

7 February 2018

Monitoring Group Consultation

Dear Sir

Monitoring Group Consultation

Crowe Horwath International is delighted to present a comment letter on the Monitoring Group Consultation *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 129 countries.

The Monitoring Group (“MG”) has initiated an important discussion about the future of standard setting that strengthens confidence and the public interest. The result of this discussion has to be a standard setting regime that can be settled and seen to deliver for the foreseeable future.

We agree with the MG that the time has come for changes to the standard setting process and that boards should be formed that are independent of IFAC. The MG has recognised in the consultation paper that the current standards have commanded international respect and have been widely adopted. Change therefore has to be in a way that adds confidence and enhances the process. Ideally, new arrangements should build on what the International Audit & Assurance Standards Board and the International Ethics Standards Board for Accountants have achieved. The new arrangements should also respect the progress that has taken place in convergence between international and United States standards, and ensure that convergence and interaction in standard setting continues.

Our detailed responses are included in the appendix to this letter. Our principal responses are:

- There should be separate standard setting boards responsible for audit and assurance standards and ethical standards for professional accountants;
- These two boards should be independent of IFAC;
- Education standards should remain with IFAC and there is the opportunity for education to be a core part of IFAC’s activity and the existing board to be reconstituted as an IFAC Education Committee;
- The setting of standards for Small & Medium Enterprise (SME) engagements should be an important part of the agenda of the independent boards;

- Board membership can be smaller, the boards should focus on setting strategy and providing leadership, and should have permanent staff support; and
- The proposed arrangements should result in a process that can develop standards more promptly and be better able to respond to changes in the professional, regulatory and business environment.

We comment on the proposed funding model. It is critical that free access for registered subscribers to standards continues. It will be detrimental for audit quality and the understanding of standards if access requires payment.

We trust that our comments assist the MG in this project. We look forward to see the MG's assessment of the responses and development of the proposals for the future of standard setting. A second consultation will be important for the examination of the proposals.

Yours faithfully

A handwritten signature in black ink, appearing to read "David Chitty". The signature is written in a cursive style with a large, stylized 'D' and 'C'.

David Chitty
International Accounting and Audit Director

Appendix – Questions for Respondents

	Question	Response
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?	<p>We acknowledge the concerns identified by the Monitoring Group (“MG”) and in light of these concerns it is appropriate to have a discussion about the future model for standard setting.</p> <p>In addressing the concerns it is important to remember the observation under the heading “Key Concerns” that “These standards have commanded considerable international respect and have been widely adopted”. We also understand that members of the MG stated on a number of occasions at an open meeting at Chartered Accountants’ Hall, London on 15 January 2018 that there was no lack of confidence in the current international standards.</p> <p>Therefore, as the MG has confidence in the current standards, the discussion has to focus on how the standard setting model can move on in a way that adds further confidence.</p>
2	Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?	<p>The “public interest” is the overarching principle.</p> <p>The “public interest” should be defined in the context of audit and ethical standard setting. In our view “public interest” has to be applied in the context of setting standards for global application in audit and assurance engagements that cover all sectors including defined “public interest entities”, SMEs, non-governmental organisations and the public sector.</p> <p>There are other users of audited financial statements other than those in the public interest, such as lenders, shareholders of private entities and other parties in the supply chain. Given the standards are used for all audits, not just entities of public interest, we suggest broadening the principles to result in standards to serve the needs of all users.</p>
3	Do you have other suggestions for inclusion in a framework for assessing	The supporting principles should uphold that the standards developed are

