Mr. Gerben Everts  
Chair of the Monitoring Group  
Mr. Stephen Haddrell  
Chief Executive of the FRC  

Sent by email:  
MG2017consultation@iosco.org  

London, 7 February 2018  

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

Dear Sirs,  

HLB International would like to present you with its comments to the Monitoring Group consultation regarding strengthening the governance and oversight of the international and audit-related standard-setting boards in the public interest.  

You will find our detailed responses to the 27 questions raised in the consultation paper in the appendix to this letter.  

We are always open to suggestions which can improve the public’s perception of our work as auditors and very much welcome the opportunity to comment on the proposal.  

However, we do regret the absence of a full impact assessment including additional details of the strategic role of the board, funding arrangements and an indication of how the transition process will be handled. As a result, our responses are in places more imprecise than we would have hoped.  

Should you wish to obtain clarifications regarding the responses in the appendix, please contact Bettina Cassegrain (bc@hlbi.com, +33 (0) 610 61 25 66).  

HLB International is a leading network of independent professional accounting firms and business advisers with member firms in 150 countries.  

Yours sincerely,  

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Appendix 1:

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?

- The standard setting process is already closely monitored and standards are adopted by legislators. It is therefore difficult for us to understand how the standard setting process under the current model can be regarded as not being in the public interest.

- Despite the fact that there may be a perception of undue influence by the profession, it remains unclear how the proposal would remedy this situation.

- As far as timeliness is concerned, it is always desirable to have a streamlined process. However, we must not forget the progress which has been made over the years in this respect and the necessity for extensive outreach and consultation. The success of the standard setting process should not be measured merely in terms of the speed of issuing standards but in terms of the rate of adoption. As far as the latter is concerned, it appears to us that the standard setting process is a successful one, albeit with room for further improvement.

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?

- We agree with the overarching principals of the proposal.

However, we would like to draw attention to the following points which are of the utmost importance and which do not appear to figure prominently enough in the current proposal:

- In our opinion, the definition of public interest has to be redefined (see our answer to question 3).

- It appears essential to us that all those involved in the standard setting and monitoring process have very clearly defined roles. The standard setters must be clearly differentiated from the oversight bodies and there should not be any possible confusion between the two parties or their roles.
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?

- When considering the question of public interest, we should be looking at all entities subject to audit and all stakeholder groups.

- The proposal appears to be focusing on PIEs when in reality the vast majority of entities making up the economies of many jurisdictions are of small and medium size.

- In order for it to serve the wider public interest, any standard being developed going forward should therefore reflect on the particular needs and circumstances of small and medium size entities as well as those represented in the public sector. The trade-off between PIE audits and SME audits is critical. We are not in favour of separate standards for SMEs as such a development would lead to a split in the profession. We do, however, firmly believe in the scalability of standards and the importance of professional judgement. These two points should clearly be one of the main areas of focus of standard setting bodies going forward.

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.

- We do not support the establishment of one single independent board to develop audit and assurance as well as ethical standards for auditors. Given the limited size of the proposed board when compared to the current organisation, we are sceptical as to whether the board will be able to accomplish the tasks in hand within an acceptable time frame. The support structure needed (working groups, technical advisory staff) would have to be very significant and would therefore not necessarily be conducive to achieving a more streamlined standard setting process. This aspect should be given careful consideration, as the timeliness of the standard setting process is one of the main concerns exposed in the proposal.

- We have similar reservations regarding to objective to attract the most suitable candidates. The competencies of someone on either of the current boards do not seem to be interchangeable. It can therefore be feared that the overall criteria being taken into consideration may be watered down.
Question 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 agree that the development and adoption of educational standards and the IFAC compliance programme should remain the responsibility of IFAC.

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

- We do not believe that the development and adoption of ethical standards for professional accountants in business should be separated from those for auditors. The proposal to separate the two appears to be linked to the fact that the monitoring group proposal concentrates on independence issues with respect to PIE audits. As indicated in earlier answers, our assessment of how the public interest should be defined is different and more focused on small and medium sized entities subject to audit. We therefore do not see the need for this split and we even believe it may be damaging.

- Whether the boards which sets ethics standards remains under the auspices of IFAC is a separate issue which can be discussed.

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.

- We refer to our previous answers in which aspects which seem relevant to us have been exposed.

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?

- It is true that as part of the current standards setting process, boards spend a lot of time with minute details such as fine-tuning the exact wording of standards. While essential, we agree that such tasks can be delegated to working groups. However, it is of the utmost importance that the board remains the final decision making body.

- As far as the strategic nature of the board is concerned, we deplore the lack of more detail as to what is meant by strategic. If strategic means including board members with completely different competencies from the current practice, then this may be interesting as a concept. However, in the absence of more ample clarification on this point, we are unable to comment further.
We agree in principle that board members should be remunerated. However, we would have appreciated some detail on what exactly this remuneration is going to look like as part of an impact assessment.

