Dear Members

Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest

Thank you for the work undertaken in the consultation paper Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest, and the opportunity to comment on the paper and its proposals.

In the main, the proposals are substantive and, as such, require evidence to support them; and a ‘due process’ to ensure that that propositions are reasonably developed and articulated to assist stakeholders in their deliberations. Unfortunately, they are not.

In summary, the Institute of Public Accountants (IPA):
Does not support the tone nor the direction of the Monitoring Group’s standard-setting structural proposals;
Is of the strong view that the Monitoring Group Consultation Paper contains a range of highly debatable and potentially erroneous assumptions and statements such as:
only regulators having the capacity to act in the public interest;
inaccurate references to the current state of standard setting, and that acting in the public interest requires standards to be issued which are contrary to the views of stakeholders;
Does not find assertions about independence and responsiveness to public interest evidence-based or in accordance with our involvement, and
Concurs with the views expressed by IFAC in its Initial Views and Reactions to the Monitoring Group Consultation Paper – Preliminary Views as of December 1, 2017.

We also believe that public interest is served by having strong enforcement of auditing and related standards by regulators, accounting bodies, courts, and auditing firms. We do not believe that more prescriptive auditing standards or substantively revised standing-setting structures is a substitute for enforcement of them.

The IPA has deliberately decided not to respond to the specific questions posed in the Consultation Paper as we query the very basis of the questions.

As to the way forward, we are of the view that the Consultation Paper should be re-issued to address the flaws noted herein.
In the interim, we are supportive of IFAC continuing to develop its structures and processes in upholding public interest and transparency which has been a hallmark of the standard setting process. This is underscored by the important role played and we would like to see IFAC act on perceptions in the consultation paper with increased dialogue with parties concerned and look at the merits of proposals on timeliness and coverage of the suite of international auditing standards. A point, we hasten to add, IFAC has attempted to engage in with the Monitoring Group.

The IPA has been involved with international standard-setting for decades. We have found standard-setting boards of IFAC to be professional, to act in the public interest, and responsive to stakeholder consultation. We note that the latter does not mean that individual stakeholder views (such as, individual accounting bodies, accounting firms or regulators) prevail.

Previous review by the Monitoring Group

The IPA notes that the most recent review of the governance framework was carried out in 2013. We believe it would be most helpful to the debate concerning the appropriate governance structures of audit standard-setting for the Monitoring Group to:

- Summarise its previous findings
- Identify what actions had been taken as a result of its report, and
- Explain the reasons for significant change in approach (as is reflected in tone of the consultation and fundamental changes proposed in the auditing and ethical standard-setting process).

This review

Staged reviews

We note that Monitoring Group proposed that ‘The review will be developed in stages, and will cover all aspects of the governance and oversight of the standard-setting process (including the nature and roles of the PIOB and the Monitoring Group itself) to identify any changes that are necessary once this stage of the consultation and reform is finalised’.

We consider this approach is presumptive. Stakeholders should have been provided with the Monitoring Group’s findings and review of the entire tapestry of reform, not just one element, so that they can make an informed assessment.

Also Monitoring Group has failed to explain the urgency of the proposed reforms.

Questions over independence and responsiveness to public interest

The Monitoring Group stated that ‘However, questions have been raised about the independence of the standard-setting process and its responsiveness to the public interest.’
The Monitoring Group notes that there is a legitimate concern among many stakeholders that the influence of the profession is at least perceived to be too strong and that addressing this issue could further strengthen public confidence, as well as encourage still-wider global adoption of the International Standards on Auditing (ISAs).

It is considered that Monitoring Group’s arguments for a new standard-setting regime should be transparent. The questions raised about ‘independence’ and ‘responsiveness’ need to be specifically stated. Such questions may be legitimate, misinformed, or particular perceptions of a select group, such as regulators.

A forum needs to be arranged where these issues can be aired and agreed as to a way forward. This should be part of the Monitoring Group ‘due process’.

The Monitoring Group has described the concerns as ‘legitimate’. Legitimacy should not be viewed from the one perspective, but by transparency of findings and engagement with all stakeholders.

