



Tel: +32 2 778 01 30  
Fax: +32 2 778 01 43  
@: [globaloffice@bdo.global](mailto:globaloffice@bdo.global)  
[www.bdo.global](http://www.bdo.global)

Brussels Worldwide Services BVBA  
Brussels Airport  
The Corporate Village,  
Elsinore Building  
Leonardo Da Vincilaan 9 - 5/F  
1930 Zaventem, Belgium

Mr. Gerben Everts,  
Chairman,  
The Monitoring Group,  
c/o The International Organisation of Securities Commissions,  
Calle Oquendo 12,  
28006 Madrid,  
Spain.

Submitted by email to; [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

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**Monitoring Group Consultation Paper;**

**Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest**

**Introduction**

We are pleased to comment on the above Consultation Paper. Following consultation across the BDO international network and at the relevant global leadership level, this letter reflects the views of the BDO network (BDO) to the consultation.

BDO is the fifth largest global audit and accounting network, and is represented in over 160 countries worldwide. As well as providing audit & assurance, taxation and advisory services, we are the auditors of many public and private entities across the world, of varying sizes and complexity and active in many different industries including the digital industries of the 21<sup>st</sup> century. The applicable standards affecting all audits and the ethical rules of the accounting profession, are therefore of key importance to our work and to ensuring the delivery of high-quality audit and assurance services by BDO professionals all over the world.

We would highlight that in every country around the world, the majority of entities requiring audit or assurance are small and medium sized entities (SMEs) and that even with varying size-thresholds that eliminate the need for statutory audit for smaller entities in some countries, the majority of audits carried out everywhere are in fact, of private SMEs. BDO is a major global player in this audit market and our response to the Consultation Paper is informed by our experience of implementing professional standards across our network alongside practical application in a client context.

BDO consents to the publication of this consultation response on the Monitoring Group's website and other public channels. We would be very pleased to discuss and elaborate on any of our responses to the consultation, with members of the Monitoring Group.

*Noel Clehane*

Noel Clehane  
Global Head of Regulatory & Public Policy Affairs  
BDO Global Office  
Brussels, Belgium.

## **Executive summary**

We have always strongly supported the current standard setting model including the oversight process in place around that model. However, after careful consideration, we now believe that reforms are necessary in order to continue to both serve the public interest and support audit quality. We also believe that such reforms are a matter of priority as high-quality standards, recognised and trusted by all stakeholders in the financial reporting arena, are indispensable to the effective functioning of capital markets and to the very basis of the auditors' role in those markets.

### **Accordingly BDO supports:**

- 1) The need for change in the standard setting model for audit standards and in the governance and oversight process around that model.
- 2) Multi-stakeholder involvement at the distinct standard setting, governance and oversight levels.
- 3) A broader-based funding model as a precondition to making changes to the standard setting model. This is essential to both demonstrating the desired independence and objectivity of the model and to providing the funding necessary to attract the level of expertise that would be necessary.
- 4) One combined standard setting board for audit, assurance and ethics standards with a membership of not less than 15 members.
- 5) A majority of members of such a standard setting board should be auditors in practice, with a diversity of firm sizes and views included in the search for members.
- 6) The combined board having a remit that covers ethics for all accountants including professional accountants in business as well as those in professional practice.
- 7) A 2/3 majority vote being required to adopt any given standard.
- 8) The need for standards to meet the needs of public interest entity users, as well as closely held entities.

We do not support a veto-right by the standard setting oversight body or interference in the technical aspects of standard setting by the oversight body.

We believe that the reforms proposed and adopted should be forward-looking and imaginative to reflect and keep pace with increased complexity of business activities, the significant impact of technology, ongoing globalisation of business and continued changes in corporate reporting and regulation.

BDO has always been an advocate of protecting the public interest by having a global body of international standards that provide clarity to users of financial information and consistency of application by audit & assurance service-providers. To that end, the BDO Audit Approach is based on the professional standards issued by the IAASB<sup>1</sup> and IESBA<sup>2</sup>.

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<sup>1</sup> The International Auditing and Assurance Standards Board

<sup>2</sup> The International Ethics Standards Board for Accountants

### **Thorough overhaul:**

After assessing all aspects of the current model, we have come to the conclusion that a thorough overhaul of the model as a whole is needed, both at the standard setting and governance levels.

BDO believes that what is required is a standard setting system that is independent, fit for purpose for the future and which has the confidence of all stakeholders including those in the private SME sector. To achieve this, we support wholesale reform rather than a piecemeal approach which could bring unnecessary disruption and irreparable harm to those parts of the current model that work well.

We believe that the proposals contained in the consultation are incomplete or flawed in many respects and would not result in an improved standard setting model without addressing these matters. In our view, the proposals put forward would likely have unintended negative consequences.

We believe that the detailed proposals will only make a real difference to the quality and timeliness of standards if they are made as part of a package of reforms that also includes appropriate changes to the oversight arrangements, to governance generally and to the funding arrangements.

### **Public interest framework:**

We support a planned approach to reform that is based on the yet to be released public interest framework. Having this in place would act as a strong safeguard to ensure that oversight structures do not intervene unnecessarily in the development of standards. In the absence of a definition of the ‘public interest’ and clarity on what a reformed future public interest framework would entail, it is not possible to predict the impact of the changes proposed in this consultation. Coupled with the absence of an agreed definition of what constitutes ‘audit quality’, this precludes designing a framework to ‘promote the public interest’.

The outcome of the reforms should be standard setting boards (SSBs), built on sound due process and operating within an effective governance structure so that all stakeholders can have confidence that the public interest has been brought to bear and is in fact, built into the overall process.

### **Funding:**

We do not believe that the continued funding of the model longer-term can justifiably be predominantly from or by the profession if the perception of undue influence is to be adequately addressed. Regardless of how the funding is packaged or collected, if it is directly or indirectly contributed predominantly by the audit profession and networks, the perception of undue influence will remain.

Further, the funding model will need to provide robust funding in order to attract the expertise needed at both the standard setting board level and at the supporting staff level. The current model relies on the technical resources of many audit firms supporting the activities of the standard setter. Without robust funding, it will be difficult for non-audit firm members of the standard setting board to provide this level of resources. In the interest of maintaining the independence of the standard setting process we believe more funded staff resources and academic research will be necessary.

