



STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARDS-SETTING BOARDS IN THE PUBLIC INTEREST

Issued 9 February 2018

ICAEW welcomes the opportunity to comment on the ‘Strengthening the Governance and Oversight of the International Audit-related Standards-setting Boards in the Public Interest’ published by the Monitoring Group on 9 November 2017, a copy of which is available from this [link](#).

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ICAEW'S KEY CONCERNS

1. We note that the purpose of the Monitoring Group ('MG') consultation is to consider whether the current international audit standards-setting model and its oversight are operating in the public interest. This is what the current arrangements were set up to ensure and it is right to undertake a periodic review. However, while this response focuses largely on the specific questions being consulted on in the context of the objective that the consultation paper ('the paper') refers to, we have significant concerns about the scope of that objective, and the bases on which the proposals for revision have been made. We set out our key concerns immediately below.

Objective

2. We believe that a public interest assessment of audit would highlight that the real public interest concern is what is generally referred to as 'the expectation gap'. A consultation which at its heart is seeking to further public trust in audit, needs to address the fundamental question of whether what audit is, best serves the public interest, whether it is fit for purpose, and how it might evolve to serve society better. While we accept that the MG's remit is focused on audit and audit-related standards-setting, tinkering with the standards-setting process does nothing to alleviate this primary concern: audit standards-setting has to operate within a framework of what audit is at the moment. ICAEW and others have considered and are considering the future of audit through a number of initiatives but to be effective, any change will need international co-ordination and the power to undertake national implementation. The MG should consider how it and the Public Interest Oversight Board ('PIOB') may be well placed to apply such coordination and push through any change needed.

Bases of proposals

3. As regards the assumptions on which the proposals in the paper appear to be based:
 - 3.1 There are frequent references in the paper to the public interest but little discussion as to what it is. The implication is that the public interest itself equates to a process. While process is important, it is a means to an end, not an end in itself. We have developed our own public interest framework and hope that the framework being developed by the PIOB will be included in the next consultation. It will be a vital element in ensuring that high quality standards continue to be produced and are seen to be produced.
 - 3.2 We note that at an outreach event at ICAEW in London on 15 January 2018 members of the MG stated that they have confidence in the current standards set by the International Auditing and Assurance Standards Board ('IAASB') and the International Ethics Standards Board for Accountants ('IESBA'). Nevertheless, the paper bases the need for change on the premise that standards are not being developed in the public interest because of the involvement of the profession in the current process. We do not believe that this premise is evidenced or merited.

The proposals

4. We do nevertheless agree that multi-stakeholder involvement is important at all levels of the standards-setting process. However, such stakeholder involvement needs to go way beyond the three sets of stakeholders referred to in the paper. Standards must be workable and effective and there needs to be diverse involvement from the profession and others in the standards-setting boards to ensure that is the case, and in the oversight process (though in neither case as a majority) to ensure broad stakeholder perspective and buy in. Audit regulators and institutional

investors tend to focus on capital markets and listed entities. However, standards set, including those on audit-related and non-audit assurance services, also apply to SMEs and other unlisted organisations, who may have very different needs and circumstances. It is vital that they and others are represented properly.

5. We do not support the proposal to set up one board to address audit standards and audit ethical standards. We believe this would be counterproductive, among other things: diluting expertise; creating the risk of conflicting ethical standards for the profession as whole; and creating an unwieldy agenda that would distract attention from forward facing issues, such as dealing with technological change.
6. We are also concerned that a reduction in board numbers will result in underrepresentation from key stakeholders, but agree that other enhancements to the current process can be made to expedite standards-setting without harming quality, and to free up time for a more pro-active approach.
7. We believe that any changes need to be proposed and considered as a whole, including reforms to the oversight and funding arrangements. In particular we are concerned that the interim funding proposals will do nothing to allay perception concerns, and may have adverse competition consequences.
8. We comment in further detail on these points and others raised specifically in the paper, below.

RESPONSES TO SPECIFIC QUESTIONS

KEY MONITORING GROUP CONCERNS

Question 1: Do you agree with the key areas of concern identified with the current standards-setting model? Are there additional concerns that the Monitoring Group should consider?

9. We have, in the remainder of this response, focused largely on the specific questions being consulted on in the context of the objective the paper refers to. However, as well as disagreements with aspects of the proposed revisions to the standards-setting process, we have significant concerns about the scope of the limited objective of the consultation, and the bases on which the proposals for revision have been made.

