



Mr Gerben Everts
Chair of the Monitoring Group
MG2017consultation@iosco.org

9 February 2018

Dear Mr Everts

AFROSAI-E RESPONSE TO THE MONITORING GROUP CONSULTATION PAPER

We would like to thank the Monitoring Group for your commitment in developing the consultation paper. We also acknowledge your commitment to ensuring that international standards are developed independently and in the public interest.

The African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E) is an autonomous, independent and non-political institution. Our 26 member supreme audit institutions (SAIs) are listed in our letterhead below. We exist to make a difference in the performance of SAIs who, through auditing public sector entities, can add value to society and make a difference in the lives of citizens. When performing financial audits, our members apply either the International Standards of Supreme Audit Institutions (ISSAI 1000 series) which are based on the International Standards of Auditing (ISAs), or the ISAs themselves.

We have enclosed our detailed responses to each of the questions raised by the Monitoring Group. The responses have been prepared in consultation with our members. There was broad agreement amongst our members for the views expressed in this document.

In summary, our inputs are as follows:

- We recognise the need for independence in the auditing standard-setting process. At an overall level, the current governance structure is sufficient to ensure that standards are set in the public interest by balancing independence with technical expertise.
- We recommend that the percentage of practitioners allowed on the standard setting boards (SSBs) be reduced to a maximum of 25%. The SAI community could assist in providing independent members (“non-practitioners”) who have the necessary expertise.
- We recommend that the composition of the Monitoring Group and the Public Interest Oversight Board (PIOB) be reconsidered to ensure broader geographic and sector representation. We note that the SAI community, through the International Organisation of Supreme Audit Institutions (INTOSAI) and its regional organisations, can make a valuable contribution to these bodies. The Monitoring Group and the PIOB should also enhance the transparency of their processes.
- We consider there to be an opportunity to strengthen the staff that support the SSBs. We do not support the proposal for full-time board members (other than chairpersons). We also do not support reducing the number of members.

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- We wish to recognise the significant role that the International Federation of Accountants (IFAC) plays in keeping the profession accountable and in encouraging transparency, accountability and good governance in the public sector. We also recognise the high quality of the standards issued by all the SSBs, especially the International Auditing and Assurance Standards Board (IAASB). These standards form the basis for financial auditing in the INTOSAI community.
- We are of the view that there are sufficient safeguards in place to prevent the profession from exerting undue influence on auditing standards, subject to our proposed changes to the composition of the SSBs and oversight bodies.

Our detailed comments are attached. You are welcome to send any specific queries on this comment letter to Mr Bruce Vivian (bruce@afrosai-e.org.za).

Yours faithfully

Meisie Nkai
Chief Executive Officer

AFROSAI-E Members

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1	<p>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?</p>
AFROSAI-E response	<p>Concern 1: We agree that there is a <u>perception</u> of undue influence by the profession, as outlined in Section 1, concern 1(b) (“<i>Audit firms and professional accountancy bodies provide a majority of board members and their technical advisors</i>”).</p> <p>The dominance of audit firms and professional accountancy bodies is of concern, although we also wish to acknowledge the significant level of expertise in these organisations.</p> <p>We do not agree that IFAC, representing the global profession, can be perceived to exert undue influence on standards (concern 1(a)). The role of the Public Interest Oversight Committee (PIOB) provides a safeguard to protect the SSBs from undue influence by IFAC. IFAC has become a strong voice for change, not only in the accounting profession but in the global public square. IFAC is consistently challenging the accounting profession to act in the public interest. They have been particularly influential in encouraging greater accountability, transparency and good governance in the public sector and in advocating for the role of professional accountants in the public sector.</p> <p>Concern 2: This flows from concern 1 and we do acknowledge that the influence of accounting firms and professional accountancy bodies could reduce the focus of standards on the public interest.</p> <p>Concern 3: We agree that the relevance and timeliness of standards is a key area of concern. We consider it important to broaden the paper’s description of relevance to include both the public sector and developing nations as focal points.</p> <p>Additional concern An additional key area of concern we would add is the current composition of the Monitoring Group and PIOB. Both are heavily weighted towards regulators of large listed or financial services companies and the developed world. This could result in the “public interest” being narrowly understood in terms of the needs of wealthy investors and broad financial stability. We consider the public interest to be broader than the interests of shareholders and those who utilise formal financial services.</p>

