



Australian Government

Auditing and Assurance Standards Board

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9 February 2018

Gerben J. Everts
Chairman
The Monitoring Group
C/O International Organisation of Securities Commissions
Calle Oquendo 12
28006 Madrid
SPAIN

via Email: MG2017consultation@iosco.org

Dear Mr Everts,

Monitoring Group Consultation Paper: Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest

Introduction

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the Monitoring Group's Consultation Paper: "Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest" (the consultation paper).

The AUASB is an independent, fully funded statutory agency of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards. Our mandate requires us to develop Australian Auditing and Assurance Standards that have a clear public interest focus and are of the highest quality. We have a very broad mandate covering both financial statement auditing and other assurance services, and support a large population of auditors from all sectors, including Small Medium Practitioners (SMPs) and the public sector auditors, who rely on our standards and other pronouncements.

Our enabling legislation requires that the AUASB participate in and contribute to the development of a single set of auditing standards for worldwide use. We currently use the International Standards on Auditing and Assurance (ISAs, ISREs, ISAEs, etc.) of the International Auditing and Assurance Standards Board (IAASB) as a base for all Australian Auditing and Assurance Standards, which ensures conformity with their international equivalents.

Our responsibility as a National Standard-Setter (NSS) means any diminution of the robustness and applicability of International Auditing and Assurance Standards raises a concern about their adoption in our local jurisdiction. We are very supportive of attempts to improve and enhance the global auditing and assurance standard-setting process, especially in this fast-moving technology driven world. However we are cognisant that auditing and assurance is a service that adds value by increasing the credibility of reported information, the value of which may be reduced if society loses faith in its development and support processes or observes criticisms of the quality of the service being currently provided. Thus, great care needs to be taken that this review and consultation process does not jeopardise years of successful globalisation and harmonisation of these standards.

Whilst we support the Monitoring Group's (MG) efforts to improve and enhance the global auditing and assurance standard-setting process, we also have concerns about many of the proposals put forward which, in our view, do not represent a proportional response to the issues raised in the consultation paper. If

implemented, we would be required to scrutinise the impact of these proposals to determine whether the new arrangements will result in standards that are fit for purpose in our jurisdiction.

In developing this response we have sought the views of our key stakeholders and board members, as well as drawing upon our experience dealing with the international standard-setting boards and IFAC representatives and staff.

Overall Comments

Whilst supportive of the MG's initiative to undertake this review of the governance and oversight of the international audit-related standard-setting boards, overall the AUASB does not support a number of the proposed options for reform presented by the MG. In particular we are concerned that the consultation paper does not contain sufficient information to support the case for many of the MG's proposed reforms and appears to draw upon feedback from a narrow base of constituents when assessing the need for change. Our overall comments on the consultation paper relate to five key areas:

Public interest and influence by the profession

As a NSS and adopter of the International Standards on Auditing, Review and Assurance Engagements, it is critical for the AUASB that standards are set, and perceived to be set, in the public interest. The consultation paper raises key concerns that the standards developed to date by the IAASB have not been developed in the public interest and there is undue influence by the profession. Our observations on this matter differ to the perceptions raised by the MG in the consultation paper.

Part of our due process as a NSS is to observe and understand the international standard-setting process, and ensure that this process is consistent with the supporting principles outlined in section 2 of the consultation paper. The AUASB has for many years had a representative on the IAASB, and for the past year have been regular observers at IAASB meetings. Our representatives have been classed as "independent members" of the IAASB, being academics, public sector auditors and audit committee members. They are well supported in their deliberations for the Board and the Task Forces, demonstrating that resources other than practitioners are available to support IAASB activities. In our experience, and after consulting with our past representatives there is no evidence, or observed instances, that support the MG's key concerns that standards have been subject to undue influence by the profession or are not developed in the public interest at the international level.

Furthermore we do not consider that the key concerns raised in the consultation paper are consistent with observations and experiences about the standard-setting process raised within our local jurisdiction and broader region. We question the basis on which the MG has determined in the consultation paper that these concerns are observed on a global scale or limited to specific jurisdictions. To demonstrate this is to highlight that, since the AUASB was constituted as an independent statutory agency in 2004, we have adopted all of the International Standards on Auditing, Review and Assurance Engagements and related pronouncements issued by the IAASB into our local standard-setting framework, and have not encountered any opposition from our stakeholders which suggested this approach was inappropriate.

