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# Monitoring Group Consultation Paper for Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest

## Introduction

Failures within corporate financial reporting in the early to mid-2000's resulted in the following entities joining forces to form a Monitoring Group to restore confidence and to advance public interest in international audit quality and standard-setting:

1. Organization of Securities Commissions (IOSCO)
2. Basel Committee on Banking Supervision (BCBS)
3. European Commission (EC)
4. Financial Stability Board (FSB)
5. International Association of Insurance Supervisors (IAIS)
6. World Bank Group (WBG)

As public expectations continue to be a priority, standard setting needs to be more effective and evolve with changes in today's technological world. Questions have been raised about independence of the standard setting process and its impact on public interest. The Monitoring Group has indicated that there is a legitimate concern among many stakeholders that the influence of the profession is perceived to be too strong and that addressing this issue could further strengthen public confidence, as well as encourage wider global adoption of the International Standards on Auditing (ISAs). There is also the concern that standards are not developed and issued in a timely manner.

The Monitoring Group held a consultation from November 2017 to February 2018. With the focus on strengthening public interest the Consultation Paper (CP) is aimed at wider stakeholder representation including (but not limited) to:

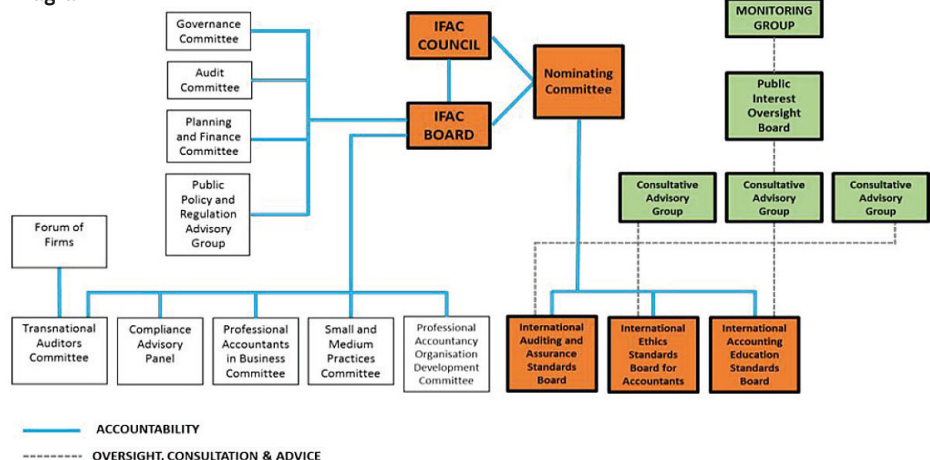
Investors, those charged with Governance, Academics, Preparers, Audit firms, Securities and other capital market regulators, prudential regulators, audit regulators and oversight bodies, national standard setters, Governments, NGO's and public-sector organizations and professional accountancy organizations.

## Current Standard Setting Model

The current standard setting model has the following qualities:

- ✓ Public and Private sector collaboration
- ✓ Standards adopted in over 120 jurisdictions
- ✓ Protects Independence
- ✓ Broad stakeholder consultation
- ✓ Geographic and stakeholder diversity
- ✓ Ethical standards applicable for auditors and accountants
- ✓ Transparent stringent due processes
- ✓ Independent public interest oversight of all standard setting aspects
- ✓ Protects public interest
- ✓ No undue influence by any stakeholder

## Diagram



## Monitoring Group key proposals

The Monitoring Group's key proposals are outlined as follows:

- The Public Interest Oversight Board (PIOB) current role is to protect the public interest. The CP proposes that the current oversight arrangements need to be strengthened to serve the public interest through due process and accountability. The Monitoring Group has asked the PIOB to support them in developing a framework that serves as a mechanism for assessing how the public interest is captured throughout the standard-setting process. This will support the dialogue between the standard-setting board and PIOB. The intention is that the standard-setting board should have a clear understanding of issues which are likely to raise public interest concerns within the PIOB.
- The CP considers it appropriate to develop a single board to include better coordination of ethical and auditing standards whilst simultaneously reducing duplication of work on issues that are relevant to both auditing and ethics. Within the CP there is an option that the setting of ethical standards for professional accountants in business and educational standards should continue to be performed by separate boards, supported by IFAC.
- The proposal suggests that there would be more than one set of ethics standards - one for auditors and further for other practitioners bearing the professional designation.
- The existing boards spend a considerable amount of time performing standard setting functions including detailed drafting without remuneration. The CP seeks feedback on whether a single independent board should be established, comprising no fewer than 12 remunerated members to ensure representative diversity with a remit to encompass both strategic and technical competence.
- IFAC is funded by contributions from its member organizations and costs are allocated by IFAC, which raises independence concerns, as the costs of the Boards and the salaries of staff who work to support them are in effect directly paid by the profession. The CP indicates that the funding of standard-setting needs to be supported by a new model designed to enhance independence and that funding for this should not be provided solely by the accountancy and audit professions. It therefore welcomes stakeholder views about whether a levy mechanism should be used to fund the board and the PIOB, and whether a contractual levy specifying a consistent level of funding be provided over the medium term would address current concerns about lack of independence and influence over the standard-setting processes.