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

- The current standard setting process is already working on the basis of a 2/3 majority. While we do not believe that decisions have to be taken unanimously, a qualified majority (such as 2/3) is in our opinion a prerequisite in order to guarantee successful adoption and avoid the sight lining of individual stakeholder groups and their concerns.

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?

- The main focus when it comes to board composition needs to be diversity: in terms of variety of stakeholders, regions, gender, public and private sector, PIES and small and medium size entities. This diversity is in our opinion of paramount importance if the objective is to counter any perception of undue influence.

- The proposed number of 12 board members, of whom only one quarter are work full time, seems insufficient to adequately reflect this diversity.

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

- If the aim is to have a board whose role is more strategic in nature, then this may very well influence the types of skills and attributes the Monitoring Group should be looking for.

- However, as a general rule, it is our belief that very sound technical knowledge and the capacity to fully appreciate the issues under discussion are fundamental prerequisites for any board member. The technical input coming from the accounting profession is in our view a prerequisite for the production of relevant and applicable standards and diluting the profession’s contributions to the standard setting process would not serve the wider public interest.
• It goes without saying that while the above aspects are fundamental, they have to respect the principle of diversity which is of overarching importance.

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?

• If the proposed structure adequately fulfils its purpose of being representative of diverse stakeholder groups, guaranteeing transparency and offering ample opportunity for public consultations, one might ask the question whether the CAG as a concept remains relevant.

• Yet, in the light of the very limited number of proposed board members, we remain sceptical when it comes to the feasibility of fulfilling the board’s remit without relying on groups such as the CAG.

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

• The consultation does not define the term task force and it is therefore unclear what the exact definition or remit of such task forces may be.

• If the term task force is to be read as a synonym for expert advisory groups, then these are certainly indispensable as long as they can be held fully accountable.

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

• As indicated in the consultation paper, the current nomination process is one with an open call for nominations. The mere fact the IFAC’s nominations committee proposes candidates does not automatically guarantee their nomination. Thus, in our opinion, the current process does not appear to be deliberately biased.

• Given the overall aim to avoid the perception of undue influence exerted by the profession or any other stakeholder group, it appears unwise to leave the nominations process solely under the auspices of 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?

- In our opinion there needs to be clear segregation between the roles of standard setting, governance and oversight. The mandate of each of the two multi stakeholder groups has to be clearly defined.

- The PIOB should therefore not intervene in any technical discussion during the standard setting process or veto the adoption of standards. Doing so would clearly create the perception of undue influence exerted by the oversight body. It should instead fulfil its clearly defined role.

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

- The fundamental prerequisite for creating trust in accounting standards, encouraging adoption and countering the perception of the exertion of undue influence by any one stakeholder group is a multi-stakeholder system.

- The representation of the profession as part of the oversight body should therefore not be negotiable.

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?

- Reference is made to the answers to question 15 and 16. Diversity, multi-stakeholder representation and adherence to due process during the nomination stage have to be guaranteed.

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?

- The nomination process should be modernised to reflect what is proposed elsewhere: an open and transparent nominations process.
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 (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

- It seems inappropriate to fully comment on this as the way oversight will work largely depends on the composition of the new board structure.
- For aspects or standard setting such as education, it should be left to IFAC to choose how oversight is organised.

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?

- The role of the Monitoring Group and the PIOB should be reviewed to guarantee a multi-stakeholder approach and thus work towards the aim set out in this consultation paper.
- Given the objective of cost savings and the possible synergies, the necessity for having two distinct oversight bodies may have to be re-evaluated. It seems counterproductive to maintain two oversight boards, especially when both are dominated by regulators.

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?

- We agree with the concept that all staff involved in the standard setting process need to have the adequate technical skills to perform their tasks. This is especially

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

- We agree in principle that staff should be employed by the entity to which it reports. However, this may entail other legal difficulties as the boards are not currently legal entities.

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

- Reference is made to our previous comments regarding the definition of public interest, the size of the board and the related difficulties we see in terms of timeliness and cost-effectiveness.

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)?

- The funding arrangements of a system which is based on diversity and multi-stakeholder representation should be a clear reflection of this system. We therefore do not believe that the proposed funding model based on an overall levy on the accounting profession is a viable option which should be considered.

- Financing by the accounting profession rather than multi-stakeholder financing will therefore reinforce the alleged perception that the accounting profession is exerting undue influence rather than increasing stakeholder confidence.

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 do not support the application of a contractual levy on the profession to fund the board/boards and the PIOB for the reasons exposed in our response to question 24.

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

- There will need to be a clear indication of timelines, transitions arrangements and most importantly the cost of the proposed changes, in short a full impact assessment.

- In our opinion, a second round of stakeholder consultation once the impact assessment has been made public is essential in order to guarantee a transparent process.
Question 27: Do you have any further comments or suggestions to make that the Monitoring Group should consider?

- Reference is made to our previous answers.