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Mr. Gerben Everts
Chair
The Monitoring Group
C/O International Organization of Securities Commissions
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**GAO's Response to the Monitoring Group's November 2017 Consultation Paper:
*Strengthening the Governance and Oversight of the International Audit-Related
Standard-Setting Boards in the Public Interest***

Dear Mr. Everts:

This letter provides GAO's response to the consultation paper, *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States. GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. GAGAS, with respect to financial statement audits, incorporates U.S. generally accepted auditing standards issued by the American Institute of Certified Public Accountants, which are converged with International Auditing and Assurance Standards Board (IAASB) standards. Also, the International Organization of Supreme Audit Institutions, of which GAO is a member, issues financial audit standards for government entities that are based on the IAASB auditing standards. We are concerned that the consultation paper's proposals may negatively affect the significant efforts that have been made to promote harmonization of IAASB standards globally and the substantial progress that has been made over the past 10 years.

While we support efforts to improve the standard-setting boards and processes, we believe that the consultation paper does not provide sufficient evidence and related analysis to establish the need for the proposed governance changes, to support the assertion that proposed governance changes would improve the effectiveness and efficiency of the two boards, or to support the proposed change in funding. For example, there is little discussion of the basis for the concerns, other options considered, analysis of the advantages and disadvantages of each option, and how each proposed solution would result in a more effective or efficient process. Also, further clarifying and developing the definition of the "public interest" and the public interest framework is critical to evaluating the current standard-setting model.

We also believe that a review of the current standard-setting model could benefit from evaluating the oversight role of the Public Interest Oversight Board (PIOB) and the Monitoring Group. For example, the oversight role should include ensuring due process and overseeing the nominations process, but should not include involvement in the activities of the standard-setting boards and their deliberations. In addition, the Monitoring Group should consider whether the standard-setting process requires two levels of governance, the PIOB and the Monitoring Group. We suggest that the PIOB, properly structured and operated, may provide sufficient

oversight of the standard-setting process to ensure the protection of the public interest and public accountability.

Furthermore, we have concerns that the Monitoring Group did not appear to consult certain significant groups of standards users, such as governmental entities, in determining the nature and extent of perceived issues with the standard setters or the proposed governance changes prior to developing the consultation paper. Standards promulgated by the IAASB and the International Ethics Standards Board for Accountants (IESBA) are followed by many sectors outside of public interest entities, such as private entities, small and medium-sized entities, governments, and not-for-profit organizations, which collectively represent a large constituent group of users. Input from all of these significant stakeholders could provide valuable information and insights into the governance of the IAASB and the IESBA.

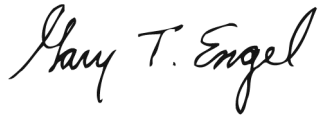
Consequently, we believe that it is premature to suggest changes to the governance and structure of the standard-setting boards without first addressing the issues noted above and other points raised in the enclosure to this letter. Notwithstanding, we would like to share our general views based on the information presented in the consultation paper. In our view, the current standard-setting model could benefit from the following:

- Increasing the diversity of the groups represented in the standard-setting boards, their working groups, the PIOB, and the Monitoring Group, including sufficient representation from public interest entities, private entities, small and medium-sized entities, governments, and not-for-profit organizations.
- Implementing regular joint sessions of the boards for auditing standards and ethical standards and utilizing task forces, as needed, to increase coordination of the IAASB and the IESBA.
- Continuing to appoint a majority of board members who have extensive experience in the auditing and assurance professions to enhance members' ability to develop appropriate standards that the profession can implement effectively and efficiently.
- Reviewing the current board nomination process to determine how it may be improved to enhance independence.
- Evaluating the oversight role of the PIOB and the Monitoring Group.
- Expanding the number of professional technical staff at the standard-setting boards.

The Monitoring Group is seeking comment on a number of questions related to the consultation paper. Our responses, as applicable, to the Monitoring Group's questions follow in an enclosure to this letter. We believe that our comments will enhance the discussion on promulgating audit-related standards in the public interest.

Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-8815 or engelg@gao.gov or Robert F. Dacey, Chief Accountant, at (202) 512-7439 or daceyr@gao.gov.

Sincerely yours,

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive style with a large, stylized initial "G".

Gary T. Engel
Managing Director
Financial Management and Assurance

Enclosure

Enclosure

Response to Questions

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?

In our view, the consultation paper does not provide sufficient evidence and related analysis to support the key areas of concern identified, to establish the need for the proposed governance changes, to support the assertion that proposed governance changes would improve the effectiveness and efficiency of the two boards, or to support the proposed change in funding. For example, there is little discussion of the basis for the concerns, other options considered, analysis of the advantages and disadvantages of each option, and how each proposed solution would result in a more effective or efficient process. Consequently, we believe that it is premature to suggest changes to the governance and structure of the standard-setting boards without first addressing the issues noted in our letter and our responses to the questions.

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

While we agree with the overarching and supporting principles, we believe that the review of the current standard-setting model could benefit from further clarifying and developing the definition of the “public interest” and the public interest framework. Also, we do not believe that the consultation paper provides adequate support for the assertion that the current standard-setting model does not fully satisfy a number of these principles.

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?

We believe that the standard-setting boards, their working groups, the Public Interest Oversight Board (PIOB), and the Monitoring Group should reflect the diversity of the standards’ constituent groups, including public interest entities, private entities, small and medium-sized entities, and not-for-profit organizations. Under the current framework, the Monitoring Group may be perceived as having underrepresentation of certain IAASB constituencies.

