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International Organization of Securities Commissions (IOSCO)
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Via email
(MG2017consultation@iosco.org)

Dear Mr Gerbern

**COMMENTS ON THE MONITORING GROUP CONSULTATION PAPER,
STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL
AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST**

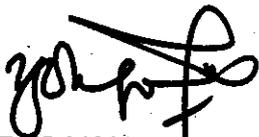
We thank you for the opportunity to comment on the Consultation Paper, *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*.

In this regard, we are pleased to attach the Institute's comments as set out in Appendix I for your consideration.

Please do not hesitate to contact the undersigned or the Institute's Senior Technical Manager, Ms Hoh Kim Hyan, at +603-2698 9622 should you require any clarification.

Thank you.

Yours sincerely



FOO YOKE PIN (Mr)
Executive Director

THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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Monitoring Group

***Strengthening the Governance and Oversight of the International Audit-related
Standard-setting Boards in the Public Interest***

Questionnaire

The Monitoring Group is seeking stakeholder views on options for reform as outlined in the paper issued on November 9, 2017. In responding to the consultation, respondents should take account of the principles of *better regulation*, and consider whether the options set out in this paper meet the objectives set for them in the most effective and least burdensome way.

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In accordance with the principles of *better regulation*, and after considering the consultation responses the Monitoring Group will undertake and publish an impact assessment of the costs and benefits arising from the options set out in this consultation before any proposals are finalised. In doing so the Monitoring Group will work with IFAC and other stakeholders to set out this information in a fully transparent way. This will be part of the final reform proposal.

Question 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?

MICPA's Comments:

Key areas of concern identified are:

1. Perception that the standards setting by IFAC are heavily influenced by the profession
2. Partly due to #1 above, there is a risk that standards are not developed in public interest
3. Standards are not relevant and timely

The Institute believes that the current standard-setting model has the appropriate checks and balances in place to ensure that no single stakeholder group can exercise significant and undue influence over the development of standards particularly in the absence of further details on how the above concerns were arrived at in the first place.

However, the Institute welcomes and is supportive of any reform efforts that seek to enhance the transparency and accountability of the standard –setting model and reduce the perception that the auditing profession has heavy influence over the process. The

Institute also affirms that standards must be developed to best serve public interest. Clearly any improvements in the current model which will result in better timeliness and relevance of the standards will be fully supported by the Institute. The timeliness of issuing new standards should not be at the expense of consensus building to ensure widest acceptance of the standards by all stakeholders including national standard setters. Public interest and the business community will not be served in the absence of global standards or benchmarks.

Question 2

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

MICPA's Comments:

Serving public interest better must be the main driver in formulating the reforms and improvements to the current standard-setting model.

In this respect, the definition of public interest and the formulation of an appropriate public interest framework must be a key priority for the Monitoring Group as these will serve as a reference and benchmark to evaluate and frame any reform or improvement efforts.

Otherwise, the Institute agrees with the overarching and supporting principles as articulated and it does not have any other principles to add.

Question 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?

MICPA's Comments:

The Institute has no further suggestions.

Question 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.

MICPA's Comments:

As articulated in the Consultation Paper, there are various pros and cons in establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors. On balance, the Institute is of the view that the responsibility/resources required for a single independent board might work against it given the complexity and volume of audit and ethics issues that need to be addressed and the ensuing workload for a single board.

Accordingly, the Institute does not support the recommendation for the establishment of a single board and instead recommends that the current structure of two boards be retained to ensure sufficient focus is maintained on audit and ethics issues.

The Institute would also recommend that efforts be made to improve and further strengthen the technical and strategic coordination between IAASB and IESBA to ensure strategic alignment and reduce duplicity of efforts.

Question 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?

MICPA's Comments:

Yes the Institute agrees with the recommendation that education standards remains within the responsibility of IFAC.

Question 6

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

MICPA's Comments:

As pointed out in the Paper, ethical behaviour of accountants is crucial irrespective of their roles. It is for that reason the Institute is against the splitting of development and adoption of ethical standards for professional accountants who are in business and those in the profession i.e. auditors.

The Institute is of the view that development and adoption of ethical standards for professional accountants as a whole should remain the responsibility of the IESBA Board to ensure consistency and alignment of such ethical standards.

Question 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.

MICPA's Comments:

With 40 years of experience, IFAC appears to have achieved its main objective of setting up a global standard setting system that is credible, inclusive, legitimate and which produces international standards that are relevant, innovative and responsive to meet challenges of the future.

The Institute has no further recommendations in relation to reforms of the organisation of standard setting boards.

Question 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?

MICPA's Comments:

The Institute agrees in principle the boards should have a more strategic orientation but still retaining their role and responsibility in the development and drafting of standards complemented and supported by the work of the technical staff

The Institute is also not against the recommendation to remunerate Board members if this is required to attract and retain the right calibre of candidates and ensuring diversity in the composition of the boards.

Question 9

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

MICPA's Comments:

Whilst the Institute agrees that adopting standards on the basis of a majority would improve timeliness of the standards, this should not be at the expense of consensus building and outreach efforts to ensure global acceptance of the ensuing standards as public interest will not be best served under such circumstances.

The Monitoring Group should therefore consider setting a high enough percentage threshold for approval of standards to ensure no single stakeholder group or a geographical region can by itself effect approval of the standards.

Question 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?

MICPA's Comments:

Board composition should better reflect the broad range of global stakeholders to benefit from a range of stakeholder perspectives. In this regard, the Institute supports a composition that includes investors; those responsible for preparation of financial statements; those charged with governance; academics; regulators; and the audit profession from all-sized audit firms from across the globe and with strong gender diversity. The Board composition should also reflect appropriate geographical diversity.

