4 and 6.
- e. The proposals suggest that oversight will participate in developing standards while their focus should be on oversight. Oversight of, and participation in the development of standards must be separated.
- f. The statement that addressing the perceived influence of the profession on the standard-setting process will encourage a still-wider global adoption. The current reasons for non-adoption should be determined by the MG, which is in our view linked to regulation in those jurisdictions that cannot be solved by changing the standard-setting process. The proposals could instead have unintended consequences, e.g. member bodies withdrawing from the global standard-setting process resulting in different standards applicable in different jurisdictions and the potential impact on multi-national group audits. This is also more likely if a new auditing standard-setting board is to focus on matters that affect public interest entities with less attention being paid to non-public interest entities and the public sector. It is desirable to have a global and uniform set of standards that can be applied to all audit engagements.
- g. A majority vote will not increase the timeliness with which standards are issued. The due process (consideration of all stakeholder input) that is required to issue a standard at international level takes time and should not be reduced, as this could negatively affect the appropriateness and relevance of the standards. The real reasons why the finalisation of a particular standard is taking time should be considered, i.e. in a number of instances it is the complex issues around a project that have to be dealt with appropriately and broad stakeholder outreach to ensure that the standard is appropriate. An example of a project that took time, but in an appropriate way, is the revision of the auditor reporting standards. Smooth implementation of these standards were also

ensured through broad stakeholder outreach. Please also refer to our detailed response to question 9.

- h. The CP does not deal with the importance and role that task forces should play. It is however our understanding that a number of processes that are currently working efficiently and effectively will remain in place.

### **Responses to the specific questions asked**

In our responses to the specific questions we illustrate how the MG's concerns (on page 8 of the CP) are currently mitigated, while acknowledging that certain improvements are possible and should be considered in retaining the quality of international standards in the public interest, continuing to support an environment that achieves adoption of these standards at national level and addressing certain negative perceptions.

**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?*

**With respect to question 1.1:** Not entirely, as no basis is provided that standards are not developed fully in the public interest; as described under question 10 below, improvement in the composition of the boards to reduce the perception of undue influence should be considered; and the timeliness with which standards are developed should be considered, as addressed under our overall comments above.

**With respect to question 1.2:** It is suggested that the MG considers oversight of the boards as a priority rather than first proposing changes to existing structures that function appropriately in many respects. If the MG believes that the work of oversight has been constrained, these issues should be identified and analysed, and the MG should focus on strengthening oversight.

**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?*

**With respect to question 2.1:** We believe that the MG's focus on standard-setting should be to enable high-quality audit, assurance and related services engagements in the public interest. With respect to auditing in particular, one set of standards for all audit engagements that result from an appropriate multi-stakeholder standard-setting model, characterised by due process, including sufficient technical expertise, wide-based consultation with affected stakeholders, transparency and strong oversight. We do not agree that the audit standard-setting process could become *fully independent* of the profession – this is an aspirational objective rather than a realistic one; it is inconceivable that one can develop highly technical standards in a specialist field such as auditing, without the technical expertise of the auditing profession. Accepting the realities of technical standard-setting, including supporting rather than diminishing the available resources, as well as ensuring strong and adequate oversight of the standard-setting process and monitoring of the implementation of standards, should contribute to high-quality audits.

Please also refer to our response to question 10 below relating to the structure and composition of the standard-setting boards.

**With respect to question 2.2:** Please refer to our response to question 3 below that relates to the supporting principles that will form part of the public interest framework.

**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?*

We agree with the supporting principles as stated on page 9 of the CP and believe that most of these principles are addressed in the current model. Cost effectiveness and relevance considerations could be improved. Oversight should be a separate supporting principle and not form part of the ‘accountable’ principle. Sustainability should also form part of the supporting principles.

Although the CP expresses concern regarding the independence principle in terms of the perception of undue influence by the auditing profession, it is silent on how the current processes have failed, or is otherwise deficient in terms of the other principles. A holistic understanding of all the issues is essential, because they are interrelated. If the current process has failed in producing robust, high quality international standards that enjoy acceptance and recognition through its adoption in various jurisdictions, it is fair to provide comprehensive information on the deficiencies and their possible root causes, in order to take appropriate remedial action.

On page 18 of the CP the following is stated: “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. To allow the public interest to be better embedded, the MG 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.”