Staged-approach to review standard-setting process

The AUASB does not agree with the proposal to review the international standard-setting process in a staged approach. To effectively identify the best model for international standard-setting going forward we consider that any changes made to both the standard-setting bodies and their revised governance/oversight arrangements should be carried out after all concerns with the current processes are identified, recommendations are provided, and an overall impact assessment is conducted. Without a complete review of each element of the international standard-setting process being performed concurrently there are a number of proposed reforms which the AUASB cannot support, as there is insufficient information provided to gauge their potential impact.

Benefits of National Standard-Setters adopting a single set of 'sector neutral' standards

As referred to above, the AUASB has a broad mandate and currently adopts international standards on both auditing and assurance for entities across various market segments and industries. Adoption by local jurisdictions of the international auditing and assurance standards contributes to the ability of local entities to raise capital and operate more efficiently internationally. Developing and maintaining a single set of international standards supports the quality of the audit process, improves the effectiveness and efficiency of implementation by auditing firms, and reinforces confidence in capital markets. We believe any changes to the standard-setting boards must continue to support the primary objective of ensuring that standard-setting serves the public interest by developing and promoting a single set of 'sector neutral' and principles-based standards that draw on auditors' professional judgement. Such a commitment would therefore protect and enhance the confidence, consistency, broad acceptance and high quality of the current international standard-setting framework.

Public Interest Oversight Board (PIOB) role

The AUASB encourages the MG to ensure that the PIOB's role be limited to oversight in relation to the standards-setting process. We strongly oppose any reforms which promote a role for the PIOB in the technical deliberations of the standards-setting process or provide the PIOB with any powers of veto over the decisions of the international standard-setting boards. Any concerns that the public interest is not being served should be identified at the time of observation, to aid a timely and appropriate response, rather than after decisions are taken.

Review by MG of responses from public consultation

The AUASB encourages the MG to ensure that there is an appropriate and transparent review of the comments received on the consultation paper. There should be careful and transparent consideration of all submissions received. We encourage the MG to better outline the process it will apply to evaluating responses, and include other stakeholders in this review, to encourage confidence in this process. We are in favour of all responses being made public, and question how public interest can be served if it is unclear how all submissions will be considered.

Specific Comments on the Consultation Paper

In formulating our detailed responses to the Monitoring Group's consultation paper we have focused on those elements most relevant to the international auditing and assurance standards process – specifically the structure, composition and roles and responsibilities of the international standard-setting boards. Whilst other issues in the consultation paper, such as the nominations process and future funding arrangements, are critical for the profession we have targeted our responses on specific matters directly related to the AUASB's functions and mandate.

Standard-Setting Board governance and oversight

We have not observed any significant issues related to the current governance and oversight arrangements over the international standard-setting process. Additionally, we are not aware of any circumstances supporting the concerns raised by the MG in the consultation paper that suggest current oversight arrangements need to be strengthened to serve the public interest through due process and accountability. Nonetheless we offer the following contributions which may assist in improving current governance and oversight arrangements:

- Whichever group has responsibility for the standard-setting boards nominations process, it should be focused on the capacity and capability of the individual appointed, rather than which organisation the nominated individuals represent.
- Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. This will enhance confidence in and global acceptance of international

standards. In particular we do not support the governance and oversight of the standard-setting boards being limited to, or having a majority of, representatives from regulatory bodies.

- It is essential that there is sufficient practitioner involvement in the standard-setting process for both the standard-setting boards and the body or bodies that provides governance and oversight of this process. We are unaware of other scenarios where similar professions (such as legal or medical standard-setters) don't have practitioners represented throughout their standard-setting processes. Standards being developed without sufficient practitioner involvement creates a risk that they are not fit for purpose, impractical to implement and or may be rejected by the professional community.
- We believe that both the standard-setting boards and any oversight body should be reformed at the same time. The impact of many of the proposed reforms in the consultation paper cannot be evaluated effectively in the absence of a holistic review of the roles and responsibilities of each level of the international standard-setting process being undertaken concurrently.
- We strongly oppose any reforms which result in a technical oversight role or 'powers of veto' for the oversight body. Its role should be limited to ensuring the technical decisions of the international standard-setting boards follow due process.

