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Chair
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C/o International Organisation of Securities Commissions
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Dear Mr. Everts

Consultation: Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest

CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. We make this submission on behalf of our members and in the broader public interest.

High quality auditing, assurance and ethical standards serve the public interest by providing confidence to users in the subject matter assured, whether financial or non-financial, and play a key role in underpinning broader confidence in the capital markets. CPA Australia supports actions to further the credibility of the auditing and assurance standards. Indeed, in our 2012 submission to an earlier Monitoring Group (MG) consultation, we recommended a strategic review of standard-setting for the accounting profession.

In preparing this submission, CPA Australia has consulted widely on the MG proposals, including convening roundtable discussions involving members, standards setters, regulators and other key stakeholders in Melbourne and Sydney, Australia.

Participants included senior representatives from the Australian Securities & Investments Commission (ASIC), Financial Reporting Council (FRC), Auditing and Assurance Standards Board (AUASB), Accounting Professional & Ethical Standards Board (APESB), the International Federation of Accountants (IFAC) and the International Ethics Standards Board for Accountants (IESBA). Representatives from Chartered Accountants Australia & New Zealand (CAANZ) and large and mid-tier firms also attended.

These consultations, combined with input from CPA Australia's External Reporting Centre of Excellence and broad-based input from members and stakeholders, have informed CPA Australia in the development of its responses.

While CPA Australia welcomes the current review, albeit focussing on audit-related standard-setting, our organisation notes a distinct lack of evidence in the MG paper to support the proposed reforms, even though they include fundamental structural change to the global architecture of audit-related standard-setting. In our view, changes of such magnitude should be backed by a comprehensive impact assessment and sufficient evidential support pointing to improvement of audit quality, which must be the core objective of audit-related standard-setting.

We provide our general comments on the consultation below and responses to the specific questions posed in Appendix 1.

General Comments

1. Clarification of the problem and the scope of reform

The proposed changes to audit-related standard-setting described in the MG paper represent a significant and expensive restructuring. To justify these fundamental and far-reaching changes it is critical that the problem to be addressed is clearly identified, with underlying causes analysed based on evidence. CPA Australia is concerned that the paper fails to clearly articulate the underlying problem and that evidence is not presented to analyse the cause of that problem so as to justify and validate the paper's recommendations.

Whilst the paper presents a number of generic concerns, based around perceptions of lack of independence which are not quantified, we understand that the underlying problem which is concerning global regulators relates to inadequacies in audit quality as reflected in their inspection findings.

There is a complex web of inter-related factors which impact audit quality and regulators' inspection findings, but essentially we consider that those factors relate primarily to implementation and interpretation of auditing standards rather than inadequacies in the auditing standards themselves. Whilst the International Auditing and Assurance Standards Board's (IAASB) objective is "to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession," the IAASB's standards are only one mechanism for achieving that objective. The activities of many parties, including the audit firms, governments through national legislation and regulation, regulators, preparers, audit committees and the professional accounting bodies all play their part in contributing to audit and assurance quality, consistency and public confidence therein. The interactions between these parties and contextual factors which influence audit quality are described in *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* published by IAASB.

CPA Australia believes the focus of effort and resources should be on improving the implementation and interpretation of the auditing standards and that any proposed reforms to the structure of the standard-setting process should only be made if there is evidence that a quantifiable improvement to auditing standards will result, which in turn will have a positive impact on audit quality, or in the perception of the quality of the standards.

The MG paper focusses on audits impacting financial markets, which covers audits of financial statements of public interest entities (PIEs), the focus of national regulators. However, the current audit standard-setting board, the IAASB, has a broad mandate which extends to audits, reviews, other assurance and related engagements for all types of entities not only in the for-profit sector, but in the not-for-profit and public sectors as well. These engagements also serve the public interest.

Relevance is identified in the paper as a shortcoming to be addressed in the proposed reforms. However, the relevance of the auditing and assurance standards will depend on the perspective of each stakeholder. To assess relevance it is necessary to identify which stakeholders are being considered and to prioritise the needs of those stakeholders.

It is imperative that any reforms address the broad range of engagements and related stakeholders, including the needs of small and medium practices (SMPs), public sector auditors and other assurance providers, as well as the wide range of users of not only audit but also assurance reports.

