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

INTRODUCTION

The South African Institute of Professional Accountants (SAIPA) would like to thank the Monitoring Group and IFAC for the opportunity to provide comments on the Monitoring Group Consultative Paper. We trust that our submission will receive your favourable consideration.

SAIPA is one of the leading accountancy institutes representing qualified professional accountants in practice, industry, commerce, government, academia and the public sector. The Institute’s focus is on the advancement of Professional Accountants in South Africa to assist in meeting the changing needs of the accountancy profession in all facets of business and finance. Through innovative services and solutions, SAIPA responds effectively to emerging trends and positively impacts on our economy.

Should you require any further information or wish to discuss our comments in more detail, the writer can be contacted on:

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

Whilst the nominations committee is an IFAC Committee it is not clear where the perception on lack of independence stems from as the process involves extensive consultation with stakeholders and the general public. It is inconceivable that there will be any format of standard setting that will be 100% clear of allegations of the process not being independent. The implementation of the proposed model will not remove these allegations. However, the governance and quality control procedures within the standard setting model should ensure that the risk or perceived risk of independence is addressed.

**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?

We do agree with the articulated overarching principles as they are aligned with good governance and quality assurance standards.

**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?

The standards setting process has always been inclusive and received input and feedback from the public – a benchmark should be set to determine if adequate public interest has been gains when standards are set.
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.

The South African Institute of Professional Accountants is not in support of the establishment of a single board. Ethics and Auditing and Assurance are two different elements of the professional accountants and both being equally important. Collapsing the two boards into one will compromise one of these two and it is very likely that the standards that will be compromised will be the ethics part. Currently the existence of the two boards independent of each other contribute to the relevance and accountability.

The proposal that the ethics standard board be split to auditing being with the new board and for the ethics for PAIB being left with IFAC does not make any reasonable sense. Ethics standards are the same for a preparer and the auditor it is difficult to understand what will be achieved by the separation of these. Ethics covers the conduct and behavior of all professional in the profession even though the duties and responsibilities performed by the professionals.

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?

Education standards have been well accepted in many jurisdictions and the IFAC brand has gone a long way in making this possible, and it is therefore SAIPA’s view that the IAESB must be left with IFAC. The educational standards recommends the minimum competence requirements and proficiency standards for the Initial Professional Development, Professional Assessment and Continuous Professional Development.

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

As indicated above we do not see the logic of separating an ethics standards board into auditing ethics and non-auditing ethics. This leads to unnecessary duplication of resources.

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.

If the proposal goes through the Monitoring Group need to review the role and position of IFAC in the restructured model. IFAC as the body ultimately is responsible for the regulation of the profession globally, should therefore have an oversight responsibility within the restructure model.
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?
Whilst the current structure of the board appears to be involved in the line by line analysis of the standards, it is important to note that standards setting boards are not similar to corporate sector board of directors. The standards board members get their hands dirty in the development process as they are comprised of the members who are meant to be knowledgeable in the fields and do not only play on oversight role as the corporate boards are. Thus the primary function of the board should be strategic and oversight, but the nature of the standard setting boards it requires the board to be actively involved the standard setting process to ensure quality outputs and capacity development.

Question 9: Do you agree that the board should adopt standards on the basis of a majority?
Standards should ideally be adopted by consensus after considering all the comments and only in rare situations should the adoption be on a basis of the majority. Although the standards should be approved on a consensus basis, it is important that the alternative opinion should be made available (basis of discussion documents), especially as the standards are principle-based.

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?
The size of the board is dependent on the other questions above. Our view is that a unitary board for Ethics and Audit and Assurance is not recommended as these two should be left independent of each other. The board should be regionally as well as sector representative. The needs of the SME/Ps as well as the developing countries must be seriously considered when deciding on the board composition.

Question 11: What skills or attributes should the Monitoring Group require of board members?
The standards boards are different to the board structures in corporate environment as they are expected to deal with the technical details of the standards and we hold a different view to those expressed by the monitoring group that the standard setting board should not be dealing with the nitty gritty details of the standard. The board is the key component of the development process and therefore must get into the detailed discussions around proposed standards and amendments thereof.

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?
The concept of the advisory group is relevant and important to obtain broad-based participation as inputs from professionals and PAO who are not members of IFAC and thus their input may not be considered. It should be the responsibility of the regional IFAC members to incorporate inputs and feedback from the broader professional and PAO.

