

Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas



Reform of international auditing and assurance standard setting

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Background

In November 2017 the Monitoring Group (MG) published a [consultation paper](#) containing initial proposals for changes to the model for setting international auditing and assurance and ethical standards. This is of great importance to us here in Australia and New Zealand because we are standard takers. We are two of the 120 plus countries that adopt the auditing and assurance standards issued by the International Auditing and Assurance Standards Board (IAASB). Therefore any changes to the way these international standards are set could have far-reaching implications for us.

Problem definition

So why the need for change? The paper reports the primary drivers are as follows:

- There is a perception of undue influence by the profession, and hence a concern that standards are not developed fully in the public interest.
- There are concerns around the relevance of standards and the timeliness of their development.
- There is confusion about the respective roles and responsibilities of the Public Interest Oversight Board (PIOB) and the MG.

These key concerns were identified through interviews with 29 current and former standard-setters, and engagement with the International Federation of Accountants (IFAC), the PIOB and the Global Public Policy Committee (GPPC).

Current features

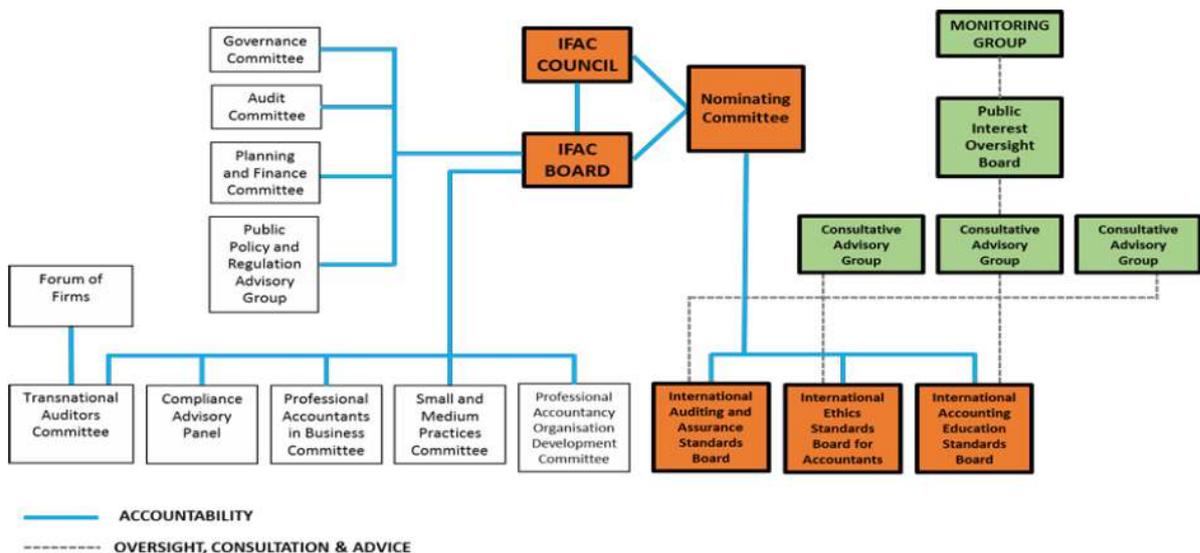
The IFAC runs three separate standard setting boards, one for each of auditing and assurance, ethics, and education. Each standard setting board has 18 members, most of whom have a technical advisor. No more than nine members can be practitioners and no fewer than three can be public members. Each board has a quorum of twelve, and proposals are usually approved unanimously. A limited number of staff support the boards therefore much of the detailed work is undertaken by the board members themselves, or their technical advisors. Each board is supported by a Consultative Advisory Group (CAG) comprising 34 members. With the exception of the Chair, board members are not remunerated. The boards are staffed and funded by the IFAC.

The IFAC is the global body that represents all professional accounting bodies and it runs an international compliance programme to ensure that its member bodies are conforming to the requirements of the international standards. It manages the nomination process of the standard setting boards. The IFAC was founded in 1977 beginning with 63 founding members from 51 countries, and has now grown to over 175 members and associates in more than 130 countries. It is funded by contributions from its member organisations.

The IOB was established by MG with IFAC support in February 2005 to oversee that the international standards are set in a transparent manner that reflects the public interest. It also oversees the nominations process to all standard setting boards and CAGs. The IOB comprises 10 members, nine nominated by the MG and one by the IFAC, it also has five staff and a Secretary General. It was supposed to be self-funded by 2015, but little progress has been made to date therefore the IFAC currently provides two thirds of its funding.