Objective of the consultation

10. At the heart of this consultation is an underlying objective of seeking to further public trust in audit. To do so should involve addressing fundamental questions of whether what audit is best serves the public interest, whether it is fit for purpose, and how it might evolve to serve society better. The 'expectation gap' has been the source of the principal public concern with audit for years, but changes to the standards-setting process do nothing to alleviate this – audit standards-setting has to operate within a framework of what audit is at the moment. We discuss this further in our response to question 20.

Basis of proposed revisions to audit and audit ethics standards-setting model

11. It was stated on a number of occasions by MG members at the outreach event on 15 January 2018, that there is no lack of confidence in the existing international standards. This is not the impression given in the paper, leading to:

11.1 A concern that the paper itself will lead to a loss of confidence in current standards; and

- 11.2 Questions over whether it is clear what is not thought to be fit for purpose going forward. It is important to understand any concerns in order to arrive at the best model for the future.
12. The paper is based on the premise that without change, the current standards-setting process cannot result in standards being set in the public interest. The underlying assumptions to this assertion appear to be that:
- 12.1 Audit problems that arise do so as a result of incorrect standards rather than incorrect application; and
- 12.2 A significant involvement of the accountancy profession in the standards-setting boards means that standards cannot be set in the public interest, notwithstanding the independent oversight process.

As an extension of the latter point, the paper seems further to assume that an audit standards-setting process dominated by regulators and investors must result in high quality standards in the public interest.

13. We do not believe that these assumptions are merited:
- 13.1 Principles-based standards deal with all circumstances by their very nature. Further investigation of audit failures should be carried out before making sweeping changes based on little evidence. We believe that such research would indicate that flawed application is the main issue, rather than poor standards;
- 13.2 The profession has in many countries considerable experience of applying a public interest perspective; and
- 13.3 Multi-stakeholder input at each level of the process is critical but that input must be from a wide range of stakeholders, not just regulators and institutional investors. Each individual stakeholder, including audit regulators, will act on behalf of a much narrower set of interests and perspectives than that which should be considered in assessing the best public interest outcome, including ensuring that there are no unintended consequences. For example, a standards-setting process dominated by a regulatory perspective can lead to a compliance approach, which is ultimately less effective in dealing with changing circumstances than a principles-based approach. We discuss the public interest further in our response to question 3.
14. We also note the assertion that a number of key stakeholders perceive that the current level of professional involvement taints the standards-setting process. While the extent of this concern is unclear, it is appropriate to look at ways to address such a perception without compromising audit quality. It is also relevant to consider whether the current processes can be enhanced to free up time for a more pro-active approach: a vital attribute given the increased pace of technological and reporting change in the audit environment.

GUIDING PRINCIPLES

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?

15. The principles stated are, at a high level, reasonable - indeed we believe the checks and balances within the present arrangements were designed to meet just such principles. However, what the principles are interpreted to mean merits further consideration.

16. The explanatory notes underlying some of the supporting principles should and could be expanded:
- 16.1 The 'independent' principle should be applied in the context of the overall standards-setting process, including the impact of oversight and governance arrangements. The paper focuses heavily on aspects of the detailed standards-setting arrangements, but the final proposal needs to address the impact of the whole process including the funding arrangements, and checks to ensure balanced input.
- 16.2 There is no direct reference to the need for the standards to lead to high quality audits. For that to be the case they need to be workable, and effective in addressing the relevant evidence gathering or behavioural issue that is their particular objective. These aspects highlight the importance of input from those with the necessary technical and practical experience to assess effectiveness, impact and workability. They could be considered to be covered by the 'credible' principle but this should be stated explicitly.
- 16.3 We note that the 'relevant' principle refers to the needs of 'a fast changing market'. Audit and assurance cover a wide range of organisations. Listed, public and private organisations and their stakeholders operate in a whole series of markets with very different needs and practicalities. It is important to ensure that: those stakeholders, including among others SMEs, SMPs, and the public sector, are not underrepresented, as appears to be the case frequently at present; and that changes to staffing and process, referred to later in the paper and our response, are able to cope with proportionality and the variety of circumstances that need to be addressed.
- 16.4 The 'transparent' principle should include reference to the need for proper due process to be applied.

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?