The time and cost of restructuring audit-related standard-setting will, despite intentions to the contrary, divert attention and resources and slow the standard-setting process, even if it is just in the short to medium term. Indeed, it needs to be demonstrated to stakeholders that the restructuring could not be achieved within the current architecture, which would bring about less disruption to on-going standard-setting work, and that the benefits to be gained justify expending considerable additional resources in establishing an entirely new standard-setting board or boards along with the related infrastructure.

2. Risk of national divergence

The International auditing and assurance standards and the ethics and professional standards have gained a high level of acceptance globally. We consider that this global consistency has many benefits, including facilitating reliance on audits from other jurisdictions in a group audit or for regulatory purposes, mobility of auditors and comparability of auditors' reports. If the standards become more focussed on PIEs this is likely to jeopardise the level of uptake by national standard-setters, which need to cater to a wide range of stakeholders, including SMPs, public sector auditors and providers of non-financial statement assurance.

The focus of the regulators' inspections is largely on the listed entities and other PIEs and often does not include the audits by SMPs of small and medium entities (SMEs), public sector entities or other types of engagements. If the international standards became more focussed on the perspective of the capital market regulators, standards may become less scalable for the SMEs and less relevant to the public sector and other assurance engagements. In this case national standard-setters may move to using the international standards for PIEs and developing separate standards for SMEs or adopting other standards for the public sector, such as the International Organisation of Supreme Audit Institutions (INTOSAI) Standards in countries like Australia and New Zealand where IAASB standards are currently applied. The result would be national divergence over time from the international standards. A reduction in consistency between jurisdictions would increase the global cost of standard-setting and implementation by duplicating effort.

We note that in certain jurisdictions, such as Australia and New Zealand, auditing standards are legislative requirements for all audits of financial statements, regardless of the size of the entity. If international auditing standards did not cater for all types of entities or adopted a two-tiered approach this would create significant legislative impediments to adoption and may necessitate consideration of the need for decoupling from the international standards.

The existing consistency in standards between smaller and larger entities enables audit firms to provide services across a range of clients and to continue to provide those services as clients grow and if they subsequently become listed on public stock exchanges. One set of standards also enables audit firm methodologies to be utilised across all audit clients, rather than the complexity of operating multiple methodologies. Two-tiered standards would be a hindrance to firms offering audit services across small and large entities, which is of concern in jurisdictions with smaller populations having fewer entities and entities operating in remote locations where choice of audit firm is more limited. Examples of such markets would be Australia, New Zealand and Canada.

Any diminution of confidence in the standard-setting process or consistency of application will have negative implications for audit quality and be contrary to the public interest.

3. Inconsistency and duplication in ethical standard-setting

Were ethical standard-setting for auditing to be separated from ethical standard-setting for other practice areas as well as members in business or the public sector, this would likely lead to inconsistency between the ethics developed by the different boards and duplication between the two sets of ethical standards. As firms and practitioners often work across multiple disciplines and different sized clients, multiple sets of standards for auditing and ethics would create logistical issues for auditors, and the resulting additional complexity could give rise to increased risks for audit quality.

In many jurisdictions, such as Australia and New Zealand, auditor independence for PIEs is enshrined in legislation. These legislative requirements already add an extra layer of ethical requirements and provide a means whereby policy-makers can mandate ethical requirements which are considered essential to capital markets or to facilitate regulatory oversight in their jurisdiction.

4. Risk of focus on audits and shift to rules based standards

The paper mentions stock exchanges and listed entities as being beneficiaries of the standards, however the IAASB currently issues standards for auditing, assurance and related services for all entities, not solely audits of listed entities. Engagements addressed by the standards include reviews, which in many countries are used for half-year financial reports, and assurance on non-financial information. Non-financial information assurance is very important to the public interest with moves towards integrated reporting, sustainability reporting and emissions and abatement schemes in many parts of the world, along with existing mandates for assurance on performance, compliance and controls in different jurisdictions.

Justifications in the consultation paper for the proposed fundamental changes appear to focus entirely on audits of financial statements and the needs of capital markets, however the existing Board's mandate is far broader and seeks to meet the needs of a much broader range of stakeholders than is envisioned or appreciated in the paper. Many other assurance engagements are important to the public interest and should not be overlooked. Given the narrow focus of the concerns raised, the proposals present a risk that the needs of users of financial statements of PIEs will overshadow the needs of all other stakeholder groups. This reinforces the need to clearly articulate which stakeholder needs are being considered in the public interest.