Separate boards for auditing and ethical standards

We support maintaining the current model of having separate boards to develop auditing and ethical standards for the following reasons:

- Whilst acknowledging there are some elements of the auditing and ethical standards framework that overlap, we consider the skillset and expertise required to oversee each of the full suite of auditing and ethical standards requires a different set of capabilities. Merging the standard-setting boards may make it less desirable for board members to apply for positions or to identify candidates possessing the necessary knowledge and attributes to effectively contribute in each of the auditing, assurance and ethical standards.
- We have serious concerns whether a single board has the capacity to address all issues that arise in relation to auditing, assurance and ethical standards in timely manner. Stakeholder consultations highlighted by the MG in the consultation paper already raise concerns about the relevance and timeliness of standards, and this may only get worse if a single board is made responsible for the development and adoption of all international auditing and assurance standards and ethical standards for all types of engagements.
- We consider it essential and in the public interest that all accountants — be they auditors, in public practice or in business — are governed by a common ethical code that is overseen and administered by a dedicated standard-setting body. Whilst not directly part of the AUASB's mandate we have concerns with any proposal that separates the responsibility for setting ethical standards for auditors and assurance professionals away from setting ethical standards for the rest of the accounting profession.
- In our jurisdiction it is estimated that auditors make up only 7% of the accounting profession, and rarely are their activities limited to auditing and assurance work. We have not observed any detrimental impacts associated with auditors and other types of accountants applying the same ethical code. In fact the different sections in the current structure of the Code of Ethics are largely effective in addressing ethical issues unique to the auditing profession. Consequently we consider the development of different ethical requirements based on the service being provided, rather than applying a set of common ethical principles for all accountants, may lead to a lack of clarity both within and beyond the profession.

We have recently seen in practice how the current separate boards have increased collaboration and consistency in common subject areas (for example, the application of professional scepticism) through a range of initiatives, such as joint task forces and regular joint sessions at board meetings. We support the

continuation of these collaborative activities rather than merging the development of auditing and ethical standards into a single entity.

Standard-Setting Board composition & roles

The consultation paper raises a number of concerns about the existing composition and roles of the standard-setting boards and how these could be reformed. These reforms focus primarily on structural aspects of the standard-setting boards, however we consider changes to current arrangements should also reflect upon the skills and attributes of board members, and the quality of the candidates nominated, rather than which constituency they represent. In particular we consider the future composition and role of board members should:

- Be driven by a nominations process targeted at getting the right people on the standard-setting boards, who are committed to upholding the guiding principles outlined in section 2 of the consultation paper, and able to demonstrate agility across a range of capabilities and experience to the standard-setting development process.
- Safeguard geographic diversity - This is particularly important for a global 'standards-taker' like Australia, so we can ensure views from our region are represented in the international standard-setting development process. This will have a positive impact on local acceptance and implementation.
- Incorporate a diversity of expertise across the auditing and assurance standards framework – for example, ensuring that there are specialists in non-financial assurance standards, technology and data analytics experts, and representatives of the SMP sector on the auditing standard-setting body (as is currently the case). Auditing requires a diverse and up-to-date skill set across multiple disciplines and securing access to these skills in a manner that is beneficial to the sustainability of the standard-setting process will require a range of individuals being appointed from a range of technical backgrounds.
- Not have a majority or over-representation from any one stakeholder group, making sure there is an appropriate balance of members from the practitioner, non-practitioner and regulator stakeholder groups, as well as independent members who can support 'the public interest'. It is also critical the balance of members on the standard-setting boards reflects the scale of their underlying stakeholder group in the standard-setting process. For example, a regulator representative may proportionately represent a small group of their cohorts globally, whereas a practitioner representative may proportionately represent many thousands of similar practitioners globally.
- Ensure those who represent organisations whose responsibility it is to enforce the standards are not in a position where they can overly influence the development of the standards. In particular, whilst the consultation paper raises stakeholder concerns that there is currently too great an influence by practitioners on the existing boards, we also highlight the risk of undue influence should too many regulators be appointed to each of the standard-setting boards.

Notwithstanding our preference to keep the current two standard-setting boards separate, we acknowledge there would be potential benefits in reducing the size of each board and revisiting the role of board members as suggested in the consultation paper. Consistent with recent corporate governance trends, reducing the number of members on each board should be effective in streamlining the standard-setting process but still enable capacity for diversity of representation across each board as described in our feedback above.

However, we would not support any reform that allows a simple majority vote to approve standards and exposure drafts. We consider the current arrangements, which require a two-thirds majority of board members, produce standards that demonstrate a greater consensus, which increases their acceptance and application globally. Allowing standards to be approved via a simple majority creates a risk that they are released without the support of all stakeholders, which then undermines their credibility and jeopardises the high rate of implementation currently observed in jurisdictions across the world.