17. In order to determine whether standards are being set in the public interest, it is important to consider what acting in the public interest is. There is no discussion in the paper beyond a link with due process to ensure the application of the principles discussed above. Due process in standards-setting is an important part of being able to demonstrate how decisions have been taken but it is not an end in itself. The end, in this context, is high quality, workable and effective standards that align with local legislation and contribute to high quality audits.
18. We agree that the public interest is not a defined term, having researched and written a paper on the issue a few years ago¹. In our paper we set out a framework for considering the public interest, recognising that it is context driven. The key elements from our framework include: assessing who the relevant public are; what they want; constraints to those wants; how conflicting inputs are aggregated and balanced; how this leads to the ultimate output; and, as alluded to briefly in the 'transparent' principle in the paper, the need for transparency in making these assessments so that proper challenge can be applied in the right context.
19. A high-level example of the application of some of those framework elements in the context of standards-setting for audit and assurance engagements illustrates the challenges involved:

¹ Acting in the Public Interest: a Framework for Analysis, available at [icaew.com/publicinterest](https://www.icaew.com/publicinterest).

- 19.1 The relevant public, i.e. those with a legitimate interest, covers a wide spectrum, including for example: institutional investors; private business owners; international audit firms; SMPs; governments and other public sector organisations; audit regulators; competition authorities; accounts preparers; professional bodies; and the indeed the public itself, bearing in mind the 'reasonable and informed third party' perspective that is inherent within standards-setting.
- 19.2 What they want will vary with perspective, but can include for example: accounts being 'right'; guarantees of ongoing trading; cost-effectiveness; cheapness; ability to provide practical help; and ability to apply.
- 19.3 Constraints will result principally from: wants that are actually impossible (for example, 'auditors should apply infinite foresight'); and those which are possible but conflicting (for example 'audits should detect all frauds', against 'audits should be affordable').
- 19.4 Balancing conflicting requirements and arriving at the final output – the standards, are key aspects that need to be transparent to ensure confidence in the process. There is seldom one definitive right answer but presenting how the balance has been achieved (for example on the cost v scope aspects of the expectation gap) will at least allow informed debate.
20. We have been in communication with the PIOB about our own framework and understand that the PIOB is evolving its own public interest framework. This framework will be vital as we believe that the concerns about the current arrangements are largely driven by perceptions. Credible, effective and transparent public interest assessment is critical, both in terms of the MG's final proposals following this consultation and the functioning of the standards-setting oversight process going forward. The framework should be included in the next stage of the MG consultation process.

OPTIONS FOR REFORM – NUMBER OF BOARDS AND REMIT

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.

21. The involvement of the International Federation of Accountants ('IFAC') in the board member appointment process is considered below in our response to question 14.
22. Otherwise the current procedures around the operation of the standards-setting boards has meant that they have in substance functioned independently of IFAC while benefiting, in terms of standards adoption, from the compliance and outreach programmes. We do not believe that change in those aspects of the relationship is a key issue in ensuring independent operation and it may be possible to allay perception concerns by explaining the safeguards. If change is nevertheless thought to be necessary, it will be important to consider how those benefits can be retained, and what the impact on IFAC, and on those functions retained under its operational umbrella, will be.
23. If a single board with responsibility for audit standards and ethical standards for auditors were to be set up, it would have an unwieldy agenda and need such a diverse range of board experience as to inevitably dilute the depth of that experience. There is a risk that the effect would be to divert attention away from consideration of critical issues facing auditing now, such as the impact of technology, towards the management of the significant volume of existing standards.

