

INSTITUTE OF CHARTERED ACCOUNTANTS OF JAMAICA

Response to Monitoring Group consultation paper entitled:

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

| QUESTION | | Response |
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| 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? | Whilst we understand the arguments made in the consultation paper regarding the influence of the profession on the setting of the related standards, we have not seen research that questions the quality of the International Audit and related standards or the process by which the standards are set. Rather, we are aware of questions raised in various forums about the performance of specific auditors relative to the accepted standards. See also our response to Q27 |
| 2 | Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why? | See response to Q27 |
| 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? | The policy position 5 from IFAC presents a useful model for defining the public interest and is therefore a good point of reference, having presumably been exposed for prior consultation. |
| 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 believe that separate boards would allow a more distinct focus on technical matters of audit and assurance standard and general principles of ethics. This would also allow for better matching of skills to address the areas of focus. |
| 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? | No specific comment. See response to Q27. |
| 6 | Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning. | No specific comment. See response to Q27. |
| 7 | Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of | No specific comment. See response to Q27. |

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| | the standard-setting boards? If so please set these out in your response along with your rationale. | |
| 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? | We agree that the work of the Board should be more strategic, involving stakeholder engagement and understanding the high level public interest matters that should drive the standard setting process and then evaluating whether the technical responses appropriately address those needs. |
| 9 | Do you agree that the board should adopt standards on the basis of a majority? | The present model of consensus ensures that all stakeholders are properly considered and therefore could be argued to deliver a higher level of overall satisfaction and acceptance than might result from majority agreement, where particular stakeholder interests are defeated |
| 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? | Whilst we appreciate the argument for more efficient operation of the boards by reducing the numbers, we have strong reservations about how these smaller boards would reflect the breadth of professionals and stakeholders that are affected, in terms of geography, development status and size of businesses, particularly for enterprises that are not listed or otherwise public interest and the practitioners that make up the SMP segment of the profession. We would caution against a smaller board that is regulatory focused and Eurocentric. |
| 11 | What skills or attributes should the Monitoring Group require of board members? | No specific comment. |
| 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? | No specific comment. See response to Q27. |
| 13 | Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework? | No specific comment. See response to Q27. |
| 14 | Do you agree with the changes proposed to the nomination process? | See response to Q27. |

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| 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? | Having contemplated the proposals for reforming the composition of the boards to reflect stakeholder groups and make them more strategic in focus (see response at Q8), it is not clear that there would be a need for a PIOB, since the principles of diversity and public interest would be more deeply embedded in the standard setting process itself. See also comments at Q 27. |
| 16 | Do you agree with the option to remove IFAC representation from the PIOB? | See response to Q15 and Q27. |
| 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? | See response to Q15. |
| 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? | See responses to Q15 and Q27. |
| 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? | See responses to Q15 and Q27. |
| 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? | See responses to Q15 and Q27. |
| 21 | Do you agree with the option to support the work of the standard-setting board with an expanded professional technical | We agree that if the standard setting boards are to be more strategic, they should be supported with more technical |

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| | staff? Are there specific skills that a new standard-setting board should look to acquire? | resources to develop the standards for Board approval. The funding implications of this requires careful consideration. See also response to Q27 |
| 22 | Do you agree the permanent staff should be directly employed by the board? | Yes. However, we have some reservations about the balance of power that would arise in a board that has some full time and some part time members, as the full time members would have an information advantage that could result in their dominance of deliberations. |
| 23 | Are there other areas in which the board could make process improvements – if so what are they? | No specific comment. |
| 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)? | See response to Q27. |
| 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 notion that professionals should be asked to solely fund a process of setting standards to which they are subject and yet be limited to a minority in their ability to make representations to support the efficacy and practicality of those standards. See also response to Q27. |
| 26 | In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe. | No specific comment |
| 27 | Do you have any further comments or suggestions to make that the Monitoring Group should consider? | See Appendix with our general comments and concerns. |

General observations in relation to the Monitoring consultation paper

We have three key observations on the way forward in respect of the development of Audit and related standards. These can be summarized as follows:

- 1 Definition of what represents the public interest
- 2 The need to dismantle the existing structure in the public interest
- 3 How this model and structure are to be funded

We discuss each of these concerns under their respective headings.

1 Definition of what represents the public interest

It is counterintuitive to propose sweeping reforms of the standard setting process in the “public interest” without first clearly defining what the public interest is and then articulating how this interest would be best served through the reformed standard setting process. We note the MG’s intent to formulate a framework for consideration and therefore suggest that the development of proposals for reform that surround the public interest could be premature if that public interest is not yet clearly defined.

2 The need to dismantle the existing structure in the public interest

The current mechanism for setting standards, involving IFAC and its affiliated bodies has managed to achieve significant general acceptance internationally and contributed to common appreciation and application of standards by accountancy professionals. To the extent that the mechanism is in need of improvement, it would seem more efficient to reform the existing institutions, rather than build alternative structures to achieve the same objectives. We note with some concern IFAC’s assertion that its requests of the MG “to host all key stakeholders to evaluate the current model and seek to address ways to ensure standards are relevant and timely and enhance confidence in global economies” have not been facilitated.

It is our view that professionals should have a reasonable say in developing and articulating the standards by which their work is measured. Therefore, whilst we wholeheartedly support greater inclusion of other stakeholders in the work and funding of the standard setting process, we do not support the notion that a candidate for chairman of a standard setting board is automatically deemed unsuitable because they have an “audit background”. To the extent that practicing professionals are excluded from, or restricted in their access to, the standard setting process, the most current and relevant observations in practice would not be reflected in the standard setting, since the technical personnel involved in drafting the standards would be former or non-practitioners.

3 How this model and structure are to be funded

We share the concerns of the MG for there to be long term secure funding of the standard setting mechanism and that the funding should be transparent. For instance, it would be better for in-kind contributions of professional time by firms to be either replaced with direct funding or measured and reported as part of the funding.

General observations in relation to the Monitoring consultation paper

It is clear the issue of broader “stakeholder” funding for the standard setting process has been a difficult one to address for the MG and for the existing established organisations, such as IFAC, for many years. It is also a reasonable position that professionals have a vested interest in the quality and consistency of their work and should therefore substantially fund the development of the relevant standards. The proposed mechanism of replacing dominance of voluntary funding with a dominance of forced funding does not address the issue of the dominance in funding and would also be challenging to enforce. Better solutions may lie in transparent reporting of the funding and oversight of the use of that funding.

Finally, it is not clear to what extent the proposals would create greater expense and therefore run counter to a presumed public interest consideration of cost-effectiveness. This ought to be clearly measured and considered before the process of reforms is decided on.