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Our ref SRA/288

By email: [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

9 February 2018

Dear Mr Everts

**Re: Consultation Paper: Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest.**

We appreciate the opportunity to comment on the above Consultation Paper issued by the Monitoring Group. We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments are set out below. The appendix to this letter provides our responses to the specific questions posed in the Consultation Paper.

We believe the current standard-setting model has significantly contributed to the promotion of audit quality globally through the development of high-quality auditing and assurance standards, and the IESBA Code of Ethics, that have been widely adopted on an international basis. However, we recognise that there are aspects of the current model that, if not addressed, risk undermining the credibility of the standard-setting process and the legitimacy of the international standards. High-quality standards, recognised and trusted by stakeholders, are critical to the effective functioning of our capital markets and the foundation of the auditors' role in those markets. We are supportive of the Monitoring Group's outreach efforts to better understand the perceived weaknesses in the current model and its efforts to achieve a standard-setting model that will serve the capital markets and all its stakeholders well into the future.

However, we believe that the proposals do not fully address the comprehensive reform that is required to ensure the long-term confidence of all stakeholders in the standard-setting process and that further changes are needed in line with the key principles detailed below.

We believe that the development of the public interest framework is a critical first step and is the cornerstone of the reform, and as such we do not believe it is appropriate to attempt a redesign in the absence of its development. We also note that such a development should follow appropriate due process including detailed consultation with a broad stakeholder group. In connection with this, we recommend that the Monitoring Group identifies relevant stakeholders and further defines the “broad stakeholder group” that is intended to be represented in the reformed model.

We believe that the reform of the standard-setting Board and operations, and the Governance Body, needs to be an integrated package and that this would be more effective than the proposed staged approach to the governance model. Successful reform to the process needs to take a holistic approach that recognises that all aspects of the model are interrelated, in order to achieve the necessary broad stakeholder buy-in to the reformed model.

We believe it is important that, in considering proposed changes to the model, they are evaluated based on the following key principles:

### **Principle**

Participation of all relevant stakeholders at both the standard-setting and oversight levels	This will require structural and operational changes to enable a diverse group of stakeholders to participate in the standard-setting process on an equal footing, to ensure the process operates in the public interest.
Distinct roles for governance/ oversight and standards development	The Governance Body, as trustee and guardian of the revised model, should oversee the standard-setting process as a whole, but should not, and nor should it need to, intervene in the technical debate or seek to advocate on behalf of particular stakeholders.
A pathway to broad-based funding within a foreseeable timeframe	The perception of the independence of the model will always be at risk whilst the funding comes predominantly from the auditing profession. The sources of funding also should reflect a broad stakeholder base recognising that high quality standards, that are capable of international application, across geographically diverse regions, as well as across multiple industry sectors and businesses of varying size and complexity, are vital to stakeholder confidence and the effective functioning of global capital markets.



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We welcome this important first step taken by the Monitoring Group in their outreach and consultation regarding reforms. In order to properly address the key principles set out above and address the comprehensive reform that is needed, we believe further analysis, outreach and development of comprehensive proposals are required. This would include an appropriate time-frame built in for stakeholder input and exposure of the proposals.

Please contact Sheri Anderson at +44 (0)20 7694 8871 if you wish to discuss the contents of this letter.

Yours sincerely

*KPMG IFRG Limited*

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## Appendix: Responses to Questions

### 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?

As noted in the Consultation Paper, the auditing and assurance standards and the IESBA Code of Ethics, developed under the current model, have “*commanded international respect and have been widely adopted*”, contributing significantly to the promotion of audit quality globally.

Regarding the key areas of concern identified by the Working Group, we recognise that the current process to develop standards may give rise to a perception of undue influence by the profession, principally driven by the level of involvement of the profession, as well as the funding arrangements. We also acknowledge that it is imperative that the standard-setting process is able to respond in a timely fashion to market need for relevant and up to date standards.

It is vital that these standards, and the Code of Ethics, remain fit for the future and have the confidence of all stakeholders. Comprehensive reform must address concerns about balanced stakeholder representation at both the governance and standard-setting levels and diverse funding sources.

As noted in our overarching comments, we believe that the proposals do not fully address the comprehensive reform that is required to ensure the long-term confidence of all stakeholders in the standard-setting process and that further changes are needed to meet the following key principles:

- Participation of all relevant stakeholders at both the standard-setting and oversight levels;
- Distinct roles for governance/oversight and standards development – the Governance Body should oversee the model and due process, but should not intervene in the technical debate; and
- A pathway to broad-based funding within a foreseeable timeframe.