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 support the retention of separate boards for auditing and assurance standards and ethical standards for auditors and assurance practitioners. We believe that the two boards efficiently and effectively utilize and maintain the diversity of knowledge, skills, and abilities of different members of the boards. Rather than establishing a single board, we suggest implementing regular joint sessions of the boards for auditing standards and ethical standards to increase coordination. We also suggest considering task forces as needed to work on specific topics that could benefit from the input of experts in auditing standards and ethical standards. We believe that two separate boards allow the standards to be developed

more efficiently as the material addressed by the two boards, although related, involves unique issues.

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

We believe that the standard-setting boards should focus on auditing and assurance standards and ethical standards for auditors and assurance practitioners, but we recognize the efficiencies gained by having the same organization retain responsibility for the compliance program and developing and adopting educational standards. We also suggest that the Monitoring Group consider whether the PIOB should also provide oversight of the compliance program.

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

As noted in our response to question 5, we believe that the standard-setting boards should focus on auditing and assurance standards and ethical standards for auditors and assurance practitioners. However, we recognize the efficiencies gained by having the same organization retain responsibility for developing and adopting ethical standards for professional accountants in business.

- 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.**

At this time, we are not proposing any further options for reform in relation to the organization of the standard-setting boards for the Monitoring Group to consider.

- 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?**

While we agree that the boards should focus on standard-setting strategy, we believe that the boards will need to continue to focus on technical details of the standards for the standard-setting model to satisfy the overarching and supporting principles set forth in the consultation paper. We support the boards developing strategic plans and work plans that are subject to public review and comment before being finalized.

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

We believe that the board should retain its current required quorum of 12 members to approve and withdraw standards and to approve exposure drafts. We support the board's practice of unanimous approval and believe that consensus helps to drive acceptance and adoption of the standards internationally.

- 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 that it is important for the board to maintain a cross representation of stakeholders reflecting geographic diversity and constituent diversity (as discussed in our response to question 3).

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

We strongly believe that in order to promulgate standards that meet the overarching and supporting principles articulated in the consultation paper, the majority of the board members should have extensive experience in auditing and assurance. Board members with auditing experience will be better able to determine whether the profession can implement the standards effectively, whether the standards are feasible, and whether the standards will improve audit quality. While we recognize the benefit of a regulatory perspective, we believe that a representative on the board with regulatory experience can provide the input needed.

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

We support retaining the concept of a Consultative Advisory Group (CAG) with the current role and focus, and maintaining its current geographical representation and representation of regulators, international organizations, users, and preparers.

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

We believe that task forces provide a diversity of views on specific projects, and suggest that an expanded professional technical staff would help task forces continue to do their work effectively and efficiently.

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

We believe that the nominations process should be reviewed to determine how it may be improved to enhance independence. However, we believe that the board should include significant representation of individuals with audit experience.

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?

We believe that the PIOB's roles and responsibilities should continue to include (1) ensuring that the processes of standard development under its oversight follow due process and respond to the public interest and (2) overseeing the strategies and work plans of the standard-setting boards, the nominations process, and the Compliance Advisory Panel. We do not believe that the PIOB should be able to veto the adoption of a standard. The veto of a standard would be part of due process and therefore would inhibit the PIOB's ability to oversee due process.

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

We believe that the PIOB should include International Federation of Accountants (IFAC) representation and reflect the diversity of the standards constituent groups, including public interest entities, private entities, small and medium-sized entities, and not-for-profit organizations.

17. Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?

As noted in our response to question 16, we believe that the PIOB should reflect the diversity of the standards constituent groups, including public interest entities, private entities, small and medium-sized entities, and not-for-profit organizations.

18. Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?

We believe that PIOB members should be identified through an open call for nominations from both within Monitoring Group member organizations and the broader constituent community.

19. Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

In our view, the PIOB's oversight should primarily focus on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors and assurance practitioners. However, we recognize the efficiencies gained by having the same organization oversee development and adoption of ethical standards for professional accountants in business.

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?

As noted above, we believe that a review of the current standard-setting model could benefit from evaluating the oversight role of the PIOB and the Monitoring Group. For example, the oversight role should include ensuring due process and overseeing the nominations process but should not include participation in the standard-setting boards' activities and deliberations. In addition, the Monitoring Group should consider whether the standard-setting process requires two levels of governance, the PIOB and the Monitoring Group. We suggest that the PIOB, properly structured and operated, may provide sufficient oversight of the standard-setting model to maintain due process, protection of the public interest, and public accountability. The role of the PIOB might also include selecting board members and reviewing their performance.

However, if the Monitoring Group retains its current oversight role, we suggest that the membership of the Monitoring Group be broadened to better reflect a more varied group of institutions and entities that are committed to advancing the public interest in areas related to international audit standard setting and audit quality. Institutions and entities that represent public interest entities, private entities, small and medium-sized entities, governments, and not-for-profit organizations should be considered.

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?

Yes, we agree with the option to support the work of the standard-setting board with an expanded professional technical staff.

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

Yes, we agree that the permanent staff should be directly employed by the board.

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

We encourage the Monitoring Group to benchmark timeliness metrics against those of other standard-setting boards. In our view, the time to allow for due process in standards setting is necessary to promulgate standards that meet the overarching and supporting principles articulated in the consultation paper. However, such benchmarking may identify areas for process improvements. Further, potential process improvements may be identified by the boards, the CAG, and other interested stakeholders. We agree that the boards should consider and implement, as appropriate, suggested process improvements that they believe will increase their effectiveness and efficiency.

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

We are not providing comments in response to this 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?

We are not providing comments in response to this question.

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

We have not identified any matters that the Monitoring Group should consider in implementation of the reforms.

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

We do not have further comments or suggestions that the Monitoring Group should consider.