We understand the PIOB [oversight methodology](#), which currently includes a risk model and already addresses the above statements on page 18, as follows:

PIOB members lead oversight activities of specific standard-setting boards during a calendar year. The team leaders direct the risk assessment applied to each board and establish the combination of oversight techniques appropriate to the standard-setting board. An oversight plan is then developed. The following oversight assurance (OA) model forms part of the oversight plan and guides the nature and scope of work:

	<b>INTENSITY of Oversight</b>	<b>WHEN</b>	<b>FEATURES</b>	<b>ASSURANCE</b>
1	Very high	Risk of failure. Low confidence.	100% observations Third party verification	High
2	High	Higher risks in standard development. Medium confidence.	100% observations	High
3	Medium	Lower risk in standard development. Higher confidence.	Medium level of observations	Medium
4	Low	Excellent performance. Highest level of confidence.	Minimal or no observations	Lower



There are 4 OA models that offer different levels of assurance. The level chosen for each plan should be sufficient to enable the PIOB to conclude whether the activities of the boards and the CAGs follow due process and properly safeguard the public interest. The oversight models chosen are based on factors such as past experience, the PIOB's confidence in the board and CAG members, their performance and the content of their strategy and work plan.

Please refer to table 1 on page 13 of the PIOB [2016 annual report](#) which indicates how the current boards are assessed.

The PIOB has an existing process with [10 due process assessment points](#) to ensure that standards are set in the public interest. We believe that these points, in addition to our other suggestions around the boards' composition (question 10) and funding (questions 24 and 25), should be sufficient to serve the public interest. The assessment points are an:

- Analysis of scope and public interest need for the standard (when a project proposal is tabled)
- Analysis of CAG input from the CAG minutes and observation memo (when a project proposal is presented to the CAG by the Task Force (TF) chair)
- Analysis of the decision of the standard-setting board from the board's minutes and observation memo (when holding further consultations are considered by the board)
- Analysis of report back (when TF reports back to CAG on incorporation of their comments on the project proposal)
- Analysis of comment letters with special focus on MG input (after ED comment period)
- Analysis of issues paper and treatment of comments (issues paper prepared for board by the TF)
- Analysis of treatment of CAG comments (when the TF consults with CAG and collects their comments and when TF reports back to CAG on the treatment of their comments)
- Analysis of final decisions and key issues (when the final standard is deliberated and approved)
- Analysis as part of extended review and limited review (when staff issues basis for conclusions)
- PIOB issues independent extended or limited review concluding on due process followed during the development of the standard (before standard is issued/ approved) – extended review means considering the treatment of comment letters not reviewed under 5<sup>th</sup> bullet.

It will be useful to understand the evidence and information that are available to the MG in terms of the deficiencies of the current oversight structure and how these deficiencies have failed the public interest.

SAICA fully supports strong and transparent oversight; without it the international standard-setting process will lack credibility that will have serious consequences with respect to the acceptance and recognition of, and in confidence in the standards concerned. Without a full analysis of the problem, commentators to the CP may be limited in the responses they can provide.

**Question 4:** *Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.*

We do not support a single independent board. We believe that the structure of two standard-setting boards should be retained.

The roles and responsibilities of each of these boards are highly specialised and require particular areas of expertise and skills. With one board there will not be an appropriate mix of experience and

skills to ensure that the standards that are being approved are appropriate or are necessarily practical and implementable, which will result in reduced legitimacy, credibility and confidence in standards.

The statement made on page 11 of the CP that ethics and integrity need to be embedded in everything the auditor does, equally applies to all other professional accountants in public practice and to all professional accountants in business. We do not agree with the statement made on page 12 of the CP that public interest considerations [for professional accountants in business] are not the same as they are for auditors.

There should be alignment in the ethical standards that apply to all professional accountants regardless of whether the professional accountant performs the function of an auditor or the function of a chief financial officer of an audited entity, for example. There is a growing realisation that not enough attention is given to the conduct of those on “both sides of the table”. Ethical behaviour should be driven in combination and be aligned.

We also understand that one of the reasons for suggesting one board is because the ethical and technical matters relating to audits of listed entities are often intertwined. Rather than having one board we would suggest enhanced liaison between the two boards to reduce overlap. This is preferred, since a single board will dilute focus and significantly reduce the technical resources devoted to each of these specialised areas, which could have the opposite effect in terms of setting standards in the public interest.

The MG’s proposal may also be blurred by a narrow focus on listed entities and other public interest entities. There are a number of matters that should be considered in this regard:

