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The Monitoring Group  
C/- International Organisation of Securities Commissions  
Calle Oquendo 12  
28006 Madrid  
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**Submitted Electronically: MG2017consultation@iosco.org**  
**c.c. Stephen Haddrill**

Dear Mr. Everts

We, The Global Accounting Alliance\*, appreciate the importance of this review. It was a critical feature in the creation of the current collaborative public/private standard setting model that it be periodically reviewed. We strongly support change based on a demonstrated need for improvements, shown to be in the public interest and fit for future purpose.

In preparing this response we are conscious of the many other responses you will receive, including from within the membership of the GAA. In this document, for the sake of brevity, we have not repeated much of the detail you have received which supports our conclusions.

Some of the proposals contained in the Consultation Paper we see as relatively straightforward. Others represent quite significant if not radical change. We have a fundamental concern regarding the lack of evidence provided to support the need for some of the significant changes. The existing model has been in place for over a decade and it has evolved as practice and regulatory needs have changed. During this time support for it has grown substantially. Possibly the best evidence for this comes from the over 120 jurisdictions worldwide that have adopted ISAs as their auditing standards and the IESBA's Code of Ethics for Professional Accountants. Great care needs to be taken that in changing this model we do not undermine this global support nor disrupt the existing good work being undertaken.

As we constructively explore beneficial change in the public interest we look forward to a process that is consistent with the standards of transparency expected by the members of the Monitoring Group. We look forward to transparent feedback covering all the responses submitted, including the views of the organisations constituting the Monitoring Group. Such feedback should make clear the processes followed in summarising the comments and reaching conclusions.

**The Problem; Evidence.**

The Consultation Paper makes comments about expressed concerns, but provides no evidence that ISAs or the ethics standards have failed. Comments have been made, particularly from the Monitoring Group at the recent Roundtable meetings, that they have confidence in the current standards. One Monitoring Group representative did however suggest that some standards were “wanting”. No evidence in support was provided. One also stated that some standards were not responsive to the public interest. No evidence in support was provided. It has also been suggested that the auditing standards do not facilitate appropriate action to be taken against errant auditors. No evidence in support has been provided. If evidence of such shortcomings exists it needs to be produced. The current faults need to be identified before one can look for solutions.

If the issue is “fit for FUTURE purpose” then this is a different proposition. If current standards are fit for current purpose why will the model that created them not continue to make them fit for purpose in the future? Perhaps the introduction of further debate on the Audit Expectation Gap has prompted thought that audits themselves must change. The work on the Expectation Gap needs to be significantly progressed before we can see whether it leads to the need for changes in the audit itself to ensure “fit for future purpose”, and we certainly support that work.

We accept that there are perception issues which need to be addressed. Some may be capable of resolution by changes in the current model. Others may be more effectively addressed by better explaining and publicising the significant checks and balances which already exist or, where appropriate, revising them. (IFAC put forward some such revisions when this review commenced in 2015, such as proposed enhancements to the nominating committee composition.) In this regard we believe the Consultation Paper has been misleading in its incomplete description of what takes place at present, and has taken place. Many important checks and balances already exist which appear to have been overlooked.

**Multiple-stakeholders and change.**

The model we have at present represents an excellent example of acting in the public interest through public/private collaboration. We are therefore supportive of a multi-stakeholder approach. In saying this we would emphasise the importance of the multi-stakeholder environment being introduced to *all* aspects of the model (i.e. funding, standards setting and oversight) and its processes rather than selectively to some.

In this context we support the creation of a new (multi-stakeholder) nominating committee. At the same time we lend our support to the effectiveness and efficiency of the nominating committee procedures utilised by IFAC. These have been proven over many years and many should be integrated into the methodology of a new committee. Perhaps a new (multi-stakeholder) nominating committee could contract IFAC to provide the engine room for their work. We do not agree that the nominating process should be managed by the PIOB as this would be in conflict with its oversight role.

We also note that the PIOB is not a multi-stakeholder board.

With respect to the appointment of the chairs and members of the boards, on the basis of the nominations from the committee, we believe that the formal decisions be vested in a group of independent persons drawn from the multiple stakeholders group. Such a panel could reflect some of the characteristics of the IFRS model and its trustees.

**Funding.**

We accept that there are issues of perception relating to the current funding model. Some could perceive that under the current arrangements the accounting profession could unduly influence the standard setting process. Independence appears open to compromise. However we are not aware of any evidence to suggest that independence has in fact been compromised. In fact the diverse membership behind the IFAC funding provides an effective buffer. However the perception is an issue which should nevertheless be addressed, if possible. If changes to the current checks and balances are insufficient to clarify this perception we would support a multi-stakeholder funding model with expanded funding sources and supervised by an independent, multi-stakeholder panel. Our concern with this proposal however rests in the likelihood that such sources of funds can be found.

The proposal in the Consultation Paper that current funding be replaced by funding through a contractual levy on the accounting firms in our view does nothing to change the perception. We believe in fact that the perception would be worse than it is at present. The majority or totality of the funding would come from the firms responsible for conducting audits. We believe a more workable solution would be for the current funding process to be subject to greater independent supervision; to improve the checks and balances to address the concerns.

No matter which course is pursued we believe before any changes are made to the current model guaranteed and multiple funding sources need to be secured for at least five years. To do otherwise would present unacceptable risk. The increased costs that will be inevitable if some of the changes proposed are implemented makes the creation of such a new (multi-stakeholder) model even more necessary but even more challenging. We are therefore equally concerned that before future funding can be guaranteed future costs need to be properly quantified. Change should not be commenced before these key fundamentals are addressed.