Currently the standards for both auditing and ethics are principles-based which allows for professional judgment and the appropriate exercise of professional scepticism. Rules-based standards are arguably easier to enforce than principles-based standards. A greater influence of the regulators in standard-setting may result in the tendency towards rules-based standards which will be more readily enforceable.

If standards become overly prescriptive, including with an excessive focus on documentation, the exercise of effective professional judgment and professional scepticism could be undermined. This may create a 'tick box' or compliance mentality which may serve to undermine audit quality. More prescriptive standards also create challenges to scalability for audits of SMEs, which operate in the whole spectrum of sectors of the economy, including not-for-profits and the public sector.

5. Diversification of funding

We understand that funding is currently obtained for IFAC from 175 accounting bodies from 135 jurisdictions worldwide and the Forum of Firms which comprises 27 transnational firms. Funding is then allocated by IFAC based on budgetary requirements of each of the standard-setting boards, overseen by the Public Interest Oversight Board (PIOB). The professional bodies represent all professional accountants, not only public practitioners providing auditing and assurance services who in many cases are the minority of members. The members of professional bodies are professional accountants in all roles and industries, with the largest proportion of members in business. Many, if not most, preparers of financial statements, audit-related government bodies, regulators and standard-setters are members of a professional accounting body.

Whilst the possibility of widening the funding base to investors, preparers and regulators would be welcomed, if it could be achieved, the proposal to levy the large international audit firms could serve to increase any perception of a lack of independence as it would narrow the funding from all firms, directly through the Forum of Firms and indirectly through the professional accounting bodies to the largest international audit firms which are the focus of the regulators' oversight.

6. Adaption of the current standard-setting model

Whilst CPA Australia is calling for evidence and analysis of the concerns raised in the paper and identification of root causes so that proposed solutions address the identified root causes, we consider that solutions should be sought firstly through changes to the current standard-setting arrangements. To address the perceived concerns it may be possible to introduce many of the proposed changes within the current standard-setting model as follows:

- Concern: Undue influence of the profession
Solutions:
 - Obtain alternative funding sources from a broader stakeholder group and explore mechanisms for funding from the profession which create greater separation from the board, such as subscriptions or levies for use of standards.
 - Board members to represent a wider stakeholder group
 - Board nominations be made through a more open and transparent mechanism.

- Concern: Public interest not met
Solutions:
 - Public interest framework to be developed by the MG, including the priority of stakeholders' needs to be addressed by the standard-setter.
 - Clarification of the PIOB's process of assessing public interest, such as explicitly addressing and documenting conclusions on the public interest for the board's strategy and work plan, at each board meeting and at key milestones for each project.
 - A formal transparent process be established in response to the PIOB concluding that the public interest has not been met at any meeting or stage of a project.

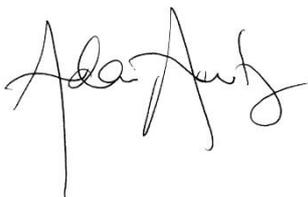
- Concern: Timeliness
Solutions:
 - Reduce the size of the Board.
 - Reconsider the form of pronouncements to expedite their development.
 - Obtain more funding to pay full-time Board members and to employ more staff.
 - Enforce a 2/3 majority rather than seeking consensus.

- Concern: Relevance
Solutions:
 - Identify who are the priority stakeholders and focus standard-setting efforts on meeting their needs.
 - Prioritise the work which will have the greatest impact on audit, and we suggest also assurance, quality.

While it is preferable to seek solutions within the current framework, if changes to the current structure and processes cannot address the root causes, CPA Australia would support exploration of more fundamental change. If fundamental change to the audit-related standard-setting model is to be pursued, CPA Australia's preference is for development of the entire structure, roles and funding prior to implementation of the changes rather than a staged approach, so that an impact assessment can be made of the reforms in their entirety.

Attached are CPA Australia's responses to the questions posed in the MG paper. Should you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit & Assurance, at claire.grayston@cpaaustralia.com.au or +61 3 9606 5183.

Yours sincerely



Adam Awty CPA
Interim Chief Executive Officer

Appendix 1 – Response to specific questions

Key areas of concern

1. Do you agree with the key areas of concern identified with the current standards-setting model? Are there additional concerns that the Monitoring Group should consider?