We also highlight that the considerations and proposals set out currently in the Consultation Paper appear, in general, to be focused primarily on auditing standards, and ethical matters in relation to auditors. We note that in taking the fully integrated approach that we consider to be critical, the proposals should address the full suite of assurance standards (i.e. auditing standards, assurance standards and assurance-related standards such as those concerning agreed-upon-procedures). These standards are interrelated, are underscored by the Assurance Framework and

have been developed for use by assurance practitioners that are subject to the Code of Ethics and ISQC 1.

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

We agree with the proposed overarching and supporting principles applicable to the revised standard-setting process set out in the Consultation Paper, however, we would suggest the following additional considerations in establishing the principles:

*Due Process* - Standard-setting should be carried out in accordance with due process. Although elements of the concept of due process may be addressed within the other principles articulated in the Consultation Paper, we believe that, in developing a model in which stakeholders have full confidence, it would be helpful to individually identify the principle of due process.

Due process as a concept considers the different roles, responsibilities, skills and expertise brought to bear across each aspect of the revised model, and gives emphasis to the need for widespread outreach and consultation to ensure balanced representation of stakeholder views in accordance with the overarching public interest objective.

It also helps to clarify the role of the Governance Body under the new model. We consider that if the revised model is thoughtfully designed and a competent standard-setting Board adheres to due process in discharging its responsibilities, the Governance Body should not, and should not need to, directly intervene in technical debates in order to ensure the public interest. Please see our response to question 15 for further discussion of this matter.

*Balanced Representation* - There should be balanced representation of all key stakeholder groups (preparers, users, regulators, professional bodies, and auditors of financial statements), with no particular stakeholder group able to exercise undue influence. Please also see our responses to questions 10 and 13 for further discussion as to how we envisage this to be achieved across the model as a whole.

*Relevance* - We recommend further exploring the principle of relevance to address the geographically diverse environments in which standards and the Code of Ethics will be deployed, as well as the continued need for scalability. We believe that as part of achieving these aims, standards and the Code of Ethics should continue to be principles-based.

*Sustainability* - The Consultation Paper notes that the standard-setting model must also be sustainable in the long-term, with secure funding and a clear strategy. We

agree with this principle, and suggest that the concept of sustainability be elevated such that it also is a supporting principle.

The funding model for the Board and the Governance Body should be equitable and free from perceived conflicts of interest. Financial control and planning should ensure that the Board has established clear objectives based on a sound risk assessment and has developed a robust strategy that is capable of being supported by a realistic budget over the longer term.

**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?**

We support the Monitoring Group in seeking to develop a framework that will support the assessment of how the public interest is captured throughout the standard-setting process. However, since this framework is so fundamental to the overall reformed standard-setting model, it is difficult to understand how the Monitoring Group is able to finalise the proposed reforms without this cornerstone on which the entire model is premised.

In assessing whether a standard has been developed to represent the public interest, it would be helpful to further explore the concept of “the public interest” and how this may be applied to the standard-setting process individually, as part of the wider mechanism to support financial reporting. IFAC describes it as “*the net benefit derived for, and the procedural rigor employed on behalf of, all society in relation to any action, decision or policy.*” It is important to fully debate this matter, with broad outreach to ensure a wide range of stakeholder perceptions, in order to fully understand any concerns with the current model and ensure that these are addressed.

It is also important to consider how the public interest framework will support the revised model at both a strategic level and also at a detailed drafting level. Please see our response to question 13 for further considerations in this regard.

We believe that audit quality is best supported through principles-based standards that drive the right behaviours. It allows the standards to be scalable, adaptable to the specific circumstances and “future proof”, in the sense of capable of being adapted to evolving environmental and technological developments.

We also note the following concerns in respect of the descriptions of a public interest framework set out in the Consultation Paper:

- The first bullet on page 4 states that an audit “*appropriately communicates the auditor’s key findings and conclusions to those charged with governance and*

*where necessary regulatory authorities*” alone. Whilst those communications are important, the primary objective of an audit is the auditor’s report, which is addressed to those who formally engage the auditors (usually the shareholders and/or those charged with governance). We do not believe it is appropriate to specifically identify other individual stakeholder groups in this way as a wide variety of stakeholders may seek to use the auditor’s report.

