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Dr Fernando Restoy
Chairman
Monitoring Group

Email: piob-monitoringgroup@ipiob.org

Dear Dr Restoy

Public consultation on the governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the IOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC

Thank you for the opportunity to comment on this Public Consultation. CPA Australia is one of the world's largest professional accounting bodies, with a membership of more than 139,000 finance, accounting and business professionals and leaders in 114 countries. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

General Comments

CPA Australia considered the questions of the Consultation Paper and notes that while some questions refer to the overall governance structure, most assume the continuation of the status quo. For example, question 2 asks respondents to comment on whether they would favour a different and fully independent standard setting model in the long term. If that is the preference, then even if the current objectives of the three tiered system are adequate, as stated in question 3, the actual system is potentially not. In this case a review of the whole system is required and the adequacy of the system, beyond its current objectives, should be questioned.

Further, it would have been useful to have some evidence to substantiate the claims in the Consultation Paper. The paper states that 'the MG acknowledges that the final effectiveness review report was published very recently, and the overall conclusion, as previously anticipated, was highly satisfactory and that virtually all the measures set out in the 2003 reforms had been fully implemented. Furthermore, the eighteen recommendations are still under discussion and not fully implemented. It seems logical that any further recommendations for changes will need to be assessed after a reasonable period of time has elapsed in which to gain practical experience on how the 18 near term measures have actually worked. However, there may be some recommendations arising from this paper with respect to the MG, IOB, CAGs or PIACs that could be introduced and facilitate the near term measures' implementation'. We suggest that it would be appropriate to assess the effectiveness of the changes implemented and based on evidence ascertained about them, proceed with further consultation to address identified issues.

Overall, CPA Australia is of the opinion that if there are concerns about the independence, public interest focus or effectiveness of the standard setting processes currently under the auspices of IFAC, then these need to be explicitly identified and then addressed in a strategic and methodical manner. We think the governance structure is presently very complex and cumbersome and we are of the opinion that increasing its complexity and widening the mandates of its key elements would fail to address key concerns whilst increasing inefficiency and lack of responsiveness. For this reason we recommend a strategic review of standard setting for the accounting profession.

Our responses to the consultation questions are in the Comments on Consultation Questions section that follows. If you have any questions regarding this submission please do not hesitate to contact Dr Eva Tsahuridu, CPA Australia by email at Eva.Tsahuridu@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'AMalley'.

Alex Malley FCPA
Chief Executive Officer

cc: Eva Tsahuridu

Comments on Consultation Questions

Q1: Do you consider it necessary to enhance representation of the public interest? If so, which additional actions, apart from the appointment of an independent IESBA Chair and redefining the nature of non-practitioner board members, would you suggest to reinforce the mechanisms to safeguard the public interest?

CPA Australia is of the opinion that the current governance structure focuses on the promotion of the public interest. We think it is important to ascertain the opinions of key stakeholders and if there is evidence that there are perceived deficiencies then identify relevant issues related to structures, processes and communication to be addressed.

Q2: In the long term, would you favour a different and fully independent standard-setting model completely outside the IFAC structure and if so how could such a structure be funded?

Considering the entire standard setting for professional accountants, CPA Australia notes the existence of different frameworks between the auditing, ethics, education and public sector standards set by IFAC and financial reporting standards set by the International Accounting Standards Board (IASB). While we understand that historical reasons have influenced standard setting, we are of the opinion that a review of the entire standard setting process of the profession should be undertaken before further changes to the existing governance structures and oversight mechanisms are considered. Arguably, auditing standards, like financial reporting standards, are public goods and should be set within a standard setting framework independent of the profession. We are of the opinion that public sector standards should be aligned with other financial reporting standards, while ethics and education standards should be set by the profession. Such a review could then address appropriate oversight mechanisms, governance and funding arrangements.

Q3: Do you consider the current three-tier system adequate for achieving its objectives, or an alternative model could be more adequate? In the latter case, which model would you suggest?

CPA Australia is of the opinion that the current three tiered system is adequate for achieving its objectives but as we mentioned in the general comments we think it is very complex and cumbersome. If this system is perceived to be insufficient by some stakeholders, then as we commented in our response to question 2, a review of the whole standard setting process could help identify its limitations and explore appropriate alternatives. We suggest that constituents' views on the effectiveness of existing arrangements be ascertained before further changes are considered or implemented.

