

Mr Gerben EVERTS
Chairman
Monitoring Group

By email to: MG2017consultation@iosco.org

Paris, 9th February 2018

RE: Monitoring Group Consultation “Strengthening the Governance and Oversight of the International Audit-related standard setting Boards in the Public Interest”

Dear Mr Everts,

In our respective capacity as president of the CNCC and president of the CSOEC, we have the pleasure to submit to you the joint response of the French institutes to the Monitoring Group Consultation on “*Strengthening the Governance and Oversight of the International Audit-related Standard Setting Boards in Public Interest*”.

The consultation raises important questions which merit careful consideration.

In our opinion, it is first important to reaffirm that the Standard setting model, as it is currently organized and overseen by the PIOB since the implementation of the IFAC reform in 2003, has led to the issuance of high quality standards which are widely recognized internationally, and which set the benchmark for audit quality.

That being said it is legitimate to reassess any model on a regular basis and we therefore understand the willingness of the Monitoring Group to consult stakeholders about possible improvements to the standard setting model.

However we consider that the primary overarching question, before entering into designing any new model, should be to spell out what are the characteristics of good standards which we are aiming at.

We believe that good standards should be:

- Principles based, allowing professional judgement to be fully exercised and allowing the auditor to deploy their skills and competences,
- Scalable, i.e. capable of a proportionate application to all type and size of entities, and
- Acceptable internationally, from emerging countries to the most developed capital markets.

Once the characteristics of good standards are set, it should be easier to derive the principle of good standard setting in the Public Interest. We consider that the public interest is best served through:

- The respect of a transparent and effective due process,


.../...

.../...

- A clear separation of duties between those who set the standards and those who design the standard setting processes and oversee the compliance with approved processes (the Governance level).
- A standard setting Board that is independent and exempt from undue influence from any stakeholders group.
- A balanced, multi stakeholders' representation, both at the level of the standard setting Board and at the level of the Governance.
- An appropriate and sustainable multi stakeholders funding.

We do not support a staged approach but would favour a global approach which would entail the creation of a truly multi stakeholders' governance body which includes representation from the profession and would be in charge of:

- Seeking funding with a view to establish stable resources provided by all stakeholder groups who benefit from high quality audit standards.
- Appointing the Chair(s) and Board members.
- Managing the performance of the Board(s) (assessing the Chair, assessing the Board members, controlling that the Board(s) delivers on its work program...).
- Overseeing the respect of the due process.
- Promoting the global adoption and proper implementation of standards, etc.

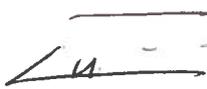
Such governance body should be distinct from a multi stakeholder standard setting board(s) and should not interfere in its work, for the board to be fully independent. The importance of a sustainable diversified funding. It is also very important to quickly move towards a sustainable diversified funding for the new model to be and appear independent from undue influence from any stakeholders group.

Finally, we consider that one of the biggest risk in the proposed model of the Monitoring Group lies in a possible partition of the audit of PIEs and non-PIEs with two different sets of standards. We believe that such evolution would be detrimental to the economy as a whole because in fact PIEs and non-PIEs, listed and non-listed entities, are interacting on the same markets and are essential to the vitality of the economy.

On that basis we have responded to the detailed questions of the consultation paper. We hope you will find our comments helpful. Should you need any further information on our response, please do not hesitate to contact us.

Yours Sincerely,


Jean BOUQUOT
President of CNCC


Charles-René TANDE
President of CSOEC

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Monitoring Group Consultation
“strengthening the Governance and Oversight of the international Audit-Related standard setting Boards in the Public interest”
Views from the French profession- Executive summary

The Executive summary below provides the views of the two French institutes of professional accountants and statutory auditors (CSOEC and CNCC) on the consultation issued in November 2017 by the Monitoring Group (MG) with the objectives to obtain feedback on whether changes are necessary to the current international standard setting process/ model (including governance and oversight) for audit and ethics, and if so, on whether there is an agreement on the proposed reform.

Our detailed responses to the questions raised in the consultation are attached to this Executive Summary.

What are the issues?