- The second bullet on page 4 refers to balancing the requirements of stakeholder groups “*with a purpose of ensuring that the views of those with the greatest concern about and commitment to the public interest*” are properly considered.

We highlight that the public interest inherently cannot be weighted towards the concerns of any particular stakeholder group(s), but rather that it is achieved through balanced representation of a broad range of views.

**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.**

There are challenges and benefits to be considered for both models. We believe there may well be benefits and better integration/alignment of auditing and independence and ethics standards with a single, independent Board, however this may equally be achieved with alternative structures. Much depends upon how, in practice, the responsibilities are discharged.

To the extent that a combined Board is more strategic in nature, and not focused on detailed technical deliberations, this should enable the model to work effectively. Additional expertise, where needed by the Board, could be provided via supporting structures and technical task forces.

**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?**

We support the proposal that the responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain the responsibility of the independent Boards that are established under the auspices of IFAC.

Skills and competencies are fundamental to high quality auditing, and it is therefore in the public interest that consistently high quality educational standards are developed. We believe the profession is best placed to achieve this objective,

without the need for the level of public interest oversight proposed in the reforms for other standards.

The concerns raised in respect of the independence of the standard-setting process and its responsiveness to public interest considerations do not appear to be directly applicable to educational standards, which are developed to reflect changes to auditing and assurance standards and the Code of Ethics.

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

We consider that the standard-setting Board responsible for the development and adoption of the relevant parts of the Code of Ethics for professional accountants in public practice should also be responsible for the development and adoption of the relevant parts of the Code for professional accountants in business. Both are premised on common overarching principles, and there is significant interaction and symmetry between requirements applicable to each group, which are designed in recognition of the complementary roles of those who use them in supporting well-functioning capital markets.

We understand the rationale behind the suggestion for the development of ethical standards for professional accountants in business to remain with IFAC, however, we highlight the risk that requirements may diverge over time, which could undermine the overall intention of using a single Code. We believe that IFAC can continue to play an important role in the promotion of the standards and best practices throughout the business community.

**7. Do you believe the Monitoring Group should consider any future 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.**

As we note in our responses to questions 12 and 13, it would be helpful to further consider the future role of the Consultative Advisory Group (CAG) or the establishment of a Technical Advisory Group (TAG), as well as to explore the creation of Task Forces in order to support the standard-setting Board.

**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?**

We agree that the focus of a new, streamlined standard-setting Board should be more strategic in nature, supported by highly technically skilled task forces and the CAG and/or TAGs.



We consider that the members of the Board should be remunerated commensurate with their roles and responsibilities and at market rates in line with those of other Boards of a similar nature. This is a critical feature to enable the Board to attract a high-calibre membership drawn from a broad stakeholder base.

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

We note that the Consultation Paper states that “*this [a simple majority] could allow the board to be more decisive, avoid unnecessary delays and reflect the fact that acting in the public interest requires standards that not all stakeholders necessarily agree with*”.

Whilst we recognise the intention within the proposal to expedite decision-making, we do not believe that it would be in the public interest to enable decisions to be implemented that such a significant proportion (49%) of stakeholders may disagree with.

Instead, we consider that a supermajority threshold would be a practicable basis for decision-making, since it would avoid the compromises to public interest of a simple majority, whilst also mitigating potential delays that could result from a consensus-based approach.

However, we note that even a supermajority threshold could result in a minority group of stakeholders, for example practitioners, or the regulatory community, being bound by a decision that they disagree with. Accordingly, due process safeguards need to be considered such as:

- A requirement for the supermajority vote to include at least one representative from each stakeholder group or require additional consultation with CAG/a TAG;
- A requirement that the standard-setting Board invest sufficient time to fully understand and debate concerns when a stakeholder group expresses a view that is strong enough to vote against a proposal in making an informed decision; and
- Publication of the identity and reasons for dissenting votes, for example in the basis of conclusions to the standards, to support the transparency principle.

**10. Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part-time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group**

**should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?**

We agree that a single Board operating as envisaged under the new model would function optimally with a membership of between 12 and 15 members approximately. We believe this would enable the Board to maintain a strategic focus and operate in a streamlined fashion, whilst representing the views of a sufficiently broad stakeholder base.

We consider that the proposal to include a mix of full-time and part-time members would help the Board to operate effectively as a collective, in a manner that optimises key attributes including leadership skills, continuity and deep experience, as well as up-to-date technical knowledge and skills, and the need for output to be highly relevant and responsive to market need.

We are supportive of the Monitoring Group in terms of the range of stakeholders identified in the Consultation Paper. However, we note that significant emphasis is placed on equal constituent representation at the standard-setting Board level. Whilst we recognise the importance of a broad base of views in order to be, and to be perceived to be, independent, we believe it may be difficult for a highly streamlined standard-setting Board to take account of a very diverse stakeholder group, including wide geographical representation, without compromising technical expertise. Similarly, it may be difficult for such a Board to remain strategic in a truly global sense, and work towards consensus. These outcomes clearly would not be in the public interest.

Instead, we consider that the balanced representation of a broad set of views should be achieved across the reformed model as a whole. Please also refer to our response to question 13.

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

In order for the standard-setting Board to be streamlined and strategic we consider that the Board members should have the following attributes:

— Demonstrated commitment to serve the public interest;

This would include a strong understanding of audit and assurance, and the ethical principles that underpin these, recognising the important role they play in maintaining a well-functioning capital market system that inspires the trust and confidence of users.

- Sensitivity to the challenges of adoption and implementation of standards on a global basis;

It is important that individuals are able to work as part of a body that, as a whole, needs to function strategically to address the most pressing global market needs. Board members need to be committed to developing standards that are capable of international implementation and it is vital that they do not use their position to lobby from a parochial perspective regarding jurisdictional matters.

- Appropriate professional background;

Individuals should be highly qualified and experienced representatives of their stakeholder groups, with the subject matter competence and experience to make informed decisions.

We do not believe that Board members need to be deep technical subject matter experts (although such input is vital and must be brought to bear through the composition of the Task Forces and the CAG/ TAG). However, all Board members need to have sufficient subject matter competence to be able to make informed decisions.

- Professional standing and respect within their stakeholder community to take such an important leadership role.

Board members should have the ability to reach out across stakeholder groups to debate issues, provide constructive challenge and build consensus, to reach outcomes that are in the public interest.

We are supportive of the Monitoring Group's proposal to develop a skills matrix, which we consider will help to ensure that the Board collectively possesses the appropriate skill set, and that individual Board members demonstrate the required attributes. We also believe this will help to provide transparency over the appointment process.

**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?**

We agree with the proposal to retain a consultative, technical advisory body to support the standard-setting Board. This will be a particularly important feature of a reformed model in which the standard-setting Board takes a more strategic role. As such, it is also important that such an advisory group represents a broad range of stakeholders in order to ensure that balanced views are provided, including from those representatives who may have more limited involvement in the detailed technical discussions.

We consider that in order to support the reformed process to operate effectively, in the public interest, the remit and membership of the CAG should be updated as follows:

- The CAG should be an advisory and consultative body to the standard-setting Board. The Board should determine the topics and considerations that are of most importance and about which it needs to seek advice (similar to the PCAOB's SAG), and therefore the CAG should fulfil its role in accordance with this principle;
- CAG membership should include representatives from key stakeholder organisations and groups, and the consultative process should allow sufficient time for members to obtain views from within their wider organisations;
- CAG should operate in a cohesive manner such that advice and comments are considered by CAG as a whole before being provided to the standard-setting Board; and
- The membership of CAG should be addressed to ensure that the principle of independence of the standard-setting model as a whole is adhered to. Care needs to be taken that organisations are not over-represented through a combination of representation on the CAG, the standard-setting Board and the Governance Body, such that they may be able to exercise undue influence.

We recommend considering a mix of full-time and part-time membership, to enable the group as a whole to possess sufficient expertise to respond to matters raised by the standard-setting Board.

Furthermore, in light of the changes proposed to the model as a whole, we consider it important to ensure that there is representation from groups such as the SMP/SME community, as well as national standard setters, to ensure that such groups have the opportunity to share views and concerns with the standard-setting Board.

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

As we note earlier, we consider it critical to the success of the reformed standard-setting model that a public interest framework be developed on which that model is premised. Accordingly, all elements of the new model will be based on this framework, and as we note in our overarching comments, an integrated approach must be taken to the reforms.

**14. Do you agree with the changes proposed to the nomination process?**

We agree that the standard-setting Board nominations should continue to be conducted via an open call for candidates, with nominations supported from all stakeholders to ensure diversity. We also agree that the nominations process should be administered by the Governance Body going forward, provided that Body is reconstituted to include all relevant stakeholders. In relation to this, please see our comments in response to question 17 regarding the composition of the Governance Body.

