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February 5, 2018

Mr. Gerben Evens  
Chair  
The Monitoring Group  
Madrid, Spain  
Email: [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

Dear Mr. Evens,

***Monitoring Group Consultation on the Governance of the Audit-related International Standard-setting Boards***

The investing public worldwide has great interest in the quality and independence of external audits and the appropriate education and ethical conduct of professional accountants, and therefore in the adequacy of the related global standards. We therefore fully support efforts to explore improvements in the governance of the respective standard-setting bodies.

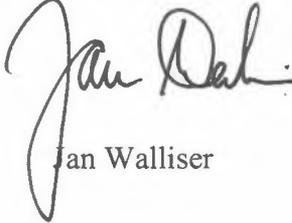
We are pleased to submit our comments to the Monitoring Group's consultation on the above subject. This is a good opportunity to revisit some aspects of the governance of the three boards and to introduce improvements. However, as you will observe from our detailed comments (attached), we have several concerns regarding the Monitoring Group's proposals. One of them is the proposed creation of two separate standard-setting processes for auditors and professional accountants. Many of the World Bank Group's client countries are still building their accountancy profession, and fragmentation within the profession could further complicate the current weak regulatory regime for the profession and hamper ongoing efforts to build strong accountancy professions in developing countries.

Another risk we see in the proposed changes is the exclusion of the International Federation of Accountants (IFAC) from the standard-setting process for auditors. IFAC has a broad and diverse geographical representation at the level of its main governing bodies as well as technical committees. So, removing IFAC completely from the standard-setting process could negatively impact the broad participation of developing countries in the development of standards applicable to auditors. This would make our efforts to promote global standards in client countries much more challenging.

We commend the Monitoring Group for hosting stakeholder roundtables (e.g. in London, Singapore and Washington) during the consultation period. This should enable stakeholders to share their views on the adequacy of the current standard-setting regime and possible ways to enhance it. We would encourage you to reach out proactively to stakeholders in developing countries to ensure their perspectives are adequately reflected in the consultation.

We stand ready to provide any clarification or other comments. Please do not hesitate to contact Edward Olowo-Okere ([eolowookere@worldbank.org](mailto:eolowookere@worldbank.org)) to this effect.

Sincerely,



Jan Walliser

Attachment

Cc: Joaquim Levy, Managing Director and Chief Financial Officer, World Bank Group  
Ethiopsis Tafara, Vice President and General Counsel, International Finance Corporation

**Attachment – Response to the Monitoring Group’s Consultation on the Governance of the Audit and Related International Standard-setting Bodies**

Question	Response
<p>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?</p>	<p>The paper highlights three so-called “areas of concern” but does not provide any evidence that might warrant these. Specifically:</p> <ol style="list-style-type: none"> <li>1. While we agree the profession’s involvement in the standard-setting process could be perceived as representing a potential threat to independence, various safeguards built into the way the standards are developed (including the due process under PIOB oversight) should be considered before drawing any conclusion on undue influence. Moreover, the paper does not point to any specific case where a standard issued by either of the boards could be said to unduly influenced by considerations of the profession’s interests.</li> <li>2. We cannot gauge whether the public interest is given sufficient weight in the standard-setting process. The due process under PIOB oversight is designed to give stakeholders the opportunity to contribute to the development of the standards, and the process to develop these standards seems adequately transparent and robust.</li> <li>3. We do not agree that the standards issued by the independent boards are lacking in relevance or timeliness. We see evidence to the opposite in the specific example of the recent improvements to the standards on auditor reporting.</li> </ol> <p>In addition, the consultation paper offers inadequate analysis of the strengths and benefits as well as possible weaknesses of existing arrangements.</p>
<p>2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?</p>	<p>Section 2 emphasizes the critical importance of the public interest and sets out several proposed attributes for the standard-setting process. We note the proposed attributes are broadly consistent with IFAC’s Policy Position #5 on A Definition of the Public Interest (2012).</p> <p>While we agree that all these characteristics are individually relevant, we think they would need to be presented as part of a broader framework for standard-setting. The framework would first set out the overarching goals of the standard-setting process, which would likely include public interest and relevance. It would then lay out the key principles driving the way the standards are set -- independence being one of them. Lastly, it would identify key constraints that need to be reflected, such as cost effectiveness and sustainability. The principle of accountability would need to be better defined, especially</p>