	<p>whether a standard has been developed to represent the public interest? If so what are they?</p>	<p>“principles based”.</p> <p>The “relevant” principle should recognise the breadth of audit and assurance activity as the standard setting process has to include a range of audit activity, including for example, audits of SME, non-governmental organisations and the public sector, and a range of assurance activity, including emerging areas such as giving assurance on integrated reports.</p>
4	<p>Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.</p>	<p>There should be two independent boards, separately responsible for the development of audit and assurance standards, and for ethical standards for accountants.</p> <p>Our view that the existing approach should continue, under independent arrangements, recognises that there are different issues that have to be addressed in setting auditing and assurance, and ethical standards that should be addressed by boards with their own agendas and expertise. The scope of an ethics board has to remain all “professional accountants” as there are many ethical themes that are common to the whole profession and not to auditors alone. As the MG has noted and spoken, there are no issues with the current standards, and therefore the effort should focus on the arrangements for how the existing boards evolve.</p> <p>As is the case now, co-operation and collaboration between the two boards should continue. Operating efficiency would dictate that the two independent boards should share a common “home”.</p>
5	<p>Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?</p>	<p>Educational standards should remain a responsibility of IFAC.</p> <p>The proposed reform process, and its implications for IFAC mean that there is the opportunity for IFAC to consult about and revise its approach to education. Education will be a major component of IFAC’s agenda, if it ceases to host audit and ethical standard setting. This creates an opportunity for a refocus. The exiting Board could become an Education Committee. The Committee should focus on working with emerging and developing countries to effectively</p>

		implement professional education processes, and modernise its standards to reflect technology, life long and relevant learning, and the current working environment, and move away from dated concepts such as annual CPD hours. Quality of education should be guiding principle.
6	Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.	As we have noted above, an independent ethics standards board should be responsible for ethical standards for all professional accountants.
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.	We understand a second consultation paper is planned in light of preliminary feedback received. We are supportive of the MG's efforts related to that paper and expect to have additional feedback as a result.
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?	<p>A smaller Board membership should be strategic and be focused on the leadership needed to deliver high quality principals based standards that serve the public interest.</p> <p>More (or all) Board members should be remunerated. This model works effectively for IASB, enabling members to concentrate on their engagement with the Board. Remunerating members recognises their contribution directly, achieves accountability, and eliminates the reliance on employers for support.</p>
9	Do you agree that the board should adopt standards on the basis of a majority?	We recommend making this determination after the board composition has been fully analysed and evaluated, before determining whether a simple majority is the appropriate basis for adopting 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 believe it is important to consider the perspectives of the various stakeholders needed for the board to achieve its objectives and that it is imperative that the individuals have the requisite skills and perspectives to achieve high quality standard setting. In order to have the right mix, we believe it could be challenging with a board of twelve members if only four members are from the profession. Considering global constituents, firm size and consideration of those involved in SMEs, noted below, and suggests a need for more than four profession members. In addition, it is not

		<p>clear to us that all stakeholder groups would need the same level of representation, meaning that a board of twelve can still be achieved.</p> <p>We agree with the balance between full time and part-time members, though once the structure is finalised, there could be merit to reconsidering the appropriate balance. This should apply to both Boards.</p> <p>A smaller Board than is the case now is important for deliberations to be strategic.</p> <p>The three stakeholder groups are appropriate for both Boards, although as we comment above there does not need to be equal balance between each group. In developing the criteria for each group, there should be consideration of experience of the SME, non-governmental and public sectors.. Ideally, some Board members should bring a perspective of these sectors.</p>
11	What skills or attributes should the Monitoring Group require of board members?	<p>Board members should have skills and attributes that include the following:</p> <ul style="list-style-type: none"> • Ability to articulate the Board's programme and standards to a wide range of audiences; • Ability to listen to views presented by a wide range of stakeholders; • Strategic leadership and project management; • Awareness of the reporting environment beyond audit, including the implications of developments in IASB standards, emerging forms of reporting (such as integrated reporting) and trends in technology (applications by users, preparers and auditors); and • Some Board members should have an understanding of the particular circumstances of the SME sector. • To support maintaining convergence between international and US standards, as now, some Board members should have a US background.
12	Do you agree to retain the concept of a CAG with the current role and focus, or	The CAGs have an important role and should be retained. As the membership

