MONITORING GROUP SUMMARY OF FEEDBACK

STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST

May 2018
Introduction

This document provides a summary of the feedback received by the Monitoring Group in response to its consultation setting out options for the reform of the governance and oversight of the international audit related standard setting bodies in the public interest. Following an extensive preparatory period, the Monitoring Group agreed to consult publicly on a series of reform options intended to:

- further strengthen the public interest in standard setting;
- address stakeholder perceptions that standard setting is not demonstrably independent of the profession; and
- improve the timeliness of standard setting and the relevance of standards.

This document does not contain any further proposals developed by the Monitoring Group. Instead, having considered in detail the responses received, the Monitoring Group proposes to develop a White Paper of final proposals for reform, which will be exposed for comment once it has carried out further stakeholder outreach.

With its origins rooted in the 2003 International Federation of Accountants (IFAC) Reforms, the Monitoring Group supports the development of high-quality international standards for auditing and assurance and accountant ethics and education.\(^1\) It is ultimately responsible for the overall governance arrangements in this field, and provides for ultimate accountability to public authorities responsible for furthering the public interest in audit quality and standard setting.\(^2\) More specifically, and to that end, it monitors how the Public Interest Oversight Board (PIOB) carries out its public interest role with particular regard to the PIOB’s oversight of the standard setting process.

The Charter envisaged a review by the Monitoring Group of the effectiveness of the 2003 Reforms five years after the establishment of the PIOB in March 2005. The consultation issued by the Monitoring Group in November 2017 is the latest review of the arrangements in place.

The Monitoring Group’s initial consultation on options to reform the governance and oversight of the audit-related standard setting bodies in the public interest has now concluded. During the consultation period, the Monitoring Group also carried out stakeholder outreach and held three global roundtable meetings in London, Washington DC and Singapore, attended by more than 250 people in total, and participated in a further roundtable hosted by the South African Institute of Chartered Accountants (SAICA) in Johannesburg.

The Monitoring Group is grateful to the 179 respondents who took the time to provide feedback. The Monitoring Group has made all of the responses available on its website\(^3\) along with transcripts of the three round table meetings and provided a weblink to a recording of the Johannesburg event. These responses, and the discussions that took place at the outreach sessions are being used by the Monitoring Group to develop a detailed set of proposals which will be subject to a further round of public consultation and outreach. The Monitoring Group will also be carrying out further outreach to seek additional stakeholder input and provide opportunities for stakeholders to ask further questions.

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1 See the Monitoring Group Charter, at [https://www.iosco.org/about/monitoring_group/pdf/monitoring_group_charter.pdf](https://www.iosco.org/about/monitoring_group/pdf/monitoring_group_charter.pdf).
3 [http://www.iosco.org/about/?subSection=monitoring_group&subSection1=reforms-to-the-global-audit-standard-setting-process](http://www.iosco.org/about/?subSection=monitoring_group&subSection1=reforms-to-the-global-audit-standard-setting-process)
The Monitoring Group has carried out a review of the responses received and classified them into seven main groups: (i) auditors and audit firms; (ii) standard setting bodies and the PIOB which are the subject of the consultation (this group excludes IFAC itself); (iii) IFAC and its (member) bodies (national professional accountancy organisations); (iv) public authorities including regulators; (v) national standards setters; (vi) users of the financial statements (which includes investors and asset managers); and (vii) academics. IFAC and its member bodies accounted for some 81 of the responses received.

The review carried out reflects the Monitoring Group’s summary of the responses based on a qualitative and quantitative analysis. This document has been prepared to set out that assessment in a neutral way, and it does not propose or advance any policy positions. An important measure that has been borne in mind throughout the review of responses is to consider them in the context of who are the ultimate beneficiaries of high quality audit in the public interest – in that respect the Monitoring Group places an emphasis on the feedback provided by investors and other users of the financial statements.

In view of the sheer number of responses, and the feedback requesting the Monitoring Group take as much time as necessary to set out a comprehensive package of reforms covering all three layers of the standard setting governance model, including the main arguments for and against each of the options in the earlier consultation, we will undertake further work before developing the White Paper. Our intention is now to develop that White Paper for consultation by the end of the year. This timeline responds to stakeholders’ concerns that the development of the next set of proposals should not be rushed in a way that would undermine confidence in the existing standards or would harm efforts to ensure the global adoption of International Standards on Auditing and the Code of Ethics.

Based on the review of responses that we carried out, users of the financial statements (including investors), public authorities (including audit regulators) and audit firms are all supportive of the need for reform in the areas identified in the consultation, and endorsed measures to better represent the public interest in standard setting and make more of the standard setting process demonstrably multi-stakeholder. These stakeholders were also supportive of the options to make the standard setting board or boards more strategic in focus,
and also smaller in size. Investors and public authorities also endorse measures to better represent the public interest in standard setting and make the standard setting process demonstrably and fully independent of the accounting and audit professions. IFAC member bodies also agreed with the high-level objectives of the review but did not support many of the substantive options proposed.

