

Monitoring Group Consultation Paper, NBA response, version 8 Feb 2018

Subject: Monitoring Group: strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest

Summary

NBA is pleased to respond to the consultation of the Monitoring group to reform the standard setting model. We have considered and discussed the recommendations and we have actively given input in the discussion on European level. In this document you find our response.

The current model has significantly contributed to promoting audit quality in the public interest globally. However, the current structure shows weaknesses creating risks for credibility of standard setting and the legitimacy of international standards. It is critical to address the existing or potential perception of undue influence of the audit profession in standard setting, also to avoid or solve any expectation gap.

The core principles that we believe that the new structure must reflect are:

- design of independent, distinct and separate roles for standards development and oversight;
- participation of all relevant stakeholders at both standard setting levels and oversight;
- direct multi-stakeholder input in priority setting for timely, responsive decision-making in standard setting board(s) with adequate current practitioner involvement in the total standard setting model;
- a governance model to serve as the guardian or trustees of the new structure on behalf of all stakeholders, overseeing the due process, not intervening in the technical debate.
- a broad-based multi-stakeholder funding model vital for avoiding any perception of undue influence.

For the most part, we support the changes proposed by the Monitoring Group to the standard setting board(s) itself and how it could operate, but more information is needed for further discussion on redesign of standard setting processes, governance and oversight, alternative proposals, legal issues, funding options and due processes in a transition period.

We also support the responses of Accountancy Europe and EFAA. In the context of differentiation of markets and services we wish to emphasize that it is critical to design a well-balanced model safeguarding one overall umbrella framework for assurance and related services and one set of ethical principles for all professional accountants, including auditors, assurance providers, providers of related services and professional accountants in business.

We see an important remaining role for IFAC emphasizing global responsibility for adoption and implementation of standards. Without this role efficient and timely adoption and implementation through national or regional jurisdictions may be more difficult

Introduction

1. NBA is supporting the Monitoring Group's initiative for reform. We have considered and discussed the recommendations and we have actively given input in the discussion on European level.

2. We have chosen to respond to the main aspects of the Monitoring Group Consultation Paper and not to answer all the questions. We have categorized our response in major headings covering:
 - principles for reform,
 - standard setting for audit and (non-)assurance,
 - standard setting for ethics,
 - governance,
 - funding, and
 - IFAC role.

Principles for reform

3. NBA supports the initiative to reform with an open mind, thus safeguarding the principles of public interest, credibility and legitimacy of standards. Standards must respond to the need for harmonized global high quality professional practice. Standards must be principle based for an appropriate level of professional judgement to avoid a compliance oriented approach.
4. We agree with the areas of concern related to credibility and legitimacy. Current risk for credibility entails in our view the perception of undue influence of the profession. Current risk for legitimacy entails in our view the concerns for timeliness, responsiveness and innovative power of standard setting. Furthermore society needs the right balance between the quality and applicability of standards for practice, monitoring and enforceability in order to avoid or to solve an expectation gap.
5. Standard setting in a self-standing organization independent from IFAC can be an appropriate solution. More concrete information is needed for further discussion on redesign of standard setting processes, governance and oversight, alternative proposals, legal issues, funding options and transitional measures.
6. For reasons of credibility (avoiding perception of undue influence of the profession) we support the transition to a multi-stakeholder approach in the standards setting process, governance and oversight.
7. For reasons of legitimacy (enhancing timeliness, responsiveness, innovation) we support the intention for professionalization with a smaller core board, permanent staff, and added contingent workforce for specific expertise.
8. We support the proposal for independent, distinct and separate roles for standard setting process, governance and oversight, from the principle of accountability.
9. The purpose of governance is overseeing the process without interventions in the technical process; all key stakeholders must be accountable to the public.
10. Funding must be broad-based, multi-stakeholder involvement in standards setting, governance and oversight. Appropriate and transparent funding measures are necessary during the transitional period.
11. Cost-effectiveness must be safeguarded. Any improvement will likely to be more costly, which may be feasible through broader funding base. A balanced approach is necessary aligned with the level of involvement of stakeholders.

12. We see an important remaining role for IFAC emphasizing global responsibility for adoption and implementation of standards. Without this role efficient and timely adoption and implementation through national or regional jurisdictions may be more difficult.
13. More clarity is needed on the impact of the reform in all relevant aspects and the necessary consequences for the foreseeable timeframe of the transition period. There is a need for impact assessment and a step by step approach in an integrated way that includes board, staff, governance oversight and funding.