We set out in our response to question 11 the skills and attributes that we expect the standard-setting Board members to possess, and we highlight that appointments to the standard-setting Board should be made in a transparent fashion.

**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?**

No, we do not agree with the role and responsibilities of the PIOB as described in the Consultation Paper. Significant changes are necessary to the structure and operation of the Governance Body as part of the overall process to fundamentally reform the standard-setting model. These changes should be designed and implemented as an integrated package, together with reforms to the standard-setting Board.

In particular, reforms to the Governance Body are necessary to ensure distinct roles for governance/ oversight versus standards development within the model. Since a wide variety of stakeholder groups will be able to participate in the priority-setting and decision-making of the standard-setting Board it will not be necessary or, in fact, appropriate, for the Governance Body to intervene in the technical debate or seek to advocate on behalf of particular stakeholders.

Furthermore, we consider that it would be inappropriate for the Governance Body to be able to veto the adoption of a standard or challenge the technical judgements made by the standard-setting Board, since to do so may enable certain stakeholder groups to exercise undue influence and hence compromise the independence of the process. Instead, we consider that the Governance Body should act as the trustee and guardian of the revised model, with an overarching responsibility to ensure that due process is followed across the standards development process as a whole.

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

We believe that it is critical that the Governance Body includes individuals with current experience in auditing, with representation from preparers, users, regulators, professional bodies, and auditors of financial statements.

As we state in our responses to questions 14 and 17, we consider it critical that the Governance Body as a whole has the appropriate skills and experience, including technical expertise, to discharge its responsibilities. A key feature of this is that the Body represents a broad range of stakeholder groups and that the process to appoint members is transparent.

Accordingly, we do not believe it necessary or appropriate for particular stakeholders to have a right to propose a representative of the Governance Body, as this could give rise to the perception of undue influence. We therefore agree with the proposal that IFAC will no longer be able to do this.

**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 have?**

We noted in our response to question 11 the attributes we consider the standard-setting Board members should possess. We believe it is critical that such attributes are also represented within the Governance Body, and that this body also should include individuals with significant experience in performing governance roles on Public Interest Entities (PIEs). Such individuals are well recognised for their background in assessing both management and the auditors' work in their fiduciary role to represent the shareholders' interests.

In terms of the Governance Body, it is important that in addition to representation of all key stakeholders, including individuals with current experience in auditing (preparers, users, regulators, professional bodies, and auditors of financial statements), it also reflects diversity in terms of geographical representation, provides views from entities of different sizes, and reflects the concerns of other stakeholder groups that may not be represented at the standard-setting Board level, in order to ensure independence of the model as a whole.

**18. Do you believe that PIOB members should continue to be appointed through individual Monitoring Group members or should PIOB members be identified through an open call for nominations from within Monitoring Group member organisations, or do you have other suggestions regarding the nomination/appointment process?**

We believe that there should be an open call for nominations, whereby any party, not solely the Monitoring Group, is able to nominate candidates for consideration to become members of the Governance Body.

We also believe that the appointment process should be transparent with publication of the reasons behind the decisions to appoint candidates, including their skill sets and expertise.

**19. Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?**

We would support a model in which the Governance Body has oversight of ethical standards for professional accountants in business, for the reasons we note in our response to question 6.

We do not believe it necessary for the Governance Body to have oversight of the activities of the educational standard-setting Board within IFAC, since the public interest concerns that the reforms are responding to were not raised in respect of such standards. Please see our response to question 5.

**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?**

Effective governance and oversight are critical components of a high quality standard-setting process that operates in the public interest. In order to holistically address reforms to the standard-setting process we suggest that the roles and responsibilities of the Monitoring Group should also be considered at this time.

Consideration should be given to the fact that the stated objective is for the new standard-setting Board to set standards for both PIE and private entity audits, as well as other assurance and assurance-related standards, and ethical standards on which practitioner conduct is premised. Changes to the composition of the Monitoring Group should therefore be considered in conjunction with proposed changes to the PIOB/Governance Body in order to achieve broad representation from those public authorities with responsibility for audit/assurance in the non-PIE sector too.

In order to increase transparency and bolster public trust in the process we suggest that appointments to the Governance Body/ Monitoring Group, the names of the responsible officers, meetings and decisions relating to the standard-setting process be made public. Consideration could be given to an evidence-based mechanism that demonstrates that due process has been observed by the Governance Body/ Monitoring Group when performing its oversight duties.