While the MG paper identifies a number of generic concerns around perceptions of independence, it does not identify the sources of these concerns or the presence of evidence to substantiate the validity or root causes of these concerns. As such, we are unable to make an assessment as to whether these concerns reflect a perspective which is commonly shared by all key stakeholders. We suggest that an agreement on the underlying problem, including the extent of the problem and those impacted, followed by a thorough root cause analysis should precede identification of a solution. Instead, the paper proceeds rapidly from loosely described concerns without analysis to a suggested and somewhat unclear solution. We consider that it will not be possible to objectively assess whether the proposed solution is likely to address the perceived problem nor whether it does subsequently achieve this goal, unless the measures or indicators of the problem are identified at the outset. In other words, to allow for an informed and meaningful discussion, there needs to be a clear articulation of the problem first, followed by a clear articulation of the solution, neither of which are present in the current proposals. This approach would also enable a proper cost/ benefit analysis both before and after any action were taken.

Undue Influence & Public Interest

The first two concerns raised: a perception of undue influence of the profession and risk that standards are not in the public interest, are clearly interrelated. It is important to understand whose perceptions are being assessed and if there is any evidence that the existing standards are not established in the public interest and, if so, whether it is a result of the profession's influence. The paper does not present any evidence regarding whether the risk of the current suite of auditing, assurance and ethical standards not meeting the public interest has been realised, nor whether the standard-setting process is being impeded by a lack of independence.

CPA Australia is not aware, nor have stakeholders in the jurisdictions in which we operate made us aware, of standards which have not been drafted in the public interest nor where lack of independence of standard-setters has resulted in standards which compromise the public interest. Nevertheless, we acknowledge that the standards are periodically updated and revised often as a result of feedback from stakeholders regarding improvements which may benefit the public interest and we anticipate this process will be on-going under the existing or any new structure. This on-going process of updating the auditing and assurance standards would indicate proper due process and that the public interest is being served by the standard-setter responding to stakeholder concerns. Clearly a more detailed analysis of feedback obtained, such as whether it was elicited from a sufficiently broad representation of stakeholders and was addressed in a balanced way which meets public interest objectives, would be needed to conclude whether or not the public interest was being met. As this has been the PIOB's role to date we would expect that such an analysis would be available in relation to each new or revised standard at least.

Further, we note that the current IFAC governance framework provides a role for the MG (and PIOB) to monitor public interest in the standard-setting process, so if evidence of shortcomings existed, the MG would be best placed to articulate that evidence.

If the problem is purely of perception, it may require a different response to that necessary to address actual incidences of compromise to the public interest. It is important to understand the cause for concern as addressing a perception may be a communication issue rather than indicating a need for significant structural change.

Nevertheless, we acknowledge that the profession is closely involved in audit-related standard-setting. Involvement is understandable given the need for audit-related expertise, however this must be balanced with the need for objectivity. The right balance needs to be struck in the interest of high quality standards which will drive audit quality. Standard-setting boards require members and staff with experience and expertise in auditing in order to write standards which are able to be implemented and effective in achieving appropriate audit quality, as well as other skills such as regulation and commercial experience.

The consultation paper points to a lack of public confidence in standard-setting which is inhibiting wider adoption of the standards, however CPA Australia would argue that the standards have been very widely adopted globally and the measures proposed may in fact jeopardise the progress made in global adoption.

Relevance

CPA Australia believes that relevance is an issue for audit-related standard-setting, however the perspective of each stakeholder varies considerably as to what is relevant. To assess relevance it is necessary to identify which stakeholders needs are being considered and to prioritise the needs of those stakeholders. Furthering the public interest requires a very broad range of interests to be considered. The consultation paper principally focusses on audits of PIEs and the needs of regulators and capital markets. However, the IAASB also sets standards for audits of a wide range of entities other than PIEs, including not-for-profit entities and entities operating in the public sector, as well as reviews, assurance engagements on non-financial information and agreed-upon procedures. These broad ranging assurance engagements are all becoming increasingly important as external reporting needs evolve, and are applied across a wide range of entities in the public, private and not-for-profit sectors. Stakeholder needs for audits of PIEs should be balanced with the needs of stakeholders for audits of SMEs and other assurance engagements. If a new standard-setting board is established with a narrower focus than the existing board, then the standards will become less relevant to the needs of many other stakeholders.