We also accept that improvements could be made to the budgetary process for the allocation of funds to mitigate any threats, perceived or real, to independence. Again an independent, multi-stakeholder panel could perform this role.

**Reflecting the Public Interest.**

We are concerned with the suggestion that regulators are able to better protect the public interest than others. Whilst we accept that regulators are very sensitive to the public interest especially as it relates to their responsibilities, we believe that strong protection of all aspects of the public interest is best achieved by true multi-stakeholder involvement than relying on the public interest perceptions of any particular party.

**Oversight.**

We are firmly of the view that changes need to be made to the composition of and responsibilities of the Public Interest Oversight Board. Its membership needs to be consistent with the multi-stakeholder approach. We also believe that the PIOB should only be engaged in oversight and in no way involved in the process of actually creating or vetoing standards.

### **The Boards, Support and Processes.**

We have serious concerns regarding the proposal that one board should be created to address auditing and ethical standards for auditors. Our concerns are reinforced by the lack of detail as to the scope of such a board, for example whether it would cover standards that applied only to listed entities, public interest entities or to all audits Or whether it would cover a code of ethics for all accountants or only those for auditors? We believe there are very strong and valid arguments for one set of auditing standards for all entities and one set of ethics for the profession as a whole. We are supportive of the view that as a profession accounting should have one code of ethical conduct for all its members. Membership of the profession creates the obligation to abide by this code, consistent with professions generally. To achieve this separate boards for auditing and assurance, and for ethics should continue. The membership matrix for each board could be different.

If ethical standards on independence need to be linked more closely to auditor independence we firmly believe that this can be addressed by less radical changes than moving from two boards to one board.

Regarding the size of the standard setting board's we accept that this is a topic worthy of review. Eighteen seems to have worked reasonably well to date. It may be larger than would be supported by contemporary corporate governance standards but we are dealing with standard setting boards which are special entities with a different remit and role to corporate boards. They need to be large enough to achieve diversity reflecting the multiple skills needed within such a board, as well as having reasonable representation. Twelve members might in this regard be too small. Whether all board members need to be full-time and/or remunerated is also a reasonable question to be asked. The additional costs associated with such a change need to be carefully assessed and balanced against the benefits.

We accept that there are real benefits to be derived from having the board members spend less time engaged in line by line debates on the contents of standards, spending more time at a strategic level. This can in part be addressed by the skills matrix used in the selection of board members. It can also be achieved by a different balance between the responsibilities of the board and the staff supporting the board. However we should not overlook that if the boards are to be publicly accountable for the standards they approve they cannot simply be "strategic". They must have sufficient understanding of the subject matter to, at a minimum, identify any fatal flaws.

An expansion of staff is supported but again there are cost implications which need to be carefully assessed. There appears to be a shortage of funders for the current model let alone a more costly model with more staff.

We need to ensure that standards are both enforceable and workable, and the staff recruited are sufficiently skilled and experienced to achieve this.

We appreciate the concern that the current processes appear not to have been always sufficient to keep pace with significant disruptions, nor changes in audit practices, technologies and methodologies. Nor have they appeared to necessarily keep pace with the increasing need for timely standards. Increased resources provide part of the solution but we agree that processes also need to be reviewed. Such a review could be addressed by changing processes within the current model. We do not see this need for review as an automatic need to change the whole structure.

## Conclusion

In conclusion we support a public/private, collaborative, multi-stakeholder model for audit and assurance, and ethics standard setting which includes changes to the nominating arrangements, funding arrangements (if achievable), the size and membership mix of the standard setting boards with greater emphasis being placed on strategies leading to timely and relevant standards fit for future purpose and capable of addressing disruption and technological change. We support changes to the membership mix of the PIOB. We are far from convinced with the argument that the current model fails to properly reflect the public interest, is broken or is unfit for future purpose to justify some of the significant reforms contained in the Consultation Paper. We are disappointed at the lack of evidence provided in support of the need for many of these changes. We believe insufficient credit has been given to the already existing checks and balances that address some of the concerns around perceptions. We are disappointed that so little recognition has been given to IFAC and the profession for what it has achieved over forty years, and particularly the current model it has supported for over a decade, acting in the public interest, setting or supervising the setting of auditing and ethical standards. Recognition could also have been given to IFAC's particular role in the global adoption of these standards through its compliance program and Statements of Membership Obligations. We firmly believe that before any changes are proceeded with a full picture of the resultant model needs to be publicly available for comment including the foreshadowed Public Interest Framework, governance arrangements, an impact analysis with full costings and a supported funding model. We look forward to a fully transparent feedback process and further, transparent consultation.

Yours sincerely,



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**\* The Global Accounting Alliance (GAA)**

The Global Accounting Alliance (GAA) was formed in November 2005 and is now an alliance of 10 leading professional accountancy bodies in significant capital markets. Working together to represent around 1,000,000 professional accountants in over 180 countries around the world. It was created to promote quality services, share information and collaborate on important international issues. The GAA works with national regulators, governments and stakeholders, through member-body collaboration, articulation of consensus views, and working in collaboration where possible with other international bodies, especially the International Federation of Accountants (IFAC).

The Alliance facilitates a co-operation between 10 of the world's leading professional accounting organisations:

- The American Institute of CPAs (AICPA)
- Chartered Accountants Ireland (CAI)
- Chartered Professional Accountants Canada (CPA Canada)
- Hong Kong Institute of Certified Public Accountants (HKICPA)
- Chartered Accountants Australia and New Zealand (CA ANZ)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants of Scotland (ICAS)
- Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)
- The Japanese Institute of Certified Public Accountants (JICPA)
- South African Institute of Chartered Accountants (SAICA)