24. There would also be a risk of diverging requirements in respect of the ethical principles and guidance within the IESBA code of ethics ('the IESBA code') for work other than audit. The consultation refers only to ethical standards for auditors and ethical standards for accountants in business. However, there are in many countries, professional accountants in other sectors, including accountants in the public sector, and practitioners who provide many services other than audit. The ethical requirements within the IESBA code are grounded in principles shared between all professional accountants, and detailed guidance in many areas that is applied in common by auditors and by other practitioners. Indeed these ethical principles are what defines the profession. We believe that a unitary accounting profession, whose members are involved in, among other things, auditing, financial management, and the preparation of financial statements, and who have common ethical principles, is very much in the public interest.
25. The present division of audit-related standards-setting seems to be wholly appropriate and important, reflecting the differing aspects of a high quality audit: IAASB setting technical standards based around actions leading to evidence gathering and assessment and reporting; and IESBA setting standards leading to an ethical behavioural mind-set and the management of relationships and activities that might compromise that. Liaison can always be improved but we believe that there have been concerted efforts between the boards to enhance this in recent years.
26. We are aware that some national audit regulators have responsibility for auditing standards and audit ethics but the two functions are often dealt with by separate boards/councils within the regulators' overall structures and in practice the ethics aspects are invariably limited to auditor independence.
27. The auditor independence provisions are the only part of the IESBA code that are set exclusively for those undertaking audit and related work. While limitation of re-assignment of ethics standards-setting responsibility to auditor independence only would reduce the risk of overlap and conflict to a significant extent, it would not be eliminated completely: the independence requirements, while more rules-based than most of the rest of the IESBA code, are grounded importantly in the common fundamental ethical principles. It is imperative that the potential for conflicting ethical standards is avoided.
28. A combined audit and audit ethics standards board also risks a disconnect with the standards currently set by the IAASB in respect of audit-related services and non-audit assurance services. These standards play a key role in ensuring that credible information is produced to assist in the development of strong economies which rely on a healthy SME sector. If the combined board were to take these on as well, that would obviate the concerns about a disconnect, but further weigh down the agenda and, without significant representation from the SME/SMP sectors, risk such standards being set using an inappropriate top-down approach.
29. We therefore believe that a combined board would be counterproductive in terms of the overall objective and the MG should explore whether the objective can be realised by applying other aspects of the reforms to the existing two-board structure. We discuss further aspects of this under question 7 below, but believe this would minimise the risk of adverse unintended consequences, that the proposed combination would result in.
30. If, notwithstanding the likely adverse consequences, it is decided to proceed with the setting up of a combined board, there is an argument for considering whether that board should focus on Public Interest Entity ('PIE') independence and audit standards. This could mitigate the potential impact of the over-large agenda that we refer to above. It would also match the scope to the areas in which the dissatisfied stakeholders' concerns seem principally to lie. However, the

consequences would need to be thought through carefully. For example: the definition of PIE varies around the world, which would lead to uncertainty as to boundaries; the separation may send a signal to national regulators of a retreat from global standards-setting for non-PIE entities; and there is a risk that PIE standards would diverge from standards for other audits over time to the extent that the barriers to undertaking PIE audits would speed up the departure of accountancy firms from that market, reducing competition.

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?

31. We agree that responsibility for education standards should remain under the IFAC umbrella, but we believe that significant changes are needed to ensure the right focus, which is vital for preserving audit quality.
32. First, consideration should be given to a new, streamlined governance structure for education within IFAC. There is a strong case for a new IFAC Education Committee to replace the current International Accounting Education Standards Board. This Education Committee could obtain input directly from relevant stakeholders and be directly answerable to the IFAC Board without the distractions and costs of some of the current IFAC oversight arrangements. A restructuring would also release significant resources to assist developing professional bodies in improving their education models. This is crucial to closing the compliance gap between developed and developing professional bodies that exists under the current International Education Standards ('IESs') – and which can widen every time a new IES is issued.
33. Second, the framing of 'educational standards and compliance programs' may need to change. Efforts should focus less on developing and issuing further IESs, and more on developing guidelines and support tools for existing IESs. Urgent thought also needs to be given to whether a new principles-based framework of education would be more effective than a body of IESs. Principles could improve quality by boosting flexibility and relevance.

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

34. We note that, contrary to the wording in the question, the setting of ethical standards is undertaken by IESBA (including being subject to PIOB oversight), not IFAC. While IFAC has some involvement, this is an important distinction.
35. As we believe the change agenda is largely perception-driven, and that perception concern is focused on audit, we see no reason to advocate a re-allocation of the setting of non-audit ethical standards for accountants. As noted in our response to question 4, professional accountants occupy many roles other than being auditors and accountants in business. They all follow a common set of fundamental ethical principles. It would be inappropriate for the setting of standards for all professional accountants to be undertaken by a board whose primary focus is on one activity, audit, albeit an important one. The IESBA code – which is just about to be reissued in a widely lauded restructured form, serves the diverse circumstances of the general body of professional accountants and their stakeholders well.

Question 7: Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standards-setting boards? If so please set these out in your response along with your rationale.

36. In arriving at the final conclusions, an overall objective of the MG must be the preservation of the ability to produce proportionate, scalable standards that are appropriate and capable of practical

implementation on audit and assurance engagements for all entities, not just complex listed and other PIEs.