The Monitoring Group consultation is premised on the assumption that there is:

- a perception of undue influence by the profession on the development of audit and assurance standards, as well as on ethical standard setting, with an adverse effect on stakeholder’s confidence in the standards,
- a risk that standards are not developed fully in the public interest, partly because of such perceived undue influence,
- an issue with the timeliness and relevance of standards (implying that the IAASB and IESBA Boards would not keep up with the pace of change, for example with respect to the greater use of data analytics in the audit).

The perceived undue influence by the profession would result from:

- IFAC directly funding, accommodating, providing support to and staffing the standard setting boards,
- Audit firms and accountancy bodies providing a majority of Board members and technical advisors.

Summary of our position

The two French institutes (CSOEC and CNCC) first want to reaffirm the high quality of the standards produced so far by the IAASB and IESBA. Such high quality is recognized by the MG and demonstrated by the fact that the ISAs have been adopted in 125 countries in the world, as well as by large international organizations, such as INTOSAI, the World Bank, the IMF...

There is therefore no evidence that the extant standards have not been developed fully in the Public interest. They remain an appropriate benchmark for audit quality.

However, we recognize that there may exist a perception by some stakeholders of undue influence by the accounting profession, even though we have not seen any evidence of stakeholders complaining about such undue influence and the responses to public consultation on proposed standards did not provide any evidence either.

Nevertheless, it is legitimate to reassess any system on a regular basis and we therefore understand the willingness of the MG to consult stakeholders about possible improvements to the standard setting model.

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What constitute good standards?

Before responding to the detailed questions of the consultation paper, we believe that it is necessary to spell out what constitute in our opinion the essential characteristics of good standards, i.e.:

- Standards that are principles based, allowing professional judgement to be fully exercised. Auditing is far from being a mechanical process as it requires appropriate professional experience, in-depth knowledge and sound judgment.
- Standards that allow the auditors to exercise their competences and skills so as to be able to challenge the management and the governance of the audited entities and thereby enable reliable audits. Standards should not drive a “compliance” attitude which would be detrimental to the effectiveness of the audit work.
- Standards that are scalable and capable of a proportionate application to all types (listed entities, banks, not for profit, public sector...), and sizes of entities. Additional complexities should only be dealt with through additional application guidance, not through the standards themselves.
- Standards that are acceptable internationally, from emerging countries¹ to the most developed capital markets

Once the characteristics of good standards are set, it should be easier to derive the principle of good standard setting in the Public Interest. We consider that the public interest is best served through:

- The respect of a transparent and effective due process, that includes periodic public consultations about the agenda of the Board(s), that makes the best use of advisory groups, and that follows rigorous processes in developing preliminary discussions, scoping the projects, assessing feasibility and time frames for the conduct of each project selected for active work.
- A clear separation of duties between those who set the standards and those who design the standard setting processes and oversee the compliance with approved processes (the Governance level).
- A standard setting Board that is independent and exempt from undue influence from any stakeholders group.
- A balanced, multi stakeholders’ representation, both at the level of the standard setting Board and at the level of the Governance.
- An appropriate and sustainable multi stakeholders funding.

Appropriate Governance that serves the Public Interest.

At present, it is unclear to us from the MG proposals whether the MG is aiming at a three-tier structure, such as for instance that of the IFRS foundation, which includes:

- A Standard setting Board (the IASB),
- a Governance body (the Trustees of the IFRS Foundation), and

¹ For example, 17 African countries, mostly French speaking, forming the OHADA space have adopted, with the help of the World Bank, the ISAs for all audits starting January 1st, 2018. It is important that the standards remain suited for a very wide range of economies.

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- an external Monitoring Board which oversees the respect of the public interest mission of the Foundation;

Or whether it is aiming at a two-tier structure which would have:

- Standard setting Boards (or a single, merged IAASB/IESBA) and
- A single oversight Board (PIOB), which would combine the governance and oversight functions.

The proposal of the MG seems to lean towards a two-tier structure but with extended functions for the oversight Board that would go beyond overseeing the respect of the due process, so as to also include certain governance duties such as nominations, assessment of the Boards’ performance. We understand that the oversight role could even entail a right to veto the issuance of standards. However, it appears to us that the governance function would not be complete as it would not include for example a responsibility with regards to seeking (diversified) funding of the Boards.