In summary, there was widespread support from all stakeholder groups for the options in the following areas:

- The need for strong accountability and transparency;
- Recognition of the quality of the current auditing standards, and the importance of maintaining the principles-based approach, although respondents individually identified some areas where the current standards could be improved;
- The move to a multi stakeholder representation on the standard setting boards (many stakeholders also support the application of the multi-stakeholder model to the PIOB);
- The need to broaden the funding base, making it sustainable in the longer term and addressing the perception that obtaining funding primarily from the profession/audit firms through voluntary contributions could allow them to exert undue influence over standard setting;
- Ethical standards for auditors and professional accountants should be set by a single board;
- The work of the board or boards to be supported by an expanded technical staff;
- The importance of there being a Public Interest Framework embedded throughout the standard setting process;
- The PIOB not having the ability to veto standards related to the technical merits of an approach, but nevertheless providing challenge in representing of the public interest; and
- IFAC retaining Educational Standards and the Compliance Programme (CAP).

There was also support from many stakeholder groups for the following options:

- The need for standard setting to be timelier, including a recognition that the pace of change is increasing (e.g. as a result of greater use of data analytics and technology);
- The need for there to be no trade-off between timeliness and quality, and for the board/boards and supporting technical staff to have appropriate technical capability;
- The board(s) should operate strategically, but that they should have appropriate technical skills and expertise to properly assess and challenge the development of standards;
- Changes proposed to the Nominations Process;
- Remunerating board members (although some respondents raised concerns about the overall impact on the cost of standard setting);
- Close co-ordination between the setting of auditing and ethical standards, if they are not both set by a single board;
- Standards approved based on a qualified majority; and
- Exploring the role and membership of the Consultative Advisory Group (CAG), as the current role is not clearly understood by stakeholders, and the membership seen as lacking diversity;

In the following areas, there was a diversity of views, ranging from support to some significant opposition from respondents to the consultation in relation to:
• Whether the Monitoring Group had fully articulated the case for change to the current standard setting model, and explained how it would manage the risks associated with changing the existing arrangements (although support for options included in the consultation does indicate support for change);
• The number of standard setting boards for audit and assurance and ethical standards;
• Further alignment with, or combining the auditing and accounting standard setting processes to the extent that this is possible, given the different remits and processes;
• Providing a sustainable funding model by way of a ‘contractual levy’;
• Composition of the boards, in terms of the balance of stakeholders included, and how to make them ‘representative’;
• Whether there is a need for a more ‘proportionate’ set of standards for smaller entities;
• Whether more reliance on professional technical staff may make the standards setting process less transparent and accountable; and
• Whether reform should be carried out in a staged basis and include review of the future role and composition of the Monitoring Group.

We noted a number of comments which did not arise directly from the consultation questions made by either individual, or a small number of stakeholders, which the Monitoring Group considers important to address in the next set of proposals. These include matters such as:

• Learning lessons from the governance of International Accounting Standards;
• Clearly articulating what high quality audit is intended to deliver;
• Considering the merits of establishing a Technical Advisory Forum to support the work of the board or boards;
• Considering how the reformed structure supports the board or boards to provide strategic thought leadership, and responds to the future needs of audit;
• Setting out who the main beneficiaries are of high quality standards; and
• The ability for a future board or boards to better learn lessons from standards that have been set.

Following the consultation and recognising the importance of ongoing stakeholder engagement as it develops its proposals for a final consultation the Monitoring Group wishes to provide opportunities for engagement, through further roundtables and through webinars which allow for online participation. In that engagement, the Monitoring Group will be driven by the need to serve the public interest in the best possible way – principles on how to achieve this will be set out in the White Paper.

We encourage all stakeholders to engage with us, both those who participated so actively in the first consultation, and any new stakeholders who also wish to join the dialogue. Details of opportunities to participate in further engagement will be posted on the Monitoring Group’s website.

A summary of the feedback provided in response to each consultation question in the attached Appendix.
Stakeholder Concerns

To develop the initial consultation, the Monitoring Group interviewed a wide range of different stakeholder groups, they provided a clear acknowledgment of the achievements in standard setting resulting from the 2003 IFAC Reforms. However, there was also support for further reform, including from global audit firms. This view was not shared by smaller audit firms and many national professional accounting organisations.