37. We have stated above, our preference for retaining a structure with separate ethics and audit standards boards. We recognise the importance of joined-up thinking in certain areas and believe that it may be appropriate for the setting of independence standards and certain cross-discipline matters to be subject to review by a standing group of board members sourced from both the ethics and audit standards boards. Such matters are relatively few but invariably complex, with different perspectives. An example is professional scepticism where there has been much cross-board activity but with limited workable output to date. However, one board is not the answer here as this will detract from the widespread consultation and input necessary in such matters. The priority should be better liaison and coordination.

OPTIONS FOR REFORM – BOARD COMPOSITION AND ROLE

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?

38. We agree with the boards (including the existing ones) being more strategic in nature: indeed this is vital. The core framework of audit procedures and independence requirements for audit as it is currently scoped, is substantially in place and further detail risks being counterproductive, moving from a professional principles based approach to something more akin to mechanical compliance. In an environment of ever faster change it is important to set aside time to plan to deal pro-actively with likely future issues. That said, this is easier said than done in our experience. It will be difficult for board members to feel that they can approve changes without delving into at least some level of detail. The key is setting out for task forces at the start of a project very clear expectations and objectives and anticipating the need for cross-board liaison, to address difficulties and likely objections. It may also be necessary to delegate more authority to task forces – which will have consequences for the operation of those task forces (see our response to question 13 below).
39. We believe that it is an important feature of a successful standards-setting process for most board members to spend most of their time in the wider community to ensure that the process benefits from their wider experience. It also helps to focus attention on work that is actually needed. It is not clear that remunerating all board members is necessary (except for key full-time chair roles as presently), especially as a sustainable funding model has not yet been proposed. However, it would be important to have a facility to defray lost income or other remuneration, where needed to ensure that appointment is not available only to the better-resourced.

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

40. Unconstrained majority voting is not the way to speed up standards-setting. In our experience majority voting can already be used within the existing boards. However, consensus is sought to avoid ignoring concerns of key stakeholder groups, and majority voting is used only where it has ultimately been impossible to achieve a consensus. We believe this is a sensible approach.
41. It may be possible to construct an arrangement requiring majorities of several stakeholder groups, but behind every 'no' vote there may be a serious legitimate concern and it would be important to consider the nature of that concern. For example, would it be reasonable to approve a standard if, say, all investor members were opposed on the grounds of perceived independence concerns, or all members from the profession pointed out that it was impracticable for SMPs and SMEs?

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?

42. Multi-stakeholder representation is important but what is being proposed omits important groups. Each of the three categories of stakeholder referred to is broadly based but they do not necessarily merit an allocation of one third of board membership each. Other significant groups should be considered to be stakeholders from a public interest perspective. While it is impractical for a board to be truly representative of all stakeholders in a democratic sense, it is important that it have a broad base of experience to draw on. This would involve, for example: professional bodies, many of whom have a long experience of a public interest approach, and whose membership takes significant roles in the preparer and user communities; and SMPs and SMEs who are going to be subject to the standards that frequently display signs of being set 'top down' with scant regard to the consequences. We have referred to other potential stakeholder groups in our response to question 3.
43. The boards also need to achieve a sound diversity of geographical and economic backgrounds, to reflect the very different circumstances that global standards need to deal with. It will be difficult to do this with only 12 members. The current board size of 18, while still not capable of full representation, seems to be a reasonable balance between representation and agility.
44. Regardless of the size of any board, consultation with the wider community of stakeholder groups could be improved by establishing an extensive standing virtual consultation network. Members of such a network would be kept up to date with developments and would be able to give 'instant input'. While this would not obviate the need for a formal consultation process at the appropriate time, it would help to ensure wide input before proposals are formally consulted on.
45. Separation of the functions of setting, oversight and enforcement of laws and regulations has long been established as a necessary feature of legislative structures. In appointing representatives from the regulatory community, it will be very important to ensure that representatives from bodies whose role is oversight, should not be included in standards-setting boards where this would subsequently cut across nationally determined separation of functions when the standards are adopted.

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

46. The objective must be to achieve a wide range of skills and attributes, input by different board members. The board(s) as a whole will need to understand the principle of acting in the public interest, and the needs and constraints of stakeholder groups. The board(s) will also need to have experience of undertaking (and being subject to) audits, experience of regulators and professional bodies in applying standards, and experience of balancing these competing inputs to arrive at the best outcome.