### **Representation by practitioners:**

We also believe that the complexity of audit, assurance and ethics standards requires significant technical expertise at the standard setting stage and justify significant involvement of practitioners at all stages of the process and representation by practitioners at all levels of the model, including governance and oversight.

**Consistency:**

We want to highlight the strong desirability for consistency between audit, assurance and ethics standards affecting both public and private entities. We are concerned that some of the proposed reforms would lead to a divergence of the standards in this regard and also a possible bifurcation in the global and national standard-setting processes. If this were to lead to separate standards for public and private entities and/or a fragmentation of private entity standards across the world (into national variants), then we would view that as highly undesirable, posing significant challenges to establishing consistent application of those standards and thus, retrograde to the existing situation.

**Other:**

We concur with the assertion that both the perception and the reality of independence of the three standard setting boards (SSBs)<sup>3</sup>, is absolutely necessary for the credibility of the respective international auditing, assurance, education, and ethics standards, of great importance to the public interest and ultimately for confidence in the value of audits of financial statements.

We support a multi-stakeholder standard setting model similar to that employed by the IASB<sup>4</sup> with the IFRS Foundation, including the funding model applied.

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<sup>3</sup> The International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA)

<sup>4</sup> The International Accounting Standards Board

## Appendix

### Section 1: Key Areas of Concern in the Current Standard-Setting Model

**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 are broadly in agreement with the key areas of concern identified in the consultation. The current model has significantly contributed to promoting audit quality globally. The ISAs and IESBA Code<sup>5</sup> are widely recognised to be high quality standards that set an appropriate benchmark for audit quality and other assurance services globally. They have achieved widespread adoption by legislators, regulators and national standard setters in addition to the audit profession ('profession') itself. As a result of widespread adoption, they have contributed to elevated audit quality through the application of consistent standards.

However, there are weaknesses in the design of the standard-setting process which if left unresolved, risk undermining the credibility of the SSBs and the legitimacy of the international standards:

- We recognise that there is a perception among some stakeholders that stakeholders other than those from the profession do not have enough influence in the standard setting process, and the profession has (or may have) undue influence. While we are not of the view that the profession has undue influence, the fact that there is a perception issue around these matters is indicative that some do not believe that there is appropriate balance as between "practitioners" and "non-practitioners" in the current process. There is also some evidence of concern around imbalance between the larger networks and others in the profession, both as to involvement in the process and funding.
- Consequently the oversight model has evolved to act as a counterweight to any perceived imbalance by intervening to advocate for those not on the SSBs, overriding the boards' due process when not satisfied with the "public interest" outcome. In our view, the more that the body charged with oversight intervenes and overrides the SSBs, the more it brings into question the credibility of those Boards and due process. The very actions taken to strengthen the model have come to be seen as undermining it.

To ensure that the standard setting system is independent, fit for purpose for the future and has the confidence of all stakeholders, we believe that an overhaul of the current model as a whole is needed - both at the standard setting and governance levels.

In our view, the status quo is not an option, and minor changes to the current model will not satisfactorily address the underlying weaknesses present.

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<sup>5</sup> International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants Code of Ethics (the IESBA Code). Hereafter references to 'standards' issued by the current IAASB, IESBA and the proposed new standards setting board refer not solely to the ISAs or IESBA Code but also to the ISQC1, ISREs, ISAEs etc.

## **Section 2: Guiding Principles**

**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 broadly agree with the proposed principles as articulated, as being attributes of a sustainable and credible global standard-setting entity although we disagree on some of the expanded explanations provided. We respectfully suggest that there are other principles worthy of consideration also.

As noted in section 1, it is our viewpoint that due process is also a key attribute. This would necessitate widespread outreach and consultation so that all relevant stakeholders would have an opportunity to materially input and to have their views considered. While it could be associated with the principles of relevance and credibility put forward in the consultation, we believe however that it deserves to be separately identified. It is self-evident that the process must be perceived as fair, transparent and capable of balancing competing interests, without the influence of undue outside intervention. In addition:

- Due process also means that the oversight function is not permitted to, nor should it need to, intervene to the point of interfering with the technical standard-setting process, or to challenge and undermine decisions reached by a competent standard setting board which has adhered to its due process. Moreover, it is critical to ensure that the oversight function does not slow down the pace of standards development.
- We would also contend that balanced multi-stakeholder representation for both a standard setting board and oversight body is a key attribute and principle. Such representation should capture the ‘breadth’ of experience needed covering sectors, geographies, entity sizes, public and private company users, etc. This would require that such a standard setting board and its working groups include appropriate technical expertise and that no particular stakeholder group is able to dominate or exercise undue influence.
- However, we are not convinced that a standard-setting board and/or its working groups must necessarily, *at each stage*, reflect the full diversity of key stakeholders. At the risk of stating the obvious, what is being developed are technical standards and so the development and drafting of those standards needs deep technical expertise. Allocating representation by reference to the particular skills and expertise needed at any particular stage of the standard-setting process (including oversight) would be much better than doing so in a formulaic way. For this reason, some stakeholder groups may not be able to participate meaningfully at the technical drafting level but in our view, there are other ways to seek and ensure input from ‘non-technical’ stakeholders, without expecting their full participation on the working groups directly. For example, it should be possible to use these ‘non-technical stakeholders’ to challenge standards drafting from a public interest perspective.

The checks and balances necessary for independence in decision-making are provided through a multi-stakeholder board itself - the key decision-making body - through its diversity. Were there to be a newly configured board, we believe that it is the board that would be directing staff and working groups on project objectives and key decision points, as well as evaluating the output of the working groups in making informed decisions. In our view therefore, it is at the standard-setting board and governance levels, that multi-stakeholder diversity are needed, complemented by proactive outreach, advisory groups and public consultation as necessary.

- Lastly, BDO believes that one of the key attributes of the future standard-setting model for audit, assurance and ethics will be a balanced and sustainable funding model coupled with robust financial control and planning. The funding model for such a board (or combination of boards) and the associated oversight body must be equitable and free from actual and perceived conflicts of interest. We do not believe that the continued funding of the standards development model longer-term, (even as revised), can justifiably be predominantly from or by the profession if the perception of undue influence is to be adequately addressed.
- Robust financial control and planning should ensure that the board(s) has (1) established clear objectives, (2) perform a robust risk assessment and articulated strategy, (3) put in place well-articulated Key Performance Indicators that can be monitored and (4) set realistic and supportable budgets over a reasonable period.