Therefore, it seems to us that the MG proposal needs further clarification. We are concerned that there is a risk of confusion between an oversight role and a governance role and we are of the opinion that envisaging such a reform without proposing a robust governance structure is not workable. Further, we see a risk that the independence of the standard setting Board(s), and therefore the global acceptability of the standards, is compromised if the governance / oversight function is given the power to veto the issuance of standards that have fully respected the due process of development.

In addition, the MG proposal seems to exclude the profession from participating in the oversight/ governing body.

We consider that establishing a strong and effective multi stakeholders’ Governance body which includes representation from the profession is key to the reform. Such Governance body should be in charge of:

- Seeking funding with a view to establish stable resources provided by all stakeholder groups who benefit from high quality audit standards,
- Appointing the Chair(s) and Board members
- Managing the performance of the Board(s) (assessing the Chair, assessing the Board members, controlling that the board(s) delivers on its work program...)
- Overseeing the respect of the due process
- Promoting the global adoption and proper implementation of standards, etc.

It is only through the proper conduct of all these tasks by a credible and respected Governance body that the public interest will be best served. The Governance body must be a guardian of the model, of its effectiveness and of its credibility including the trust it conveys for the stakeholders. It is therefore key that the Governance body has a balanced composition and is not in the hands of one single group.

In order to preserve the independence of the standard setting Board (s), neither the governance nor any oversight body should have the right to veto the issuance of a standard, once it has been demonstrated that an appropriate due process has been followed.

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Board Composition

We are not supportive of merging the audit/assurance and ethics standard setting into a single Board but we admit that audit and independence matters could appropriately be dealt within a single Board.

We agree with having a multi stakeholders Board(s) selected from the three following groups of stakeholders (users, regulators, practitioners) with a limited number of Members.

The Board should collectively have the competence to cover all the sectors or the constituencies for which it is setting standards, including the Public sector and the not for profit sector for example. It is therefore important that the Board members are not only multi-stakeholders in terms of the group of stakeholders from which they originate, but also that they should collectively ensure a multi-competence representation.

The ideal number of Members depends on whether the Boards are merged into a single one or not, but 12 is certainly not enough to ensure sufficient diversity of professional and geographical backgrounds and for the Board to possess all the competences needed to deal with a wide variety of topics.

Due to the technical nature of the standards, especially with regards to audit and assurance work, we are of the opinion that a proportion of 40-50% of practitioners would be more efficient than one third. A strong majority of Board members, if not all members, should have an in-depth knowledge of auditing acquired either through practical experience of auditing or through direct interaction with auditors (audit committee members, regulators, etc..).

We agree with having an expanded professional technical staff to support the Board(s). The Board members should not be directly involved in the drafting of the standards, and should rather devote most of their time to research, public consultations and discussions within the Board. However, the Board(s) should remain in command of each active project and each member should take full responsibility for the standards on which he/she will cast a vote; this goes much beyond setting the strategic direction for the projects.

Funding

To ensure independence of the Board, funding must be diversified and not only come from the profession.

We do not see how a “contractual” levy could work at an international level.

Funding must be sustainable because standard setting takes time and must not be subject to annual fluctuations in its funding.

Attachment: Responses to the questions of the consultation paper

RESPONSES TO THE QUESTIONS OF THE CONSULTATION PAPER

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?

The two French institutes (CSOEC and CNCC) first want to reaffirm the high quality of the standards produced so far by the IAASB and IESBA. Such high quality is recognized by the MG and demonstrated by the fact that the ISAs have been adopted in 125 countries in the world, as well as by large international organizations, such as INTOSAI, the World Bank, the IMF...

There is therefore no evidence that the extant standards have not been developed fully in the public interest. They remain an appropriate benchmark for audit quality.

However, we recognize that there may be a perception by some stakeholders of undue influence by the accountancy profession, even though we have not seen any evidence of stakeholders complaining about such undue influence and the responses to public consultation on proposed standards did not provide any evidence either.

In our experience, comments received from regulators on public consultation have never been overridden and, on the contrary, have always been the subject of a particular attention.