We support the proposal that, in being responsible for nominations to the Governance Body in a robust and transparent fashion open to parties beyond the Monitoring Group, the Monitoring Group will subject candidates to a demanding skills and capabilities assessment.

**21. Do you agree with the option to support the work of the standard-setting Board with an expanded professional technical staff? Are there specific skills that a new standard-setting board should look to acquire?**

We consider that a smaller (combined) standard-setting Board with a more strategic focus would need to be supported by an expanded professional staff, with the appropriate skill set, which would necessarily include technical excellence.

We support the proposed secondment model for such a technical staff as an appropriate means to drive cost-effectiveness, whilst also ensuring that technical skills are relevant, up-to-date and market-focused.

A streamlined Board will also need strong support from a highly technically skilled advisory group, in addition to an expanded staff. We believe it will be vital to have current practitioner expertise and experience brought to bear that, particularly over time, a permanent staff would lose. Therefore, we also recommend reconsideration of the role of the CAG, or the creation of TAGs for auditing and assurance standards, and for ethics and independence matters. The TAGs could be a useful and flexible mechanism through which the Board gains access to technical input, thereby supporting the permanent and seconded staff. The TAGs would each, collectively, possess a skillset that would enable them to provide appropriate technical challenge during project development to help ensure the technical robustness of the standards. We recommend that consideration be given to the structures used by the IASB in determining an appropriate model.

Notwithstanding the above, we consider that it is an important principle that the Board set clear objectives for each project and retains responsibility for its direction. The staff and advisory groups' role is to develop standards that achieve those objectives in an efficient, effective and timely manner, and that such standards are understandable and practicable. It is not the role of staff or advisory groups to second-guess the Board's decisions.

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

As we note in our response to question 21, we consider that the technical staff composition would be optimised by including a mix of permanent staff as well as shorter-term seconded staff.



We recommend further consideration be given as to how, practically, a model of direct employment, evaluation and compensation of the staff by the Board would be operationalised. We suggest that the Monitoring Group explore the formation of a new standard-setting body along the lines of the IASB.

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

We support increased acknowledgement of the time-sensitivity of standards development and further efforts to streamline the process to issue these, in order to be more responsive to stakeholder needs. However, we do not support approvals on a simple majority vote basis, as a means to expedite decision-making, for the reasons we set out in our response to question 9.

We note the importance of exploring the role of CAG/ a TAG in conjunction with the proposed changes to the process. It is imperative that the Board is able to seek timely and informed advice to support their work and, as we suggest above, consideration should be given to the creation of separate TAGs for auditing and assurance standards and for ethics and independence matters

**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)?**

As the Consultation Paper notes, there is currently an “*adverse effect on stakeholder confidence in the standards as a result of the perception of undue influence by the profession*”, a significant driver of which is the concern regarding independence raised by the current funding arrangements.

We believe that the perceived risks to independence under the current model, which relies on direct funding and contributions-in-kind from the profession, will only be addressed by the pursuit of broader-based and diversified sources of funding.

We do not agree that adequate checks and balances can be put in place within the constraints of the current system to fully mitigate any risk or perceived risk to the independence of the standard setting process. Regardless of the mechanism used to collect the funds, if these continue to be contributed mainly by the audit profession, whether directly or indirectly, the perception of undue influence will remain.

Standard setting is a public good and its sources of funding should reflect that. It is important that a pathway to broad-based funding within the near-term is put in place.

**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 opted for in the paper, and if so what are they?**

The Consultation Paper notes that a contractual levy “*would provide a funding envelope that would allow the Board to plan its work with reasonable certainty, as the levy would no longer be just a voluntary contribution*”.

Whilst we recognise the Monitoring Group’s aim, in making this suggestion, to secure a viable and sustainable funding base, we do not believe such a step is necessary or advisable.

We also highlight that applying a levy to auditors of PIEs may have the unintended consequence of acting as a disincentive for smaller networks to continue to participate in the PIE market since there would be an additional cost hurdle to entering this market when compared to other segments within the audit field.

Ultimately, the perception of undue profession influence in the standard-setting process cannot be resolved without establishing a diverse funding base in which the profession is neither the sole nor the majority contributor.

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

We do not have any additional points to raise in response to this question.

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

We do not have any further comments or suggestions to make.