

9 February 2018

The Monitoring Group
MG2017consultation@iosco.org

Dear Sir,

**RESPONSE TO THE MONITORING GROUP (MG) CONSULTATION PAPER (CP) –
STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL
AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST**

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above CP issued by the MG in November 2017.

ISCA welcomes the topics raised in the CP and is supportive of periodic reviews and improvements to the international standard-setting model to ensure that it remains fit and proper for our rapidly changing world.

The CP's options for reform are premised on the risk that standards are not developed fully in the public interest due to a perception of undue influence by the auditing and accountancy profession. We acknowledge that such risk to independence may exist with the current standard-setting model, given the role of the International Federation of Accountants (IFAC) and the composition of the standard-setting boards. However, such a perception does not necessarily translate into actual instances of undue influence being exercised in reality. Moreover, it will be extremely helpful for the MG to share the full results of the preliminary stakeholder engagement carried out by the MG Working Group to provide some evidence or indication of the extent of such a perception.

Furthermore, the CP did not provide any specific examples or explicit evidence that the existing standards are indeed not developed in the public interest, or are set for the benefit of the profession at the detriment of public interest. Hence, it does not seem that such undue influence currently exists in practice and public interest is compromised.

With limited visibility of the extent of the concerns raised, we are of the view that while some changes may be necessary to improve the current model, it may not necessitate a substantial reform as proposed in the CP. We believe there are merits to the current model and process which has resulted in widely adopted, high-quality standards. A substantial reform to the current model may also give rise to unintended outcomes. For example, if the reforms result in more rule-based and prescriptive standards, jurisdictions that value

principle-based standards may revert to national-based standard-setting or make considerable amendments to the international standards to fit its local purpose. This would reduce comparability across jurisdictions. Also, if the reforms are not managed carefully, they can be highly disruptive to the current standard-setting process (which is currently functioning smoothly) and undermine stakeholders' confidence in it. These are potential consequences that would not be desirable.

Therefore, we strongly encourage a collaborative effort between MG and IFAC to understand, evaluate and refine the current model, including evaluating the extent of the concerns raised and any existing mitigating factors. For example, under the current model, all proposed standards are exposed for public consultation. Full disclosure and transparency on the extent to which public comments received are taken into consideration by the International Auditing and Assurance Standards Board in finalising the standards, especially those from outside the profession and which have public interest implications, may help provide indications as to whether public interest is being compromised.

Overall, it would appear that the fundamental question is about who should oversee and/or influence standard-setting. In our view, it should neither be driven solely by regulators nor solely by the profession. We believe in striking the right balance, with multi-stakeholder involvement, and appropriate checks and balances in place, so that needs and interests of all relevant parties who have an interest in the standards, are adequately considered. A fully transparent standard-setting process to all stakeholders will also contribute to the intended objectives that the MG seeks to achieve via the reforms in the CP.

In addition, given that the options for reforms are substantial with potential extensive impact, we urge MG to develop the detailed impact assessment of the costs and benefits arising from the options in a timely manner to enable stakeholders to make a better assessment of the proposed changes.

We have further provided our comments below on the various options for reform as proposed in the CP.

Number of Standard-Setting Boards and Their Remits

- 1.1 We support the retention of two separate boards – one responsible for the development and adoption of auditing and assurance standards, and the other for ethical standards for all accountants.
- 1.2 With increasingly complex issues in both audit and ethics, we are concerned that there may be insufficient attention given to either area if only one single board is responsible. The remit may be too wide for the single board. Also, there could be challenges in attracting suitable board members with expertise in both areas.
- 1.3 If the intention of a single board is to align the auditing and assurance standards with the ethical standards, and for issues relevant to both audit and ethics to be considered by a single board, we believe that this could be similarly achieved by refining the current structure. For example, arrangements could be put in place to facilitate strong

coordination between the two boards through regular engagements. It does not necessitate the establishment of a single board to achieve that.

- 1.4 Furthermore, we do not support the bifurcation of ethical standards for auditors and ethical standards for professional accountants in business (PAIBs), and for that reason, do not support having separate boards deal with ethical standards for auditors and ethical standards for PAIBs.
- 1.5 The same fundamental ethical principles are applicable to all professional accountants and there should be consistency of approach in addressing all ethical matters. Divergence of ethical standards for auditors and PAIBs would not be desirable.
- 1.6 We agree that the responsibility for the development and adoption of educational standards should remain a responsibility of IFAC.