We understand from the MG's outreach that the proposed new board is being modelled on the IFRS Foundation. With respect to relevance, the IFRS Foundation is focussed on the needs of listed entities and PIEs operating in global capital markets, which will not be considered relevant to all preparers of financial statements in other sectors of the economy. The audit and assurance standard-setting should meet the needs of the whole spectrum of entities including SMEs which may require reviews or agreed-upon procedures as well as audits. The standards also need to address assurance for the future direction and forms of reporting, which are increasingly encompassing non-financial reporting.

Timeliness

Lack of timeliness is clearly a drawback with the current standard-setting process, however broad acceptance of the standards is achieved through seeking consensus which does take time. Greater resourcing of the standard-setter should certainly help to speed up the process, however other impediments can delay the process. For example, despite having all full-time Board members, the IFRS foundation took 15½ years to issue IFRS 17 *Insurance Contracts* and 9½ years to issue IFRS 16 *Leases* after first adding them to the IASB's agenda largely due to seeking global convergence.

The reality may be that standard-setting is an extremely complex activity requiring stakeholder buy-in if the standard is to be effective from the outset. Achieving this can be very time consuming regardless of the model adopted. To genuinely address the long timeframes, the way in which standards are written and communicated would need to be reconsidered. An innovative approach to standard-setting rather than the at times complex and lengthy wording adopted in current standards could be a fruitful focus of change to the process.

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?

CPA Australia supports the overarching principle of working in the public interest for standard-setting, and support the development of a framework for assessing and evidencing whether the public interest has been met.

However, we consider that the supporting principles focus on the process of standard-setting whereas an assessment of the public interest should focus on the outputs and outcomes of the standards. For example, no matter how cost effectively standards are developed if they have no impact on audit or assurance quality then they have not served the public interest.

The supporting principles listed in the paper relate to the attributes of the board and their processes so we suggest that these principles be separated into board attributes and standard-setting process and principles developed which address the desired outcomes of the standard-setting process.

Board attributes may encompass:

- *Objective* – replace independent as independence as applied in the Code of Ethics for Professional Accountants will not be achievable for the current or new standards-setting board. Arguably all stakeholders represented on a new Board will have a vested interest of some kind, for example regulators benefit from standards which have precise requirements, which are easy to inspect against and enable enforcement action.
- *Credible* – retain
- *Transparent* – retain
- *Accountable* – retain

Standard-setting process objectives:

- *Effective* – delete ‘cost’ and leave ‘effective’, which is important in assessing whether the standards achieve their objectives by positively impacting audit and assurance quality.
- *Relevant* – retain
- *Efficient* - add in place of ‘cost’ above, which relates to achievement of the objectives whilst minimising costs.
- *Timely* - add as the long timeframes greatly impacts the usefulness of the final standard.

The public interest principles themselves need to link more directly to the objective of auditing and assurance standards, which may be to benefit audit and assurance quality, whilst balancing economy, efficiency and effectiveness of audit and assurance engagements. Public interest objectives may include:

- Promotes audit and assurance quality
- Balances the impacts on all stakeholders
- Practical and cost-effective requirements which are able to be implemented across all sectors and size of entities
- Readily understood by practitioners
- Promotes efficient audit and assurance engagements which avoid unnecessary procedures, administration or excessive documentation
- Clear and concise standards in “plain English” which minimise misunderstanding or misinterpretation of requirements and application material and can be readily translated into languages of national jurisdictions whilst retaining the intended meaning.
- Illustrated by diagrams and examples where it provides clarity and enhances meaning.

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 explained in our organisation's response to question 2 above, CPA Australia considers that the principles provided in the consultation paper relate to the process of standard-setting rather than the outcomes and so need to be reformulated to address the desired outcomes.

In addition, we note that the public interest framework as described on page 4 of the consultation paper focusses primarily on audit of financial statements and does not include assurance on emerging forms of external reporting (such as Integrated Reports and Sustainability Reports under the Global Reporting Initiative) or assurance to meet other stakeholder needs (such as to underpin government grants or schemes relating to emissions, carbon offsets or abatements). In Australia, the Emissions Reduction Fund regulated by the Clean Energy Regulator relies on assurance over reported abatements as a basis for purchasing those abatements. The public interest is not limited to financial markets, even though this is a core consideration, so CPA Australia suggests that the public interest framework needs to be broad.

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.