Question 13: Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?
The primary responsibility of IFAC its members (PAO and professionals in general) must serve the public interest, it is therefore imperative that the task forces should adhere to the public interest framework.
**Question 14:** Do you agree with the changes proposed to the nomination process?
The current nominations process continue as IFAC should remain ultimately responsible for the standard setting boards. PIOB having sole responsibility for the administration of the nominations process may increase the perceived risk of independence, thus it is our view that the changes proposed by the Monitoring Group should not be implemented.

**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?

The primary role of the PIOB is to ensure compliance to the public interest framework, thus the representation and due processes followed by the standard setting board should be driven by the ultimate goal of serving the public interest. As standards are principle-based, veto by any member of organisation implies that the principles of the standards have not met the desired outcomes. PIOB should not veto, but can objective to or challenge the technical judgement of the standard setting board and request the deferment of the publication of the standards for further discussion and review.

**Question 16:** Do you agree with the option to remove IFAC representation from the PIOB?
IFAC as an organization represent the PAO also forms part of the public interest, and as such should retain its representation on the PIOB. Although its representation may be viewed as a conflict of interest, the usual procedures to mitigate conflict of interests on the board should apply.

**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?
The composition of the PIOB should include non-practitioner stakeholders who can contribute to the development of the standards. This imply that the skills required will vary depending on the standards that will be set as well as the manner in which the standards impact the public interest. The basic skills required are critical thinking, analytical analysis, communication and report writing.

**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?
The PIOB members should be appointed through an open call for nominations (general call) as well as from within the MG member organisations. If the nomination are limited to the MG member organisations it may be limited to a specific group and thus lose it representation of the public interest.

**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 (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the
public interest?
All the standards directly or indirectly affect the public interest, thus the PIOB should have an oversight focus on all standard setting boards. However, the level of engagement with the different standard setting board will vary.

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?
We agree that the MG should retain its current oversight role for the entire process. However, the MG should take into considerations the suggestions made to the restructuring process and provide feedback to the stakeholders on a regular basis.

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?
We agree with this proposal as it will result in the standard setting process being more focused and direct while the quality of the output will be improved. It is essential that clear duties and responsibilities are allocated with the expected KPI which should be monitored and evaluated on a continuous basis.

Question 22: Do you agree that permanent staff should be directly employed by the board?
We agree with this proposal as it will ensure accountability by the permanent staff as well as the communication channels, including disciplinary procedures.

Question 23: Are there other areas in which the board could make process improvements – if so what are they?
The board should also be proactive in terms of predicting trends through research to allow it to conduct the preparatory work required to set standards which are relevant and appropriate for the profession and industry. The board should also operate on a disruptive and agile model which will allow the standard setters to re-prioritize activities to address the standards which significantly affect the profession and the public interest – quality assurance processes should still be complied with.
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 (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

We agree that there should not only be risk management systems in place but also a risk matrix that can be used to monitor and evaluate the risks associated with independence. Irrespective of who funds the standard setting boards there will always be a perceived risk associated with independence, however, if proper governance and risk management systems are implemented that separate the work, authority and funding. Furthermore, the standard setting boards should set the budgets against the strategic objectives and public interest framework for which funding is sourced, and IFAC can then be one of the funders.

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?

As the PAO’s are already levied by IFAC, the structuring of the level should be reviewed to include the proportion that should be used to fund the standard setting boards and the PIOB. Any separate funding model for the standard setting boards and PIOB will result in the relevance and existence of IFAC being brought into question or significance of membership being reduced.

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

We are of the opinion that the following matters should be considered:

- The role and significance of IFAC in the restructuring process and the standard setting board and PIOB
- The potential risks associated with the nominations and appointment processes and its impact on the perceived risk of independence
- The medium and long-term financial budget of the standard setting boards and the PIOB aligned against the strategic objectives of IFAC and MG, together with a funding model that will mitigate the perceived risk of independence
- The representation and structure of the boards to ensure inclusiveness without becoming unmanageable to achieve the strategic objectives – representation on a regional basis, PAO, corporate and SME sectors.

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

The views of regional participants should be circulated to obtain a regional perspective that will facilitate principles which can be adapted to the regional jurisdictions.