***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?***

As we noted earlier, a public interest framework is an integral part of the proposed reforms and the consultation notes that the Monitoring Group expects this framework to be at the very heart of any reformed standard-setting process. It has asked the PIOB to develop a draft framework to be completed for its review and approval of a draft for public consultation which we agree will be critical. Moreover if this public interest framework is going to be a foundational element of the model and the means by which standard-setting board activities and standards are to be judged, it is vital that all stakeholders support it from the outset.

As a consequence, BDO views that it is not possible for the reforms to the standard-setting model to be fully debated and agreed before the associated public interest framework is drafted and also exposed for public comment. It is and will remain such an integral part of the overall standard-setting model that we believe that the Monitoring Group should carry out such a consultation before concluding on or implementing reforms to the standard-setting process.

We agree that the PIOB or replacement oversight body should hold the standard-setting board to account and be able to challenge how due process has been observed. A key element of any consultation in this area therefore would be proposed responsibilities of the oversight body. In the absence of such a framework, it is unclear whether the first stated of the PIOB's functions to "ensure that standard-setting properly represents the public interest through adherence to the public interest framework under development" provides appropriate constraint to retain the separation of the standard-setting board and governance/oversight.

As a result of the above and until the public interest framework is available for comment, BDO cannot conclude at this time whether or not we would support the Monitoring Group's proposals for the responsibilities of the governing/oversight body.

We appreciate that the current consultation does set out the Monitoring Group's views on the elements and factors to be considered. With respect to the factors set out on pages 4-5, we therefore wish to make the following observations:

- While all stakeholders would readily agree that standard setting should be in the public interest, there is less consensus on what that actually means and how it is brought to bear in the standard setting process and manifested in the standards that are set. This is clearly

an issue because much of the criticism voiced of standard-setters or the standards themselves, is that the public interest has not been met.

- The IESBA Code of Ethics for Professional Accountants observes at the outset that “A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.” Many would readily acknowledge however, that despite its importance to legal, public policy and professional decision-making, it is and will likely remain a vague and ill-defined term. Furthermore, what is considered in the public interest can, should and necessarily has, changed over time. It is likely that any two stakeholders with well-considered and legitimate views would nonetheless differ in their interpretations of what constitutes the ‘public interest’ and ‘acting in the public interest’. As a consequence, any consultations in this area should be robust and transparent, allowing respondents to a new system to fully understand views made by differing stakeholders.
- There are also enduring and different points of view as to what these terms and concepts mean in relation to standard-setting. We can appreciate therefore that the Monitoring Group has found it difficult to define.
- Ultimately, the public interest, as a concept, rests in an evaluation of the net benefits of an action or outcome to society as a whole. IFAC<sup>6</sup> describes it as “the net benefit derived for, and the procedural rigor employed on behalf of, all society in relation to any action, decision or policy.”
- We believe therefore that no one stakeholder group can “own” the public interest, or act independently as its guardian as logically, the public interest encompasses the whole of society, not just the views of a narrow group, be that made up of regulators, professionals, investors etc. All stakeholders including audited entities, preparers, auditors, investors, regulators and others, bring a particular perspective to the standard-setting process. It is through the sharing of those perspectives and collaborative debate on where the net benefit lies, that sustainable consensus can be forged on whether an action or outcome is or is not in the public interest.
- It is for this reason that we believe it is so important for standard-setting structures and processes to be designed inherently (from both a composition and agile modus-operandi perspective) to engage and obtain input from all key stakeholders, viz., investors, preparers, auditors, regulators and monitoring bodies. The structures must ensure that all views are heard and any cost/benefit weighed. The design of these structures is the most important safeguard in bringing the public interest to bear and embedding it in the standard setting process.
- In the particular factors proposed in the paper, we agree with the following;
  - That standards should reinforce that auditors appropriately resource, design and carry out their work in a way that reflects the risks faced by an audited entity which could result in material misstatements in their financial statements.
  - That auditors should provide independent and rigorous challenge that builds trust in the relevance and reliability of audited information.

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<sup>6</sup> International Federation of Accountants

- That an audit involves considering external factors, both business risks as well as key audit risks, and the wider implications of events in markets and financial systems as they impact the entity and its financial position, financial results and cash flows.
- As an important cornerstone of the financial reporting supply chain, audit contributes to the societal aim to prevent failures but it is beyond the scope of an individual audit engagement team, auditor or even an engagement partner to carry all of that responsibility on their own. Therefore, we do not believe that audits or indeed audit standards can realistically be explicitly designed with that objective in mind.
- We concur with the focus of the public interest framework focussing on how the public interest is captured through the standard-setting process and have the following comments on the proposed factors:
  - We do not completely agree that the output of an audit should be described as “appropriately communicating the auditor’s key findings and conclusions to those charged with governance and where necessary regulatory authorities” alone. While those communications are indeed very important, we would highlight that the primary objective of an audit is the issue of an auditor’s opinion (including Key Audit Matters) to the general public on the preparation of a general purpose set of financial statements and report to shareholders and/or other identified users of those financial statements.
  - We would be concerned with the belief that certain stakeholder groups are considered to have “the greatest concern about and commitment to the public interest in a particular areas”. As articulated above, we believe that the public interest is brought to bear through a fair and balanced due process that is designed to ensure that all relevant stakeholder views are heard and weighed.
  - As a network, BDO believes that audit quality is best supported through principles-based standards that will drive high quality audits and influence the right behaviours regardless of the individual facts and circumstances. Principles-based standards allow such standards to be scalable, adaptable to the specific circumstances and “future proof”, meaning to say that they are capable of being adapted to evolving environmental and technological developments. We recognise and fully accept the importance of the standards being a benchmark for inspections, but would be concerned about elevating “enforceability” to be a primary attribute of standards that are in the public interest. Such a focus could quickly lead to rules-based standards, a development which in our view, would negatively impact the appropriate and necessary exercise of professional judgments that is so vital to high quality audits.
  - The example given in the footnote is used as an example to illustrate this point. It asserts that the views of safety and soundness may bring standard setting for systemically important financial institutions (SIFIs) closer to advancing the public interest. We have two observations in this regard.
- a) The ISAs apply to all audits of entities both large and small and of all types. Tomorrow’s large multinational companies with a wide shareholder base are today’s start-up businesses. In our view, there is a pervasive public interest in ensuring the quality of financial reporting in companies of all sizes from all parts of the globe. It is within the remit of the prudential regulators to set out specific

[additional] reporting requirements for auditors of SIFIs. The dialogues between the Financial Stability Board (FSB), Basel Committee and larger audit networks have been very constructive in that regard so whereas prudential regulators may require guidance that goes beyond the ISAs and which is specifically geared to auditors of SIFIs, such additional responsibilities and guidance may not be directly applicable to audits of all other entities.