- The international standards of the IAASB and IESBA serve the wider economy, including the whole of the private sector and the public sector. Although public interest entities (PIEs), inclusive of listed entities, fully deserve a high level of focus, because they have large numbers and wide ranges of stakeholders, one has to caution against completely separating them out. There are adverse consequences in terms of duplication, cost, consistency and comparability. Dual sets of standards will require dual sets of methodologies that may not be realistic to be maintained by small-medium sized audit firms, resulting in further concentration of audits performed by large audit firms. Furthermore, it can also cause considerable disruption and an increase in cost of listing when entities move from the status of non-PIE to PIE.
- Although some large jurisdictions may be able to absorb these impacts, they would generally have the benefit of economies of scale of large markets. Other jurisdiction may simply evaluate this as being too onerous and step away from international standards, i.e. reverting to local standards. Any reforms must sufficiently recognise the realities of the needs of various markets across jurisdictions.
- International standards must continue to be set in an environment that encourages or continues to encourage their voluntary adoption at national level. It will be counterproductive if one of the consequences of introducing any reforms is a divergence of standards and reversing the achievements of establishing global standards.
- The IAASB does not only develop auditing standards, but also international standards for other assurance engagements and related services engagements. All such engagements should be performed in the public interest and should continue to receive the attention of a standard-setting board with sufficient and devoted expertise and resources.
- It is simplistic to draw a distinction between ethical standards for auditors and ethical standards for professional accountants in business, since this ignores the fact that apart from auditors, there are many other professional accountants in public practice that provide many types of professional services other than audits.
- The MG proposal creates a risk of misalignment between ethics standards for auditors, ethics standards for other professional accountants in public practice and ethics standards for professional accountants in business. Also note that although the intension may be to only

separately address those matters that are unique to auditors (for example, independence), such matters may actually apply more broadly to assurance engagements in general and even have important touch-points with respect to related services engagements. It is inevitable that it will get progressively more difficult to place matters into this category of “unique to the auditor”, which will lead to a divergence in ethics standards. Lastly, independence is an integral part of ethics and should therefore not be “split” out from the overall ethics model.

**Question 5:** *Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not why not?*

It is sensible that the IFAC compliance programme with respect to member bodies remain the responsibility of IFAC. Education standards for the accountancy profession should be the responsibility of the profession, but should also be subject to due process that includes appropriate consultation and outreach, transparency and accountability (which is currently the case). However, the MG should not view our answer to this question as necessarily supporting the suggestion that the IAASB and IESBA are not appropriately positioned within the current structure – this will depend on the remit of a reformed board(s), as well as its/(their) governance structure. Relevant considerations in this regard are addressed as part of our overall comments and detailed responses to the other specific questions asked in the CP.

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

No, we believe that ethics standards should not be split between auditors and professional accountants in business, resulting in two organisations preparing ethical standards for the profession (also refer to response to question 4, above). With the recent development of the NOCLAR (non-compliance with laws and regulations) provisions, we see a trend where ethical requirements are developed that affects all professional accountants and not only auditors. We believe this is a positive step in further protecting the public interest.

**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.*

Our overall comments and detailed responses to other questions sufficiently address this question. We don't have anything further to add.

**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?*

**With respect to question 8.1:** It is difficult to interpret “more strategic in nature”, since providing strategic direction should always be part of the board's responsibilities, alongside its responsibilities for the work plan, project proposals, evaluating and challenging standards, the approval of standards and post-implementation review of standards (to name a few). If the MG's suggestion is that the focus on “more strategic in nature” comes at the cost of their primary task of technical standard-setting, then our answer is, No.

One of the strengths of the current model that should be retained is the detailed review, evaluation and challenge of standards from a technical and practical perspective by board members and their technical advisors, with the assistance of IAASB technical staff. Even in the current model, the actual drafting is done by task forces and the IAASB technical staff, but the robust process of reviewing, evaluating and challenging the standards that are brought to the board require the consideration of the drafting work that was performed. The detailed review, evaluation and challenging of standards

by the board ensure a transparent development process. If the board is more strategic (or too strategic) and the detailed content of the standards is relegated to a staff function only, part of the transparency will be diminished.

It is a reality that high quality international technical standards, which engender trust and achieve voluntary adoption within jurisdictions, cannot be set without sufficient involvement of the experts from the profession at the appropriate level in the process. The board cannot approve and take accountability for standards, which they as a collective is not sufficiently equipped to interrogate, which, in certain instances, may require them to get involved in the technical detail (for example, the technicalities and practicalities of an audit). Furthermore, it is not just auditing skills that are required, but *current* auditing skills, commensurate with the realities of the current and future audit environment.

Without the technical expertise of the auditing profession, there is a risk that the quality of the standards will be adversely affected, including whether they can actually be applied in practice. The MG should be careful to draw a direct comparison with financial reporting standard-setting, since the preparers, financial directors, those charged with governance, analysts and others are the specialists, which is not the case with auditing. The requisite auditing skills, experience and knowledge primarily reside within the auditing profession, and in the current board members and their technical advisors.

*Some additional reflection on the current process:*

We believe that it is the function of the CAG to focus on standard-setting from a strategic point of view. Please refer to the CAG [terms of reference](#) (ToR) the objective and scope of their activities are “...to provide input to and assist the IAASB through consultation with the CAG member organizations... and their representatives... at the CAG meetings, in order to obtain:

- a) Advice on the IAASB’s agenda and project timetable (work program), including project priorities;
- b) Technical advice on projects; and
- c) Advice on other matters of relevance to the activities of the IAASB.”