Roles and responsibilities of Standard-Setting Board members and staff

In conjunction with changes to their composition and role described above we support the proposal that the current roles and responsibilities of board members and technical staff be reviewed and revised. In particular, considering the reduced number of board members that may be appointed as a result of the proposals in the consultation paper being implemented, we agree they should be supported by technical staff with greater capacity and capability than is available under existing arrangements. However, any changes to the current roles and responsibilities of standard-setting board members and staff would need to consider the following points:

- Notwithstanding an increased role for technical staff under the model proposed in the consultation paper, board members should continue to have responsibility to develop, review and approve standards, supported by other experts as appropriate. Whilst we agree that board members roles should be more strategic in nature we consider that there still needs to be a direct role for board members in the standard-setting development process.
- Our observations are that IFAC has recently experienced challenges when managing existing staffing arrangements for the standard-setting boards. These challenges would potentially be magnified if the level and expertise of staffing is increased as described in the consultation paper. In particular, it may be difficult for the revised standard-setting boards to attract the right candidates into technical staff roles whilst the reform of the standard-setting process is still being evaluated and revised. For similar reasons, any technical staffing changes in the short term would require a comprehensive transition plan to protect against loss of continuity and capacity as any agreed reforms are implemented.
- Changes to the nature and structure of technical staff supporting the standard-setting boards should ideally also reflect the same or similar levels of diversity relating to expertise and geographical representation of the board members they support. This diversity of staff knowledge and capability would contribute to the increased credibility and relevance of standards developed by the international standard-setting boards, as well as improve engagement and outreach with stakeholders across the profession.

Finally, based on our observations of the IAASB's recent activities we consider that current standard-setting board processes (including task force development activities) could be streamlined, for example through:

- A reduction in the detail of meeting papers produced. This would assist in making the boards' deliberations more accessible and transparent to interested stakeholders, particularly where English is not the native language.
- Implementing additional and more flexible staffing arrangements for each standard-setting board could be used to increase outreach and interaction with NSS from a greater range of jurisdictions.
- The increased use of technology as part of the boards' operations, such as the webcast of meetings and other standard-setting board events. This could improve efficiency, reduce costs, whilst also enabling greater collaboration with stakeholders across all parts of the world.

Conclusion

Further to our comments above, detailed replies to a number of the specific questions asked in the consultation paper accompany our response overleaf in Attachment 1.

Should you have any queries regarding our response, please contact me or the AUASB Technical Director, Matthew Zappulla, at mzappulla@auasb.gov.au.

Yours sincerely,



Professor Roger Simnett AO
Chair

Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

Q1 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?

The consultation paper raises key concerns that the standards developed to date by the IAASB have not been developed in the public interest and there is undue influence by the profession. The Australian Auditing and Assurance Standards Board's (AUASB) observations on this matter differ to the perceptions raised by the MG in the consultation paper on this issue.

Part of our due process as a national standard-setter is to observe and understand the international standard-setting process, and ensure that this process is consistent with the supporting principles outlined in section 2 of the consultation paper. The AUASB has for many years had a representative on the IAASB, and for the past year have been regular observers at IAASB meetings. Our representatives have been classed as "independent members" of the IAASB, being academics, public sector auditors and audit committee members. They are well supported in their deliberations for the Board and the Task Forces, demonstrating that resources other than practitioners are available to support IAASB activities. In our experience, and after consulting with our past representatives there is no evidence or observed instances that support the MG's key concerns that standards have been subject to undue influence by the profession or are not developed in the public interest at the international level.

Furthermore we do not consider that the key concerns raised in the consultation paper are consistent with observations and experiences about the standard-setting process raised within our local jurisdiction and broader region. We question the basis on which the MG has determined in the consultation paper that these concerns are observed on a global scale or limited to specific jurisdictions. To demonstrate this is to highlight that, since the AUASB was constituted as an independent statutory agency in 2004, we have adopted all of the International Standards on Auditing, Review and Assurance Engagements and related pronouncements issued by the IAASB into our local standard-setting framework, and have not encountered any opposition from our stakeholders which suggested this approach was inappropriate.