- b) In its most obvious form, an audit is directed to obtaining sufficient appropriate audit evidence that the financial statements are fairly presented and in all material respects, give a true and fair view of the financial results for a period and financial position on a given date, in accordance with the applicable financial reporting framework. In our view, an audit cannot compensate for perceived weakness in the applicable financial reporting framework itself, for example by favouring prudence, if that is not intrinsic in the requirements of that framework.

In conclusion, whilst we fully support the importance of debate on the role that external auditors can play to support the proper functioning of financial systems and economic activity, we believe that these are matters which need to be debated in a broader public domain. We are not currently convinced that it needs to be integral part of the public interest framework to which the standard-setting boards and due process are to be held to account.

### **Section 3: Options for Reform of the Standard Setting Boards**

***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.***

Yes, we agree with establishing a single independent board for such purposes.

In reaching our conclusion we considered that the current standard-setting model has consistently produced high quality audit and ethics standards and gained widespread adoption and respect. Nonetheless there is growing evidence of issues as well as the lingering perception of undue influence by the profession which is arguably a strategic risk in its own right. The consultation is therefore timely and invites respondents to be bold and propose a model that is independent, robust and fit for the future.

Other issues that are noteworthy are the unequal weighing of all stakeholders' views in standards setting development resulting in, on occasion, impractical standards being proposed which have been challenged on exposure resulting in delays in the issue of the ultimate standard.

We suggest that there are a number of ways in which the standard-setting operations could be structured but the key objectives would be:

- a) To have multi-stakeholder decision-making body(ies) that enable all key stakeholders to participate on an equal footing, defining the objectives which a standard setting project is to achieve, the key strategic decisions and giving direction to the staff and working groups.

- b) To have appropriate technical competence, including experience and expertise in auditing, directly involved in the standards development process to ensure that the standards are technically robust and capable of being implemented in practice.

We have a preference for an adequately sized and composed ‘combined board’ which operates at a more strategic decision-making level and with the participation of all stakeholders in standards’ development. There would be challenges achieving the appropriate geographical and stakeholder coverage in a smaller combined board as well as the range of expertise necessary.

Another consideration is that audit standards tend to be concerned with performance of an engagement where ethics are generally concerned with behaviour. It could be challenging for a single board to have the experience to encompass these quite different fundamentals without careful consideration of the size and nature of its composition. The recent experience of difficulties in aligning the strategic planning of IAASB and IESBA, where it was concluded that this was not possible until 2023, highlights the challenges under the current model and the need for more structural changes to achieve alignment. Combining the two boards could potentially safeguard against the board continuing to be involved at a highly detailed level of technical debate. In our view this could be an impediment to achieving fully multi-stakeholder engagement in standard-setting board(s). Current experience suggests that the more technical the matter under discussion the less the participation by non-practitioners.

However, the need for technical competence to support the development of high quality standards that can be applied in practice, is critical and we believe that supporting structures, such as separate Technical Advisory Groups (TAGs) for audit and ethics, should be created to ensure the current level of expertise is retained within a single board structure.

It is clear that effective transitional provisions would be critical to maintaining high quality standards during the change-over, especially in the period before the envisaged staff complement is in place. It will also be important to manage the risk that a new single-board might conclude that “decision making speed” should override “decision-making quality” on major proposals when discharging their board responsibility.

Putting in place appropriate resources and a staffing structure to help identify and translate the issues to ensure that the new board is able to make informed decisions and provide the direction needed to the staff will be very important. Having a full time board member responsible for overseeing the work of staff on audit, assurance and ethics could provide that safeguard as they would be responsible for and accountable to bringing the right matters to the board’s attention.

A key imperative will be for a new single-board not to appear to be mainly focused on the standards applicable solely or primarily to the audits of large, publicly listed entities. This will be fundamental to the board maintaining credibility and to ensuring the global acceptance and adoption of the standards. The board will need to clearly reconcile this with a standard setting mandate that includes standards relevant to Small and Medium-sized Practices (SMPs), Small and Medium Sized Entities (SMEs) audits, public sector audits, non-governmental organisations, etc. The overall design needs to ensure that these perspectives are appropriately brought to bear and facilitates board involvement in standards that should be capable of being applicable to other forms of (non-statutory) assurance services.

The new single-board will also need to address standards applicable to the audits of large, publicly listed entities and other public interest entities in order to produce standards that have relevance and impact in achieving consistency in the conduct of such audits, many of which are trans-national. The new single-board will need to develop standards in a manner that provides standards that meet both these audit focuses. The ability to have standards that are truly scalable between the public interest entity and the closely held entity will be one to the most significant challenges to be addressed. Failure to address either of these entity types would threaten the utility of the standards in achieving more consistency in the conduct of audits around the world and in the acceptance of such standards by regulators and other market participants.

We would expect that the resources now contributed through board members and their technical advisors would continue, for example with roles in working groups and TAGs participation. Retaining two boards would significantly increase costs and there may be more cost-efficient ways to continue to ensure the necessary technical competence is obtained. However, if the option to proceed with two boards progresses, modus operandi options could include: (1) one chairperson to preside over both boards, (2) cross-sharing of staff resources, (3) and integrated board meetings a number of times a year to address projects that require a significant level of integration.

The current volunteer time commitment and meeting expectations of board members are significant impediments to non-practitioners being able to meaningfully participate and contribute on an equal footing. We need therefore to think about setting standards in a different way. A multi-stakeholder strategic board(s) supported by a significantly enhanced staff and technical input would put all stakeholders on a more equal footing.