Paragraph 26 of the ToR states that a typical CAG meeting agenda includes discussions of:

- a) Emerging issues or practices, potential new projects, and the IAASB project timetable, including project priorities; *(Here the CAG has the opportunity to influence the timeliness and relevance of standards)*
- b) Current IAASB projects at key stages of their development; and
- c) Other matters of relevance to the activities of the IAASB identified by the representatives. *(Here the CAG has the opportunity to influence the timeliness and relevance of standards)*

The [ToR](#) of the IESBA CAG is similar to the above.

From the above it is clear that the CAG has an important strategic role to play in the standard-setting process and if this functions well it will contribute to the relevance and timeliness of standards to be developed.

It is important to note that both CAGs comprise of member organisations that are interested in the development and maintenance of high quality international standards on quality control, audits, reviews, other assurance engagements and related services designed to serve the public interest. Permanent member organisations of the CAGs are BCBS, EC, IOSCO, IAIS and the WBG. Therefore, except for the FSB and the IFIAR, the MG is already represented on the CAG on a permanent basis to influence the standard-setting process from a strategic perspective.

#### **With respect to question 8.2:**

The question of remuneration is more complicated than what it may seem at face value. Remunerating all board members is suggested as part of the solution to address the negative perceptions around independence from the profession in terms of not being dependent on in-kind contributions and sponsoring organisations. If the funding is available, it appears to be an attractive solution. Herein lies

the problem, since the overall funding model is unclear, unexplored and uncertain. With the best efforts of IFAC over numerous years they have been unable to expand the funding base for international standard-setting beyond the profession being the majority contributor; and the PIOB has experienced similar challenges. Please also refer to our responses to questions 24 and 25 below relating to the funding model.

Remunerated board members still need to be attracted to apply for these positions. There is inherently a challenge to attract members from the non-practitioner stakeholder groupings with adequate auditing and assurance skills and experience to take up full time positions. Although candidates from the practitioner stakeholder group may be more readily available, they are currently not remunerated and consideration should be given to the fact that if these members are to be remunerated. Taking into account the seniority, stature and authority of the members that currently serve on the IAASB and IESBA, this remuneration will be significant.

Based on the information presented in the CP, we do not believe that a fulltime board will be feasible in terms of funding. A detailed funding model that is stable should precede any proposals of remunerating board members.

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

No, in practice the IAASB may prefer to approve standards by consensus to achieve greater acceptance and credibility of the standards, but the [terms of reference](#) of the IAASB states: “Each member of the IAASB has one vote. The affirmative vote of at least twelve of those present at a meeting in person or by simultaneous telecommunications link is required to approve or withdraw International Standards and to approve exposure drafts.” The IESBA [terms of reference](#) contain similar requirements. If all 18 members are present, this means that a  $\frac{2}{3}$  majority vote is required, which we believe is more appropriate than a majority.

Another argument against a majority vote would be that it could result in a reduced acceptance and adoption of standards at national level, if there is a perception that the international standards have only been approved by half of the board members. The MG should consider that there is no authority that can promulgate global standards and therefore the credibility of the standards are important for their adoption at national levels. The international standard-setting model must continue to enable an environment of voluntary adoption.

With the suggested composition of the standard-setting board in the CP there is a risk that a majority vote could inappropriately approve or withdraw standards as only  $\frac{1}{3}$  of the members will be auditors with technical and practical experience on the subject matter. There is a possibility that these standards could be impractical or not implementable. A way to mitigate this would be to focus on the technical ability of the task forces performing the work.

**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?*

**With respect to question 10.1:** We do not believe that 12 members will be sufficient to cope with the current or future work programmes of the boards even if there are 2 boards with 12 members each. Twelve members for a combined board will also inhibit a diversity of views and it will be a challenge to include the representatives from the 3 groups indicated on page 15 of the CP if only 12 members have to be selected. Reducing the number of members, and no mention in the CP whether technical advisors will still be applicable in the proposed structure, significantly reduces the technical capabilities of the board. This represents a major risk to the quality and credibility of the international

standards concerned. Please also refer to our response to question 10.3 below, since we do not believe that the proposed 3 stakeholder groupings are sufficient.

We don't agree with the comment made that a full time position would not be attractive to anyone other than auditors and that it will improve with time as was the case for the International Accounting Standards Board (IASB). We don't believe that the standard-setting boards of IFAC can be compared with the IASB, where the IASB can draw from users and preparers of financial statements who are experts on the subject matter.