Audit and (Non-)assurance

14. We support the proposal for a self-standing board: a smaller board (for strategy) with permanent staff (for operations) and added (temporary) contingent workforce for specific expertise and experience (sufficient practitioner involvement) in both board and staff. Remuneration aspects depend on the future funding potential. In this model CAG continuation may be void.
15. The board- and governance structure requires further consideration related to differentiation in markets, complexity levels, scalability and professional services for PIEs, non-PIEs, public sector (ISSAIs), SMEs, other- and non-assurance services (e.g. non-financial information). Specific considerations for the infrastructure are related to the need for global representation and the extent of multi-stakeholder involvement in sub-areas of standard setting.
16. We emphasize the importance of one overall framework for assurance and related services in a context of differentiation of markets and services. Improved standard setting models and standards should find a better balance between the features of different markets and services under the umbrella of such a holistic framework, e.g. by specific sub-standards and/or guidance.
17. The issue of differentiation also arises for oversight. We acknowledge there is quite some innovation in non-regulated assurance and other services. It therefore needs to be considered whether it is necessary to have the same level of oversight for all standard setting.
18. It is therefore difficult to conclude whether we need one or more boards and to conclude anything on the proposal for maximum 12 members. Key factors to consider are differentiation aspects, the role of ethical standards and the wish to avoid overly complex and costly structures. A core board with sub chamber boards may be considered enabling a tailored differential approach in one strategic structure.
19. Given the comments above we believe that general consensus to adopt the standards is preferable. In situations of voting we think that at least a qualified majority is required in order to prevent exclusion of specific expertise or stakeholders.

Ethics

20. Independence is relevant for performance of audit and assurance engagements. We can agree with combining standard setting for audit and (other) assurance with standards for independence, as independence is not a fundamental ethical principle but the regulated substantiation of the principle of objectivity.
21. Ethics entail fundamental principles for all professional accountants, including auditors, assurance providers, providers of related services and professional accountants in business. The Code of Ethics connects various disciplines and functions of the profession, and thus standard

setting for ethics should be addressed together, aligned with the features of the application remit.

22. We would agree with more discussion focusing on the continuation of the IFAC role in standard setting for ethics. This would fit in the overall IFAC responsibilities for the profession.

Governance

23. We agree with a balanced multi-stakeholder representation in standards setting process (board and staff), governance and oversight with representational forces from adoption and implementation, practice, users, regulatory powers and enforcement.
24. For oversight we envisage a governing body in a guardian of trustees' model on behalf of all stakeholders, responsible for the governance and oversight of the effectiveness of design and performance of standard setting operations, also responsible for nominations process. In this context only one governing body would be necessary.
25. The oversight body has no involvement in the technical agenda and has therefore no veto rights on standard setting.
26. Members of the governance and oversight body should have a strong understanding of audit, assurance, independence and ethics. Practical experience is key to be able to oversee standards setting process.
27. We agree that oversight design must be multi-stakeholder based. Without a proper detailed proposal in this respect it is too early to conclude whether IFAC should be one of the stakeholders within the oversight processes.

Funding

28. We highly agree with a multi-stakeholder approach for funding, considering that there is a perception issue of undue influence exercised by the profession. Widening the funding base and finding other resources (SMEs, public sector etc.) should be feasible when the differentiation of standard setting becomes better transparent for the public.
29. Participation of stakeholders in the multi-stakeholder approach for standard setting, governance and oversight has implications for long term commitments for funding, based on a balanced approach for the echelons of activity in the total process.
30. Appropriate and transparent funding measures are necessary during the transitional period.

IFAC role

31. IFAC remains responsible for adoption and implementation of standards by means of global voice, ethics (Code of Ethics), education (IESs), compliance (CAP, SMOs), advocacy (SMPC, PAIBC), capacity building (PAODC). In this context we would agree that standard setting on education could remain a responsibility of a board under IFAC.
32. With regard to IESs we recommend that IFAC considers a new approach to the setting of international education benchmarks which seeks to re-engineer the overly complex current structures which have led also to concerns over timelines and process. To this end we question

the need for the PIOB or CAG and consider that the interests of the profession and the public can be served by a unitary board with wide representation led by experts from within and outside of the accountancy profession.