

Gerben Everts; Chair of Monitoring Group

Stephen Haddrill; Chair of the MG Working Group

Sent by email: MG2017consultation@iosco.org

Date: 9th February 2018

Dear Messrs Everts & Haddrill,

Monitoring Group Consultation: Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest

EGIAN welcomes the opportunity to comment on the above consultation. We support the decision of the Monitoring Group to review the standard-setting process in the areas of audit and ethics as each has a crucial public interest role to play in ensuring confidence in the financial information presented in the global economy.

In undertaking its review, we believe it is important for the Monitoring Group not only to identify areas for improvement but also the successes of the existing arrangements in order that it can retain the latter strengths in any new model that is developed.

Our key specific recommendations in terms of structure and other aspects of governance include the following:

- ◆ We strongly support the profession neither dominating, nor being perceived to dominate, the standard setting process, and agree that changes to the current arrangements are needed. We therefore fully support the nomination process not being under the control of the profession.
- ◆ We believe there should be a board for auditing and assurance covering audits both of listed and other public interest entities and other organisations across the economy and an ethics board covering ethics for auditors and accountants in other roles. This proposed structure reflects our strongly held view that operating in the public interest extends beyond looking at the audits of individual Public Interest Entities,
- ◆ We agree that oversight of the above boards, and selection of members of them, should be by the PIOB. The structure and role of the PIOB and Monitoring Group need to be

reviewed as part of the review of the standard-setting arrangements to ensure the new arrangements are internally consistent, fit for purpose and command widespread respect among stakeholders.

- ◆ We believe each board should have around 12-15 members, with only the chair full time and, subject to appropriate funding, would support board roles, and certainly that of the chair, being appropriately remunerated.
- ◆ We consider the approval of standards should require a qualified majority of two-thirds or three quarters of board members voting for them to ensure their widespread acceptance and not just a simple majority.
- ◆ We believe at least one third of the members of each board should be made up of investors or other users such as representatives of workers or civil society and at least one third, but a minority should be qualified auditors currently or recently in practice. The remainder should come from other constituencies such as preparers or academics or in the case of the audit board, internal audit. For the ethics board, some members should come from a business background or that in the public service.
- ◆ Having regard to accepted constitutional practice, we consider the preferred position would be for regulators not to be involved in the setting of standards that they will enforce rather they should have a powerful role in the oversight of the standard-setting bodies and this is reflected in our proposals.
- ◆ In line with the above views, we do not consider the PIOB should have the power to veto individual standards. Its responsibilities should include appointing board members, setting the boards' strategies and approving their workplans, assessing how well the standards are generally accepted and considering issues related to how standards are working in practice.
- ◆ We are not persuaded of the merits of excluding IFAC from the PIOB but its single representative should not be chair and we would be open to them being voting or non-voting. All members involved at all levels of the standard-setting structure should have an overriding commitment to serve the public interest.
- ◆ In addition to those with a regulatory background, we would expect the PIOB to be principally made up of investor and other user representatives, as defined above.
- ◆ We suggest the role and membership of the Monitoring Group remains broadly appropriate and that the Monitoring Group should collectively appoint member of PIOB.
- ◆ We support a mixed team of permanent and seconded staff with all reporting to the board.
- ◆ We support a diversification of the current funding arrangements and these being under the auspices of the PIOB but changes in arrangements and skill sets will be needed if this is to be successfully achieved.

Our responses to each of questions posed in the consultation paper are attached as Annex 1.

We look forward to the MG's assessment of the responses to this initial stage of the consultation and look forward to the resulting proposals for the future of global audit-related standard setting. We will be very pleased to discuss any aspect of our response with you if that would be helpful.

EGIAN, The European Group of International Accounting Networks and Associations collectively represents 19 of the leading mid-tier global accounting networks and associations listed in Annex 2.

Yours sincerely

Prof Dr Jens Poll

Chair

John Capper

Executive Director

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Annex 1 with responses to questions

Question 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?

1. We strongly agree that auditing and ethical standards should be, and be seen to be, fully developed in the public interest and that this requires that the profession neither be seen, nor perceived to be, dominating the standard-setting process.
2. We support the nominations process not being under the control of the profession and recognise the importance of there being confidence that the staff of the standard setting board(s) report to, and are fully answerable to, the board(s).
3. We agree that relevance and timeliness of standards are of utmost importance. The development of high quality standards must also be one of the desired goals of standard setting and this can take time. We would also emphasise that in addition to setting standards other activities such as promoting convergence between international standards and related national standards, where they apply, is also very important.

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

4. We support the overarching and supporting principles.
5. We would add that the public interest should be defined in the context of audit and ethical standard setting. We believe that 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 PIEs, SMEs, non-governmental organisations and the public sector.

Question 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?

6. The principle of proportionality should also apply. Standards should be relevant and cost-effective for different types of entities to which they are applied ranging from relatively small private companies to global listed entities and what may be proportionate for the largest listed businesses may not be so for a much smaller entity with far fewer stakeholders external to the business.

Question 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.