**With respect to question 10.2:** Our previous responses indicate that there should be two separate boards. The composition of these boards and how the boards are funded (questions 24 and 25) could be reconsidered to reduce the perceived undue influence that the profession may have on the standard-setting process. For this purpose we analysed the current composition of the IAASB and IESBA in terms of their ToRs and the actual current memberships in Appendix A to this comment letter. We agree that going forward, a broader multi-stakeholder model may be more appropriate. However, the principle should apply to all stakeholder groupings in that no one group should have undue influence.

The fact that all standards go through a public comment period and that there is a transparent process of dealing with these comments, including all of the oversight touch points as we have elaborated on in question 3 above, should also be kept in mind by the MG.

**With respect to question 10.3:**

We do not believe that the proposed 3 stakeholder groupings are sufficient. We agree in principle that regulators, auditors and users are valid stakeholder groups. However, the proposed composition of the "users" group is not completely appropriate. Users should be limited to actual users of the audit and assurance product, namely investors, analysts, providers of funding (and similar, representing users in the private sector, public sector and non-governmental sector). There should be a separate group for preparers and those charged with governance of audited entities (not part of the "users" group), since their interests and needs are clearly different. Another important group that may appear to have been ignored are national standard-setters that are not also regulators. This group plays a primarily role in the adoption of international standards at national level.

The "auditors group" should include a mix of experience in public interest entities, small, medium and large entities that are not public interest entities and public sector entities. This will ensure that the standards are applicable to all audits and will incorporate the concept of scalability into the standards.

The composition of each of the boards (for auditing and assurance, and for ethics) requires a balanced representation within the matrix of (1) multi-stakeholders, (2) diversity of skills and expertise and (3) geographical spread. It will be a challenge to achieve such representation with a board of only 12 members.

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

Technical competence and knowledge as well as up to date practical experience in assurance and audit-related services matters for the IAASB, and technical competence and knowledge as well as up to date practical experience in ethical matters for the IESBA. Members should be able to make a commitment to time. All members should have appropriate business acumen and an appreciation of strategy, analytical thinking, effective communication skills (both verbal and written); an ability to work with others and liaise with other boards; intellectual honesty in decision-making; project management skills; integrity, objectivity and discipline; an understanding of the global political and economic environment; and commitment to working in the public interest.

**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?*

Please refer to our response to question 8 where we describe the importance of the role of the CAG as well as the members represented on the CAG. The continued relevance of a CAG will depend on the remit of a reformed board/(s), as well as the authority, role and functions of a reformed oversight body. The former is a primary component of the current consultation and the latter has not yet been sufficiently explored by the MG.

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

Yes, currently all members are required to sign an annual statement that they will act in the public interest. Technical advisors are also required to sign an annual statement affirming they serve in the public interest. Standard development is subject to strict due process. (Refer to page 2, 3 and 5 of the PIOB document [Standard setting in the public interest: a description of the model](#)). This must be a primary concern of international standard-setting and must certainly continue to be part of any reformed structure.

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

Not entirely. If the process is solely administered by the PIOB it is not mentioned how a wide range of candidates will be able to apply for positions. The call for nominations should be open to the public; nominations should not be limited to those from MG membership organisations. There should be clear nomination criteria, and the process should be open and transparent.

In principle, it would be acceptable for the oversight body to assume responsibility for nominations to the standard-setting board/(s). However this is subject to reforms that would also be required at the oversight level. Key considerations in this regard are:

- Oversight of, and participation in the development of standards must be separated. The oversight body cannot get involved in the development of standards and they should not intervene in the work of the standard-setting boards. Any form of “role confusion” could have an adverse effect on the acceptance and recognition of, and confidence in international standards.
- The same perception around undue influence that is a current concern to the MG at the level of the standard-setting boards, would equally apply at the oversight level. Therefore, all key stakeholders should be involved in oversight and no single group should dominate. A similar matrix should apply in terms of (1) multi-stakeholders, (2) diversity of skills and expertise and (3) geographical spread. The same level of technical expertise that is required at board level will obviously not be necessary at oversight level.

Reflecting on the current process, one is tempted to ask for more clarity around how the process might have failed the public interest. In the paragraphs that follow, we give an overview of the current process in the context of nominations.

Currently the PIOB assigns an observer to be involved throughout the process of appointing a new member. This includes interviews and approval of IFAC’s recommendation regarding which candidate to appoint.

The PIOB also approves the make-up of the IFAC nominating committee (section 2.2 on page 10 of the [IFAC 2003 reform](#) document).

The statement that consideration should be given to factors such as geographic, sector and gender representation, size of the organisation and level of economic development is currently addressed as follows:

- Geographic – IAASB is represented by 13 countries; IESBA by 14 countries
- Gender representation – IAASB: 6 Females and 12 Males; IESBA: 7 Females and 10 Males
- Size of organisation – IAASB the big 4 audit firms are represented and 3 other audit firms; IESBA the big 4 audit firms are represented and 4 other audit firms.