Finally, it appears to us the Monitoring Group equates public interest to regulatory interest; and as such the consultation paper has the perception of being self-serving.

**Objectives**

The Monitoring Group has identified seven objectives. It would be helpful to stakeholders for the Monitoring Group to explicitly measure the current arrangements and the proposed arrangements against these objectives.

The Monitoring Group stated that the ‘purpose of the options for reform is to ensure that standard-setting serves the public interest.’ To progress its arguments for substantive reform, the Monitoring Group need to explain how the existing arrangements have failed the public interest, or why some of options for reform cannot be incorporated into existing arrangements.

The Monitoring Group noted that public interest is not defined and stated ‘However, the public interest evolves as public expectations change. The Monitoring Group has, therefore, asked the PIOB to support it in developing a framework which will provide a mechanism for assessing how the public interest is captured throughout the standard-setting process’.

We find it problematical for the Monitoring Group’s arguments for reform whilst holding the existing arrangements to an undefined public interest notion.

We concur with the need to define public interest and consider this to be an essential foundation for any proposed changes. Public interest does not exist solely in the audit context; it has elements in financial reporting and regulation. Public interest needs to be defined before the proposals are progressed.
Canvassing other Models for Reform

The IPA notes that consultation paper has not identified nor canvassed other auditing standard-structures in major jurisdictions. We believe that such an analysis would be helpful for stakeholder decision-making and also assist with Monitoring Group with the further development and refinement of its proposals.

Prejudged outcomes

The tone of the consultation paper creates the strong impression that Monitoring Group is somewhat steadfast in its views and intended outcomes. If this is so, it devalues the consultation process, the outcomes, and stakeholder engagement and support for regulator-inspired changes.

Appendix 2 Stakeholder Views Governance SSB

Appendix 2: Stakeholder Views Governance SSB states ‘the Monitoring Group Working Group consulted a range of stakeholders (eg SSB members, IFAC staff and board members, other standard setters, PIOB staff and board members, members from the audit profession, etc.), and various documents provided by IFAC and by other stakeholders interviewed. This root cause analysis is supported by a detailed evidence record which included a standard set of questions for each stakeholder interview’.

It is stated that this approach provided the Monitoring Group with ‘valuable evidence and sights’ and ‘then used to identify the key concerns with the current model set out in section 1 of the consultation paper’. These have not been shared in the consultation paper.

Regrettably for the assertions and proposals for change made by Monitoring Group, the source information, context of the response, frequency of response, severity of the issue, and linkage to reform proposals have not been identified. They should have been.

The appendix also contained an Example of Used Evidence Record with five questions. The responses to these questions has not been reproduced, tabulated, or linked to assertions and proposals.

The lack of such details makes it impossible for stakeholders to make any meaningful assessment of the perceived or actual issues associated with the governance structures and performance of the standard-setting boards.

In short, a fundamental flaw is the lack of evidence-based information and its disclosure.
IFAC’s Initial Views and Reactions to the Monitoring Group Consultation Paper

We have also read and considered IFAC’s Initial Views and Reactions to the Monitoring Group Consultation Paper – Preliminary Views as of December 1, 2017.

We noted that ‘IFAC has consistently requested that the MG convene all key stakeholders to evaluate the current model, and seek to address ways to ensure standards are relevant, timely, and enhance confidence in global economies. Unfortunately, this forum was never established.’

The IPA believes that this was a missed opportunity by Monitoring Group to air issues, improve understanding, dispel misconceptions, and to achieve legitimate engagement with a key stakeholder. We are extremely concerned that this was not part of the due process of the Monitoring Group.

The IPA supports the initial views of the IFAC on the consultation paper.

If you would like to discuss our comments, please contact me or Ms Vicki Stylianou Executive General Manager Technical and Advocacy (vicki.stylianou@publicaccountants.org.au).

Yours sincerely

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Cc IFAC, AUASB, APESB and FRC

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members and students in Australia and in over 65 countries, IPA members work in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.