There should be no illusion that recruiting the technical expertise needed to replace ‘volunteers’ from the profession will be easy. Not only would cost be significant but the employee proposition may be less attractive to an expert than being seconded from a firm to work with the board. Ensuring a refreshed pool of technical staff who are experts and remain at the cutting edge will require innovative recruitment policies whereas refreshing secondees from the profession allows continued exposure to practical aspects of auditing that is invaluable.

***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?***

International Education Standards (IESs) fall under the remit of the International Accounting Education Standards Board (IAESB) an independent standard setting board under the auspices of IFAC. A basis for change does not appear to have been raised in the context of IAESB and we consider that the current arrangement is fit for purpose and agree with the proposed structure in the consultation.

The IAESB is primarily tasked with developing IESs that prescribe the technical competence, professional skills, and ethics, values and attitudes skills required of aspiring professional accountants (within Initial Professional Development) and professional accountants (as part of Continuing Professional Development). Through development and implementation of IESs, the IAESB incorporates changes in other standards (e.g. ISAs, Ethics, IPSASs) into the IESs to ensure that programs of accounting education (and where relevant, professional accountancy qualifications) remain relevant to changing business environments.

A consistently high standard of education for auditors and professional accountants wherever they are based is fundamental to quality. We consider it appropriate to maintain a standard-setting body with standing to develop and promote the adoption of high quality IESs and we view the IAESB to be meeting that requirement.

Monitoring compliance with the standards is fundamental to the continued success of an international approach. The structural elements arising from the IFAC Member Body and Forum of Firms obligations have been important in driving adoption of global standards (e.g. ISAs, Ethics, IESs and IFRS), and IFAC's Compliance Program remains valuable in monitoring that. There may be opportunities to increase the rigor of the Compliance Programme, perhaps with the support of PIOB, in order to support even wider and earlier adoption.

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

While there may be arguments for IFAC retaining responsibility for ethical standards for professional accountants in business, BDO believes that ethical principles should be the same for the profession as a whole and therefore we believe that standards based on those principles should be set by one standard setting board. If there is to be a combined audit, assurance and ethics board, expanding its scope to cover responsibility for ethical standards for professional accountants in business would of course increase the challenges in making appropriate board appointments and handling the likely high volume of work.

Considering who has primary responsibility for enforcement may offer a workable approach to considering the alternatives. For audit firms and auditors signing auditors' reports, enforcement of compliance with ethical principles is through the relevant competent authority in that jurisdiction (certainly for Public Interest Entities including listed entities), whereas enforcement of ethical behaviour for professional accountants in business is largely with the Member Bodies. Therefore, that may suggest an appropriate split. Furthermore, it gives responsibility for ethical standards that impact on the performance of audit and assurance to one dedicated board. It is, however, also important to consider the interaction between ethical standards for professional accountants in practice and the roles of CFOs of PIEs<sup>7</sup>, as demonstrated in the recent non-compliance with laws and regulations (NOCLAR) debates.

A point of concern would be that there is a risk that requirements may become divergent if different standard setting bodies are used. Coordination would therefore remain vitally important between the two boards with respective ethical standards' responsibilities.

***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.***

Better and more use of Technical Advisory Groups (TAGs) would be one way to obtain broad technical input to support standard development.

Effective transitional provisions will be critical to maintaining high quality standards during the change-over, especially in the period before the envisaged staff complement is in place.

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<sup>7</sup> Public Interest Entities

As part of the organisation of the SSBs, the role of the PIOB should be considered. We do not believe that for a revised system of governance/oversight that it should be necessary for the governing body to observe every board meeting. Current practices where PIOB participation changes from meeting to meeting can undermine consistency and quality of input.

We believe also that there is also an opportunity to consider the composition of bodies such as the Consultative Advisory Group (CAG) with greater emphasis placed on their input. We also feel strongly that in a structure that provides for equal participation of all stakeholders in standards development, individual stakeholders should only be members of one body that provide input to the standard-setting process and not multiple bodies as can currently be the case (both for professional representatives and MG on the CAGs, SSBs, PIOB and MG).

### **Section 3 cont'd: Current Composition and Role**

***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 would agree with the assertion that the board(s) should be more strategic.

This will enable relevant working groups or TAGs of the board to focus on the technical content during standards development - enabling the board to focus on key points of contention rather than on drafting standards. For the board(s) to operate in this manner however will require very clear terms of reference for both the board(s) and the staff.

In the interest of broadening potential stakeholder participation in the new structure, BDO believes that the members of the board(s), working groups and TAGs, should be remunerated on a market-comparable basis with boards of similar nature and responsibilities.

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

We do not agree with this proposition.

In our view, a “super-majority” threshold is a necessary safeguard for adoption of a standard as it ensures that the standard-setting board invests sufficient time to fully understand those divergent views that are strong enough to vote against a proposal, before making an informed decision.

The MG states that “This could allow the board to be more decisive, avoid unnecessary delays and reflect the fact that acting in the public interest requires standards that not all stakeholders necessarily agree with” but we respectfully disagree. We do not believe that it is in the public interest to have standards with which a significant portion of stakeholders disagree, particularly as their adoption globally is on a voluntary basis.

A simple majority vote of say 51% vote in favour, is self-evidently, also a 49% vote against. BDO believes that such a level of divergence does not suggest that such a standard would ensure that the public interest has been protected or is even reflected.

The rules of the board(s) currently require 2/3 majority on key votes. However, for a variety of reasons, the board(s) usually seek consensus. Consensus-based decisions help

ensure that the standards are of high quality and meet the needs and objectives of all shareholders and thus command their 'buy-in', including the ability to implement the ensuing standard. We do appreciate however, the concerns raised about the [often difficult] requirement to have full consensus to approve a standard.

Given the new likely board structure, a 2/3 vote could mean that a key stakeholder constituency (such as all of the practitioners/auditors, or all of the regulators) could vote against a proposal and yet it could still be adopted. We have significant concerns about such situations arising, so while continuing to support a 2/3 majority, we suggest that provisions be made to also require those in favour of adoption to include at least one vote from each stakeholder community. At the very least, a voting structure that requires a 'super-majority- i.e. a majority of each stakeholder group - should be put in place. In our view, to retain the widespread voluntary global adoption of these standards, requires every effort be made to avoid fragmentation in the voting process. As a simple majority voting system could lead to systematic exclusion of views of specific groups, members or stakeholder views, we believe that this would be very negative for the widespread, sustained and willing adoption of the ensuing standards around the world.

