

Response to MG consultation on strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest

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Views expressed are strictly personal.

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?

Response: Yes, I agree. These are an important starting point for reform.

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?

Response: Yes, I agree. **Inclusiveness** is another principle that should be included. The standard-setting process should strive to ensure that those negatively or egregiously affected by flawed standards have a say in their reform. This ranges right from including board members from poor countries to consulting stakeholders from the marginalised and weaker sections of society in a proactive way.

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?

Response: No.

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.

Response: A single board should be established. It is not clear why the two are separate at the moment. If the same set of people set standards on both topics, they would be better informed of the substantive issues in audit and assurance and can better integrate them with ethical standards. Merging them would positively reinforce each other. The chief constraints are operational and a well-sized and resourced board can easily handle the two functions together.

Question 5: Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not why not?

Response: Yes they should.

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

Response: The setting of ethical standards for professional accountants in business should be included in the remit of a new single board. As rightly observed, the ethical behaviour of accountants is crucial irrespective of their role. The accountant like the doctor or lawyer has a more 'public' obligation and so it is important that their ethical standards be set by a single board.

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.

Response: As of now, no.

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?

Response: Yes to both.

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

Response: Yes.

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?

Response: Given that a single board handling both audit and ethics is better than two separate boards, it should have more than twelve members. **24** is a good figure. As a corollary, the UN Committee of Experts on International Cooperation in Tax Matters has 25 members. This will ensure enough members for diversity. The board is ultimately setting standards for the whole world, in effect. It is important it is as representative as possible. This representation should of course be geographic, **and it should not be dominated by the West or OECD countries**. All the continents should be adequately represented. Like in several UN bodies, there can be informal or formal quotas for regions such as Africa, Asia, Latin America and the Caribbean, Europe, etc. These can be worked out depending on the size of the board.

There should be a rule of ‘one country one vote’ and no country should have more than one member. Overseas jurisdictions should be treated as part of the same country. For example, Macau, Hong Kong or Taiwan should be all treated as ‘China’. Similarly, Turks and Caicos Islands, Jersey, Isle of Man should all be treated as ‘United Kingdom’.

The diversity should also be on the basis of **income levels**, i.e the board should not be dominated by rich countries. There should be adequate reflection of middle income and least developed countries, especially when it comes to members from **users** and **regulators**. High representation from poor countries is critical when it comes to **regulators** as these are the ones worst affected by the corruption of auditors and accountants. Their countries suffer from illicit financial outflows which are facilitated by corrupt auditors (often from third countries such as tax havens) and so it is important they have a say in the standards that regulate the profession. Another benefit of this would be the **de facto capacity building** they would undergo. This will help poor countries as the regulators would return to their countries richer with experience and better able to discharge their duties.

The board can also consider including **Members of Parliament from the opposition**. In certain countries the government is a facilitator of the loot of public wealth, or turns a blind eye. Even if the government’s securities regulators are present on the board, they may keep mum or treat the responsibility casually. Having opposition politicians on the board, preferably from Parliamentary financial oversight committees, will ensure that all sides of concern are covered. To keep it consistent with the rule of ‘one country one member’, this position can be allotted randomly.

The suggestion that the Chair of the board must not come from an auditor firm/practitioner background is welcome. It would avoid a clear conflict of interest.

The suggestion that the Chair have the power to recommend to the PIOB the appointment or reappointment of members to the board requires more evaluation. It is vulnerable to abuse. Board members of integrity can be sidelined by a Chair who has been compromised. If the Chair should have any such power, it is better that it have the character of a non-binding opinion.

Regarding full-time and part-time members, the ideal is that as many members as possible be full-time. Realistically this would be difficult to accomplish immediately, so the model could be **at least** one quarter of the members full time with the remaining part time. If there are enough high quality candidates willing to take up the mantle, so be it. The goal should be to have as many full time members as quickly as possible. This will reduce conflicts of interest and increase the board’s efficiency.

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

Response:

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?

Response: The CAG can be retained.

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

Response: Yes.

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

Response: Yes. It is essential. It will end the current reality of 'standards for auditors by auditors'.

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?

Response: Broadly yes. It is important that the PIOB have the power to dismiss board members and prevent their re-entry. This way it can get rid of problematic members seeking to undermine the institution, though the dismissal should follow due procedure and the principles of natural justice.

It should **not** be able to veto the adoption of a standard, but should be able to challenge them. A veto would give the PIOB undue power. The auditor profession, if driven to the wall, can simply choose to ignore the standards. After all they are soft law. If countries do not choose to incorporate the standards into their domestic legislation, they have no real enforceability. Given this reality, it is better that there be negotiated compromises which will be followed, rather than idealistic standards which will be ignored.

Like the standard setting boards, the PIOB too should have geographic and income diversity.

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

Response: No. The step is too radical. At least a single member should be in the PIOB to voice IFAC's concerns.

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?

Response: As mentioned for the standard-setting boards, **Members of Parliament/legislators from the opposition, especially those in financial oversight Parliamentary committees**, will bring significant value to the PIOB. All the observations regarding diversity in response to question 10 are equally valid here. **The current composition of PIOB is dominated by OECD countries and there is not a single member from the developing world.** A reformed PIOB should be far more reflective of regional and income diversity. It needs to be understood that developing countries are the worst affected by the corruption of auditors and low standards and therefore most in need of having a say in ensuring standard-setting is done in the public interest.

Given the increased responsibilities of the PIOB, its membership can be expanded from the present 10. This will depend on the reformed size of the standard setting board(s).

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?

Response: Given the immense power of the reformed PIOB, its nomination is a crucial question. It should be as open, transparent and democratic as possible. MG members can come to a consensus on regional quotas for the PIOB membership to ensure its diversity.

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

(eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

Response: It should oversee the work of any board that sets standards in the public interest. This will naturally mean an expansion of its mandate.

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?

Response: Yes.

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?

Response: Yes.

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

Response: Yes.

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

Response:

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)?

Response: Yes.

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?

Response: Yes, a levy will be a sustainable option. The option for commercial licensing of standards should be discarded as poor countries will have difficulty accessing high quality standards. A voluntary 'trust fund' can be setup to which donations can be made.

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

Response:

Question 27: Do you have any further comments or suggestions to make that the Monitoring Group should consider?

Response: