Summary of the Comments Received on the Monitoring Group's "Review of the IFAC Reforms" Consultation Paper

26 October 2010

The Monitoring Group issued a Consultation Paper dated June 10, 2010 seeking input from interested parties on its review of the implementation of 2003 IFAC Reforms. Thirty-five responses were received and are included in this summary. This summary was prepared by the Monitoring Group Task Force which led the Monitoring Group's work to review implementation of the Reforms.

The list of responders is grouped in this summary as follows: oversight bodies and regulators; IFAC and PIOB; international audit networks; users of financial statements' and professional organizations of auditors/accountants. See Appendix A of this summary for the list of responders. The approximate percentages of responses by group were as follows: 45% from professional organizations of auditors/accountants; 20% from oversight bodies for auditors and other regulators; 17% from international audit networks; 12% from IFAC and PIOB; and 6% from users of financial statements.

This document summarizes the responses to the Consultation paper and in particular to the eighteen preliminary recommendations contained in the Consultation Paper. Generally, there was support for the broad intent of the Consultation Paper; however, some responders were of the opinion that a number of the preliminary recommendations contained in the Consultation Paper would impair the ability of the three IFAC Boards to issue high quality standards. A few responders urged the Monitoring Group to increase the scope of their assessment and include coverage of the International Public Sector Accounting Standards Board, the International Accounting Education Standards Board and the Compliance Advisory Panel. Some responders urged the Monitoring Group to explicitly acknowledge the improvement in the standard setting process since 2003 and the resultant effect on the quality of the standards since issued, stating their belief that this would add credibility to these standards and lead to their greater global acceptance and adoption. In response to the query regarding the timing of the next review by the Monitoring Group, most responders felt that five years was acceptable, except that the users of the financial reports encouraged an earlier and more comprehensive review. By and large, there appeared to be no ambiguity in regard to the interpretation of the Monitoring Group's assessment and preliminary recommendations, but there were expressions of mixed views. There were no objections raised for some of the preliminary recommendations. There was no preliminary recommendation that was unanimously rejected. Some responders questioned the basis of forming some of the recommendations and viewed the suggested improvements as unnecessary, while others applauded those same changes. In the paragraphs below, highlights of these differing viewpoints and opinions are summarized for each individual recommendation.

***Recommendation 1*: The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps**

even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.

Summary of views expressed in responses:

Most regulators and oversight bodies and the user group were in support of this recommendation and were of the opinion that this measure would increase the objectivity of the Board and thereby prevent the perception of "self-interest." Furthermore, this measure was also viewed to be leading to representation of the "full dynamics of the accounting profession." The user group supported this recommendation noting the need for "parity" between auditors and non-auditors in the Boards, such that "confidence in" and the "effectiveness of" the standards would be better balanced.

The accounting firms and the professional bodies were generally opposed to this recommendation. They questioned the underlying premise of the recommendation and argued that the objectivity of Board Members is not precluded by their previous or current audit profession experience. Some of these responders argued that "expertise" ought to be the primary consideration and that Board members with no experience in the auditing profession may impose restrictions that are not "practical" or "cost-effective." Overall, this group was of the view that the current "mix" of the Board should continue and that there is no need for further refinement.

***Recommendation 2*: The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.**

Summary of views expressed in responses:

Most regulators and oversight bodies were in support of this recommendation and were of the opinion that this measure is "vital" in maintaining balance and diversity subject to experience and expertise. Further, they were against having a "quota" on the assignment of seats except to ensure diversity. They also believed that the measure will increase transparency and help overcome the perception of self-interest and thus is a welcome feature that would ensure a more varied approach to consideration of factors.

The accounting firms and nearly all the professional bodies were opposed to this recommendation. They argued that FoF is proven to be an effective mechanism and a "rich" source of experienced, willing and competent Board members. Moreover, some argued that since there is no inherent conflict between technical competence and objectivity, a technically competent individual could be objective. They cautioned that eliminating the FoF participation in the board would potentially reduce practitioner involvement and thus would delay adoption and proper implementation of the resultant standard. Additionally, some argued that 5 out of 18 members does not constitute "undue influence" and that there are other checks and balances which seem to be working well to ensure that there is no undue influence.