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2	Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?
AFROSAI-E response	<p>We agree with the overarching principle being “The public interest”.</p> <p>We agree with the six supporting principles. We recognise that comprehensive stakeholder engagement supported by decision makers who act with the highest level of integrity and ethics are paramount to standard setting that supports the public interest.</p> <p>We are concerned that “cost-effective” is typically considered in the context of developed countries and large listed entities, i.e. the cost versus benefit consideration does not extend to developing countries and the public sector. The “public interest” can be compromised in developing countries where foreign consultants are required to assist with compliance to complex standards, resulting in an outflow of wealth from the country. It is also not uncommon for donor funding to be used for such activities instead of such funds being used to make a more direct difference in the lives of citizens.</p>

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?
AFROSAI-E response	<p>A public interest framework should include:</p> <ul style="list-style-type: none"> • A clear definition of “public” which should extend to the broadest base of citizenry, including those in the developing world and those who are unable to participate in the stock market and financial sector. • A delineation of the full cycle of public interest, including all role players from standard setters through to auditors and regulators, government and ultimately the general public. It should be clear that standard setters are only one of the role players in ensuring that the profession acts in the public interest. • The role of due process and transparency in ensuring the public interest is considered in standards. This should include expectations of SSBs in reaching out to stakeholders who are unable to actively participate in standard setting and public consultation processes due to resource constraints. • A comparison between “self-interest” and “public interest”. SSBs and the PIOB should be actively distinguishing between stakeholder input that addresses self-interest versus the public interest. • The need for standards to have cross sector relevance. • The need for standards to be relevant across the world. • The link between financial/non-financial reporting and social/environmental impacts, in particular the role of an auditor in identifying corporate behaviour which is detrimental to a country and its citizens.

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4	<p>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.</p>
AFROSAI-E response	<p>We do not agree with this change. We would support the IAASB integrating ethical considerations into their existing standards. But there is a significant benefit in having a board dedicated to setting standards for ethics for professional accountants and auditors. It should be remembered that accountants are the first “line of defence” in the provision of combined assurance. They are supported by internal and external auditors to provide reasonable assurance about the fair presentation of financial statements. Very often, ethical dilemmas faced by auditors stem from the actions of professional accountants who prepare the financial statements.</p> <p>The ethical behaviour of accountants and auditors requires even greater focus given the increased scrutiny of the profession from the public. We therefore recommend retaining a dedicated ethics standards board. The separation of standard setting for auditing and ethics will allow the SSBs to focus in their respective area of expertise (as evidenced in the existing membership of the SSBs).</p> <p>While we do not agree with separating the SSBs from IFAC (see response to question 1 above), we note an inconsistency in separating auditing and ethical standards from IFAC (representing the accounting profession) but not ethics for accountants in business (who are equally represented by IFAC). Ethical standards for accountants and auditors should be developed with the same rigour and focus.</p>

5	<p>Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?</p>
AFROSAI-E response	<p>We do not agree with the separation of any SSBs from IFAC because, as discussed under question 1, we do not agree with the concern around undue influence by IFAC.</p> <p>But, as in our response to question 4 above, we note an inconsistency in separating some standards (those related to audit) but ignoring the important role of the educational standards. Education provides our greatest opportunity to influence aspiring professional accountants and auditors to act in the public interest. Accounting firms currently yield a great deal of influence over the education of aspiring professionals, particularly through practical experience programmes. We do not believe it is correct to identify threats to independence for auditing standards but not for educational standards. The two are interlinked.</p> <p>We agree that the IFAC compliance programme should remain the responsibility of IFAC. We have noted in our region that this programme has played a significant role in driving the development of professional accounting organisations (PAOs). We are of the view that the programme is functioning effectively and provides an incentive for PAOs to develop, improve and, ultimately, to serve the public interest.</p>

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6	Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.
AFROSAI-E response	Yes, but we do not agree with the separation of ethical standards for auditors and ethical standards for accountants. Refer to our response to question 4 above.

