

# CEAOB

## Committee of European Auditing Oversight Bodies

The Monitoring Group  
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By email: [MGconsultation@iosco.org](mailto:MGconsultation@iosco.org)

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### Comment letter relating to the Monitoring Group Consultation

Dear Sirs,

The Committee of European Audit Oversight Bodies (CEAOB) appreciates the opportunity to comment on the Monitoring Group consultation on the governance and oversight of the international audit-related standard-setting boards published on 9 November 2017.

As a body of European audit regulators, the CEOB considers it is important to pursue continuing improvement of standard setting for the audit profession. High quality standards indeed are a powerful driver for the development for high quality audits.

We believe confidence of stakeholders in the quality of the auditing standards, alongside their confidence in their appropriate implementation, are necessary to promote trust in the audit reports, and in the audited financial statements presented by economic entities.

As a result, we support improvements in the international standard setting process, which are likely to contribute to this confidence in the quality of its outcomes, by addressing in particular any risks of perceived lack of independence and undue influence of the audit profession.

To this end, we support the Monitoring Group's proposals to open the standard setting process to further diversified stakeholders, to increase the staffing, and to strengthen the organisation and independence of the oversight structure.

We believe developing an effective, stable, and independent funding model is a key aspect to be addressed, and encourage the Monitoring Group to further assess the practical aspects of the proposals in this regard, taking into consideration all the aspects of the reform which should contribute to the quality of standard setting.

Our responses to the questions included in the consultation document are presented hereafter.

We look forward to providing any further input over the development of this project. Please feel free to contact us, should you need any further information about the content of this letter.



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**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?**

Yes, we in general agree with the areas of concerns identified in the MG document.

We believe that the public interest in particular should be weighted and recognized in all standard setting boards' actions.

Regarding independence, we would emphasize the major need to address the financing of the standard-setting boards such that they are seen to be independent from the influence of the audit profession.

Regarding the third key area "relevance and timeliness standards", we emphasize the need for the standards to respond to findings of audit regulators on a timely basis, i.e. draw the lessons, when needs be, from what went wrong in the past.

**2: Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?**

Yes, we agree with the overarching principle that the standards are to be set in the public interest.

We also agree with the characteristics mentioned in the MG document as to be embedded in the standard setting process (independence, credibility, cost effectiveness, relevance, transparency, accountability).

In addition to those characteristics, we would like to stress the increasing need to produce standards which prove to be enforceable in cases when enforcement activity by regulators, alongside other measures to reinforce audit quality, is warranted.

**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?**

It should be recognized that the audit is beneficial to a number of stakeholders (investors, creditors, employees, governments ...) and should take the needs and aspirations of the society/citizenry widely into consideration.

**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.**

Our preferred option is establishing a single board to develop and adopt auditing and assurance standards and ethical standards for auditors.

We believe this option will help in enhancing the clarity and visibility regarding the role of the single standard setting board, it will simplify the processes, and help in increasing consistency regarding the content of auditing and ethical standards for auditors.

Creating a single board will imply however a need for more diversified expertise in the board, such that the expertise in ethics and in auditing are both still present at board level (see also our response to question 11).

**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?**

Yes, we agree that development and adoption of educational standards should remain as currently organised for the time being. We believe an appropriate public oversight of educational standard setting for the audit profession remains appropriate since proper education of auditors is key to proper delivery of audit quality. The compliance program should also remain with IFAC.

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

Yes, we believe the responsibility of the development and adoption of ethical standards for professional accountants in business can remain in the remit of IFAC, for the reasons outlined in the consultation paper.

We nevertheless stress that appropriate communication will need to accompany the change in the organization, to explain the different remits of the various boards and their respective activities, to avoid possible confusion.

**7: Do you believe the Monitoring Group should consider any further options for reform in relation to the organisation of the standard setting boards? If so please set these out in your response along with your rationale.**

We believe the overall structure should be considered more broadly by the MG, highlighting the new interactions envisaged between the various bodies of the system (boards, staff, consultative groups/task forces, PIOB and MG).

If the option of separate boards for auditing and ethical issues were to be chosen (see question 4), it would be essential to organise a further liaison and joint meetings between the different standard setting boards to facilitate synergies and consistency on the topics relevant for auditors.