The fact that the regulators may have had the perception that their voice was not properly heard has lead the PIOB to sometimes evolve its original role of oversight into a more technical role by judging the end product (i.e. the final standard) in addition to assessing the respect of the due process.

We therefore consider that the present model is not broken. Nevertheless, it is legitimate to reassess any system on a regular basis and we therefore understand the willingness of the MG to consult stakeholders about possible improvements to the standard setting model.

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

Before trying to set the principles of a good standard setting model, we believe that it is necessary to spell out what constitutes in our opinion the essential characteristics of good standards, i.e.:

- Standards that are principles based, allowing professional judgement to be fully exercised. Auditing is far from being a mechanical process as it requires appropriate professional experience, in-depth knowledge and sound judgment.
- Standards that allow the auditors to exercise their competences and skills so as to be able to challenge the management and the governance of the audited entities and thereby enable reliable audits. Standards should not drive a “compliance” attitude which would be detrimental to the effectiveness of the audit work.
- Standards that are scalable and capable of a proportionate application to all types and sizes of entities. Additional complexities should only be dealt with through additional application guidance, not through the standards themselves.
- Standards that are acceptable internationally, from emerging countries¹ to the most developed capital markets.

¹ For example, 17 African countries, mostly French speaking, forming the OHADA space, have adopted, with the help of the World Bank, the ISAs for all audits starting January 1st, 2018. It is important that the standards remain suited for a very wide range of economies.

RESPONSES TO THE QUESTIONS OF THE CONSULTATION PAPER

Once the characteristics of good standards are set, it should be easier to derive the principle of good standard setting in the public interest. We consider that the public interest is best served through:

- The respect of a transparent and effective due process, that includes periodic public consultations about the agenda of the Board(s), that makes the best use of advisory groups, and that follows rigorous processes in developing preliminary discussions, scoping the projects, assessing feasibility and timeframes for the conduct of each project selected for active work.
- A clear separation of duties between those who set the standards and those who design the standard setting processes and oversee the compliance with approved processes (the Governance level).
- A standard setting Board that is independent and exempt from undue influence from any stakeholders group.
- A balanced, multi stakeholders' representation, both at the level of the standard setting Board and at the level of the Governance.
- An appropriate and sustainable multi stakeholders funding. It should be recognized that standard setting takes time and therefore needs a sustainable funding that is not subject to unforeseen fluctuations.

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?

It is difficult to answer that question since the public interest framework that is foreseen to be designed by the PIOB is not yet available.

Since one of the criticisms made by the MG to the current model is that standards may not have been developed fully in the public interest, it is vital that all stakeholders agree with that framework and support the way it will be used.

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. It follows that no one stakeholder group can "own" the public interest. All stakeholders bring a particular perspective to the standards setting process. It is through the sharing of those perspectives and collaborative debate that a sustainable consensus can be reached which ultimately serves the public interest.

As a matter of principle, we consider that it is therefore not for the PIOB alone to design the public interest framework. Ideally, the public interest framework should be designed by a multi stakeholders group representing all parties at stake.

In the absence of a multi stakeholders group drafting the public interest framework, a public consultation is vital to gather comments from all stakeholders and we consider that the public interest framework should ultimately be approved by a multi stakeholders group representing all parties at stake.

Overall, we do not favour a reform that would be conducted in phases.

The absence of a public interest framework, and of an impact assessment of the proposed changes, the lack of clarity on the funding of the proposed model, all those missing elements make it very difficult for us to get the complete picture of the target model and hence to know whether we support it or not.

RESPONSES TO THE QUESTIONS OF THE CONSULTATION PAPER

4. Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.

We are not supportive of merging the audit/assurance and ethics into a single Board. The fundamental principles of ethics (integrity, objectivity, professional competence and due care, confidentiality and professional behavior) are the same for all professional accountants whether they are preparers of financial statements (in business or in practice) or whether they are auditors.

Ethical principles are an intrinsic value of the accountancy profession they should remain set by a separate Board that has the appropriate competence to set ethical principles for the entire accountancy profession.

However, we consider that audit and independence matters could appropriately be dealt within a single Board.