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.
AFROSAI-E response	Our preference is that the existing SSBs are retained as they are functioning effectively and producing high quality standards. The concerns around independence of the SSBs can be addressed through adjustments to the composition of the SSBs (see response to question 10), the PIOB (see response to question 17) and the Monitoring Group (see response to question 26).

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?
AFROSAI-E response	<p>We do not agree. The relative focus of SSBs on strategic issues versus operational/drafting issues should be left to the discretion of the SSBs themselves. The role of chairperson would generally be expected to be more strategic, but other members would need to be flexible to the needs that arise from time to time (for strategic versus operational work).</p> <p>We do consider the role of task forces to be critical to the drafting processes. It is expected that members are actively involved in such task forces. SSBs could place greater reliance on the work of the task forces to avoid actual drafting work taking place in the full meetings of the SSBs.</p> <p>We are neutral on the issue of remuneration of board members. We recognise that there has been a benefit to individuals “giving back to the profession” through volunteering to serve on the SSBs. There is a risk that remuneration may change the motivation of individuals who wish to participate in SSBs.</p> <p>We further acknowledge that remuneration is a more complex and nuanced issue than the paper acknowledges. For example, an audit partner being compensated for participation on an SSB does not negate the opportunity cost to his/her firm. It is still an in-kind contribution by the firm when they release the partner to serve on the SSB, with the individual simply benefiting financially from the arrangement because of remuneration.</p> <p>We do see value in compensating all members for their travel expenses. While there is a programme to cover the costs of certain members, particularly from developing countries, this programme is still restrictive to whom it applies. It would be easier to attract nominations of individuals from outside of the firms if these expenses were automatically covered.</p>

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9	Do you agree that the board should adopt standards on the basis of a majority?
AFROSAI-E response	We agree. But it is then important to ensure that practitioners comprise substantially less than 50% of SSB members so that they are unable to control the board's decision making. It is always preferable if decisions are reached through consensus. Voting should only be applied when deadlocks cannot be resolved.

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?
AFROSAI-E response	<p>No. Having 18 members creates more opportunities for broad geographic and sector representation.</p> <p>We do see benefit in increasing the staff size, but we do not believe it will be helpful for members (other than the chair) to be full time. If there are full-time members, these should be limited.</p> <p>We hold the view that practitioners should make up no more than 25% of members and technical advisors. Currently the IAASB and IAESB allows for up to 50% of members to be practitioners. If one works on the assumption that decision making is by majority, it would require only one additional member to support the view of practitioners for them to influence all decision making. This is a significant risk to the perceived independence of the SSBs.</p> <p>We note the absence of direct reference in the consultation paper to supreme audit institutions (SAIs). SAIs are unique in that they work as external auditors but do not have the same incentives to influence standards for personal gain that auditing firms may have. Currently, the SAI community mostly apply the International Standards of Supreme Audit Institutions (ISSAIs). The ISSAIs cover many aspects of the work of SAIs, but a portion are dedicated to financial audit. These financial audit ISSAIs act as practice notes to the International Standards of Auditing (ISAs) issued by the IAASB, clarifying how to apply the ISAs to public sector audits. Therefore, SAIs have knowledge and experience in applying the ISAs on a day-to-day basis. They also have an interest in the ongoing quality of these standards.</p> <p>We propose that a greater number of representatives from SAIs and their regional and international organisations be included in the composition of the SSBs. Such individuals can bring the same expertise as practitioners from auditing firms, but will be more able to contribute from an independent standpoint. They will also ensure that the standards adequately consider the needs of the public sector.</p> <p>While there have been representatives from SAIs on the SSBs in recent times, these have been limited and we consider there to be an opportunity to make greater use of such individuals.</p>