Recommendation 3: **The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.**

Summary of views expressed in responses:

The views on this recommendation varied not as much according to the professional affiliation of the responder but more by whether the responders were from "emerging market" economies. In particular, regulators of emerging markets welcomed the measure as it would allow participation from SMPs- (Small and medium size practitioners) and be able to attract competent members from that group. Moreover, they said that this measure has the potential to attract objective members who do not stand to "directly" benefit from the process.

Some large firms and professional organizations of "developed" markets opposed this recommendation on the grounds that this measure directly violates the base principle of volunteerism and encourages "free-rider" behavior. Additionally, it was viewed as an ineffective measure which will be unable to induce qualified individuals to serve on the Board, hence is not needed and would be a waste of resources. Some expressed skepticism as to what additional "skill-set" will such a measure bring that is not currently available.

Recommendation 4**: The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.**

Summary of views expressed in responses:

Most responders were silent on this issue. The regulators and oversight bodies generally supported this measure noting that ethics is a broader discipline and not "peculiar to the auditing profession." The user group responders were in strong support of this recommendation and were of the opinion that the Ethics Board should have a majority of "non-audit" members. A few of the accounting firms and professional bodies opposed this recommendation noting that the status quo is working well and that the change may result in the loss of valuable expertise.

Recommendation 5**: The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.**

Summary of views expressed in responses:

Most regulators, oversight bodies and a couple of accounting firms and professional organizations were in support of this recommendation and agreed that Technical Advisors increase "auditor influence" and should be barred from speaking directly at Board meetings.

The accounting professional organizations, with a couple of exceptions, were opposed to this measure stating that it was an invalid assumption leading to a wrong conclusion. Their view was that the Technical Advisors do not unduly influence the decision process, rather they help the Board Members "think through" the issues and that the debates and discussions are "enriched" through the participation of Technical Advisors.

Recommendation 6: **The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.**

Summary of views expressed in responses:

The opinions on this measure did not vary much based on the affiliation of the responder. It was noted that such an approach was proven to be beneficial in the setting of green house gas (GHG) emission standards. However, some responders cautioned that it may be perceived as "lobbying" by affected interest groups and commented that the measure may be "redundant" as it may not improve the "technical content" of the standard.

Recommendation 7**: The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.**

Summary of views expressed in responses:

Most responders did not address this recommendation. Of those that did, the comments were that they were not aware of any prior problems, that this is a "non-issue", that implementation may be cumbersome, that it may increase the risk of "bottlenecks", and that the change would unnecessarily slow down the process and hamper the "timeliness" of setting of the standards.

Recommendation 8: **The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.**

Summary of views expressed in responses:

Responders generally agreed with the principle behind this measure as it would potentially lead to more informed external participation. Some responders noted that this was an "imaginary" problem as they were not aware of any prior problems. Additionally, some cautioned that over-zealous pursuit of this objective may unnecessarily slow down the process and hamper the "timeliness" of setting of the standards as it would increase the risk of "bottlenecks."

Recommendation 9: **The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.**

Summary of views expressed in responses:

Most responders supported this measure as it would potentially strengthen the prominence of particular comments. However, some responders felt that it was not a serious issue as all comment letters are accessible. Additionally, some felt that the frequency or number of comments was not a valid issue.

Recommendation 10: **The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.**

Summary of views expressed in responses:

Mostly regulators and oversight bodies responded to this measure, primarily noting that the privilege should be extended to all public interest groups and not be limited just to the Monitoring Group. One accounting firm noted that there are resource implications and providing detailed responses to all comments may not be efficient. Additionally, it was noted by some that this will unnecessarily slow down the process and hamper the "timeliness" of setting of the standards.