CPA Australia does not support a board which combines both audit and assurance and ethics standards setting. Our organisation suggests the retention of a separate board for auditing and assurance standards and the retention of ethics for auditing by IESBA. Whilst there are separate requirements within the Code of Ethics for Professional Accountants for audits and other assurance engagements, we support these requirements to be set by the same board which sets standards for ethics for other practice areas (which have been omitted from the discussion in the consultation paper presumably because they are not usually related to audit) and members in business. We consider that ethics is a matter for the profession itself and should be set by individuals working in that profession.

Keeping ethical standard-setting under one board will ensure consistency for ethics across the profession. Firms typically offer a range of services not usually limited to audit and assurance and practitioners may move between audit and other service areas or into business during their careers, so it is preferable to have ethics which are consistent across the profession.

CPA Australia believes there is a high risk of divergence between the ethics for audit and assurance and ethics for the rest of the profession if different boards developed ethical standards for each. Such an outcome would not be in the public interest.

In addition, within national jurisdictions, independence requirements under the ethical standards may be captured in legislation for audits of certain entities. This is the case in Australia. Consequently, national jurisdictions can determine which ethical requirements they consider to be essential and required to be enshrined in legislation. As a result, there are currently already two sources of ethical requirements in many cases; the Code and national legislation. Adding another board producing another set of ethical standards would add another unnecessary level of complexity to existing ethical requirements.

- 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?**

Whilst CPA Australia supports the retention of educational standard-setting by IFAC, the paper omits reference to the public sector accounting standards and other activities of IFAC presumably as those roles are not seen to impact audit standard-setting.

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

CPA Australia supports ethical standards for all professional accountants – in business, audit and assurance or other areas of practice - being retained by IFAC and not being split. CPA Australia recommends that the ethical standards are kept together under a single board. As noted in our organisation's response to question 4, we assume that the MG intention is for members in public practice working in other service areas to also be retained by IFAC. This is important as ethical standards which apply to public practitioners also apply to audit and assurance practitioners. Inconsistency between ethics for these practitioners will be problematic, particularly in SMPs where practitioners often provide a range of services and for practitioners who move between services areas during their career.

- 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.**

CPA Australia believes that the most effective and efficient means of reform to meet agreed and measurable objectives should be pursued. The MG would need to demonstrate to stakeholders that the restructuring could not be achieved within the current architecture, which would bring about less disruption to on-going standard-setting work, and that the benefits to be gained justify expending considerable additional resources in establishing an entirely new standard-setting board or boards along with the related infrastructure. The establishment of a new board will undoubtedly be time consuming and will most likely impede and delay the current standard-setting activity for some time, whilst a more relevant and timely standard-setting process is sought.

- 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?**

Focussing the boards on the more strategic issues may be an effective way of enabling the standard-setting process to be more timely, if that is done in conjunction with increased staff numbers, particularly staff of sufficient seniority to replace the expertise of the board, currently assisting with drafting. CPA Australia cautions that the board members will still need to review the standards in a great level of detail in order to satisfy themselves of the quality of the technical content, particularly as the standards are being so widely adopted by national standard-setters, often without amendment.

Remuneration of the board members will create greater objectivity and transparency as compared to in-kind contributions, provided sufficient funding can be secured.

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

No. CPA Australia believes that a simple majority is insufficient for the approval of standards which will have such wide impact globally. To protect the public interest we consider that at least a 2/3 reinforced majority should be required to approve any pronouncements. A simple majority may allow the views of certain stakeholder groups to dominate decisions and does not necessitate resolution of the concerns of the minority before a standard is approved. Wherever practical, CPA Australia suggests a consensus should be sought as it will improve the likelihood of acceptance globally and be more likely to meet the needs of all stakeholders. Nevertheless, the views of a small minority should not be able to stall board decisions, therefore where a difference of opinion cannot be resolved in a timely fashion and a reinforced majority has been obtained, due process should allow for dissenting votes to be acknowledged and reported in the board's public documents.

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?

Reducing the number of board members should make the operation and deliberations of the board more efficient, however CPA Australia is concerned that reducing the practitioner and professional body representation from 1/2 to 1/3 will reduce numbers of those on the board with close working understanding of auditing and assurance from nine members out of 18 total members to only four members out of 12 total members. It would be difficult to achieve the spread of experience with different industries and different sized entities across different countries with only four practitioners. It would put a significantly greater emphasis on the skills and knowledge of the staff.