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11	What skills or attributes should the Monitoring Group require of board members?
AFROSAI-E response	<p>Technical expertise Relevant practical experience Integrity Commitment to the public interest (supported by evidence) Cross sector and broad geographical knowledge would be preferable</p>

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?
AFROSAI-E response	<p>Given our proposals to reduce the level of influence of practitioners on the SSBs, the CAG could be used primarily as the way that the SSB consults with practitioners. But it would be helpful to retain other stakeholders on the CAG who have an interest in the work of the SSBs and would like to contribute proactively.</p>

13	Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?
AFROSAI-E response	<p>We cannot comment until we know the contents of the public interest framework. But in principle we believe that all actors in the standard setting process, including task forces, should act in the public interest.</p>

14	Do you agree with the changes proposed to the nomination process?
AFROSAI-E response	<p>We do not agree. We will only be comfortable with these changes if the PIOB includes greater representation from the developing world and the public sector.</p>

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?
AFROSAI-E response	<p>We do not agree. If the PIOB is to be given an expanded mandate, it must be more fully representative of all stakeholders (see response to question 17 below). Until the composition of the PIOB is addressed, it would not be appropriate for it to have an expanded mandate or veto power.</p> <p>On the assumption that the PIOB becomes representative, we would be comfortable with it taking on the role of the nominating committee. Veto power should only be exercisable under a predetermined list of criteria of which lack of due process would be one.</p>

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16	Do you agree with the option to remove IFAC representation from the PIOB?
AFROSAI-E response	We do not agree. We would caution against removing the voice of IFAC on the PIOB. While it is not necessary for IFAC to be a voting member, it is important to allow the perspectives of the global accounting profession to be heard in the PIOB forum. We also note that IFAC is playing a key role at present in holding the profession accountable through their compliance programme.

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?
AFROSAI-E response	<p>The PIOB must include membership from the developing world and the public sector. It should be noted that while the PIOB currently includes representation from the regulatory community which is viewed as part of the public sector, such individuals are regulating private sector activities.</p> <p>We question why the PIOB includes individuals who have spent the majority of their careers in private accounting firms.</p> <p>The PIOB would benefit by having as a member a current or former auditor general (or equivalent head of SAI). SAIs are acutely aware of their role in serving the public interest. ISSAI 12, which outlines the values and benefits of SAIs, emphasises how SAIs can add value to society and make a difference in the lives of citizens. We believe that SAIs have a role to play in ensuring that international standard setting acts as an effective enabler to the work of SAIs and to the broader role of external auditors in the private sector.</p>

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?
AFROSAI-E response	This must be through an open call for nominations, but <u>not limited</u> to MG member organisations. The MG is not currently composed of stakeholders who represent the full scope of the public interest (refer to response to question 26).

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19	Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?
AFROSAI-E response	<p>The PIOB should retain oversight of all the SSBs under discussion (IAASB, IAESB, IESBA).</p> <p>In summary, we believe the key concerns around auditing standard setting can be addressed by strengthening the PIOB. A strong PIOB can ensure that the expertise of the IFAC community can be heard while balancing this with broader public interest considerations. A clear understanding of what is meant by “the public interest” would give the PIOB its own “standard” to operate by.</p>

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?
AFROSAI-E response	<p>We are comfortable with the current oversight role of the Monitoring Group, provided that concerns around the composition of the MG are addressed (see response to question 26).</p>

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?
AFROSAI-E response	<p>Yes. The SSBs would benefit from a higher staff complement. This would bring greater speed to standards development and would allow for staff to be more prolific in producing implementation guidance for standards.</p> <p>We believe the staff complement should include individuals with:</p> <ul style="list-style-type: none"> • Strong technical skills (standard setting experience); • Strong project management skills; and/or • Strong stakeholder engagement and communication skills <p>Staff with project management and stakeholder engagement skills should still have technical experience, albeit not typically at the level of the pure technical staff.</p>

22	Do you agree the permanent staff should be directly employed by the board?
AFROSAI-E response	<p>We agree that the permanent staff should be employed directly by the board so that they are accountable to members. We recommend retaining a shared services model with IFAC due to the efficiencies and economies of scale that this creates.</p>

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23	Are there other areas in which the board could make process improvements – if so what are they?
AFROSAI-E response	We agree with the areas identified for process improvements.