We agree that the relevance and timeliness of standards is a key concern. The AUASB has a broad mandate and currently adopts international standards on both auditing and assurance for entities across various market segments and industries. Adoption by local jurisdictions of the international auditing and assurance standards enables local entities to raise capital and operate more efficiently internationally. Developing and maintaining a single set of international standards supports the quality of the audit process, improves the effectiveness and efficiency of implementation by auditing firms, and reinforces confidence in capital markets. We believe any changes to the standard-setting boards must continue to support the primary objective of ensuring that standard-setting serves the public interest by developing and promoting a single set of 'sector neutral' and principles-based standards that draw on auditors' professional judgement. Such a commitment would therefore protect and enhance the confidence, consistency, broad acceptance and high quality of the current international standard-setting framework.

Q2 Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

We support the overarching principle of standard-setting being in the public interest, and the supporting principles applied by the MG in the Consultation Paper, however we also consider consensus of constituents and board members to be a fundamental principle of standard-setting.

Q3 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?

We urge the Monitoring Group to prioritise the development of any revised public interest framework – this should be done in advance of or in conjunction with any review of the standard-setting boards and their governance/oversight.

Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

Q4 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.

We support the current model of having separate boards to develop auditing and ethical standards for the following reasons:

- Whilst acknowledging there are some elements of the auditing and ethical standards framework that overlap we consider the skillset and expertise required to oversee each of the full suite of auditing and ethical standards requires a different set of capabilities. Merging the standard-setting boards may make it less desirable for board members to apply for positions or to identify candidates possessing the necessary knowledge and attributes to effectively contribute in each of the auditing, assurance and ethical standards.
- We have serious concerns about whether a single board has the capacity to address all issues that arise in relation to auditing, assurance and ethical standards in timely manner. Stakeholder consultations highlighted by the MG in the consultation paper already raise concerns about the relevance and timeliness of standards, and this may only get worse if a single board is made responsible for the development and adoption of all international auditing and assurance standards and ethical standards for all types of engagements.
- We consider it essential and in the public interest that all accountants - be they auditors, in public practice or in business - are governed by a common ethical code that is overseen and administered by a dedicated standard-setting body. Whilst not directly part of the AUASB's mandate we have concerns with any proposal that separates the responsibility for setting ethical standards for auditors and assurance professionals away from setting ethical standards for the rest of the accounting profession.
- In our jurisdiction it is estimated that auditors make up only 7% of the accounting profession, and rarely are their activities limited to auditing and assurance work. We have not observed any detrimental impacts associated with auditors and other types of accountants applying the same ethical code. In fact the different sections in the current structure of the Code of Ethics are largely effective in addressing ethical issues unique to the auditing profession. Consequently we consider the development of different ethical requirements based on the service being provided, rather than applying a set of common ethical principles for all accountants, may lead to a lack of clarity both within and beyond the profession.

We have recently seen in practice how the current separate boards have increased collaboration and consistency in common subject areas (for example, the application of professional scepticism) through a range of initiatives, such as joint task forces and regular joint sessions at board meetings. We support the continuation of these collaborative activities rather than merging the development of auditing and ethical standards into a single entity.

Q5 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?

We have not responded directly to this question.

Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

Q6 Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

We consider it essential and in the public interest that all accountants - be they auditors, in public practice or in business - are governed by a common ethical code that is overseen and administered by a dedicated standard-setting body. Whilst not directly part of the Australian Auditing and Assurance Standards Board's mandate we have concerns with any proposal that separates the responsibility for setting ethical standards for auditors and assurance professionals away from setting ethical standards for the rest of the accounting profession.

In our jurisdiction it is estimated that auditors make up only 7% of the accounting profession, and rarely are their activities limited to auditing and assurance work. We have not observed any detrimental impacts associated with auditors and other types of accountants applying the same ethical code. In fact the different sections in the current structure of the Code of Ethics are largely effective in addressing ethical issues unique to the auditing profession. Consequently we consider the development of different ethical requirements based on the service being provided, rather than applying a set of common ethical principles for all accountants, may lead to a lack of clarity both within and beyond the profession.

Q7 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.

It is essential that there is sufficient practitioner involvement in the standard-setting process for both the standard-setting boards and the body (or bodies) that provides governance and oversight of this process. We are unaware of other scenarios where similar professions (such as legal or medical standard-setters) don't have practitioners represented throughout their standard-setting processes. Standards being developed without sufficient practitioner involvement creates a risk that they are not fit for purpose, impractical to implement and or may be rejected by the professional community.

