



February 9, 2018

Mr. Gerben Everts
Chair, Monitoring Group

Re: IOSCO Monitoring Group consultation: „STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST“

Dear Mr. Everts,

We appreciate the opportunity to comment on the Consultation. Where we did not comment on certain specific matters this should not be interpreted as either our approval or disapproval.

Before answering any of the questions in detail we would like to take this opportunity to outline our main areas of focus concerning a potential restructuring of the standard-setting-boards.

General comments

As an auditor oversight authority, our main focus lies with the independence of the standard-setting-board. This is also of great importance in view of the envisaged endorsement of the International Standards on Auditing by the European Commission. Currently an endorsement process is not yet established which is from our perspective at least partly due to concerns regarding the standard-setting process in place.

Independence of the current standard setting process has to be guaranteed by its structure and oversight model, specifically with regard to standard-setting-board(s), their composition as well as the nomination process. We therefore agree with the following proposed changes:

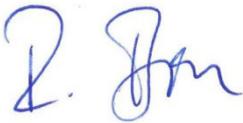
- The nomination process (following an open call for candidates) being administered solely by the PIOB
- The members of the standard-setting-board being remunerated
- Removal of IFAC representation from the PIOB to ensure independence in appearance
- The staff of the standard-setting-boards being directly employed and remunerated by the board
- The funding being independent from the profession, at least independent from their good will. A reliable system would have to be established.

The consultation paper reflects the importance of the public interest. Less consideration is put into feasibility to fully respond to the public interest and its definition. This conflict of interest should be taken into account when exploring possible restructurings of the standard setting system.

Please note that our organization has strongly supported the comments made by IFIAR and CEAOB as Germany is a member of both organizations. We believe that both comments reflect fully the overarching aims of the intended changes regardless the fact that there are certainly different ways to achieve them.

We would be pleased to discuss any of our comments further.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "R. Bose". The signature is written in a cursive style with a large initial "R" and a stylized "Bose".

Ralf Bose
Chief Executive Director

Answers to specific questions:

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?

We generally agree with the identified key areas of concern.

Regarding independence, we would emphasize the need to address the financing of the standard-setting boards that has to be independent from the profession, at least independent from their good will.

Regarding the public interest, we would take into consideration the feasibility to fully respond to the public interest, e.g. considering that it won't be possible to completely close the expectation gap on audit reporting.

Regarding the third key area "relevance and timeliness standards" we propose to have included the aspect of "responding to findings of audit regulators and oversight bodies" because we think it is important that the standards (all of them, the ones on auditing, ethics and education) should react on a timely basis to the findings of the oversight bodies, i.e. on what went wrong in the past.

2 Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

We agree that the public interest should be the overarching principle and we appreciate that the PIOB has been asked to develop a framework to define how the "public interest" is assessed.

However, we would add the principle of "feasibility" as maybe not everything that is of public interest is feasible or realizable. And in case any future standard includes a requirement that is not really feasibly this would create an expectation gap.

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?

No comment.

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 support establishing a single independent board to reflect that ethical standards affect auditing standards and vice versa. A single board can better respond to this connection and may provide a broader view to better reflect the public interest.

5 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?

We think that the standards on education should react on what the public interest considers to be important and they should react on what auditors did wrong in the past, i.e. the findings of the audit

oversight bodies. In addition, strategic developments in audit like digitalization, artificial intelligence and other new technologies as blockchain should be included in the education and training of audit professionals. Therefore we propose to move the education standards board under the PIOB too.

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

Assuming that the setting of ethical standards for auditors will become in fact independent of the profession and steered by the single board as mentioned in Q4 we believe another ethic board under IFAC for professional accountants in business would produce redundancies and could become a future source of confusion.

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.

No comment.

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?

Yes, we agree that the board should be more strategic in nature and that a greater part of the work should be done by qualified staff. We also agree that members of the board should be remunerated.

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

We agree that it is not always possible to achieve a unanimous vote. However, with a board comprised of three groups of stakeholders with potentially divergent objectives, a simple majority vote could lead to one stakeholder group being overruled. We therefore suggest the adoption of standards with a majority of two-third plus one vote. This would allow a few dissenters without deferring the standard setting process.

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?

We agree with the proposed changes. However, as the board will focus on strategic work while the drafting is for the most part delegated to the staff we believe that all board members to be part time members could be sufficient.

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

Board members should have adequate experience in their respective profession plus former points of contact to audit work.

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?

With regard to the objective of having an efficient and effective committee structure the role and necessity of the CAGs should be reconsidered.

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

Yes, we agree.

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

No comment.

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?

We agree with the role and responsibilities of the PIOB as set out. We think a possibility for the PIOB to veto the adoption of a standard or challenge the technical judgements made is necessary considering the proposed new role and responsibilities of the PIOB.

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

Generally we would agree to remove IFAC representation from the PIOB. The public perception of the profession being part of the oversight might cause questions and removing the IFAC is a clear sign for more independence. However, the profession should also be considered in the standard-setting process. Also, if IFAC is part of the standard-setting process, discussions from this process will be taken to the profession during the process, which might facilitate implementation. This could also be achieved via a consultation process.

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?

No comment.

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?

We would propose an open call for nominations from within MG member organizations because with an open call there will be a wider choice accompanied by a kind of competition amongst the candidates.

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?

Generally, the PIOB should oversee all auditing and ethical standards for auditors. For these, there is a public interest. If however, there are other standards in the public interest, these should be overseen as well. For this purpose, a definition of the term 'public interest' would have to be established.

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, we agree.

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?

Yes, we agree with this option. The technical staff should have practical experience in auditing of listed entities, banks and insurance companies.

22 Do you agree the permanent staff should be directly employed by the board?

Yes, we agree.

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

No comment.

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)?

Yes, we agree. However, funding through the profession potentially cannot be avoided. Even more important for an independent standard-setting process is that any decisions are made independently from the profession, i.e. by the PIOB.

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?

A levy charged to audited entities collected by audit firms could be one way of raising the money. As a legal basis for this levy is difficult to achieve a long-term contractual basis obliging the audit firms is needed.

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

No comment.

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

No comment.