Full-time board members may help to speed the process as they will have more time to devote to projects, however CPA Australia suggests that those board members would need to have technical auditing skills regardless of their background in order to be valuable in a full-time capacity.

We also do not understand how full-time board members will be able to accelerate the standard-setting process if the board only has a strategic role and will not be involved in drafting. A strategic role is understandable when the board is part-time as their main role focusses on the board meetings and the papers presented, however as full-time you would expect board members to be involved to a deeper level than strategy.

We agree that the board should have geographic diversity and diversity of views which we suggest is derived from experience in different roles in relation to audit and assurance, types of engagements, sectors and jurisdictions. Gender and cultural diversity should also be sought. Furthermore, remuneration for the full-time members should be benchmarked to the value of their talent in international markets if the IAASB is going to get the very best people apply for the role.

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

The critical skills will need to include collectively detailed technical understanding of the operation of systems of quality control, the conduct of audit and assurance engagements across a range of entities, sectors and jurisdictions and an understanding of emerging forms of external reporting.

In order to be relevant, standard-setters need to understand and address areas of innovation, with respect to both emerging forms of assurance engagements and in new techniques used in existing engagements. As audit and assurance standard-setting is far broader than audit of financial statements and non-financial statement assurance engagements are developing rapidly, the board requires experience in evolving areas of practice in non-financial statement assurance, such as assurance on integrated reports, emissions and performance. In addition, new skills and competencies are required of financial statement auditors so it is important that the board has experience in evolving techniques, such as data analytics, and new competencies, such as climate risk identification and impact assessment. The boards should also be able to collectively demonstrate a current knowledge of IT risk and an understanding of emerging technologies so that when issues such as consideration of Bitcoin and other crypto-currencies are considered, they have an appreciation of operational dynamics that underlie them.

12. Do you agree to retain the concept of a CAG with the current role and focus, or would its remit and membership be changed, and if so, how?

CPA Australia is supportive of retaining a CAG with the current role and focus. The CAG performs a very useful role in guiding the current board, raising issues and considering the strategic direction of the board.

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

CPA Australia agrees that the public interest framework, which accommodates the needs of all key stakeholders, should be adhered to by any task forces.

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

CPA Australia does not see the need for the PIOB to take over the nominations process from IFAC as it already approves the nominations. Nevertheless, if an independent audit-related standard-setting board is to be set up, there may no longer be a rationale for IFAC to conduct the nomination process.

Role of the PIOB

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?

CPA Australia considers that the PIOB's role should be limited to ensuring due process is followed and that the public interest is considered by the board in its deliberations, which would encompass the functions noted in the consultation paper. Our organisation considers it would not be appropriate for the oversight body to become involved in standard-setting itself, so the PIOB should not be given the power to veto standards or challenge judgments unless they consider that due process has been compromised. The process by which the PIOB verifies whether the public interest has been served at key milestones of each project or with respect to each meeting and teleconference should be transparent and clear to the public. If the PIOB establishes that the public interest has not been served, this should not enable the POIB to change the decision but trigger an established process to reconsider the submissions and developmental process which informed the decision made by the board.

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

In order to achieve a multi-stakeholder approach, all key stakeholders should be represented on the PIOB. CPA Australia suggests that either IFAC representation should be retained or representation from the auditing profession obtained by alternative means. If regulators and users are each represented by 1/3 of the proposed new board then it seems out-of-balance for the practitioners to not have in turn representation on the oversight body.

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 the governing body, PIOB members should possess collectively such attributes that are required in IAASB board members and also include individuals with significant experience in performing governance roles in PIEs, SMEs, not-for-profits and public sector entities. PIOB members should represent a diverse range of skills and experience in order to represent the varied perspectives of non-practitioner stakeholders.

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?

CPA Australia supports a transparent nominations process. This could be met through an open call for nominations as it has the advantage of "casting the net wider" and increasing the potential of attracting more interested qualified individuals. This approach also fits well with the model of an independent standard-setting board.

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?

CPA Australia recommends the PIOB retaining oversight of all standard-setting boards, as all have an important role to play in the public interest and need to be seen as credible in doing so. However, if the PIOB's role is to expand then consideration needs to be given to whether they have the necessary resources.

We note that ethical standards address all practitioners in public practice, in addition to those conducting audit and assurance engagements. As noted above, our organisation assumes that standard-setting for the engagements public practitioners undertake other than audit and assurance, omitted from the paper, will remain with IFAC under the proposed model.