Indeed, the value of an audit opinion primarily lies in the competence of the auditor and in its ability to conduct a proper audit in line with the auditing standards but it also lies in the independence of the auditor and one could expect someone who is knowledgeable about audit to also be knowledgeable about independence.

In that configuration, ethics would remain in a separate Board and be dealt with for all accountants whether they are in practice or in business. Only independence would be dealt within the audit and assurance standard Board.

However, it would also be very important that both Boards work in close cooperation and coordination, so that auditing standards, independence rules and ethical standards make a consistent framework, capable of a coherent application in practice.

On that matter, the efforts already made by IESBA and IAASB to coordinate their work should continue.

5. Do you agree that responsibility for the development and adoption of educational standards should remain a responsibility of IFAC? If not why not?

Educational standards are set by the IAESB, an independent Board placed under the auspices of IFAC. Like for all other standard setting Boards, IFAC does not interfere in any way in the standard setting, it simply provides the administrative structure to host the Board. We see no reason for changing the existing model.

6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? If not why not?

The Code of Ethics is set by the IESBA, an independent Board placed under the auspices of IFAC. We are of the view that ethical standards for all accountants whether in business or in practice should continue to be set by a single specific Board under the auspices of IFAC while independence standards could appropriately be developed together with audit/assurance standards (see our response to question 4 above).

RESPONSES TO THE QUESTIONS OF THE CONSULTATION PAPER

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.

The MG could have considered a model closer to the one of the IFRS foundation with a three tier structure, whereby the standard Setting Board(s) being technical would have been mainly composed of members coming from the auditing profession and from the “users” group (preparers, audit committee members, analysts...) and where the Governance body would have been multi stakeholders and the regulators would have been positioned in a Monitoring Board to oversee the respect of the public interest mission of the foundation (See our response to question 15 below) .

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?

The response to that question depends on what is meant by strategic.

Some may mean by “strategic” that the Board simply gives broad direction to the staff which is in charge of executing the work under the Board’s supervision.

We agree that the Board members should not be directly involved in the drafting of the standards, and should rather devote most of their time to research, public consultations and discussions within the Board. However, the Board(s) should remain in command of each active project and each member should take full responsibility for the quality and content of the standards on which he/she will cast a vote; this goes much beyond setting the strategic direction for the projects.

It is also important that the Board continues to take full responsibility and hence be able to confirm that the due process has been followed.

In order that the Board is not staff -led but remain led by Board members, we believe that the Board should be able to challenge the work done by the staff and for that purpose Board members should be highly competent and have an intimate knowledge of the audit and independence matters either through direct practice or through close interaction with auditors (audit committee members, preparers, analysts, regulators).

We agree in principle with remunerating Board members but the cost effectiveness of the model should be challenged through an impact assessment which is yet to be conducted.

The MG foresees the possibility of having full time and part-time Board members. It should be noted that this idea which had also been envisaged in due time for the IASB had been rejected by the IFRS Foundation because of the risk to create two classes of Board members.

In any case, the balance between full time and part time Board members should be carefully considered.

In a multi stakeholders Board it is important that all Board members can be equally involved, whatever the stakeholder’s group they originated from, so that the Board is not led by a few full time Board members which have the time to get an in-depth knowledge of the topics whereas part time Board members are unable to challenge the positions taken.

RESPONSES TO THE QUESTIONS OF THE CONSULTATION PAPER

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

We disagree with moving to a single majority rule. A two third majority rule is a good threshold to adopt a standard since it is important that no one single group alone is able to block the adoption of a standard.

The Board should continue to seek consensus, without necessarily aiming for unanimity at any price.

What is important, for a good standard setting, if the Board does not manage to resolve the points of contention, is that the Board at least understands the points of disagreements, the reasons for those disagreements and the extent and consequences of those disagreements. It is key to the acceptability and credibility of the standards.

10. Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members, allowing both full time (one quarter?) and part time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?

We agree with having a multi stakeholders Board(s) selected from the three following groups of stakeholders (users, regulators, practitioners) with a limited number of Members.

The ideal number of Members depends on the scope of the Board's activities (audit/assurance only or audit/assurance and independence) and whether the Boards of audit and ethics are merged into a single one or not, but in any case 12 members is certainly not enough to ensure sufficient diversity of professional and geographical backgrounds and for the Board to possess all the competences needed to deal with a wide variety of topics.