Question	Response
	given the need to preserve the independence of the standard-setting boards.
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?	See suggestion above. We suggest to review the IFRS Foundation Constitution.
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.	<p>We support maintaining the current three boards (auditing/assurance, ethics and education) as separate bodies, as they deal with separate (albeit related) issues which therefore require different board competencies. Designing auditing standards requires the standard-setters to have extensive experience in assurance (i.e., work experience as an auditor or assurance provider), whereas developing the ethics code requires experience in business conduct, and can come from a broader set of professional backgrounds, including but not limited to legal and business.</p> <p>Creating a single board for “auditing standards and ethics for auditors” would require an additional board for “ethics for accountants”. This would entail significant duplication and risks of confusion. Professional accountants who practice both auditing and (non-audit) accountancy would need to observe two separate codes of conduct. Auditors providing non-audit services would need to determine which code applies to the different services they provide. Monitoring and enforcing compliance to these multiple standards will unduly overburden our clients. In our view, all professional accountants should abide by the same ethics standards, with additional requirements for auditors.</p> <p>We do not agree with the assertion that education standards should not be subject to the same level of public oversight. In some jurisdictions, accountancy education requirements are established by law and compliance with these requirements is monitored by public oversight institutions, which denotes a high degree of public interest.</p> <p>Professional accountants, including auditors, need a solid education foundation and standards to perform at the highest standards.</p>
5. Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?	Yes
6. Should IFAC retain responsibility for the	Yes, see our response to Question 4.

Question	Response
development and adoption of ethical standards for professional accountants in business? Please explain your reasoning?	
7. Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard-setting boards? If so please set these out in your response along with your rationale	We would like to suggest that Monitoring Board assesses the role of the Consultative Advisory Groups (CAGs) and whether it could be enhanced to better support the respective independent boards. This would include the composition of the CAGs, the number and duration of annual plenary meetings (currently two meetings of one and a half day each) and the way the CAG meeting are prepared and structured. See comments related to Question 12.
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?	<p>The paper does not explain how a board that would be “more strategic in nature” would work differently than the current boards. In addition, the paper does not provide any evidence that the composition of the current board is not conducive to “effective development work” (top of page 15).</p> <p>We agree that, ideally, board members should receive adequate compensation for their time. We understand this is currently the case for most board members who are practitioners, who are paid by their respective firms. We do not think however that pro bono members should be precluded, provided the standard-setting body is subject to adequate oversight to ensure, inter alia, that its members put in sufficient efforts.</p>
9. Do you agree that the board should adopt standards on the basis of a majority?	The paper does not provide any analysis supporting the argument that the consensus vote (or de facto unanimity) might have caused delays in the issuance of standards. We nevertheless agree a qualified majority should be envisaged, but probably a qualified or “super-majority”, i.e., more than just a simple majority (e.g., two-thirds of members) to ensure that the standards issued enjoy a strong acceptance.
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	<p>We do not see any evidence or analysis in the paper supporting the proposed change or supporting an assessment of optimum size for the standard-setting board(s). The lower number of board members (12 against 18 currently) for a single board in charge of both auditing and assurance and professional ethics is a significant concern given the number of projects currently planned or underway in these two areas.</p> <p>The presence of both full- and part-time members might create a two-track board, where some members would be able devote more time than others and therefore have more influence on the process. This could potentially undermine the collegial spirit which is essential to such bodies. We recommend that full-time membership be considered the</p>

Question	Response
and is representative of stakeholders?	<p>default practice and some principles be developed for determining circumstances where a part-time arrangement could be acceptable.</p> <p>We are not convinced by a rules-based approach which assigns a fixed proportion of the board membership to predefined categories of members. We would prefer a principles-based approach emphasizing diversity of membership in terms of professional background, nationality, gender and other relevant criteria. It is important that all regions of the world are fairly represented for global acceptability of standards. We are concerned that the proposed mix of members (which would in fact include preparers), regulators and (practicing) auditors might not leave room to draw sufficiently on the expertise of individuals with sufficient work experience in the field of auditing.</p> <p>For auditing and assurance, in our view, a majority of board members should have substantial practical experience in auditing, so the board as a whole possesses sufficient technical expertise to continue issuing high quality standards.</p>
11. What skills or attributes should the Monitoring Group require of board members?	The criteria for selecting board members should be those used by IFAC's Nominations Committee in review nominations. These include relevant professional background, technical expertise, standard-setting experience, specific experience on a matter of particular relevance to the work plan of the respective board, and fluency in English as the official language in which the standards are issued.
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?	Yes. See Question 7. We recommend that the MG explore ways to enhance the contribution of the CAGs.
13. Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?	By "public interest framework", we assume the paper refers to the guiding principles set out in Section 2. While we agree that Task Forces (TF) should observe some due process and work with the public interest in mind, we are not convinced that these TFs should be held to the same standard of public accountability and transparency than the board(s) since they have no ultimate decision-making power in the standard-setting process. We fear subjecting them to the same requirements might reduce the agility and responsiveness with which they should operate to be effective.
14. Do you agree with the changes proposed to the nomination process?	We do not think the paper has appropriately considered the consequences of entrusting the PIOB with the nominations role in terms of workload and skills required to assess the quality of nominations.