7. We believe that there should be one board for auditing and assurance standards and one for ethical standards.
8. Our view of the best structure for the standard-setting bodies is predicated on our belief that the public interest extends beyond individual public interest entities. A number of sectors, whose members extend beyond PIEs, make a substantial contribution to the economy and their providing high quality audited financial information is critical to the overall public interest with regards to the global economy being met.
9. We believe the audit standard-setting body should seek to address the needs of listed and other public interest entity audits and also, as far as possible, those of other entities in the private, public and third sectors recognising the importance of all these sectors to the economy.
10. We further believe there should be a common approach to ethical standards for audit and assurance providers, non-auditors in professional service firms and other accountants working in business, the public sector or the third sector, in order to ensure a consistency of approach.
11. In offering the above view, we recognise as far as audit standards are concerned that experience has shown that it is becoming increasingly difficult to set the same standards for listed/PIE audits as for non-listed audits. The new board should consider the best way in which this issue can be addressed.

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

12. We do not have a problem with responsibility for the development and adoption of educational standards remaining with IFAC.

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

13. As discussed in our response to Q4, we believe there should continue to be a single body responsible for the setting of ethical standards both for audit and assurance providers and other accountants including those in business. Given that auditors are within its scope, we do not believe that body should be under the control of IFAC.

Question 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.

14. The principal elements of our proposals for reform are as set out above.

Question 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?

15. We do see merit in the boards ensuring they have a clear strategy for directing their work.

16. In principal, we would support appropriate remuneration for board members, and certainly for the chair if full-time, but this is clearly dependent on the relevant funding being secured.

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

17. We would support the need for a qualified majority to approve standards, say two thirds or three quarters of board members. This is linked to our views on board composition set out below and the qualified majority should include at least half of those designated as investor or other user representatives, eg including those representing employees or wider civil society.

18. Our concern would be that standards could be approved which are totally impractical to implement in practice because the votes of the auditors were insufficient to prevent such an approval. This is especially likely if the “expectation gap” is not addressed and users have views of what auditing can achieve that are unrealistic (e.g. an auditing standard that says auditors will uncover all fraud)

Question 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?

19. We are not persuaded that regulators should be board members in the same way that they are not members of the International Accounting Standards Board.

20. As a basic constitutional principle, those responsible for setting the standards should be separate from those enforcing them.

21. We believe at least one third of the board should be user representatives, as defined above, and at least one third and less than half of the board should be those with auditing experience. The rest should come from other constituencies such as preparers,

academics or those with an internal audit background. It could also be appropriate for those with past regulatory experience to form part of this third group.

22. We believe a board membership of around 12 is about right but would set the maximum above this number, say at 15, in case particular circumstances merited it. Some or all of the (external) auditor representatives need not be current auditors, they could have recently stood down from their main auditing roles. It will also be necessary for members of the auditing group to come from firms/networks of different sizes.
23. We are not persuaded that anyone other than the chair need be full time as we believe having full and part-time members would run the risk of creating two classes of board member which would not be helpful.

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

24. For the skills and attributes of board members, it will be important both to look at those required of individual board members and those required of the board as a whole and to ensure effective succession planning is in place.
25. All board members should clearly be committed to serving the public interest and be capable of having the necessary understanding and commitment to contribute significantly to the work of the boards from their different backgrounds and in their different ways.
26. All board members should be capable of working effectively on a board made up of those with a professional background in auditing or ethics, as applicable, and those from different backgrounds whether in business, professional service firms, the public sector or the third sector.
27. The boards need a good understanding of stakeholder views and to be sensitive to changes in public perceptions regarding the role of audit and on ethical matters.
28. The boards should also have the necessary technological expertise whether through some board members possessing it or, at least, in the sense of understanding advice offered by those from outside with expertise in an area and being able to ask relevant questions on it.
29. We strongly support a significant emphasis being given to diversity in terms of representatives being drawn from around the world and from a variety of different business, professional and other backgrounds. There should also be appropriate emphasis with regard to diversity in terms of the gender, ethnicity and, also importantly, the career stage of board members.

Question 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?

30. We are supportive of retaining the concept of a CAG with a role similar to its current one but believe it would be helpful to review CAG membership as we believe there may be opportunities for expanding it. EGIAN would be pleased to consider contributing in this way.

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

31. Taskforces appointed should be fully accountable to the board. Equally it may be relevant on occasion for the staff team to bring projects directly to the board.

32. Given the staff and task forces are clearly reporting to the board, we fully agree that they should adhere to a public interest framework.

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

33. We fully support the Nominations Process being under the auspices of the PIOB and we believe it should be independent of the profession.

34. To ensure transparency, we believe it should generally include an open call for candidates

35. There may also be circumstances where it is considered more appropriate to use a search process to identify the best candidates for a particular role or where an open call may be complemented by a search process.

36. There will need to be clarity, however, on the enhanced role and new governance arrangements for the PIOB and the skills and expertise required on the PIOB.

Question 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?

37. We do not believe the PIOB should be able to veto individual standards. Its responsibilities should include appointing board members, setting the boards' strategies and agreeing their overall work plans, assessing how well the standards are generally accepted and considering issues related to how standards are working in practice.