Due to the technical nature of the standards, especially with regards to audit and assurance work, we are of the opinion that a proportion of 40-50% of practitioners would be more efficient than one third...

A strong majority of Board members, if not all members, should have an in-depth knowledge of auditing acquired either through practical experience of auditing or through direct interaction with auditors.

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

See our response to question 10 above, Board members should be highly qualified, highly competent and respected representatives of all stakeholders' groups who have an in-depth knowledge and understanding of audit acquired through practice or through direct interaction with auditors.

The Board should collectively have the competence to cover all the sectors or the constituencies for which it is setting standards. Including the public sector and the not for profit sector for example. It is therefore important that the Board members are not only multi-stakeholders in terms of the group of stakeholders from which they originate, but also that they should collectively ensure a multi-competences representation.

Board members should be highly committed to serving the public interest and to setting global standards.

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?

Having a CAG is useful but it needs to remain consultative.

RESPONSES TO THE QUESTIONS OF THE CONSULTATION PAPER

It must be noted that CAG members sometimes do not have the ability or the time to engage in the technical debates; their advice should therefore be obtained at a more strategic level.

We could imagine that the CAG advise both the Standard Setting Board(s) and the Governance Body, as it is the case for the IFRS foundation whereby the Advisory groups advise both the Trustees and the Board.

The composition of the CAG could also be reconsidered.

Building a close relationship with the national standards setters, possibly through organizing frequent meetings with them, would enrich the debates at Board level and ease the acceptance of international standards at national level.

As an illustration of the added value that National standard setters bring to the Board, it should be noted that the model of the “key audit matters” which is widely recognized to have significantly improved the communicative value of the auditor’s report was brought to the Board by the French representatives. If the link is cut with the national standards setters, the Board deprives itself from a valuable source of ideas and experiences.

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

As mentioned above in our response to question 3, the public interest framework is not yet available; it is therefore not possible to respond to that question.

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

See our response to question 15 below. If a real Governance body of the Board is created and if it is truly multi stakeholders such as the trustees of the IFRS foundation are, then such Governance body should also be in charge of the nominations.

In any case, nominations should not be in the hands of one single group of stakeholders.

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?

No we disagree as, at present, it is unclear to us from the MG proposals whether the MG is aiming at a three-tier structure, such as for instance that of the IFRS foundation, which includes:

- A Standard setting Board (such as the IASB),
- a Governance body (such as the Trustees of the IFRS Foundation), and
- an external Monitoring Board which oversees the respect of the public interest mission of the Foundation;

Or whether it is aiming at a two-tier structure which would have:

- Standard setting Boards (or a single, merged IAASB/IESBA) and
- A single oversight Board (PIOB), which would combine the governance and oversight functions.

RESPONSES TO THE QUESTIONS OF THE CONSULTATION PAPER

The proposal of the MG seems to lean towards a two-tier structure but with extended functions for the oversight Board that would go beyond overseeing the respect of the due process, so as to also include certain governance duties such as nominations, assessment of the Boards' performance. We understand that the oversight role could even entail a right to veto the issuance of standards. However, it appears to us that the governance function would not be complete as it would not include a responsibility with regards to seeking (diversified) funding of the Boards.

Therefore, it seems to us that the MG proposal needs further clarification. We are concerned that there is a risk of confusion between an oversight role and a governance role. Further, we see a risk that the independence of the standard setting Board(s), and therefore the global acceptability of the standards, is compromised if the governance / oversight function is given the power to veto the issuance of standards that have fully respected the due process of development.

In addition, the MG proposal seems to exclude the profession from participating in the oversight/governing body.

We consider that establishing a strong and effective multi stakeholders' Governance body which includes representation from the profession is key to the reform. Such Governance body should be in charge of:

- Seeking funding with a view to establish stable resources provided by all stakeholder groups who benefit from high quality audit standards.
- Appointing the Chair(s) and Board members.
- Managing the performance of the Board(s) (assessing the Chair, assessing the Board members, controlling that the Board(s) delivers on its work program...).
- Overseeing the respect of the due process.
- Promoting the global adoption and proper implementation of standards, etc.