**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?*

**With respect to question 15.1:** There is consensus on the generic roles and responsibilities within any oversight structure. The final answer is also dependent on the final structure in terms of a reformed oversight body and reformed standard-setting boards. We have addressed matters around the nomination of board members and the funding of the boards in our responses to questions 14, and 24 and 25, respectively. The principles of separation between oversight of, and participation in the development of standards, and multi-stakeholder representation, as addressed in question 14, should be non-negotiable.

**With respect to question 15.2:** No, since a veto right would infringe on the overriding principle of separation between oversight (the responsibility of the oversight body) and the development of standards (the responsibility of the standard-setting boards).

The current process of holding the standard-setting boards accountable in terms of due process and ensuring that standards are developed in the public interest is appropriate – a standard is only authoritative once it is approved by the PIOB. Pages 22 – 31 of their [2016 annual report](#) provides examples of detailed considerations of the standards and how the IAASB and IESBA dealt with these recommendations. An example of the PIOB exercising its role but not vetoing a standard is on page 15 of the [2014 annual report](#) where the PIOB stated that it approved the full set of auditor reporting standards and ISA 570, but expressed their disappointment to the IAASB about the final outcome regarding going concern, which it does not think fully meets the public interest.

**With respect to question 15.3:** None

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

The composition of a reformed oversight body should be subject to the principles of separation between oversight of, and participation in the development of standards, and multi-stakeholder representation, as addressed in question 14, above.

**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?*

The PIOB is currently represented only by [non-practitioners](#). This is not sustainable in progressing the current reform process. The oversight body should comprise multi-stakeholders and reflect geographical representation (also refer to our response to question 14). In terms of skills and attributes, refer to similar type of experience as the current 10 members from 8 different countries have.



**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?*

In a multi-stakeholder structure, members of the PIOB cannot continue to be appointed through individual MG members, or even through an open call for nominations from within MG member organisations. Calls for nominations must be open to all key stakeholder groups.

**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?*

Firstly, we wish to reiterate that SAICA is opposed to having a single standard-setting board that addresses both auditing standards and ethics standards for auditors, and we are opposed to separate ethics standard-setting for professional accountants in business (refer to our responses to questions 4 and 6). We recognise that there could be merit in proposing that the PIOB no longer have oversight over the educational standards (as described on page 12 of the CP); however, educational standards should apply to the accountancy profession as a whole, together with additional requirements that may apply in respect of certain specialisms, such as auditing.

**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?*

Yes, but only 4 of the 6 responsibilities are mentioned in the CP (refer to PIOB document page 10). Other responsibilities that should be retained are:

- Cooperate in the interest of promoting high-quality audit and assurance, ethical and educational standards for accountants
- Convene to discuss issues and share views relating to international audit quality as well as regulatory and market developments having an impact on auditing

As stated in the CP (page 21), consequential changes may be needed in the MG itself as a result of the outcome of the current consultation.

**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?*

**With respect to question 21.1:** Yes, even in the current model the professional technical staff should be expanded to deal with the number and scope of projects of the boards. Therefore, expansion of the technical staff is in any event a necessity, but not at the cost of diluting the technical resources and capabilities of the standard-setting boards. The cost of additional senior personnel should however be taken into consideration in addition to the additional funding required for permanent board members. Also refer to our response to question 8 which is related to the issues that are addressed here.

**With respect to question 21.2:** Similar skills relevant to the current board structures should apply, as listed in question 11.

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

Again, this will depend on the remit of a reformed board, as well as its governance structure. However, we do not believe that the appointment of permanent technical staff through IFAC's processes currently creates unsafeguarded independence threats. The implication on page 22 of the CP that staff involved in the current process may not be working in the public interest is unwarranted.

Technical staff, even under a new model, will continue to be sourced from the profession, since they are the experts in their field. Technical expertise is needed and consultation with the profession to 'get close' to the technical issues and with all stakeholders should continue.

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

No further suggestions at present.

**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)?*

Yes, checks and balances can be put in place. Please refer to our response to question 25 on our understanding of the current PIOB funding model and some thoughts around continued funding of the PIOB, as well as the funding of the standard-setting boards. Transparency and accountability are paramount – the checks and balances will flow naturally from this, taking cognisance of the realities of international standard-setting (for example, there are limitations in terms of those that are willing and able to contribute). The CP does not enable a more direct answer to the funding question, since the funding model has not been sufficiently explored, including insufficient information about the needs and resources to be funded.