Question	Response
<p>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?</p>	<p>We disagree. Giving the PIOB a veto power would severely impinge on the boards' independence. We are concerned by the lack of appreciation for the boards' independence that this proposal seems to suggest without any supporting evidence. The PIOB should continue to focus on ensuring the adequacy of the process to set standards.</p>
<p>16. Do you agree with the option to remove IFAC representation from the PIOB?</p>	<p>No. This proposal implies that, with only one representative, IFAC would be able to exert undue influence over a board with 10 members, which does not seem credible. Moreover, excluding IFAC from membership of the PIOB might unduly narrow the PIOB's perspective and leave it with disproportionate representation of regulators, who are already represented in (and control) the Monitoring Group. In the public's interest, we would encourage promoting close collaboration between IFAC and the PIOB.</p>
<p>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?</p>	<p>We are of the view that, in its current configuration, the PIOB provides an adequate mix of backgrounds and skills. We also think the PIOB itself, with its diverse and highly experienced and reputable membership, would be best placed to develop a profile for future PIOB members (including practitioners).</p>
<p>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 organizations, or do you have other suggestions regarding the nomination/appointment process?</p>	<p>We do not have definite views on this issue. We see advantages and disadvantages in each option. Ideally, the process should be open and organizations other than individual MG members (e.g., representatives of securities analysts, financial institutions, and other users of audit reports) should be able to make nominations. At the same time, an open process can be cumbersome and processing a potentially very large number of nominations could impose a significant administrative burden on the MG. The MG might usefully identify a select group of constituent organizations who could credibly represent users of audit reports to be added to the list of organizations who could make nominations to the PIOB.</p>
<p>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</p>	<p>The quality of professional standards for the accountancy profession entail a high degree of public, whichever the standard, so the standard-setting processing for all professional standards should continue to be subject to independent public oversight. The PIOB seems ideally placed to continue fulfilling that role.</p>

Question	Response
(eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?	
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, for reasons stated in in response to Questions 4 and 19.
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?	This question presupposes having answered “yes” to several of the questions raised in Sections 3 and 4 (especially the creation of a single Assurance-Ethics board for auditors). We are unable to gauge whether additional technical resources would be needed to support such a single board under the scenarios highlighted in Section 4 as we do not think the proposal to create a single standard board is appropriate.
22. Do you agree the permanent staff should be directly employed by the board?	We have no strong views on this matter, which does not seem critical. Questions about employment would partly depend on the legal status of the respective standard-setting board(s).
23. Are there other areas in which the board could make process improvements – if so what are they?	<p>Section 7 lists process-related issues (e.g., stakeholder engagement, voting on adoption of standards, and project management) and matters that are more of a substantive nature such as applying the principle of better regulation and reflecting new trends in the auditing industry into the standards).</p> <p>The paper does not provide much information about how the current boards perform in relation to these different issues (aside from a passing reference to data analytics and an implicit and unsubstantiated assertion that the existing boards would not have responded to that trend in a timely fashion).</p> <p>Furthermore, increased reliance on technology as a way to enhance the standard-setting process should be explored.</p>
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	We are unable to answer this question in any definitive way as we are not sure we understand the nature of the risks and of the possible safeguards referred to in the question. The proposed new model would require a broader re-thinking of the way the standard-setting bodies would be structured and administered, beyond the issue of budget approval.

Question	Response
<p>by audit firms or the accountancy profession (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds).</p>	<p>Also, it is not clear how any funding model that relies substantially on the profession would be fundamentally different from the current arrangement.</p>
<p>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?</p>	<p>The application of the so-called "contractual levy" (i.e., a voluntary contribution on pre-agreed terms) is a critical aspect of the proposed changes in the consultation paper (single audit board with board members and staff paid by the board, etc.) as the MG does identify any alternative sources of funding to absorb these costs. Whether we support this proposal or not seems less relevant than how we assess the likelihood for it to materialize.</p> <p>If the MG really wants to move away from the current arrangement and completely eliminate the involvement of the profession, which would be a serious mistake, then we encourage the MG to explore new funding sources to support the work of the standard-setting boards, completely independent of the profession – IFAC and audit firms. These sources could, include financial and in-kind contributions from securities, banking, insurance or audit regulators who rely on the international standards issued by these boards.</p>
<p>26. In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.</p>	<p>No. It seems the consultation paper covers all key aspects.</p>
<p>27. Do you have any further comments or suggestions to make that the Monitoring Group should consider?</p>	<p>120 jurisdictions have adopted ISAs and the IESBA Ethics Code to date. This represents a tremendous achievement, especially for promoting quality in audits and therefore supporting capital formation and the flow of investments across jurisdictions, including emerging markets. To sustain the benefits of global convergence in audit and ethical standards, any change to the governance of global standard-setters should enjoy broad acceptance from the national standard-setters.</p> <p>Moreover, stakeholders' confidence in the standard-setting arrangements is equally essential for continued global adoption and use of the standards. A key element of trust in the standards lies in the notion of public interest. However, different stakeholders may have different views on what constitutes the public interest. So, a clear articulation of what underpins this notion is critical to ensure that any proposed changes to the standard-setting arrangements are well understood by a broad range of stakeholders and are fit-for-purpose.</p>

<b>Question</b>	<b>Response</b>
	Furthermore, the institutional set-up of, funding for, and detailed aspects of transitioning toward any new proposed structure are all closely interconnected issues and therefore need to be considered together. We encourage the Monitoring Group to assess these carefully as part of the second phase of the ongoing consultation.