Composition and Role of Standard-Setting Boards

- 2.1 On the composition, we agree that boards should be multi-stakeholder, drawn from three groups – users, regulators and auditors. The composition should also take into account a representative geographical diversity which can contribute to an array of views from different perspectives, as well as increase the level of acceptance of the standards across jurisdictions. To that end, it is important for the MG to consider representation from emerging economies, such as ASEAN, on the boards so that issues commonly found in these economies will be heard and deliberated by the boards in the development of standards. We suggest that there should be clear guidelines established on the appropriate representation of members in terms of geographical distribution, stages of economic development, etc.
- 2.2 In addition, we are of the view that it is vital to have board members and/or task force members with an IT background, given the impact of technology advancements on auditing going forward.
- 2.3 We agree that the focus of the boards should be more strategic in nature provided that the boards are supported by adequate qualified staff who would perform the detailed drafting of the standards.
- 2.4 We agree for standards to be adopted on the basis of a majority, subject to the composition of the boards being multi-stakeholder and independent, i.e. no single group of stakeholder has majority of the board.
- 2.5 We noted that members would be appointed for an initial term of three or four years, with the possibility of re-appointment for a further three year term. The MG may wish to consider if this rotation rule would deter high quality candidates from joining as full time board members.

Nominations Process

- 3.1 We firmly believe that the roles of participation and oversight are incompatible. Accordingly, we are of the view that the Public Interest Oversight Board (PIOB) should not participate in the nominations of the boards. Instead, it should continue to observe and have oversight over the nominations process.
- 3.2 To safeguard the independence of the nominating committee (NC), we suggest the formation of a NC where the Chair is independent of MG, PIOB and IFAC. The NC should also be evenly represented by multi-stakeholders.

Oversight – Role of the PIOB

- 4.1 Generally, we agree with the proposed roles and responsibilities of the PIOB, except for the PIOB acting as the NC for the boards. Please see our comments under Section 3 above.
- 4.2 We believe that the PIOB should not be involved in the technical aspects of standard-setting as the separation between participation and oversight should be maintained.
- 4.3 The power to veto the adoption of a standard, if granted to the PIOB, should only be exercised in extreme circumstances when there are public interest implications at stake. This is important so as not to undermine the standard-setting work of the independent boards. Clear guidelines on the circumstances when the veto option can be exercised should be developed. Notwithstanding the above, we believe that such circumstances should be rare as the PIOB is already tasked with ensuring that the standard-setting process adheres to public interest and the standard-setting boards, if the reform proposals flow through, would be independently constituted.

Alternatively, if the veto option is not provided to the PIOB, the PIOB should retain the right to require the boards to address to the PIOB's satisfaction any public interest issue that the PIOB has identified and raised prior to the adoption and issuance of any standard.

Also, given the significance of the veto power, we suggest that the exercise of such a veto option should require a unanimous approval from all PIOB members.

- 4.4 On the composition of the PIOB, we support multi-stakeholder representation. We acknowledge that the proposed removal of IFAC representation on the PIOB may help in ensuring that the PIOB is viewed by stakeholders as independent of the accountancy and audit profession. However, as IFAC remains a key stakeholder in the standard-setting process, we believe that IFAC's views should be heard. With only one seat on the PIOB, it is unlikely that IFAC can exert any undue influence. If IFAC representation on the PIOB is to be removed, there would a need to consider how the PIOB could maintain effective and continuous communication with IFAC, particularly on standard-setting activities.

- 4.5 In developing the skills matrix for the members of the PIOB and in identifying the skills and attributes needed to represent and advocate for the public interest, the MG may want to consider those with experience in standard-setting in emerging economies, considering the ever increasing importance of these economies.
- 4.6 We propose that PIOB members be identified through an open call for nominations, with a specific number of seats allocated to each different stakeholder group. To be independent, the MG should not act as the NC for the PIOB. We suggest that the proposed NC for the standard-setting boards also act as the NC for the PIOB. Please see our comments in Section 3 above.
- 4.7 In our view, the PIOB oversight should be on the standard-setting boards for auditing and assurance standards, and ethical standards (including the ethical standards for PAIBs). As highlighted above, we do not support the bifurcation of ethical standards for auditors and ethical standards for PAIBs. For the educational standards, we believe that it may not be necessary to have PIOB's oversight given that the public interest considerations are lower as compared to audit.

Role of the MG

- 5.1 We agree that the role of the MG can be retained except for its role as NC for the PIOB as mentioned in paragraph 4.6 above.

Staffing Model

- 6.1 We agree with the proposal to have expanded professional technical staff support to enable the standard-setting boards to focus on strategic matters. However, we wonder if the boards will have the capacity to manage staff employment, compensation and evaluation given that their key mandate should be the standard-setting activities. The MG would need to demonstrate how this can realistically be done. Alternatively, considerations should be made as to whether the current model for IFAC to manage the staff can be maintained and for IFAC and the boards to work closely together in this area.

Funding Model

- 7.1 We suggest that the MG develop a detailed budget and clear strategies on how to diversify the funding sources. It is currently not clear from the proposals how funding can be obtained from sources other than from the profession.

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Deputy Director, Audit Quality & Standards Development, or Ms Fua Qiu Lin, Senior Manager, Audit Quality & Standards Development, at ISCA via email at waigeat.kang@isca.org.sg or qiulin.fua@isca.org.sg respectively.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kor Fann' with a stylized flourish at the end.

Ms Fann Kor

Director

Audit Quality & Standards Development, Continuing Professional Education and Industry Support