***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?***

As previously indicated, BDO believes that a single standard setting board construct makes sense. In that context, we believe that an optimal size of the board to be 15. This size would achieve the dual objectives of establishing a board large enough to ensure the appropriate depth and breadth of experience and knowledge for audit and ethics standards setting, while at the same time being small enough to effectively navigate the standard setting process in a timely manner. A larger board would also facilitate the appropriate involvement of practitioners to ensure that adequate current expertise of practitioners is present and utilised in the board. In this regard, we believe that it is of paramount importance that those who are on the board have deep knowledge and awareness of the audit environment to ensure that they fully understand the impact that proposed standards may have on audit quality. For this reason, we believe that at least a majority of the board members would need to possess current or recent experience in auditing. Appropriate constituent representation can be achieved through a broader governing board and advisory groups, etc.

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

The board(s) members should be highly qualified, highly respected representatives drawn from all relevant stakeholder groups, e.g. audit committee members, investors, regulators and auditors/practitioners, who have demonstrated subject matter competence and experience to understand the issues and make informed strategic decisions.

While recognising that not all board members would need to be deep technical subject matter experts (although such input is also vital and must be brought to bear through those on the working groups and technical advisory groups), all board members should

have sufficient subject matter competence to be able to make informed decisions and the board as a whole needs to be seen to be competent to fulfil its mandate.

Qualitative characteristics we would expect of board members include:

- Demonstrated commitment to serve the public interest
- Interest in promoting and managing audit and assurance quality globally.
- Strong understanding of audit/assurance/ethics or relevant experience in organisations with an interest in the role played in capital markets.
- A deep understanding of the role that audit plays in the overall objective of high quality financial reporting, including its dependencies on other stakeholders and environmental limitations.
- Understanding of and sensitivity to the challenges of adoption and implementation of global standards across different jurisdictions.
- Demonstrated leadership and stature in their respective stakeholder community.
- It would be particularly important that board members are committed to the development and promulgation of [high-quality] global standards and do not see their role narrowly or from the perspective of a particular jurisdiction or previous employer.

**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?**

We support retaining the concept of a CAG (or CAGs), but the role of the CAG should change. CAGs are valuable for the board to have a forum through which it can obtain input and advice from a broad range of different stakeholders - particularly those that may not have the ability to engage more fully in the technical debate - and independent from the deeper technical level of working groups.

Over time however, the role of the CAG has become integrated into the due process procedures with CAG sign off required before the boards can vote on project proposals, Exposure Drafts and final standards.

We believe this is flawed for the following reasons:

- The CAG members are organisations, not individuals.
- There is usually not sufficient time for those organisations to consult to have an informed organisational view at meetings.
- The CAG does not take votes or aim for consensus, so each comment made by a CAG member - whether based on careful study and consideration or an “in the moment” comment - are given equal weighting and demands a response by the SSBs.
- The need to obtain CAG input before board approvals causes timetable alignment issues because the CAG’s do not meet as frequently as the boards (an issue that is likely to be exacerbated under the proposed new board model).
- Certain organisations are represented on the CAG, on the boards and on the PIOB, giving uneven weighting to specific stakeholders’ views.
- The board’s IFAC staff are currently required to prepare detailed written responses to CAG member comments, in addition to the analyses requested by the PIOB and the board’s own agenda papers and bases for conclusions. The time and effort required is not commensurate with the due process benefit and should be streamlined.

As with the role of the PCAOB's<sup>8</sup> SAG, the board should have the ability to seek the input it needs on the topics it believes are important to it.

We can see an ongoing role for other advisory groups as well - for example, the SMP Committee, liaison with the SME community, Professional Accountants in Business Committee, national standard setters and, as discussed elsewhere, technical advisory groups. The membership of the CAG should be changed. Its membership includes permanent members from MG constituencies. Though there are many other CAG members, it operates somewhat in parallel to the MG.

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

We believe that the public interest should be kept in mind at all stages of the standard setting process, including the phase in which details of particular standards are developed.

**Section 3 cont'd: Current Nominations Process**

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

Yes, subject to comments elsewhere about the composition of the PIOB or its successor. We reiterate that we also hold the view that all elements of the standard setting process should be multi-stakeholder in nature including the nominations bodies, oversight body and any other governance structures put in place. Moreover, duplication of representation should be avoided both as regards organisations represented and individual appointments.

**Section 4: Oversight - Role of the PIOB**

**Introductory Comments:**

The role and effectiveness of the governance body will be key to the success of the standard setting reforms and earning the confidence of all stakeholders that neither the profession nor any other constituent has undue influence over the standards being adopted or the process giving rise to them.

We have significant concerns about the proposed staged consideration of reforms to the governance model and in fact view it as a fatal flaw in this consultation.

- We believe that reform of the standard setting board(s) and operations, needs to be integrated with the governance and oversight aspect.
- Reform of governance and oversight is also justified at this time because the key stakeholder groups will participate directly in the priority setting and decision-making on the new standard setting board. It will no longer be necessary for an oversight body to advocate on their behalf.
- We believe that successful implementation of the standard setting reforms will be dependent on the governance structure being reformed at the same time as the standard setting board(s) to achieve the necessary broad stakeholder buy-in to the reformed package and to demonstrate the confidence of the Monitoring Group in the reformed model.

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<sup>8</sup> The US Public Company Accounting Oversight Board Standing Advisory Group

In our view, it is appropriate to redesign the governance/oversight as a trustee body serving as the guardian of the model and its effectiveness. It should oversee that:

- due process has been observed,
- the model is robust, and
- stakeholders have confidence in it.

The credibility of the standard setting process depends on its independence from any particular outside influence including its own oversight mechanisms.

Our answers to the following questions regarding the appropriateness of the role and responsibilities, may be impacted by the framework - which we understand is being developed, but has not yet been exposed for public comment - by which the PIOB will assess whether a standard is in the public interest. Accordingly, we reserve the right to update our response to the consultation paper after the proposed public interest framework has been made public.