We believe that both the standard-setting boards and any oversight body should be reformed at the same time. The impact of many of the proposed reforms in the consultation paper cannot be evaluated effectively in the absence of a holistic review of the roles and responsibilities of each level of the international standard-setting process being undertaken concurrently.

We strongly oppose any reforms which result in a technical oversight role or 'powers of veto' for the oversight body. Its role should be limited to the ensuring the technical decisions of the international standard-setting boards follow due process.

Q8 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?

We support a review of current board member roles and responsibilities, including a focus on board member roles to be more strategic in nature, as described in the consultation paper.

Notwithstanding an increased role for technical staff under the model proposed in the consultation paper, board members should continue to have responsibility to develop, review and approve standards, supported by other experts as appropriate. Whilst we agree that board members' roles could be more strategic in nature we consider that there still needs to be a direct role for board members in the standard-setting development process.

In conjunction with the above point, we support a revision of the roles and responsibilities of the standard-setting boards' staff in order to reduce the amount of time current board members spend in the detail of the drafting process.

We support board members being remunerated if this is determined to be a key factor in attracting and retaining the best board members possible.

Q9 Do you agree that the board should adopt standards on the basis of a majority?

We would not support any reform that allows a simple majority vote to approve standards and exposure drafts. We consider the current arrangements, which require a two-thirds majority of board members, produce standards that demonstrate a greater consensus, which increases their acceptance and application across the globe. Allowing standards to be approved via a simple majority creates a risk that they are released without the support of all stakeholders, which then undermines their credibility and jeopardises the high rate of implementation currently observed in jurisdictions across the world.

Q10 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?

Notwithstanding our preference to keep the current two standard-setting boards separate, we acknowledge there would be potential benefits in reducing the size of each board and revisiting the role of board members as suggested in the consultation paper. Consistent with recent corporate governance trends, reducing the number of members on each board should be effective in streamlining the standard-setting process but still enable capacity for diversity of representation across each board as described in our feedback above.

Our views on the composition of the board apply regardless of any decision to appoint a proportion of members on a full or part time basis.

Q11 What skills or attributes should the Monitoring Group require of board members?

The consultation paper raises a number of concerns about the existing composition and roles of the standard-setting boards and how these could be reformed. These reforms focus primarily on structural aspects of the standard-setting boards, however we consider changes to current arrangements should also reflect upon the skills and attributes of board members, and the quality of the candidates nominated, rather than which constituency they represent. To ensure appropriate Board representation, use of a comprehensive skills matrix is suggested to capture key aspects, such as the governance skills and diversity of representation required. In particular we consider the future composition and role of board members should:

- Be driven by a nominations process targeted at getting the right people on the standard-setting boards, who are committed to upholding the guiding principles outlined in section 2 of the consultation paper, and able to demonstrate agility across a range of capabilities and experience to the standard-setting development process.
- Safeguard geographic diversity. This is particularly important for a global ‘standards-taker’ like Australia so we can ensure views from our region are represented in the international standard-setting development process, which will have a positive impact on local acceptance and implementation.
- Incorporate a diversity of expertise across the assurance standards framework – for example, ensuring that there are specialists in non-financial assurance standards and representation of the SMP/SME sector on the audit standard-setting body, as is currently the case.
- Not have a majority or over-representation from any one stakeholder group, making sure there is an appropriate balance of members from the practitioner, non-practitioner and regulator stakeholder groups represented, as well as independent members who can support ‘the public interest’.

Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

Q11 What skills or attributes should the Monitoring Group require of board members? (continued)

- Ensure those who represent organisations whose responsibility it is to enforce the standards are not in a position where they can overly influence the development of the standards. In particular, whilst the consultation paper raises stakeholder concerns that there is currently too great an influence by practitioners on the existing boards, we also highlight the risk of undue influence should too many regulators be appointed to each of the standard-setting boards.

Q12 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?

We have not responded directly to this question.

Q13 Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

As the public interest framework is yet to be developed we are unable to respond directly to this question, however we agree in principle that task forces should operate under the same public interest framework as the standard-setting boards.

Q14 Do you agree with the changes proposed to the nomination process?

Nominations to a new governance/oversight body should follow the same robust, transparent process determined for appointments to the standard-setting bodies themselves. Whichever group has responsibility for the standard-setting boards nominations process, it should be focused on the capacity and capability of the individual appointed, rather than which organisation the individual represents.