It is only through the proper conduct of all these tasks by a credible and respected Governance body that the public interest will be best served. The Governance body must be a guardian of the model, of its effectiveness and of its credibility including the trust it conveys for the stakeholders. It is therefore key that the Governance body has a balanced composition and is not in the hands of one single group.

In order to preserve the independence of the standard setting Board (s), neither the governance nor any oversight body should have the right to veto the issuance of a standard, once it has been demonstrated that an appropriate due process has been followed.

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

We cannot respond to that question since we do not see whether the MG is foreseeing a two tier or a three-tier structure (see our response to question 15 above) and we do not agree with a model where the Governance would be entirely in the hands of the regulators. As already mentioned in our response to question 15 above, we consider that establishing a strong and effective multi stakeholders' Governance body which includes representation from the profession is key to the reform. In that sense, we do not see why IFAC could not support a candidate who would apply to become a member of the Governance 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?

It is difficult to respond to that question as long as we are not clear as to whether the MG aims at a two or three tiers structure (see our response to question 15 above). i.e. as long as we are not clear

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whether the PIOB would keep an oversight role or would take a governance role. For the sake of clarity, we will call the Governance body, the multi-stakeholders' organ that should assume the governance of the Standard Setting Board(s).

As mentioned above we favor establishing a true governance of the Standard Setting Board(s) and we consider that the Governance body should have multi stakeholders' representation from the 3 groups identified in the MG consultation (users, regulators and auditors).

We understand from question 17 that the MG does not foresee the participation of practitioners in the PIOB ("composition of the PIOB to ensure that it is representative of non-practitioner stakeholders"). If the PIOB is to become the Governance body of the standards setting Boards, it is not acceptable to exclude practitioners from that body.

If they do not need to have the same level of technical expertise as the members of the Standard Setting Board(s), all members of the Governance body must definitely have a high profile and need to possess recognized skills, experience and knowledge in auditing either through practice or through interacting or having interacted with auditors during their career.

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 Monitoring Group member organizations, or do you have other suggestions regarding the nomination/appointment process?

Members of the Governance body should be appointed through an open nomination process where all stakeholders are able to put forward candidates. Such process should not be limited to only considering candidates nominated by the MG.

19. Should PIOB oversight just focus 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?

PIOB oversight or oversight by the Governance body should only be exercised within the remit of the Board(s) which is/are subject to the reform.

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?

The MG could play a similar role as the Monitoring Board of the IFRS foundation. i.e. it could act as a liaison between the Governance body of the Board(s) and the regulators and constitute a guardian of the proper functioning of the model (a safety net) in case the Governance body dysfunctions and do not properly serve the terms of the constitution in the public interest.

It could also be consulted and ratify the nominations of the members of the Governance body.

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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 in principles with having an expanded professional technical staff to support the Board(s). The Board members should not be directly involved in the drafting of the standards, and should rather devote most of their time to discussions within the Board, but also to research, public consultations and outreaches.

However, the Board(s) should remain in command of each active project and each member should take full responsibility for the standards on which he/she will cast a vote; this goes much beyond setting the strategic direction for the projects.

To constitute such staff, there may be a need for a mix of permanent technical staff and staff seconded by the audit firms or the professional institutes. Their experience and relevance must be up to date and their skills would depend of the scope of the Board's activities and of its work program.

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

Before answering to that question, it should be made clear that IFAC is at present not interfering at all into the standard setting process. It is simply providing an administrative structure to manage:

- the finance
- the staff employment contracts

In our opinion the standard setting Board is a technical body not a legal entity. The Board therefore cannot be the employer. The structure to employ the staff is either IFAC or a new structure. The choice entirely depends of the objectives of the reform and is simply a question of independence in appearance.

A separate legal entity could improve independence in appearance but would add costs. Such additional costs could be lessened if IFAC would continue to assume its present support functions. Many solutions are possible which should be worked out when the target model will be clarified.

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

Standard setting takes time, we can see that from all the other standards setters (PCAOB, IASB...), especially because it requires consultations, whether public or targeted, on the exposure drafts of standards but also on the strategy and work programs of the Boards. Appropriate consultation is key to a good standard setting model. It would therefore be harmful and not in the public interest to cut consultation time.