The Chair of the Board should be the person most qualified to perform that responsibility and should not be disqualified just because that person is from the audit practitioner fraternity.

Question 11

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

MICPA's Comments:

Board members should be those who understand the objectives of standard setting, be mindful of all stakeholders' interests without any bias towards any particular group and have a strong public interest mind set.

Board members should be technically competent and experienced in auditing, accounting and financial reporting, have the required business acumen, technologically savvy and be persons of high integrity.

Question 12

Do you agree to retain the concept of a Consultative Advisory Group (CAG) with the current role and focus, or should its remit and membership be changed, and if so, how?

MICPA's Comments:

The Institute has no objection to the proposal.

Question 13

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

MICPA's Comments:

Whilst task forces used to undertake detailed development work should definitely adhere to the public interest framework, the Institute is of the view that other considerations should not be ignored.

Question 14

Do you agree with the changes proposed to the nomination process?

MICPA's Comments:

The Institute does not support the proposal for the nominations process to be administered solely by the PIOB. Instead, the PIOB should continue to observe the entirety of the nominations process consistent with the current practice.

The Institute agrees for the standard-setting board nomination process to continue to be conducted via an open call for candidates. The Nominating Committee Chair should be independent of IFAC, the Monitoring Group and the PIOB. The members of the Nominating Committee should comprise nominees as nominated by the Monitoring Group.

Question 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?

MICPA's Comments:

The Institute recognises the importance of an independent public interest oversight but strongly believes that the roles of oversight and direct participation should not be mixed. PIOB should therefore not engage in providing intentional direct technical input in the development of standards. It is interestingly to note that IFRS Foundation Trustees are similarly restricted from being involved in the technical matters of the accounting standards.

The Institute believes that the PIOB should and can challenge the technical judgements made by the board in developing or revising standards but should not be given the power to veto the adoption of a standard.

Question 16

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

MICPA's Comments:

IFAC represents the global accountancy profession and its representation in PIOB is critical to share the collective views of IFAC members at the PIOB level. The Institute therefore strongly disagrees with the proposal to remove IFAC representation from the PIOB.

In addition, removal of IFAC representative from the PIOB will cement the perception that there was a lack of independence in the current standard-setting model.

Question 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?

MICPA's Comments:

The Institute believes that appointments to the PIOB should involve selection criteria that reflect a true multi-stakeholder composition and clearly articulated skills requirements, including broad geographical diversity and time limits on members' and Chair appointments.

Question 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 MG member organisations, or do you have other suggestions regarding the nomination/appointment process?

MICPA's Comments:

The Institute strongly believes in the principle of multiple stakeholders participation throughout the entire standard setting process including the oversight role which is necessary to build confidence of all stakeholders in the independence of the standards development and approval process

Accordingly as indicated earlier, the Institute is of the view that the PIOB membership must be drawn from multi-stakeholder groups to be conducted via an open call for candidates to prevent undue influence by any one stakeholder group.

Question 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?

MICPA's Comments:

The Institute does not see any pressing reason to change the PIOB's current role in the above areas.

Question 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?

MICPA's Comments:

Yes, the Institute agrees with the proposal barring the Monitoring Group being solely responsible for the appointment of PIOB members as indicated in our response above.

In addition, the Institute urges the Monitoring Group as a priority to:

- define public interest and formulate a suitable framework for adoption by all stakeholder groups; and
- create a pathway for a more sustainable broad-based funding model (see response below).

Question 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?

MICPA's Comments:

The Institute believes that there is a need to increase the size of the in-house technical staff to support the work of the boards in the development of new standards given the criticality of technical inputs in light of the complexity of the issues on hand that the standards need to address.

The Institute is therefore supportive of the proposal. Selection of permanent technical staff can come from various industries to ensure different perspectives are fully considered and robustness of the technical discussions.

Question 22

Do you agree that permanent staff should be directly employed by the board?

MICPA's Comments:

The Institute does not have any objection to the proposal.

However, the relevancy of who employs the permanent staff is less important than ensuring that there are proper procedures in place to facilitate the employment of permanent staff who are of suitable calibre and professionalism to undertake the required work.

Question 23

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

MICPA's Comments:

The Institute has no further comments.

Question 24

Do you agree with the Monitoring Group that appropriate checks and balances can be put in 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 which would distribute the funds)?

MICPA's Comments:

Yes, the Institute agrees with the Monitoring Group that appropriate checks and balances can be put in 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.

Question 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?

MICPA's Comments:

The application of a "contractual" levy on the profession to fund the board and the PIOB will not reduce any perceived risk that funding brings with it significant influence which is one of the main criticisms of the current standard -setting model. Consequently, the development of a more sustainable broad-based funding model involving contributions by all key stakeholders to prevent perceived undue influence by any one stakeholder group is critical and urgent and should be a priority in the reforms being considered by the Monitoring Group.

Question 26

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

MICPA's Comments:

The Institute believes that the Monitoring Group should engage with IFAC to have a more in depth evaluation of the current model and seek ways to ensure standards are relevant and timely, and enhance confidence in global economies.

The IAASB standards presently are applicable to a range of reporting entities. In addition the consultation, consensus building and outreach efforts to the private and public sectors and the national standards setting bodies during the development of the standards have resulted in wide acceptance of the IAASB standards when adopted. This high level of acceptance of IAASB standards must be preserved in the reforms being contemplated.

Question 27

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

MICPA's Comments:

The Institute has no further comments.