Recommendation 11: **The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.**

Summary of views expressed in responses:

There was broad acceptance of the premise that the "coming together" of the standard should not be confused with the approval of the standard. However, one accounting firm noted that this was generally not the case and urged that resource implications need to be considered.

Recommendation 12: **The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.**

Summary of views expressed in responses:

While regulators and a few professional bodies generally supported this measure and noted that Board members are expected to vote and delegation of responsibility should not be permitted, a few accounting firms urged consideration of the practicalities of the situation. They noted that sometimes it is not feasible for the Board Member to be physically present at the time of voting.

Recommendation 13: **The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.**

Summary of views expressed in responses:

Only the PIOB explicitly commented on this measure and made observations about the extent of the PIOB's existing oversight activities. .

Recommendation 14: **The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.**

Summary of views expressed in responses:

Only the PIOB explicitly addressed this measure. The PIOB commented that the status quo was working fine and that there were shortcomings involved with the proposed change relative to the current approach.

Recommendation 15**: The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.**

Summary of views expressed in responses:

There was general acceptance of the measure except that one member of the user group was of the opinion that "focusing on geography" may lower the effectiveness of the PIOB.

Recommendation 16**: The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB**.

Summary of views expressed in responses:

Broad-based acceptance of the measure based upon the view that a long term financial arrangement has to be assured, and perceived as being from independent sources.

Recommendation 17: **The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.**

Summary of views expressed in responses:

There were no substantive comments on this recommendation.

Recommendation 18: **Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.**

Summary of views expressed in responses:

There were no substantive comments on this matter, although one user "warmly welcomed" it, while IFAC expressed opposition that the two monitoring groups should be merged or that the broad range of member organizations of the current Monitoring Group should be reduced in any way.

Appendix A

Responders to the "Review of the IFAC Reforms" Consultation Paper

- **Oversight Bodies for Auditors and Other Regulators (7 responses)**
    - Auditors Public Oversight Committee, APOC, Hungary
    - Capital Markets Board of Turkey
    - Commission for Public Oversight of Statutory Auditors, CPOSA, Bulgaria
    - Committee of European Banking Supervisors, CEBS
    - Federal Audit Oversight Authority, FAOA, Switzerland
    - Financial Reporting Council, FRC, UK
    - Independent Regulatory Board for Auditors, IRBA, South Africa

- **IFAC and the PIOB (4 responses)**
    - International Accounting Education Standards Board Chair
    - International Auditing and Assurance Standards Board Consultative Advisory Group Chairs
    - International Federation of Accountants, IFAC
    - Public Interest Oversight Board, PIOB

- **International Audit networks (6 responses)**
    - BDO
    - Deloitte
    - Ernst & Young
    - Grant Thornton
    - KPMG
    - Pricewaterhouse Coopers, PwC

- **Users of Audited Financial Statements (2 responses)**
    - Hermes Equity Ownership Services
    - Standard Life

- **Professional Organizations of Auditors/Accountants (16 responses)**
    - ACCA, United Kingdom
    - Chamber of Hungarian Auditors, CHA
    - Chartered Institute of Management Accountants, CIMA
    - Chartered Institute of Public Finance & Accountancy, CIPFA
    - Compagnie Nationale des Commissaires aux Comptes, CNCC & Conseil Superieur de l'Orde des Experts-Comptables, CSOEC, France

- Consiglio Nazionale Dei Dottori Commercialisti E Degli Esperti Contabili, CNDCEC, Italy
- Federation of European Accountants, FEE
- Global Accounting Alliance, GAA
- Institut Der Wirtschaftsprufer, IDW, Germany
- New Zealand Institute of Chartered Accountants
- The American Institute of CPAs, AICPA
- The Canadian Institute of Chartered Accountants, CICA
- The Institute of Chartered Accountants in England and Wales, ICAEW
- The Institute of Chartered Accountants of Scotland
- The Japanese Institute of Certified Public Accountants, JICPA, Japan
- The Slovenian Institute of Auditors