The MG was also established in February 2005 by the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS) and the World Bank Group (WBG). The International Forum of Independent Audit Regulators (IFIAR) joined later. Gerben Everts, Board Member of the Netherlands Authority for the Financial Markets and Member of the IOSCO Board is current Chair of the MG. The MG is responsible for the overall governance of the standard setting process and the review of its implementation, effectiveness and responsiveness to the public interest. As the MG is ‘virtual’ – it has no permanent staff – it has appointed a Working Group to assist with the operational aspects of the reform.

Diagram 1: Governance structure (excludes IPSASB)



Initial proposals

- A single board for auditing and assurance standards and ethical standards for auditors.
- The board consists of twelve members; one quarter full-time and three quarters part-time.
- The board nominations process is administered solely by the PIOB.
- Board members are equally represented from the following three groups – users (including investors, preparers, academics and those charged with governance), regulators (including audit, securities supervisors and enforcers and prudential regulators) and auditors.
- Board members are remunerated at a level commensurate with comparable public interest corporate governance roles.
- Standards are adopted on the basis of a simple majority vote.
- The board has a more strategic focus, while still having a high level of technical competence.
- The board is supported by expanded technical staff who are employed directly by the board.
- The CAG is retained.
- The IFAC retains responsibility for the development and adoption of ethical standards for professional accountants in business, education standards and the IFAC compliance programme.
- The IFAC is no longer represented on the PIOB.
- The PIOB facilitates the collection of funds for the board.
- A “contractual” levy on audit firms to fund the board and the PIOB, supplemented by funding from the other stakeholder groups, including the MG member organisations.
- No change to the mandate of the MG.

Clearly these initial proposals for reform are strongly interlinked, and therefore the adoption of one could affect the adoption of others. For example, the role and responsibility of the standard setting board(s) would have an impact on their structure and composition.

The response

There was a three month consultation period and comments were due in February 2018. Understandably there was a great deal of interest globally in these proposals. 180 submissions were received and all but the one from the IOSCO have been made public. The Monitoring Group has published a [Press Release](#), [Summary of Feedback](#) and an [Appendix](#) which analyses the feedback by question. The IFAC also commissioned US law firm Gibson Dunn to conduct an [independent analysis](#) of the feedback.

There was broad support for regular review and continuous improvement, but not necessarily support for the reform itself. There was also general support for the objectives of the reform, but there was not widespread support for a number of the specific proposals. In our [individual submission](#) and [joint submission with ACCA](#) our key points were that the proposals:

- Could endanger international acceptance and adoption of auditing and ethical standards resulting in differing standards across the world.
- Could introduce unnecessary confusion, cost and compliance effort by proposing separate ethical standards for auditors.
- Do not appear to be based on a sustainable funding model.

A number of respondents were of the view that the consultation paper was insufficiently clear in a number of areas. Therefore the MG provided some important clarifications in the Summary of Feedback – namely the consultation was not seeking to propose different standards for audits of public interest entities (PIEs). It supports the continued development of a single set of principles-based global standards which can be used for audits of all types and sizes of

entities. The MG acknowledges the need for any reformed standard setting board to be able to represent the views of small and medium-sized entities (SMEs) and their auditors.

Roundtables

The MG recognises the importance of ongoing stakeholder engagement as it develops its proposals for a final consultation and wishes to provide opportunities for engagement. It has recently completed its ‘first leg’ of roundtables following the initial consultation. This comprised Singapore, Australia and Hong Kong, including one in Sydney hosted by CA ANZ and two in Melbourne.

Mark Babington, Deputy Director of Audit Policy, UK Financial Reporting Council (FRC) represented the MG Working Group at these roundtables. There were a wide range of attendees – regulators, standard setters, assurance practitioners (public and private sector), investors, academics and professional bodies.

Next steps

This review of the governance functions supporting audit-related standard setting is moving into its fifth year, and the disruption to date has already been significant. By way of example, the Forum of Firms has stopped funding the IFAC, and an interim nominations process has had to be put in place to appoint the next Chair of the IAASB.

As Babington said at the Sydney roundtable: *“You can’t have a review every five years that lasts seven years”*. Therefore the MG is planning to publish a ‘white paper’ by the end of this year that sets out the final proposals, together with a transition plan and impact assessment. The MG Working Group met on 11 July to develop a ‘strawman’ for the white paper.

Although a number of the initial proposals are somewhat contentious, there is no doubt that the entire profession is on the same page when it comes to the desire to build public confidence in the international financial system.