***15.1 Do you agree with the role and responsibilities of the PIOB as set out in this consultation?***

BDO agrees that there should be an independent and impartial governance body (the “Governance Body”) with oversight of the standard setting process to ensure that no stakeholder has undue influence and that proper due process is observed in standard-setting

However, if the standard setting board(s) move out of the IFAC grouping of independent SSBs into an independent organisation or structure, we believe that it will be critical for the Governance Body to have broad governance responsibilities beyond the public interest oversight that is contemplated in the consultation paper.

In light of the broader governance responsibilities, we believe that the name of the Governance Body should be changed to more fully capture and reflect those responsibilities. We recommend that it should not be referred to as the PIOB in the future as the name PIOB implies that the Governance Body will only be responsible for those of their broader oversight responsibilities that relate to the public interest.

***15.2 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?***

We do not believe that the PIOB (or Governance Body) should be able to veto the adoption of a standard, or challenge the technical judgements made by the standard setting board(s). The role of the Governance Body should be one of oversight and not put itself in a position in which it becomes the de facto standard setter via veto rights or the right to challenge judgements made by the standard setting board(s).

In exercising its governance responsibilities, the Governance Body should have the power, after public consultation, to reconsider or amend the due process used by the standard setting board(s) or recommend, for example, improvements to the standard setting board’s outreach activities.

Furthermore, we believe that it would be beneficial to require the Governance Body to periodically undertake a formal, public review of the structure of the standard setting

board(s), its governance arrangements and its effectiveness in fulfilling its objectives (say once every 5 years).

***15.3 Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?***

A key challenge for the Governance Body and standard setting board(s) to overcome is the perception of the profession's undue influence by some stakeholder groups. A critical component of such process is to involve all stakeholders, including those who are currently challenging the focus on the public interest in the debate. The Governance Body can play a greater role by publically communicating the rigor of the due process followed by the standard setting board(s) including the active participation of members and stakeholder groups and the rigor of its oversight of the standard setting board(s) activities.

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

We do not object to the removal of the right for IFAC to appoint a representative to the Governance Body *per se* but believe that what is most critical is that the Governance Body includes individuals with experience in auditing, including skilled representation from preparers, users and auditors of financial statements and of course IFAC could be one of the sources of such expertise. Having such expertise on the Governance Body would support the MG's objectives of Public Interest, Credibility and Relevance by ensuring that appropriate standards that serve the public interest are developed and issued.

***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?***

As with the composition of the standard setting board(s), we strongly believe that the Governance Body should also have multi-stakeholder representation from three groups to include (i) users (including investors, lenders, preparers, financial press, academics and those charged with governance), (ii) regulators (including audit, securities supervisors and enforcers and prudential regulators), and (iii) practitioners.

To support the MG's objective of Credibility, all members of the Governance Body need to possess recognised skills, experience and knowledge in auditing, financial statement preparation, and/or use in order to underpin the public confidence.

It is important for the Governance Body to include some individuals who have previously served in governance roles (boards/audit committees/risk committees) on Public Interest Entities. Such individuals are well recognised for their background in assessing both management and the auditors work in their fiduciary role to represent the shareholders' interests.

***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 believe that the process to identify individuals for appointment to the Governance Body, should include an open nomination process, in which any party is able to nominate

individuals for consideration to become members of the Governance Body and that such process should not be limited to only considering candidates nominated by the Monitoring Group.

To support the MG's objective of Transparency, the call for nominations should be open to any who meet the appropriate criteria and are supportive of a robust and open dialogue on standard setting that serves the public interest.

Further supporting the MG's objective of Transparency, the identity of individual members of the MG, their respective role and responsibilities, how viewpoints are arrived at and how decisions are made in the MG itself, should be publicly available.

***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 (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?***

While such activities should be closely coordinated so as to not create inconsistencies in requirements applicable to auditors versus preparers of financial statements, under the reformed model we do not believe that the Governance Body should have a direct oversight role over the activities of SSBs that are and would remain within the broad purview of IFAC.

## **Section 5: Role of the Monitoring Group**

***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?***

Effective governance and oversight are critical components of a high quality standard setting process operating in the public interest. In order to comprehensively address proposed reforms to the standard setting process we suggest that the roles and responsibilities of the Monitoring Group (MG) should also be considered at this time.

In that regard, an important role of the MG is to provide a formal link between the new governing board and those public authorities in order to enhance the public accountability of the audit, assurance and ethics standard setting model (both the standard setting boards and the governing body).

Currently the MG is comprised of global financial institutions, the European Commission (policymaker) and capital markets and audit regulators. This is important because those organisations can strongly influence the adoption of the global audit, assurance and ethics standards for auditors.

IFAC and the national public accounting organisations (member bodies) also play a significant role in the global adoption of the standards through their member body obligations and the Forum of Firms obligations. If standard setting is to become independent of IFAC, consideration should be given to creating a structural interface with

IFAC and its Member Bodies (professional accountancy organisations - PAOs) given the important role they will continue to play. That could be made possible by expanding the MG to include PAOs or alternatively creating a professional accounting organisation advisory group (PAOAG).

Consideration should also be given to the fact that the stated objective is for the new board(s) to set standards for both PIE and private entity audits globally. Changes to the composition of the MG should therefore be considered in conjunction with proposed changes to the PIOB in order to achieve broad representation from those public authorities or multilateral bodies, with responsibility for audit and assurance in the non-PIE sector too.

We do not support a phased approach to the reforms, but if one is followed, it will be necessary to identify specific targets and milestones in this regard. In order to increase transparency and bolster public trust in the process we suggest that appointments to the MG, the names of the responsible officers, meetings and decisions relating to the standard-setting process be made public. Consideration could be given to an evidence-based mechanism that demonstrates that due process has been observed by the MG when performing its oversight duties.

BDO supports the proposal that the MG will subject candidates for nominations to the PIOB or its successor, to a demanding skills and capabilities assessment.

## **Section 6: Standard-setting Board Staff**

***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?***

We agree that a smaller, more strategic (combined) board would need to be supported by an expanded professional technical staff, with the appropriate skill set.