An appropriate staff in sufficient number and a more condensed Board with fewer Board members may help speed up the process, but by experience if a standard takes too long a time to be revised or established, the root cause is generally the lack of an appropriate definition or consensus on the objectives of revising or setting a new standard. Without a proper consensus and clarity on the objectives, the standard is usually re-exposed and can take years to be issued.

Anticipation and consultation upstream, together with a true agreement on the objectives of revising or setting a standard, is key to a timely standard setting.

Having standards that are truly principles based is also a fundamental element that allows not to get bogged down into the unnecessary complexity of detailed rules, which clearly slow down the process.

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But all those elements of a better timeliness are not dependent on the model of the standard setting; they depend on the capacity of the Board to anticipate and to reach clarity and true consensus in its discussions.

24. Do you agree with the Monitoring Group that appropriate checks and balances can be put into 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 who would distribute the funds)?

The present system already has checks and balances which the MG consultation does not fully recognize.

If the issue is perception of independence, then we consider that moving to a diversified funding is key to solving the concern

If the new system were to remain totally or mainly funded by the profession whether it be through IFAC or directly by the firms, there would always be a risk that the independence of the standard setting be questioned.

The evolution towards a diversified and sustainable funding must therefore be set up as part of the reform in order to reinforce its credibility.

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 proposed in the paper, and if so what are they?

No we do not support the application of a “contractual” levy, because it is difficult to see what is meant by a “contractual” levy at international level.

Systems of oversight or standard setting are sometimes financed at national level by a tax or a similar compulsory contribution set by law. However, it is difficult to understand how that can work at international level, since it is not possible to issue a law at international level that would impose a tax on any stakeholder.

In which case, it has to be a voluntary contribution and it loops back to the problem of perception of independence, (unless, as mentioned above, the funding is diversified like in the case of the IFRS foundation and the diversification of funding is implemented quickly).

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

In our view, the most important consideration is the cost to society of the proposed model.

The reflection of the MG should start from a definition of the mission set to the Standard Setting Board(s). From that definition of the mission would derive a proposed scope of the Standards Setting Board(s) and the setting of its/their objectives. Once the objectives are set, it is possible to derive the means needed to meet the objectives and the costs of those means and to judge whether the costs are proportionate to the objectives.

The lack of a proper definition of the objectives of the standard setting model makes it difficult to appreciate whether the proposed new model is proportionate to the objectives (What improvements

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are expected and at what cost?) and whether the same result could be attained through a simpler evolution of the existing model.

Indeed, consideration should also be given to an evolution within the existing system of:

- the nomination process,
- the composition of the Board,
- the composition and the reinforcement of the governance body, and
- the diversification and sustainability of funding,

Without necessarily getting into a big bang approach.

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

As mentioned in our response to question 2, the reflection of the MG should embrace the issue of standards setting more broadly by reflecting on what constitutes good auditing and assurance standards. We consider that the characteristics of good auditing standards are:

- Standards which are applicable to all entities and not only to a certain segment of the market
- Standards which are really principles based
- Standards which adopt a “think simple first” approach

One of the biggest risks in the proposed model of the MG lies in a possible/ probable partition of the audit of PIEs and non-PIEs with two different sets of standards where auditing standards for PIEs would become increasingly complex, to such extent that they would not only become inapplicable to small entities but also to medium sized entities.

We believe that such evolution would be detrimental to the Economy as a whole because in fact PIEs and non-PIEs, listed and non-listed entities, are interacting on the same markets and are essential to the vitality of the Economy.

The Capital Market Union (CMU) project led by the European Commission for example is a project that aims at improving the growth of the SME's through allowing them a proper access to financing at European level without necessarily being listed.

In the same vein, the directive on non-financial information applies to listed and non-listed entities.

There is no segregation of markets, users, finance providers, stakeholders, etc... in today's economy.

We therefore urge the MG to reflect on the characteristics of good auditing standards and consider the risk that exist in the proposed model of drifting away from a single set of standards for all audits that would ultimately lead to having two different audits for PIEs and non-PIEs or for large, medium and small entities.