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?

47. The current Consultative Advisory Groups (CAGs) serve a useful purpose in inputting to proposals as they evolve. However, were their largely regulator-dominated membership to have direct input through board membership, the current arrangements – which do take up significant staff time, might be considered to be over-engineered and complex. Perhaps the CAGs could then be replaced by a wider 'virtual' community of consultees.

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

48. Clearly, the whole process will have to be, and be shown to be, adhering to the public interest framework. Whether task forces have a direct duty to apply the framework will depend on the relationship that is established between the task forces and the board(s). Where a task force's output is scrutinised in great detail by the board(s), it is more important that the board(s) apply the framework. Were a task force to be given absolute delegated responsibility to establish and publish a new standard based on an instruction from a board, the task force itself would need to operate within the public interest framework directly.

NOMINATIONS PROCESS

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

49. We have stated elsewhere that we do not consider that IFAC's 'background' involvement is a primary consideration. However we do consider it important that the nominations and appointment process be seen to be independent of the profession and support this proposal. This should apply irrespective of whether the board(s) continue to operate under the IFAC umbrella.

OVERSIGHT – ROLE 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?

50. The proposed functions are reasonable – though funding is considered below. In view of the largely perception-driven nature of the concerns asserted, it will be important for the PIOB (and the MG) to demonstrate transparently that their work is in the public interest and how it is.
51. As the PIOB is an oversight body, it should not get involved directly in standards-setting, but should be involved in overseeing the process by which the task forces' detailed objectives and constraints are set, at early and ongoing stages to avoid last minute concerns. This should obviate the need for a veto.

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

52. As noted in our response to question 17 below, we advocate widespread representation on the PIOB, which among others would include the profession. We do not see that IFAC should necessarily be guaranteed a seat but should be able to apply for membership as part of professional representation.

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?

53. The PIOB's own composition should reflect a wide range of stakeholder groups, not just regulators, who have a significant involvement at other stages of the process. This includes the profession, though there should be a framework to ensure a majority of members are non-auditors. Other stakeholders might include for example investors, business groups, governments, and indeed the public, whose interests the PIOB is supposed to be protecting. Wide ranging input is important to ensure an appropriately broad perspective and buy in and acceptance of the process, as well as the underlying standards.

54. As with the boards themselves, it will be impossible to have full democratic representation, but a wider virtual consultation group could be established (see comments on question 10 above).

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?

55. It follows from our response to question 17 above, that it would be appropriate for appointment to be made via an open call for nominations (within the framework referred to above), rather than the current MG direct appointment process.

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

56. The PIOB oversees standards-setting for all accountants, not just auditors, and there is no reason why it should not continue to do so, regardless of the outcome of this process. Ensuring the right people with the necessary competencies (personal skills as well as technical accounting/auditing skills) are in place is essential to achieving high audit quality in the public interest. High standards for other members of the accountancy profession are just as much in the public interest as standards directly related to auditing.
57. We have in our response to question 5 proposed a reform and simplification of the education standards-setting process and envisage a lighter touch oversight arrangement for that process.

OVERSIGHT - ROLE OF THE MONITORING GROUP

Question 20: Do you agree that the Monitoring Group should retain its current oversight role for the whole standards-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?

58. We note that there is little discussion in the paper about the MG itself. It is important for there to be a 'trustee' of the model, with oversight of the whole process, but this should only be at a high level. The MG's role would also include oversight of the appointments to the PIOB (see above). To avoid conflicts of interest, MG members should not themselves have seats on the boards they are overseeing.
59. As the MG has a public interest role, we believe that it is important that it have a public interest perspective. The public interest is, as we have mentioned, a much broader concept than the perspective of regulators and institutional investors. The MG should be and be seen to be more accountable to the public interest itself. While we do not necessarily advocate that the direct membership of the MG be widened, it might seek to avail itself of the virtual consultation network we have suggested for the PIOB (see question 17 above) when undertaking projects that it considers to be in the public interest, to ensure proper input and buy-in from all those with a legitimate interest.
60. We believe that an assessment of 'what the relevant public wants' (see our discussion on the public interest framework in response to question 3) leads to the need for an additional and vital role to be taken on within the overall process. While we accept that the present remit of the MG is focused on standards-setting, as we have stated, we believe that a wider objective should be considered than the reorganisation of the standards-setting process: the fundamental questions of what audit is, whether it is fit for purpose, and how it should evolve practically to serve society