We support the proposed secondment model as an appropriate means to drive cost-effectiveness, whilst ensuring that technical skills remain up-to-date and market-focused. A streamlined board also will need strong support from a highly technical skilled advisory group, in addition to an expanded staff. We believe it will be vital to have current practitioner expertise and experience brought to bear that inevitably and particularly over time, a permanent staff will lose. Therefore, as noted earlier in our responses, we also recommend the creation of Technical Advisory Groups (TAGs) for Auditing & Assurance Standards and Ethics & Independence Standards. The TAGs could be a useful and flexible mechanism through which the board gains access to technical input thereby supporting the permanent and seconded staff. The TAGs can provide technical challenge during project development that helps to ensure the technical robustness of the standards. We recommend that consideration be given to the structures used by IASB<sup>9</sup> in determining an appropriate model.

We believe however that it is important to reiterate that it is the Board that sets the objectives for a project. The staff and working groups' role is purely to develop standards that achieve those objectives in an efficient and effective manner and which are understandable and workable. It is not the role of staff or working groups to second guess or challenge the board's decisions.

<sup>9</sup> International Accounting Standards Board

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

We agree that the technical staff composition would be optimised by including a mix of permanent staff as well as shorter-term highly skilled seconded staff.

We recommend that further consideration be given as to how, practically, a model of direct employment, evaluation and compensation of the staff by the board would be put into practice to ensure a technically skilled and up-to-date pool of expertise is available to the board. The time taken to recruit staff with the required deep technical knowledge is going to be significant and shouldn't be underestimated.

Consideration could also be given to forming a separate legal entity along the lines of the IASB.

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

We support increased acknowledgement of the time-sensitivity of standards development and further efforts to streamline the process to issue standards, in order to be more responsive to stakeholder needs. We would also support development of mechanisms to monitor the effectiveness of the board and the governance structure including self-reflection.

We do not support approvals on a majority vote for the reasons set out in Q 9.

We note the importance of exploring the role of CAGs in conjunction with the proposed changes to the process. It is imperative that the board is able to seek timely and informed advice to support their work and, as we suggest above, consideration should be given to the creation of separate TAGs for Auditing & Assurance and Ethics & Independence standards.

## **Section 8: Funding**

**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 (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?**

We do not wholly agree with the MG that appropriate and compelling checks and balances can be put in place to mitigate any risk or perceived risk to the independence of the standard-setting board as a result of it being funded in part (or largely) by the audit firms or accountancy profession.

In our view, the perception of the independence of the model will always be at risk whilst the funding comes predominantly from the auditing profession and the largest network firms. If a viable broader based and diversified funding model is not pursued in the near term, the perception of the potential of the audit profession to exercise influence will remain notwithstanding the reforms that this consultation may bring about. That would significantly undermine the objectives of the proposed reforms and miss an opportunity to

deal with a major flaw of the current system from an independence and undue influence perspective.

We are not of the view that it is realistic to believe that the larger audit networks will commit to an open chequebook of any model or any level of costs that such a model would entail. Therefore the variety of sources (in particular) but also the quantum of funding from those sources will remain matters to be resolved.

BDO support for and willingness to fund a new model depends on the core principles of:

- Multi-stakeholder representation across all stages and elements of the model,
- Distinct and separate roles for governance and standards development, and
- A clear pathway to near-term broader-based funding.

Standard setting is a public good and its sources of funding should reflect that. It is important that a pathway to broad-based funding within a foreseeable timeframe is put in place. The consultation paper acknowledges the importance of broadening the funding base but the pathway to broader funding is unclear. We are very concerned that no progress would be made on the funding issue if not materially addressed in the response to the consultation and ensuing proposed reforms.

BDO believes that one of the key attributes of the future standard setting model for audit, assurance and ethics will be a balanced and sustainable funding model coupled with robust financial control and planning. The funding model for the proposed board and the associated oversight body must be equitable and free from actual and perceived conflicts of interest.

We do not believe that the continued funding of the model longer-term, (even as revised), can justifiably be predominantly from or by the profession if the perception of undue influence is to be adequately addressed.

Robust financial control and planning should ensure that the board or combination of boards in any final standard-setting model:

- establish clear objectives,
- perform a robust risk assessment and articulated strategy,
- put in place well-articulated Key Performance Indicators, and
- prepare realistic and supportable budgets over a reasonable period.

***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?***

It will be challenging for BDO to consent to a contractual levy given the legal structure of the network. We believe that it would be tantamount to signing up to a scenario whereby the BDO network has no say in the funding decisions but is obligated [along with others in a similar position] to fund the costs of those decisions.

Regardless of how the funding is packaged or collected, if it is directly or indirectly contributed by the audit profession and networks, the perception of undue influence will remain. The fact that it is collected by 'contractual levy' and disbursed by the PIOB or a new foundation would not eliminate that risk or perception of it.

The MG should also not assume that the profession can easily translate its' significant in-kind contributions into further cash contributions. The current estimate of all six GPPC<sup>10</sup> networks' in-kind contributions is cUS\$5-6m in addition to direct monetary contributions of US\$11.8M. We reiterate that the standard setting system must be established with reasonable associated costs and be capable of being adequately funded for the longer term. It is not clear to us that the MG has paid adequate attention to the future costs of the kind of model being proposed or considered transition costs from the current model to that new model.

Currently, IFAC Member Bodies also make a significant contribution to standard setting. Those bodies often represent sole practitioners and Small and Medium Sized Practices (SMPs) who also benefit from the standards. A potential inadvertent consequence of focussing the funding on auditors of PIEs only could be a disincentive for smaller networks to continue to participate in that market if there is a "cost to admission" for standard setting that is not shared by other segments of the audit profession. This could exacerbate the market structure and concentration issues already evident in many jurisdictions.

References in the consultation to the 'voluntary contribution', whilst correct, do not adequately recognise the commitment of the audit profession and larger networks to supporting a robust, viable and credible standard setting process which produces high quality standards. Those references also seem to suggest that a contractual levy is necessary to ensure reasonable certainty of funding. The large networks have consistently funded the existing system and have never undermined it through threats of withdrawal of funding or of inadequate funding. Nonetheless, the standard setting process should be efficient and accountable for its costs, consistent with developing high-quality standards in the public interest.

### **Open Questions**

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

Addressed at various points throughout our response.

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

Before proceeding further with reforms, the public interest will need to be better defined and a clear timeline put in place over which a comprehensive package of reforms, including governance, multi-stakeholder representation, costing and a pathway to a more broad-based funding, can be put in place.

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<sup>10</sup> The Global Public Policy Committee whose member-networks are BDO, Deloitte, EY, Grant Thornton, KPMG and PwC.