Q4: Would you support the IPSASB being subject to PIOB oversight? Why? What conditions, if any, would you impose on such oversight? Would you see as a factor to take into account the fact that IPSASB deals with accounting rules instead of auditing ones?

In offering its comments, CPA Australia is assuming that standard setting for audit and assurance, education, ethics and the public sector will continue to be located within the IFAC structure (if it were not, then we think the International Accounting Standards Board [IASB] should be setting standards for the public sector in addition to the private sector). To ensure the integrity of, and confidence in, standard setting and its outputs, we think it is necessary that the International Public Sector Accounting Standards Board (IPSASB) is subjected to a tiered governance structure. One approach would be to make the IPSASB subject to the same tiered structure as that which applies to the other three boards, ie. it has an active Consultative Advisory Group whose composition and operating procedures are the same as those which operate with the other boards and it is subject to oversight by the Monitoring Group and the Public Interest Oversight Board. One possible problem with this approach is the current membership of the oversight bodies lacks a financial reporting focus. Further, there is no apparent global body that has a direct interest in public sector financial reporting (whereas, IOSCO is clearly the global body of regulators that have a direct interest in audit and assurance). Therefore, it is not easy to identify the public sector financial reporting groups who

should be represented on oversight bodies thus running the risk of creating integrity issues. Another option is to develop a dedicated oversight body for the IPSASB with membership and size tailored to meet this narrower focus. Both approaches (and any other) will increase the cost of standard setting. We understand that IFAC may not be well placed to incur further costs. We think it advisable that IFAC develops a proposals paper on the oversight of the IPSASB and that includes comprehensive options and estimated costings.

Q5: Do you see merit in having a “Compilation document” for the whole structure? In this case, which alternative would you prefer for organising the structure and nature of the Compilation document?

Provided the standard setting structure remains the same, CPA Australia supports the first alternative proposed in the consultation paper, whereby the Compilation Statement is organised through (or based on and with the support of) the PIOB Foundation.

Q6: Given the breadth of the current mandate, would you consider it helpful to modify the name of the structure to improve its visibility? In this case, what name would you suggest?

CPA Australia questions whether there is evidence to suggest that the current name is suffering from visibility or other deficiencies. At present, given the available information as well as our own understanding, we do not think that a name change is necessary.

Q7: Do you agree with the proposal that the MG should have a more strategic role?

CPA Australia is of the opinion that the role of the Monitoring Group is clear and it is not obvious what a more strategic role would entail or what its consequences would be. While we support continuous improvement and review, we suggest that any proposals need to be justified and costed.

Q8: Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIACs’ agendas and receiving appropriate feedback?

CPA Australia finds the current arrangements satisfactory and does not see the need for more involvement by the MG.

Q9: Do you agree with the suggested ways of improving the communication activities? Would you consider it useful for the MG to have in the special occasions above described direct involvement with PIACs?

CPA Australia is of the view that more frequency or contact does not necessarily contribute to effectiveness or efficiency. We think that the issues that the proposals seek to address need to be identified and appropriate solutions at the appropriate level be explored. We also think that stakeholder dialogue would be more effective if it is undertaken by the PIACs.

Q10: Do you have any specific suggestions on how liaison with investors could be improved? In this sense, do you see merit in some portions of the MG meetings having the public in attendance?

Please see our response to Question 9.

Q11: Would you find it useful that the MG engages with organisations representing governmental institutions? Would the G20 be the most appropriate or, should others bodies be considered instead?

CPA Australia is of the opinion that the MG should engage with the most appropriate institutions to achieve its objectives and assess the effectiveness of its engagements.

Q12: What is your opinion about the current composition of the MG? (i) Do you believe that other organisations (i.e., national or regional regulators) should or could be represented in the MG? If so, which criteria do you think new members should fulfil to become MG members? (ii) Should a maximum be set to the number of MG members? (iii) Would you favour a change on how the Chairperson is appointed?

CPA Australia is of the opinion that having all national and regional regulators is unlikely to be feasible. Please see our comment to question 11. However, we think that the absence of SME representation in the MG needs to be addressed given their importance in the global economy. The number of members and the appointment of the chairperson need to be considered by the MG.

Q13: Do you see a problem in MG members appointing full time employees of organisations represented in the MG as PIOB members?

CPA Australia is of the opinion that full time employees of the MG's members should not be appointed in order to ensure that there is no actual or perceived conflict of interest or bias.

Q14: Would you consider convenient to avoid direct hierarchical relationship between the PIOB and the MG members?