**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?**

Yes, we agree that the focus of the board should be at the first place strategic, but we also believe the board members need to have sufficient technical knowledge to be able to review and challenge the work of the staff, and to be able to examine the details of the standards when this becomes necessary.

This shift will nevertheless need to go along with appropriate staff support, which should also be highly qualified and independent (see question 21).

Yes, we agree that board members should be remunerated for their work. Remuneration will be necessary to attract people from outside the audit profession, who should be part of the board's' composition.

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

We believe it makes sense to avoid a blocking power from a small number of individuals, through providing a rule for voting when no full consensus is achieved.

We do not support however the proposal of adopting standards on a simple majority vote of the board. We are in favour of defining a qualified majority to avoid blocking situations, taking into

consideration the board's size and composition, and the need for support from the various stakeholder groups. The appropriate level of support for a decision should allow for a few dissenters, without unnecessarily delaying the standard-setting process or enabling the views of one of the stakeholder groups to be disregarded completely.

**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?**

We have no strong view on the ideal number of board members. Total costs for the model should be evaluated and taken into account to determine the size of board needed, as well as the need for availability of competencies, geographical spread, and effectiveness of the decision-making ability as numbers increase.

We in general support the composition of the board reflecting the different stakeholder groups mentioned in the consultation, including auditors and regulators. Appropriate investors' representation on the board is, in our view, of particular importance, as well as audit committee members'.

We believe audit practitioners should remain involved in the board. Involving regulators in the board will also facilitate the dialogue at all stages of the standard setting process.

As the board will focus on the strategic work while the drafting is done by the staff, we believe there is no need for all board members to be full-time members.

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

Strategic thinking skills will be requested, as well as technical skills in audit and ethical matters will remain important.

We believe the specialized skills to cover both ethics and auditing related topics will be necessary for a single board dealing with both topics.

Recent experience in auditing, including information technology, is also a key aspect of expertise to integrate through the composition of the board.

Experience in operating at strategic board level will also be of value.

Background of lawyers in an international context would also be useful.

Geographic balance, gender and age structure will also be attributes to take into account at board level.

**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?**

Input of advisory groups is likely to provide value to the standard setting process. However, the way of using the Consultative Advisory Group(s) would deserve further consideration, for the board to be able to benefit from their input.

Duplication should be avoided here between the various groups, if all the groups become multi-stakeholder.

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

Yes, as a general principle, any task forces used should also promote and seek to address the public interest in any development work. How “task forces” will interact with the staff and the board according to the MG proposals would however need further clarification.

**14: Do you agree with the changes proposed to the nomination process? (of board members)**

In the longer/medium term, after the development of a matrix of skills and attributes for the board composition, we support the PIOB taking sole responsibility for the nomination process.

In the transitional phase, we support reducing IFAC’s role in the nomination process, under PIOB oversight.

**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?**

We support the proposals to expand and strengthen the role and remit of the PIOB.

We also believe that there should be a mechanism in place to allow the PIOB to exercise a real oversight, and, as mentioned in the consultation, to “*ensur[e] that standard setting properly represents the public interest through adherence to the public interest framework (...)*”. If this is not the case, the PIOB needs either to take action, or to be able to require the board to take appropriate action.

The appropriate actions to be envisaged by the PIOB (ability of raising a voice? withholding a publication? vetoing an adoption? requesting for board action like further consultation? referring back to the MG?) would need further consideration, taking into account the other changes finally implemented at board-, MG- and PIOB-levels. In practice, the PIOB should be expected to discuss and seek to address any concerns with the board before finalisation of a standard. We would expect the board to take seriously the PIOB comments, and neither the PIOB, nor the board should be incentivized to arrive at a situation where the PIOB disagrees with a final pronouncement of the board.

From a more holistic perspective, we also draw the attention of the MG to the fact that any overlap between the MG, PIOB, board and CAG roles should be avoided.

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

Yes, we agree that the oversight body should not include representation from the IFAC, so that the oversight body is clearly independent from the profession. Removing IFAC representation from the PIOB is a clear sign for more independence.

**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?**

We agree that the PIOB members should continue to be appointed by the MG members, but the role of the MG could be revised in the future, to avoid overlap in structures.