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?

Whilst CPA Australia considers the two layers of oversight above the standard-setting boards may be somewhat unnecessary and onerous, as this proposal reflects the current status quo we are supportive that the MG's role be retained. We would have hoped that a more streamlined structure may be achievable with a single oversight body, particularly if those bodies consider that the structural changes proposed will address concerns regarding the perception of the profession's undue influence and potential risks to the public interest, so enabling oversight to be reduced.

Most importantly, the roles of the MG and the PIOB need to be considered concurrently with the structure of audit-related standard-setting, as the roles interact and need to be complementary to work effectively and not avoid duplication or omission.

Administration including 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?

An expanded technical staff would be essential if the board is to take a more strategic role. As noted in our response to question 11, standard-setters need to understand and address areas of innovation, with respect to both emerging forms of assurance engagements and in new techniques used in existing engagements. This applies to the skills required of technical staff as well.

In addition to financial statement audit, staff require experience in evolving areas of practice in non-financial statement assurance, such as assurance on integrated reports, emissions and performance; evolving techniques, such as data analytics, and new competencies such as digital technologies, climate risk identification and impact assessment.

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

Yes, CPA Australia considers that this would be necessary if an independent audit-related standard-setting board is set up.

Process considerations

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

CPA Australia does not support the adopting of standards on a simple majority basis and considers that a consensus should continue to be sought and at least a reinforced majority be required (see our response to question 9).

We suggest that in addition to conducting shorter and longer-term projects, consideration be given to the form of the outputs of the board and whether different types of publications could better achieve the objectives of specific projects and meet stakeholder needs.

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

Whilst CPA Australia does consider that checks and balances can be put in place to ensure that audit firms or the profession as a whole cannot influence the standard-setting process, effective communication to stakeholders will be important in achieving the desired impact on perceptions.

We do consider that the current funding arrangements come from a very broad base, representing virtually every professional accountant globally regardless of whether they are a regulator, in business or in public practice through the accounting bodies as well as the Forum of Firms. We consider that due to the fact that currently funding is received by IFAC and allocated to the standard-setting boards under the oversight of the PIOB, checks and balances already restrict or prevent the undue influence of the profession. We do not consider that undue influence could arise through the funding arrangements. It is perhaps the representation on the boards by current auditors which creates the greater perception of influence by the profession. However, as referred to earlier, it is essential that sufficient and current technical expertise be retained by the board, necessitating an adequate number of practising auditors be members of the board. Technical staff, even though they may have trained and worked in professional firms, will over time lose insights into practical and current technical issues.

CPA Australia notes that funding of the IFRS Foundation comes a third directly from 9 of the largest international accounting network firms and indeed the proposed funding model in the consultation paper suggests more funding directly from the large firms than is currently the case. Contrary to intentions, this may be perceived as being less independent than the existing funding sources.

- 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 contractual levy would be linked presumably to a licence to use the auditing and assurance standards, which may be a workable solution theoretically but in practicality there is the risk certain groups would decline to participate in the scheme. Unless there is a legal or regulatory requirement, which is not able to be imposed internationally, there would be no obligation for jurisdictions to take up the standards. The risk of jurisdictions or firms opting out of the scheme will increase if they do not have the available funding to meet the levy or the focus for audit-related standard-setting moves more towards the meeting the needs of PIE audits to the exclusion of other entities or other engagements. If levies or licences fell to firms based on audits of PIEs then it could result in segmentation in the market where SMPs decline audits of PIEs as cost prohibitive.

Open Questions

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

Transparency and accountability will be critical in gaining acceptance from stakeholders of any change to the current arrangements which may result from this consultation. Change should not be assumed as inevitable as it will be costly and time consuming and should only be undertaken if the benefits are clearly demonstrable and funding is obtained.

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

Enhanced audit, and we suggest also assurance, quality should be the objective of any reforms and CPA Australia strongly advocates that only measures which can be shown to clearly impact audit and assurance quality should be undertaken. If the measures proposed cannot be shown to clearly improve audit and assurance quality then they are diverting resources unnecessarily and should not be introduced.

World class implementation and education is really where the most can be gained in improving audit and assurance quality. CPA Australia's concern is that too much focus on continuous improvements to the standards or the standard- setting process might impede firms and practitioners in achieving better quality as they are focussed on digesting the latest changes to standards.