better. Audit standards setters can only operate within the framework of what a statutory audit is and this will not address the fundamental public perception issue with audit: the 'expectation gap' between what statutory and regulatory audit work is thought to comprise, and what it does comprise. This has been a concern for years. Many organisations have considered the matter: ICAEW for example continues to encourage debate on the future of audit through initiatives such as AuditFutures² and the Audit Quality Forum³. However, any change needs to be co-ordinated at the international level, but with national legislative and/or regulatory power to apply it. The membership of the MG is ideally placed to ensure this agenda is properly considered and to use its direct or persuasive powers to have change implemented. The MG should consider how it and the PIOB may be well positioned to apply such coordination and push through any change needed.

BOARD STAFFING

Question 21: Do you agree with the option to support the work of the standards-setting board with an expanded professional technical staff? Are there specific skills that a new standards-setting board should look to acquire?

61. Speed must be balanced with the need for quality in standards-setting. Some issues need proper research and consideration. It is how the standards themselves are framed that will allow modern challenges to auditing, such as developments in artificial intelligence, to be addressed, not the intricacies of the process for setting them. However, much of the current time taken to amend standards stems from detailed process and resourcing constraints. More staffing is undeniably needed even with the existing board structure. This could be dealt with regardless of whether there is a wholesale re-organisation.
62. Timeliness without compromising quality is likely to need staff to be more pro-active and take a greater role in communication. While it is important for standards-setting staff to be objective, it is also important that any new staff have suitable experience and understanding of the issues and an ability to engage with the outside world and with board members and others to draw on their experience and knowledge.
63. Ongoing staffing arrangements need to be resolved early to avoid damaging current arrangements and the funding issue needs to be resolved before taking action.

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

64. We do not believe that having staff employed by IFAC has compromised the objectivity of the current process: who legally employs the staff should be irrelevant. That said, if direct employment by the board or boards assuages perception concerns, we are not opposed to it, subject to proper transitional arrangements.

PROCESS CONSIDERATIONS

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

65. Subject to comments above on majority voting and the need for proper research, timing notwithstanding, we agree with the proposals to consider improved processes.
66. We believe that consideration should also be given to enhancing communication in respect of proposed and final standards. Current consultation documents tend to adopt a very rigid style, focusing on detail and process, with little consideration of the higher level issues – the overall

² auditfutures.net

³ icaew.com/en/technical/audit-and-assurance/audit-quality-forum-aqf

effect on quality, how application issues might be mitigated, what concerns remain and why, etc. Final implementation documents focus more on feedback and comparison with the consultation than a more useful explanation of the changes from the existing standards and what application issues accountants need to consider.

FUNDING

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 (eg, independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

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?

67. We do not believe that the current funding model has resulted in any financial pressure being brought to bear to alter the setting of standards that professional bodies and firms might not agree with. However, standards-setting is for the public benefit and we agree that there is a perception issue to be addressed. Therefore we are in favour of broadening the funding model, regardless of whether the board(s) remain under the IFAC operational umbrella or not. This seems to work well with the IFRS Foundation model.
68. We do not believe that the proposed interim approach would work well. Changing a 'contribution' to a 'levy' does nothing to alleviate the perception issue that is being thought to be addressed: concerns will continue to focus on the fact that the 'auditing profession' is paying most of the cost, rather than on any intermediate process. It does also presuppose that a significant increase in funding in the short and medium term, from what is already a high base, will not have adverse consequences. It is not implausible that some mid-tier firms might choose to leave the audit market rather than pay a substantial direct levy, harming competition. It needs to be demonstrated that any new structure is as cost-effective as possible, and not just focused on major capital markets, with appropriate input from all stakeholder groups, within the overall objective of producing high quality, effective, practical, fit for purpose standards.

OPEN QUESTIONS

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

69. We look forward to the MG's more detailed proposals covering the whole process of standards-setting, oversight and funding: we believe that all aspects need to be considered together and a phased approach to application is likely to result in a sub-optimal outcome. The consultation should include among other things: the public interest assessment framework; the basis on which powers to set up an arrangement outside IFAC and to issue standards for adoption by IFAC member bodies and others would be assumed; an impact analysis; and appropriate transitional arrangements.
70. It will also be important for a subsequent consultation, giving the full picture, to leave enough time to be considered by all stakeholder groups, including those not close to the regulatory world.