We agree that MG members could suggest appointment of people from outside their organisation, but MG should remain directly in contact with appointed PIOB members.

**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 Monitoring Group member organisations or do you have other suggestions regarding the nomination/appointment process**

The skill matrix of the PIOB need to be considered, thus it would be more efficient for MG members to be able to compose a “team” rather than for each MG organisation to select one member (or 4 members for IOSCO). Each MG member selecting its members could lead in a non-balanced or non-diverse and non-efficient composition in the end.

Taking such an inclusive approach would allow to move away from an unbalanced situation where one of the historical constituents of the MG selects 4 members out of 10, while the latest joiner (IFIAR) has no involvement at all in the PIOB member selection.

We support an open call for candidates at the PIOB. An open call leads to a wider choice for the MG, accompanied by competition amongst candidates.

This being said, we believe there is a need for a real and continuous dialogue between MG members and PIOB members.

**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?**

We support the second option where the PIOB continues to oversee the work of other standard setting boards dealing with standards which will apply to auditors. The oversight is more necessary when the standards are developed in the remit of the profession rather than by a multi-stakeholder board.

**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?**

Yes, we support the MG’s role in overseeing the processes in this phase of transition.

In the longer term, balance needs to be found in the roles of the PIOB and MG, to avoid overlap and duplication.

**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 the proposal for expanded staff support for the standard setting board, including different skill-sets such as technical skills, but also project management and stakeholder engagement.

The technical staff should be highly qualified, and independent. (e.g. practical experience in the auditing of listed entities, banks and insurance companies would be useful)

We would like the MG to present more details about the proposals with regards to staffing of the board, and financial implications.

Undue influence of auditors via provision of seconded staff should be avoided and previous experience in big audit networks or firms should not be the only background of staff.

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

In principle, we support direct employment of staff by the board, but this might create legal constraints and complexity which need to be assessed before coming to a final decision. The provisions for employment need to fit with the legal constraints that this would imply.

Avoiding undue influence by the profession would be a key aspect to consider in determining the legal system to be put in place for employing and evaluating the staff.

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

Process improvements at the level of board and staff operation might facilitate timely responses to emerging audit issues. Use of technologies could facilitate consultation of stakeholders at various stages of the standard setting process, and improve timeliness in the processes.

**24: Do you agree with the Monitoring Group that appropriate checks and balances can be put into 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 who would distribute the funds)?**

Yes, we believe it is key for the success of the reform that a clear wall between funders and users of the funds is put in place, so that there is no possible influence of certain categories of stakeholders through the funding process.

It is also vital to solve the issue of perception of influence through funding.

**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?**

The diversification of funding sources would be our preferred solution for funding the standard setting process, to avoid any perception of undue influence by the audit profession through the provision of funding.

Nevertheless, even if this is not an ideal situation, funding stemming primarily from the audit profession would not be unacceptable if appropriate walls are put in place to ensure there is no influence possible through funding. A body outside IFAC to collect the funding from the profession independently (e.g. via the oversight structure) might be envisaged in this regard.

The application of a “levy” concept may reduce any perception of undue influence, pending a more diversified funding model being put in place. We consider, however, that practical difficulties could arise in seeking to put such a “contractual” levy in place for an international organisation, in the absence of a legally binding framework, and in ensuring it works in practice.

The cost of any new model and the need for increased funding should also be considered.

We encourage the Monitoring Group to further assess the practical aspects of the proposals in this regard, taking into consideration all aspects of the reform which should contribute to the quality of standard setting.

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

It will be important at all stages that the audit profession remains confident and committed in standards setting.

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

We encourage the MG to keep in mind the objective of simplification of the standard setting processes where possible, in order to avoid creating more complexity in the standard setting process, which would reduce its timeliness and efficiency.

We would like to highlight the need, following this consultation:

- to develop a further inclusive reform proposal covering all the aspects of the future role and composition of the PIOB and the Monitoring Group, as well as that of the standard-setting boards.
- to develop a diversified, multi-stakeholder and sustainable funding model which reflects the public interest in audit and the setting of high quality standards for auditors.
- to develop a detailed transition plan and timetable in order to minimise any disruption to the important ongoing work of both the IAASB and IESBA.