**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?*

No, we do not believe a contractual levy on the profession is the optimum solution, on which we expand in more detail, below. A strong theme throughout our responses to the MG proposals is the need for multi-stakeholder representation at oversight level and at standard-setting level. The logical deduction is that this should also be reflected in the funding of the oversight body and the standard-setting boards. However, our information-gathering has indicated that the auditing profession will in all likelihood continue to be a primary funder. Therefore, will the MG's concerns linked to undue influence be addressed and will safeguards linked to the collection and allocation of funds be adequate? Current and future funding arrangements should be made clearer and more transparent to all stakeholders.

**With respect to the PIOB funding:** Current checks and balances that are in place in terms of the [MG Charter](#) appendix B, IFAC 2003 reforms document 2.6 page 13 and the PIOB document [Standard setting in the public interest: a description of the model:](#)

- In terms of these documents, IFAC should not provide more than 50% of the funding. The EC provided the rest of the funding from 2010 to 2013 and these contributions have been renewed with a multi-year funding programme from 2014 – 2020. The FRC and the Abu Dhabi Accountability Authority also made contributions since 2013.
- Money is paid on a quarterly basis to the PIOB foundation whose independent trustees allocate the funds to the PIOB
- The PIOB keeps its own books of account

- The PIOB reports to the public annually on its operations, funding and expenditures and have its financial statements audited.
- IFAC has no role in the allocation and use of the PIOB funding and no role in monitoring the PIOB budget and planning process
- The PIOB budget is approved by the MG.

In terms of the PIOB 2016 annual report the following organisations contributed, of which IFAC contributed 59%:

- International Federation of Accountants
- European Commission
- Abu Dhabi Accountability Authority
- International Organization of Securities Commissions
- CFA Institute
- Financial Reporting Council
- Bank for International Settlements

The MG should encourage and solicit contributions from other sources as stated in its charter, in our view specifically from MG/ PIOB representative organisations to diversify funding for the PIOB, rather than charging firms a contractual levy or partially funding the PIOB through IFAC (the profession). It is also not clear how a levy will be charged from all audit firms across the world and how it will be managed (most likely impractical).

We believe that independence in respect of funding oversight is important but not necessarily as important as for the standard-setting boards. A contractual levy still means funding is provided by the profession. It may also have unintended consequences where small-medium firms withdraw from the global standard-setting process due to an inability to provide funding in addition to the funding that has to be provided at jurisdiction level to belong to the accounting professional body, national standard setter and audit regulator.

**Our understanding and views in respect of the funding model for the standard-setting boards are as follows:**

There is an independent Forum of Firms (FoF). The Transnational Auditors Committee (TAC) is the operational body of the FoF and has executive authority over the activities of the FoF. In terms of section 63 of their [constitution](#) these 2 bodies have to be fully self-sufficient. In terms of section 28 of IFAC's [constitution](#) the TAC is a committee of IFAC and creates the link between IFAC and the FoF.

The following audit firms are members of the FoF, it should also be noted that a small number of these firms are represented on the IAASB and IESBA as indicated in our response to question 14.

- AUREN
- Baker Tilly International Limited
- BDO
- Constantin – Serval & Associés
- Crowe Horwath International
- Deloitte Touche Tohmatsu Limited
- Ernst & Young Global Limited
- FinExpertiza
- Grant Thornton International Ltd

- HLB International
- IECnet
- JPA International
- KPMG International Cooperative
- Kreston International
- Kudos International Network
- Mazars
- Moore Stephens International Limited
- Nexia International
- PKF International Limited
- PricewaterhouseCoopers International Limited
- RSM International Limited
- Russell Bedford International
- SFAI
- SMS Latinoamérica
- Talal Abu Ghazaleh & Co. International
- TASK International
- UHY International Limited

Members of the FoF determine the funding contribution that has to be paid by each member in terms of section 40(g)(i) and (ii) of the FoF [constitution](#). The money is received by FoF in terms of section 65. The FoF pays the funds collected to IFAC on a quarterly basis.

The IFAC member bodies and associates from 131 countries also pay membership fees which in our understanding is used for IFAC's operating expenses.

In terms of section 26.2 of the IFAC [constitution](#), IFAC provides funding to the standard-setting boards in consultation with the PIOB. Each standard setting board determines its own budget which is approved by the IFAC Board in consultation with the PIOB.

Funding received by IFAC is disclosed in their [financial statements](#) which is available to the public.

The funding of the standard-setting boards is therefore not directly received from firms or representatives/ members of the IAASB or the IESBA. In our view the independence threat has been recognised and there are sufficient safeguards in place. It is possible to reduce the different "links" from the contributors to the standard-setting boards, e.g. direct collection and allocation of the funds by the oversight body. However, an impact analysis is required, for example, will the funding base remain unaffected, will funding be stable and sustainable, will current negative perceptions be sufficiently addressed, will new perceptions about influence be created and how will it affect IFAC (i.e. representing the global accountancy profession).