The specific areas of concern flagged throughout those initial discussions have been reiterated in the responses to the consultation which are available on the Monitoring Group’s website¹, and cover: serving the public interest; independence from the profession; and the quality (particularly, timeliness) of standards. The following examples were identified in responses to the consultation as being in support of the objectives raised by the Monitoring Group:

Serving the Public Interest

- Investor and regulatory stakeholders acknowledge what the current standard setting model has achieved. However, stakeholders have raised whether there are ways to improve upon how the public interest is served, and how this has been considered in the development of standards to date. Some investors stated that in representing the public interest there should be better representation of investors, asset managers and analysts, in the standard setting process, both on the CAGs and the board.

- Examples raised by respondents to the consultation include a need for further progress to deliver standards which ensure the application of robust professional scepticism. These respondents considered that an insufficiently stringent focus on going concern, and weaker reporting as a result resulted in a failure to fully balance, in an audit of financial statements, the relative importance of needs of the auditor and the needs of the user.

- Regulators and audit firms have raised, as a specific example in some of the outreach, limited progress in revising International Standard on Auditing (ISA) 600 (Group Audits) which is as example of where the public interest could have been served better, and which the IAASB has yet to revise, despite five years of feedback from regulators.

- Some respondents from the regulatory community raised concerns that an oversight regime that is focused solely on due process rather than also taking account of high-level principles and outcomes, will not fully serve the public interest.

Independence from the Profession

- Significant concerns remain about the real and perceived dominance of the profession in the standard setting process. Investors responded to the consultation by stating their concerns about excessive influence over the current standard setting process by the profession, and that addressing this will strengthen public confidence in audit. Investors also welcomed reforms that address this and removes standard-setting activities from the profession and introduce a multi-stakeholder and independent governance structure.

- The concern about independence is underscored by the fact that the audit profession funds standard setting, and current and former practitioners represent a physical majority on the current boards. Their experience makes it easier for those who have come from the audit profession to more actively participate and thereby dominate board discussions. This is a particular concern raised by investors.
A former standard setter noted the tendency for the boards to sometimes focus on less important projects demanded by certain jurisdictions and parts of the profession, rather than focusing on those projects which are of greatest public interest, which have not proceeded as quickly as they should have.

Timeliness of Standard Setting

- The development of standards is identified as not occurring on a sufficiently timely basis under the current model – this has been raised as a commonly shared concern among respondents in this regard.

- The fact that these task forces or working groups may only meet for two days each quarter impedes the speed with which the board is able to respond. Respondents pointed to delays in the IAASB finalising revisions to some of the most important standards and raised concerns about the failure of standard setting to keep pace with the increased use of technology in auditing, and therefore, failing to support greater innovation in audit practice. An example provided in support of this was the delayed finalisation of ISA 540 (revised), whilst proceeding with a project on agreed upon procedures.

- Similarly, respondents also raised the long duration of the projects undertaken by IESBA, in some cases caused by the need to re-expose revisions to the Code of Ethics, which delayed the provision of new material to the user community – examples mentioned included long association and professional scepticism. They suggested that a lack of effective consultation/ coordination between IESBA and IAASB has resulted in delays in addressing issues which are important in the context of both ethical and auditing and assurance standards.

- The PIOB’s response to the consultation proposed that standard setting boards should adopt the principles of better regulation and prepare impact assessment for new and revised standards as a way of demonstrating better the relevance and timeliness of standard setting.
Clarifications

The responses to the consultation raised questions where stakeholders considered the consultation paper as insufficiently clear, and as a result may have been unable to provide full feedback in respect of some of the questions raised. We have, therefore, sought to provide clarity in respect of those queries in the following bullet points:

- The Monitoring Group supports the continued development of principles-based global standards, which are high quality and can be used to deliver audits of all types of entities. The consultation was not seeking to propose different standards for the audit of, for instance, public companies or small and medium-sized enterprises. The Monitoring Group acknowledges the need for any reformed standard setting board or boards to be able to represent the views of small and medium-sized entities and their auditors such that standards can continue to be developed in a way that will ensure that a single set of global standards are available for use;

- The Monitoring Group developed the consultation to respond to global issues relating to audit and ethical standard setting. It was not developed to address issues raised by individual regions or jurisdictions;

- The Monitoring Group will consult on core attributes of a public interest framework with stakeholders before further proposals for reform are developed to support ongoing dialogue;

- The Monitoring Group’s consultation on final proposals will be informed by and will include an impact assessment and transition plan developed taking into account feedback already provided through the consultation. In doing so, the Monitoring Group notes that it is important to strike a balance between providing clarity over how a reformed governance model will work, and empowering the members of different levels of the governance model to be able to determine how to best deliver their agreed remit, in accordance with the principles set out in the public interest framework; and

- The Monitoring Group acknowledges the importance of continuing to support that the existing standards setting boards can continue their work through the transition period, so that ongoing standard setting projects are not further delayed.