	should its remit and membership be changed, and if so, how?	of the Boards is changing, the opportunity should be taken to review the membership of the CAGs. As practitioner representation on the Boards will reduce, there should be greater practitioner participation in the CAGs. Practitioners should still be given the opportunity to actively contribute to the process of developing quality standards, and the CAGs enable this to be achieved. There should also be involvement in the CAGs from those with particular knowledge of sectors in which standards are applied including SME, non-government organisations and the public sector.
13	Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?	Yes.
14	Do you agree with the changes proposed to the nomination process?	There should continue to be an open call for nominations and there should be clear nomination criteria. We agree that the PIOB should oversee the nomination process.
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?	The PIOB has to perform its governance role in a way that respects the interests of all constituents. The governance model needs further development for consideration in the second consultation. The PIOB should not be able to veto a standard or challenge technical judgments made as part of due process that is subject to the Board's oversight.
16	Do you agree with the option to remove IFAC representation from the PIOB?	Rather than have a presumptive outcome, the mission and oversight structure resulting in effective standards for all stakeholders should determine the composition of the PIOB.
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?	The composition of the PIOB should include a broad range of stakeholders. Geographical diversity is important, as is business sector understanding. The membership has to include stakeholders who understand emerging and developing markets and the SME sector.
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?	There should be an open call for nominations that is not restricted to nominations from within MG member organisations.
19	Should PIOB oversight focus only on the independent standard-setting board for	As we support there being two independent standard setting boards

	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?	(audit and assurance, and ethical standards for professional accountants), these two Boards should be the limit of the remit of the PIOB. Our response to question 5 proposed a future vision for education standards.
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 should continue in its current oversight role.
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?	Expanded technical staffs should support the Boards. This is essential given that the size of the membership of the Boards will be reduced and there will not be technical advisors, as is the case now. New sources of resources are therefore needed, and ideally the overall resources available to the Boards should be greater than it is now. A challenge for the Boards at present, particularly IAASB, is the number of projects that need to be delivered. More resources, particularly in the form of a strong permanent staff, will help important public interest projects to proceed at the same time and enable these projects to be completed more quickly.
22	Do you agree the permanent staff should be directly employed by the board?	Yes.
23	Are there other areas in which the board could make process improvements – if so what are they?	We do not have any further process improvements, but it is important that the proposals are implemented with a view to achieving a prompter recognition of issues and delivery of new and revised standards.
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)?	We agree with the proposals made by the MG. A model based on the IFRS Foundation would be an appropriate solution.
25	Do you support the application of a "contractual" levy on the profession to	As is noted in the consultation paper, the Standard Setting Boards currently are

	<p>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?</p>	<p>financed directly by funds provided from IFAC that are sourced from IFAC member organisations and audit firms (through the Forum of Firms) and indirectly by the organisations that employee or otherwise support Board members and technical advisors.</p> <p>The future funding model for the independent Boards should include direct contributions from audit firms (the membership of the Forum of Firms) and from professional accountancy organisations (the membership of IFAC). However, more diverse funding is needed and this should come from MG member organisations and other recognised stakeholders. Those who rely on the output of the profession (as well as benefit from this output) should play their part in funding the development and setting of standards.</p> <p>There should be caution regarding the commercial licencing of standards. Currently, IAASB and IESBA standards are available for free on the IFAC website. By contrast, most IASB materials are behind pay walls, only available to subscribers. The MG, the PIOB and the restructured Boards should be committed to continuing free access. Maximum access is essential.</p>
26	<p>In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.</p>	<p>There has been considerable progress in recent years with convergence between the IAASB's standards and auditing standards in the United States. This convergence has led to a valuable sharing of experience and knowledge on both sides. It is important for global confidence in auditing standards that convergence and interaction continues. We trust that the MG will respect the importance of converged standards in progressing and implementing reforms.</p>
27	<p>Do you have any further comments or suggestions to make that the Monitoring Group should consider?</p>	<p>We understand a second consultation paper is planned in light of preliminary feedback received and we look forward to sharing our views on that document.</p>