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## Risks

There are numerous risks to these proposed changes that need to be highlighted, the first being the move away from a shared public-private public interest model and good regulation to a more regulatory model that may allow regulators undue influence. The second risk is moving to a more rules based approach to auditing which diminishes professional judgment and professional scepticism. Ethical standards are of utmost importance and different ethical standards for accountants and auditors poses significant divide within the profession as a whole. The funding model is currently unclear as to how the contractual levy will extend to all audit firms. The cost of the proposed changes impacts most areas of the current model namely the PIOB, Standard Setting Board including staff remunerations.

## Alternative Solutions

Alternative solutions must be considered by Stakeholders in response to the CP. These include increasing efficiency and effectiveness of the current processes through:

- Explore closer liaison between ethics and audit boards
- Review due process arrangements
- Rebalance work by board members and staff
- Leverage technology to gain efficiencies
- Align staff numbers and skills
- Keep ethics standards applicable to all accountants and auditors
- Embrace multi-stakeholder composition for boards, PIOB, Nominating Committee
- Clarify PIOB role and operating function
- Enhance PIOB processes and reporting transparency
- Strengthen current funding model with funding from all stakeholders

## IFAC response to proposed changes

IFAC believes that there is clear evidence that stakeholders have confidence in the standards being produced under the current arrangements. Over 120 jurisdictions have adopted these standards. The Monitoring Group have not provided specific evidence where the accountancy profession's perceived undue influence has led to low quality results. IFAC have developed standards in the public interest and include input from multi-stakeholders, technical expertise, robust processes, high levels of transparency, independent oversight, multi stakeholder funding and monitoring and reporting obligations that are adequately discharged. Concerns are raised over a single standard setting board for auditing and ethics and it is illogical to even consider two sets of ethical standards for accountants and auditors. Consensus versus majority voting, IFAC are not in favour of majority voting as the current model of consensus approach has resulted in the global adoption of standards. If a contractual levy were imposed on the profession, IFAC are of the opinion that many audit firms would leave the market, therefore leaving audits of listed companies and large multinationals being carried out by larger audit firms.

## CPA Ireland perspective on proposed changes

CPA Ireland is currently formulating a response to the CP as a professional body acting primarily for the SME/SMP sector of Ireland.

Ireland is ranked 17<sup>th</sup> in the World (World Bank IBRD – IDA Survey 2018 of 190 countries) in terms of “ease of doing business” and 7<sup>th</sup> in the world in terms of ease of “starting a business.” Based on available data, of the 140,000 audits completed annually in Ireland, some 138,995 (or 99%) are non-PIE audits. The relevance and proportionality of audit standards are of considerable importance in the Irish economy as the audit process, valuable as it is, consumes entrepreneur resources and therefore impacts on the ease of doing business and economic performance.

CPA Ireland constantly advocates legislators and regulators in Ireland to embrace consultation before legislation, to think small first and to complete an impact analysis on any reform proposals.

From the 2016 IAASA profile of results, only 10 of the 1381 statutory auditors in Ireland have PIE clients, therefore it is imperative that the non-PIE sector is adequately represented and this will be re-enforced in our response to this CP.

It is clear the CP does not specify the perceived risks/deficiencies in the current model. It is also not apparent how changes in objectives such as independence, transparency and accountability of the standard setting process have been impacted in recent times. The rationale for smaller board size with increased standard setting responsibilities for both auditing and ethics therefore requires further elaboration and consideration. The consensus among the wider stakeholder is that ethical standards should not be split between those for accountants and auditors with which we concur.

The Monitoring Group have had various stakeholder meetings including one which was held in London on 15 January 2018 where CPA Ireland had representation at same.

CPA Ireland is committed to this process and will strongly re-iterate in response to the CP that the SME voice be heard from the ethical perspective of not splitting these imperative standards and for the proposed standard setting board to develop standards that are suitable and encompass all sectors from PIE's to SMEs.

## Conclusion

We agree that the audit world is changing from an Information Technology (IT) perspective with emphasis on analytical audits being at the forefront. The CP is vague and it is therefore challenging to give a comprehensive response in the absence of required information. The consensus of this nebulosity is felt by many other stakeholders responding to the first draft of this CP process. Following an examination of the initial responses to the CP, a “*White Paper*” will be presented to stakeholders in June 2018 for the next phase to include:

1. Proposed New Model
2. Impact Assessment
3. PIOB Framework
4. Transition Plan