Q15 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 have not observed any significant issues related to the current arrangements that provide governance and oversight over the international standard-setting process. Additionally, we are not aware of any circumstances supporting the concerns raised by the MG in the consultation paper that suggest current oversight arrangements need to be strengthened to serve the public interest through due process and accountability.

The Australian Auditing and Assurance Standards Board encourages the MG to ensure that the PIOB's role be limited to oversight in relation to the standards-setting process. We would strongly oppose any reforms which promote a role for the PIOB in the technical deliberations of the standards-setting process or provide the PIOB with any powers of veto over the decisions of the international standard-setting boards. Any concerns that the public interest is not being served should be identified at the time of observation, to aid a timely and appropriate response, rather than after decisions are taken.

Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. This will enhance confidence in and global acceptance of international standards. In particular we do not support the governance and oversight of the standard-setting boards being limited to those with regulatory responsibilities.

Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

Q16 Do you agree with the option to remove IFAC representation from the PIOB?

We have not responded directly to this question.

Q17 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?

Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. This will enhance confidence in and global acceptance of international standards. In particular we do not support the governance and oversight of the standard-setting boards being limited to those with regulatory responsibilities.

Q18 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?

Nominations to a new governance/oversight body should follow the same robust, transparent process determined for appointments to the standard-setting bodies themselves. Whichever group has responsibility for the standard-setting boards nominations process, it should be focused on the capacity and capability of the individual appointed, rather than which organisation the nominated individual represents.

Any body charged with the responsibility of governance and oversight of the standard-setting process should consist of diverse representation drawn from all relevant stakeholder groups and a range of geographies. Greater confidence in and global acceptance of international standards may be achieved by identifying all PIOB members through an open call for nominations. In particular we do not support the governance and oversight of the standard-setting boards being limited to those with regulatory responsibilities.

We strongly oppose any reforms which result in a technical oversight role or ‘powers of veto’ for the oversight body. Its role should be limited to the ensuring the technical decisions of the international standard-setting boards follow due process.

Q19 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 have not responded directly to this question.

Q20 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?

We have not responded directly to this question.

Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

Q21 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?

Considering the reduced number of board members that may be appointed as a result of the proposals in the consultation paper being implemented, we agree they should be supported by technical staff with greater capacity and capability than is available under existing arrangements.

Our observations are that IFAC has recently experienced challenges when managing existing staffing arrangements for the standard-setting boards. These challenges would potentially be magnified were the level and expertise of staffing to be increased as described in the consultation paper. In particular, it may be difficult for any revised standard-setting boards to attract the right candidates into technical staff roles whilst the reform of the standard-setting process is still being evaluated and revised. For similar reasons, any technical staffing changes in the short term would require a comprehensive transition plan to protect against loss of continuity and capacity as any agreed reforms are implemented.

Changes to the nature and structure of technical staff supporting the standard-setting boards should ideally also reflect the same or similar levels of diversity relating to expertise and geographical representation of the board members they support. This diversity of staff knowledge and capability would contribute to the increased credibility and relevance of standards developed by the international standard-setting boards, as well as improve engagement and outreach with stakeholders across the profession.

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

We have not responded directly to this question.

Q23 Are there other areas in which the board could make process improvements – if so what are they?

The AUASB supports a full review of current standard-setting board processes to improve the timeliness and relevance of the development process. Based on our observations of the IAASB's recent activities we consider that current standard-setting board processes (including existing task force development activities) could be enhanced and streamlined, for example through:

- A greater emphasis on engagement with national standard-setters to ensure international standards are fit for purpose and gain greater acceptance in different jurisdictions.
- A reduction in the detail of meeting papers produced. This would assist in making the boards' deliberations more accessible and transparent to interested stakeholders, particularly where English is not the native language.
- Implementing additional and more flexible staffing arrangements for each standard-setting board could be used to increase outreach and interaction with NSS from a greater range of jurisdictions.
- The increased use of technology as part of the boards' operations, such as the webcast of meetings and other standard-setting board events. This could improve efficiency, reduce costs, whilst also enabling greater collaboration with stakeholders across all parts of the world.

Q24 Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risks 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 could distribute the funds)?

We have not responded directly to this question.

Attachment 1 – Responses to specific questions in the Monitoring Group Consultation Paper

Q25 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?

We have not responded directly to this question.

Q26 In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.

We have not responded directly to this question.

Q27 Do you have any further comments or suggestions to make that the Monitoring Group should consider?

We have not responded directly to this question.