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

It would be prudent to pilot the changes on a small project to determine how the new proposals will work and to identify areas of risk that require improvement. It will not be appropriate to implement a new process on partial information.

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

The MG should consider how standards are adopted at national level in different jurisdictions. These jurisdictions have a model that works with the current structures of IFAC and therefore the MG should consider how this will impact different jurisdictions.

## Appendix A

We understand the current composition of the IAASB and the IESBA in terms of their ToRs as follows:

- 9 Practitioners – member or an employee of an audit firm
- 6 (balance) Non-practitioners – not a member or an employee of an audit firm (3 year cooling-off period if previously from an audit firm), e.g.: professionals from academia, government, public sector, international agencies, development banks and other organisations related to the accounting profession, professional accountants in business and individuals who are not professional accountants. They represent a broad category of professionals for instance staff from professional IFAC member bodies, which are national organisations of the accountancy profession
- 3 (at least) Public members – are members who clearly represent and are seen to represent the broad public interest, and therefore nominations of non-accountants are strongly encouraged for these positions. Individuals nominated for these positions should desirably have technical knowledge of the subject matters considered by the Board (preparers, users, regulators and public at large)

The above represents a 50% split between auditors and non-auditors which has served international standard-setting well. We agree that a better balance in terms of representation by different stakeholders (a more robust multi-stakeholder model) will likely improve perceptions around undue influence by the auditing profession or by any other stakeholder group.

The current IAASB [membership](#) (as at December 2017) is represented by 13 countries, 9 practitioners, 5 non-practitioners and 4 public members. In our view there is sufficient geographic diversity.

Country	Member type
Netherlands	(Chair) Non-practitioner
United States	(Deputy chair) Practitioner
India	Practitioner
Australia	Practitioner
United States	Practitioner
United States	Practitioner
United Kingdom	Public Member
China	Practitioner
Germany	Non-practitioner
United States	Non-practitioner
Ireland	Practitioner
Belgium	Public Member
New Zealand	Public Member
Canada	Non-practitioner
Netherlands	Practitioner
Japan	Practitioner

South Africa	Public Member
China	Non-practitioner

Non-practitioners' backgrounds are as follows:

- 1 – Academia
- 3 – CPA institutions (1 retired but previously CPA)
- 1 – Chairman employed by IFAC (previously member of managing board of Dutch Central Bank)

Public members' backgrounds are as follows:

- 1 – Financial Reporting Council (FRC)
- 1 – Retired, previously expert-senior advisor on prudential policy and financial stability department of the National Bank of Belgium, also served on Basel Committee and as a member of the MG.
- 1 – Previous Auditor-General and Comptroller of New Zealand
- 1 – Director of Standards: Independent Regulatory Board for Auditors South Africa

In terms of the current model the above non-practitioners and public members provide an appropriate split between auditor's and non-auditors. The chairman is also a non-practitioner. If their backgrounds are considered, we believe that there is currently sufficient diversity of views to provide differing perspectives in the public interest. The above backgrounds of the members also raises some questions about the MG's statement that a lack of remuneration of board members challenges the board's ability to attract high-quality candidates from outside of the audit profession.

The current IESBA membership (as at December 2017) is represented by 14 countries, 9 practitioners, 3 non-practitioners and 5 public members. In our view there is sufficient geographic diversity.

<b>Country</b>	<b>Member type</b>
Greece	(Chair) Public Member
United Kingdom	(Deputy chair) Public Member
Sweden	Practitioner
United Kingdom	Non-practitioner
United States	Practitioner
Japan	Public Member
United States	Practitioner
Canada	Non-practitioner
Belgium	Practitioner
Brazil	Public Member
Zambia	Non-practitioner
Singapore	Practitioner
Italy	Practitioner
Australia	Public Member
Sri Lanka	Practitioner

United States	Practitioner
France	Practitioner

Non-practitioners' backgrounds are as follows:

- 1 – Non-executive director and chairman of the audit committee of Barclays
- 1 – Retired, previously CEO of the Chartered Professional Accountants of Manitoba
- 1 – Member of various boards, also Chair of the Audit Committee of the Ministry of Finance of the Government of the Republic of Zambia

Public members' backgrounds are as follows:

- 1 – Chairman, part time employed by IFAC also Emeritus Professor of financial economics at the University of Athens
- 1 – Deputy Chairman, consultant with a UK law firm
- 2 – Academia – one of which is a non-executive director and audit committee member, previous Auditor-General of Australia
- 1 – Attorney

The same basic observation applies than in the case of the IAASB, namely an appropriate split between practitioners and non-practitioners; especially because of the fact that the chairman and deputy chairman are public members. If their backgrounds are considered, we believe that there are currently sufficient diversity of views to provide differing perspectives in the public interest. However, there is room for improvement in adopting a broader multi-stakeholder model going forward.