24	Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?
AFROSAI-E response	<p>We are not in agreement with the PIOB or a separate foundation being responsible for the distribution of funding. We acknowledge the perceived risk of SSBs being funded by the profession, but we do not believe that additional layers of structure will change the substance of the funding arrangements. It is in the interest of practitioners to support the development of high quality, legitimate standards.</p> <p>The suggestion of the PIOB approving budgets is a helpful one. This would allow oversight over the allocation of resources without losing the efficiency of the current model.</p> <p>It would be a conflict of interest if the PIOB is responsible for the public interest but also has full control over the funding arrangements.</p> <p>It would be beneficial to request IFAC to find ways to, over time, reduce dependence on the profession for funding the SSBs.</p>

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?
AFROSAI-E response	<p>We do not agree. We are not certain how such an arrangement would work. Would it be based on the size of accounting firms, number of audits, total revenue? What action would be taken if firms fail to remit their levies? And would the levy apply to SAIs who use the standards?</p> <p>Accounting firms are notorious for their lack of transparency in their financial affairs. We note that it would be difficult to determine what an appropriate levy for each firm would be under such circumstances.</p> <p>As a regional SAI community, we actively encourage our members to publicly report their financial results and to subject them to a full external audit. We would encourage the MG to reflect on ways to exert their influence to enhance the transparency of the accounting profession, in particular firms performing audit services.</p>

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26	In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.
AFROSAI-E response	<p>If the MG moves forward with separating the SSBs from IFAC, this must be a gradual process. The knowledge and expertise of the profession should not be excluded from the process.</p> <p>We are concerned that the proposed reforms give move power to the PIOB which is not currently subject to the same rigour of oversight as the SSBs themselves. We would like greater focus to be placed on the strengthening the composition and due process of the PIOB and Monitoring Group. This should include greater transparency of these bodies.</p> <p>The Monitoring Group should revisit its own composition. We recommend including INTOSAI as a member and ensuring greater geographic and cross-sector representation.</p> <p>Unintended consequences</p> <p>A great deal of IFAC’s credibility can be traced to its excellent support of the setting of professional standards. While this is only one aspect of its work, it is often the most visible. An unintended consequence of separating the SSBs from IFAC is that the federation may lose a level of perceived credibility. This could impact on its other activities in developing the accounting profession across the globe.</p> <p>A further unintended consequence of separation could be if IFAC, representing the accounting profession, begins to question the legitimacy of the separated standards. In such a scenario, IFAC could withdraw the respective standards from the Statements of Membership Obligations (SMOs), in turn taking away the incentive for PAOs to support the separated standards.</p>

27	Do you have any further comments or suggestions to make that the Monitoring Group should consider?
AFROSAI-E response	<p>We wish to reiterate that the current pressures faced by the accounting profession cannot be resolved by purely reforming auditing. The role of preparers and even the users of financial statements in corporate scandals and instability in financial markets must not be underestimated. It would seem to us that the consultation paper is not acknowledging the importance of “combined assurance” (as explained in our response to question 4). We accept that the Monitoring Group may not have the power to address this broader issue, but we would recommend that this should be reflected on in partnership with IFAC and the accounting profession at large.</p> <p>The existing auditing standards are of a high quality and this must be acknowledged. The challenge faced by the profession is to ensure that the behaviour of individual professional accountants and auditors is always to the highest ethical standards and in the public interest.</p>

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