CPA Australia considers it highly desirable that there is no hierarchical relationship between the PIOB and MG members.

Q15: Do you think that the roles and responsibilities of MG and PIOB should be further clarified? Do you have specific suggestions regarding which areas this clarification should address?

CPA Australia considers the roles and responsibilities of MG and PIOB clear and adequate.

Q16: Do you see merit in the PIOB undertaking a regular review of its due process and oversight framework through its strategy document?

CPA Australia considers a regular review of PIOB's due process and oversight framework desirable.

Q17: Do you see merit in the PIOB periodically producing a strategy document that would supplement the yearly business plan and budget? What should the involvement of the MG be in the production of these documents?

CPA Australia is of the opinion that a PIOB strategy document should be produced periodically to inform and communicate with key stakeholders.

Q18: Do you think that the current composition of the PIOB could be enhanced? Would you consider convenient that the PIOB's composition is reviewed each time a new body becomes full member of the MG?

CPA Australia is of the opinion that PIOB should ensure that its composition is fair and appropriate consistent with its objectives.

Q19: Would you consider the current composition of the PIACs appropriate? Do you see merit, in the context of a second effectiveness review, in exploring the idea of having a majority of non-practitioners and a majority of public members?

CPA Australia considers the current composition of the PIACs appropriate and suggests that a review should be undertaken after the changes from the last MG review are implemented and assessed.

Q20: Do you consider best practice a nine years period for rotation of the representatives of CAG member organisations?

CPA Australia considers it important that representatives of the CAGs are rotated and suggests a shorter period than the proposed nine years. This will ensure that the CAGs are renewed with expertise and dynamism.

Q21: Would you agree that it is not realistic at the current time to attempt to alter the funding structure of standard setting activities in any substantial fashion?

CPA Australia is of the opinion that the funding structure of IFAC, the MG and PIOB should be reviewed. As we discussed in our response to question 2, auditing standards, like financial reporting standards, are public goods and could be set and funded independently of the profession.

Q22: Do you consider appropriate that IFAC finances the largest part of the PIOB budget? If not, do you consider appropriate that IFAC launches an external fundraising having some contributions of the MG members in the mean time?

CPA Australia thinks that PIOB should be funded from neutral funding sources. Such funding arrangements will promote the perception of independence of the oversight board. In the short term we consider that neutral funding should provide at least 50% of the PIOB funds.

Q23: Do you think it feasible to have a similar funding structure in place for the PIOB to that in place for funding the IFRS Foundation?

CPA Australia understands that there are significant differences between the PIOB and the IFRS Foundation, thus making comparisons difficult. As we suggested in the previous question, we consider it important that the PIOB is funded from sources other than IFAC.

Q24: Do you see the need for and/or merit in having a permanent Secretariat for the MG? In this case, do you think IOSCO should provide resources for a permanent Secretariat to the MG?

CPA Australia is of the opinion that it may be worthwhile for some assessment of the benefits and costs of a permanent secretariat for the MG be developed.

Q25: How do you think the governance of the international auditing, ethics and education standards setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?

Standards on international auditing, ethics and education are important inputs to audit quality and good governance of standard setting has an impact on the effectiveness of the standards issued. The public interest and the overall objective of improving audit quality should be given importance above other factors in the governance and decision making process.

Q26: What is your opinion about the current structure? Do you think the current structure is appropriate in order to improve audit quality? If not, what changes, suggestions or remarks would you propose?

CPA Australia does not consider the current structure in itself ineffective. However as we said in question 2, consideration should be given to an independent standard setter for auditing and assurance standards.

Q27: Do you agree that the current levels of empowerment and responsibility of the bodies that compose the current structure (MG, PIOB and PIACs) are appropriate? If so, do you have any suggestions for improving the dialogue and interaction between the different bodies? If not, how these levels of empowerment and responsibility could be improved?

CPA Australia considers the current levels of empowerment and responsibility appropriate. Their appropriateness could be sustained with ongoing dialogue among the parties and their key stakeholders.

Q28: Do you think that there is any other overall structure that could achieve improvement in audit quality more efficiently? If so, what could they be and how might they be financed?

CPA Australia understands that standard setting is only one aspect of improving audit quality. We consider other factors, such as the role of professional bodies, regulators and firm culture important contributors to audit quality. Standards, as well as guidance and non-authoritative staff papers contribute to continuous improvements of audit quality.