38. As the body responsible for appointing board members, it should naturally have the right not to re-appoint a board member.

39. Board members should only be able to be removed during their term where there are exceptional and reasonable grounds for doing so.
40. Subject to the above, comments, the proposed functions of the PIOB look reasonable and comprehensive.

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

41. We are not persuaded of the need to avoid having IFAC having representation on the PIOB.
42. Clearly IFAC should not have a majority role and should not provide the chair but a single representative, possibly in a non-voting capacity, will help the PIOB to take account of a key stakeholder interest.
43. Any IFAC representative on PIOB, like all other members of it, should have an overriding duty to serve the public interest.

Question 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?

44. We expect the PIOB to be made up primarily of those relying on audited financial statements such as investors and it could also include others such as employee representatives, representatives of civil society, those from the academic community or those who were previously regulators.

Question 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?

45. We would suggest that the Monitoring Group as a whole should appoint members of PIOB rather than individual members having direct rights of appointment. This would allow the Monitoring Group to collectively decide what skills and expertise are most needed when a new appointment is to be made.

Question 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?

46. In line with our views expressed above, we believe PIOB should oversee the work of the reconstituted auditing and assurance board and the reconstituted ethics board given both have a strong public interest dimension to their work.

Question 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?

47. Yes, we believe the Monitoring Group should retain its current oversight role for the whole standard-setting and oversight process.

Question 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?

48. We agree that some expansion in the staff team will be needed and that the staff team as a whole should have the broad range of skills and expertise set out in the paper. This will include general skills such as those in project management and communications, general subject-matter expertise in auditing and ethical issues and specialist subject-matter expertise such as in financial services.

49. We support the staff team being made up of a mixture of permanent and seconded staff. Seconded staff allows for appropriate additional resource to be added when needed, ie when skills in a specific specialism are required on a temporary basis.

50. A mixed team of permanent and seconded staff also provides for the regular renewal of the staff team and helps ensure it remains in touch with current developments in its marketplace.

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

51. The appointment of all staff should be approved by the board, possibly with delegated authority to the chair where appropriate, and this clearly means all permanent staff should be directly appointed by the board.

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

52. Subject to our earlier comments on qualified rather than simple majority voting, we consider that the process improvements suggested seem sensible and the boards and those overseeing them should definitely have full regard to the effectiveness of the standard-setting process as it has a significant impact on how its legitimacy is viewed.

Question 24: Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

53. Yes, we agree that appropriate checks and balances can be put in place to mitigate threats to independence as a result of it being funded in part by audit firms and/or the accountancy profession and the means suggested in the paper seem reasonable.

54. To address the suggested perceptions of undue influence exercised by the profession, due to its funding the standard-setting bodies, the funding sources should be widened. In addition to the larger audit firms, national standard setters, securities market regulators, larger businesses and their representative bodies and the public sector could also be considered as potential contributors to funding.

55. We are strongly of the view, however, that, as a matter of serving the public interest, there should not be a charge for access to auditing or ethical standards.

56. We are conscious that the PIOB has not raised significant funds to date and has not been responsible for the funding of the boards that it oversees.

57. If the PIOB is to be responsible for fundraising, it will be important to consider the governance arrangements related to that part of its role and the skills and expertise necessary among board members, or members of a separate funding body reporting to it, to enable it to be successful in raising funds.

58. If the IFRS Foundation is a reasonable comparator, it is likely to take time, interest and effort to secure diverse funding and it will have to be clearly set out as a priority objective.

Question 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?

59. We would support the agreement of funding for the standard-setting bodies being on say a three or four yearly basis.

60. As discussed above, on the grounds of equity and the concern over undue influence, it is not clear why all the funding should come from the auditing firms or the accountancy profession. We therefore welcome the Monitoring Group's review of this issue.
61. A case could be made for institutional investors making a contribution and it is welcome that the Monitoring Group has raised the possibility of whether its members should also contribute.
62. It does not appear practical to make a contractual levy mandatory, therefore, it is likely that funding will have to be voluntary in which case it makes the buy in of all of the potential funders crucial to the success of the new proposals as they finally emerge.

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

63. Any proposed reforms should have a clear timetable made public at the appropriate time to ensure stability and trust in the system. For similar reasons we think that it would be beneficial for the new arrangements to be introduced as a single package.
64. Before reaching any final decisions, we consider the Monitoring Group, in consultation with relevant stakeholders, should set out in their impact assessment the expected benefits of the proposed reforms and the related costs associated with them.

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

65. Further to our response to Question 14, the review and consultation on role and governance arrangements, needs to extend to the Monitoring Group and PIOB in order that an internally consistent and well-functioning model commanding widespread respect among stakeholders is developed.

Annex 2 List of EGIAN Members

Allinial Global

Alliott Group

Baker Tilly International

BKR International

Crowe Horwath International

Geneva Group International

HLB International

IAPA

IECnet

INPACT International

INAA

Mazars

MGI Worldwide

Moore Stephens International

Morison KSi

Nexia International

PKF International

Praxity Global Alliance

Russell Bedford International