



30 November 2016

By email to: [Piob-strategy@ipiob.org](mailto:Piob-strategy@ipiob.org)

Public Interest Oversight Board  
Madrid, Spain

Dear Sirs

### **2017-2019 PIOB Strategy – Public Consultation Paper**

The Hong Kong Institute of Certified Public Accountants (the Institute) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The Institute sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. The Institute is committed to ensuring that audit quality is maintained at the highest standards.

The Institute appreciates the opportunity to comment on the PIOB consultation on PIOB strategy for the period 2017-2019. As an active member of IFAC the Institute takes every opportunity to contribute to discussions that will have an effect on audit quality globally and in its home jurisdiction. The role of the PIOB is to represent the public interest in its oversight of the independent international standard setting boards that produce standards that are widely adopted around the world. Therefore the strategy that is agreed upon to direct PIOB activities over the next few years is very important.

Responses to the specific questions raised in the consultation paper are set out in the Annex. These should be read in the light of the following overarching comments that attempt to address matters of principle in the consultation and more in the overall context of international standard setting.

The Institute recognizes the importance of high quality and effective auditing, assurance and ethical standards as a significant contributor to the value that audit brings to capital markets, the business and financial communities and wider society. As a long time adopter of standards developed and issued by the IAASB, the IESBA and the IAESB, the Institute believes these standards are robust, comprehensive and effective in building quality into the audit process. The Institute adopts standards issued by the Boards without modification. Local interpretation guidance may be issued separately but the standards are adopted as issued by the Boards. The Institute believes that this approach has contributed to raising the quality of audit in Hong Kong and values the mechanism that produces such high quality standards.



The PIOB has not made a case that there is a lack of quality in the standards or that the process of developing and issuing standards is compromised or fatally flawed. No system is perfect and it is entirely appropriate that consideration should be given to how the process and the standards it produces can be improved. But this is not the same as saying that the current system is not fit for purpose and should be fundamentally rebuilt.

The consultation paper correctly asserts that standard setting needs to be responsive to public interest and suggests that in certain areas such as lack of independence from the profession in the composition of the Boards and speed of reaction to stakeholder input the current system does not meet expectations.

The Institute is very familiar with the current standard setting model and is aware that there is already significant opportunity for stakeholder input to the process of standard development – public consultation, the Consultative Advisory Groups and, of course, the oversight of the PIOB itself. The model is robust and accommodating and there is no evidence that standards produced are not of sufficiently high quality. The consultation suggests that this arrangement is not enough and that more stakeholder input is needed although it is not apparent what barriers there are to stakeholder input through the current process. All stakeholders are encouraged to participate and contribute and the current model provides ample opportunity.

A key part of the consultation, and a matter that has been debated in many forums over many years, is whether there should be more independent Board members to better represent the range of stakeholders and the public interest. In all the discussions there has been no conclusive view that this alone would result in "better" standards. The Institute recognizes the importance of a wide range of stakeholder input to standard setting but is also of the view that there needs to be significant knowledge and understanding of auditing in the standard setting process. The quality of the standards should always remain the main consideration.

The consultation also raises the question of whether there should be more independent and stakeholder input earlier in the stage of standard development – in the working groups that carry out the initial research and drafting. Again, no evidence has been provided to suggest that stakeholders are being excluded at key stages of the process. Early consultation by the working groups with key stakeholders does occur under the current model and stakeholder representatives could be invited to participate in working group discussions and meetings to ensure specific issues were fully addressed and understood at the appropriate stage of the process. The working groups are the first stage of the process that requires detailed knowledge and understanding of audit process and procedures and the working groups cannot make decisions on the adoption of standards. This requires the deliberation of the full Board and input by CAG and PIOB. There would not appear to be an argument that micro-management of the early stages of standard development process by the PIOB would result in improved quality of standards.



In conclusion, the Institute is of the view that the best measure of quality is in the end product and does not believe that there are fatal flaws in the current standard setting process that compromise the quality of standards developed and issued by the Boards under the oversight of the PIOB.

If you require any clarification on our comments in this letter or responses to the questions in the Annex, please do not hesitate to contact me on (852) 22877372 or [chris@hkiipa.org.hk](mailto:chris@hkiipa.org.hk).

Yours faithfully,

Chris Joy  
Executive Director



**PIOB strategy consultation questions**

**Q1. Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?**

Yes. The current process is very alert to potential risks to the public interest. Stakeholders do contribute views and observations through the PIOB, CAGs, public consultation and the PIOB exercises public interest oversight of the process.

**Q2. In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?**

All stakeholders have the opportunity to make representations at many stages of the current process.

**Q3. Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of SSB members and Chairs?**

There is no compelling argument advanced that the current system has not been effective in selecting SSB members and Chairs, nor that a differently constituted Nominating Committee would produce "better" selections.

**Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?**

No. There is no evidence of a fundamental weakness in the current arrangements.

**Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?**

All Board members have a responsibility to consider and act in the public interest. Members from different stakeholder groups will bring different perspectives to this responsibility.

**Q5. Do you think that Public Members should receive modest remuneration for their contribution to standard setting in the absence of a sponsoring organization? If so, who should pay?**

The value of public members is acknowledged restrictions on funding should not prevent the presentation of quality candidates. However, arbitrary allocation of such costs to stakeholders would not be supported. The cost of such an arrangement should be borne by stakeholders that nominate/encourage Public Members or see the most value in increased independent participation in SSBs.



**Q6. Did you come across cases where auditing, ethics and education standards did not adequately respond to your public interest concerns?**

No. The current standard setting model produces workable, effective and robust standards.

**Q7. Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and or task forces?**

The PIOB currently oversees the whole of the standard setting process. The consultation paper does not suggest that this is not working or that there are gaps in oversight of the standard setting process, particularly in the early stages. There is no argument advanced that a different approach is needed.

**Q8. Where do you see gaps in the PIOB's oversight?**

There are no evident "gaps" in PIOB oversight.

**Q9. Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?**

There have been examples where important standards have taken a long time to finalise and all parties would agree that this should be minimized. However, the objective must remain the production of quality standards and not speed of production. The question itself recognizes the need to balance the timeframe of standard development with due process and proper input of all stakeholders. This balance cannot be achieved by setting rules or strict criteria.

**Q10. What topics would you consider – from a public interest perspective - essential additions to the present education curricula?**

All professional bodies offering a professional qualification keep their examination content under constant review to ensure it remains relevant. Individual jurisdictions may identify region specific education needs that will be addressed in post-qualification development products. Professional ethics is a key topic that is already covered in many curricula but should perhaps be given greater emphasis.

**Q11. Can you suggest how the PIOB might enhance its understanding of the public interest issues relevant to international accounting education standard-setting, and to accounting education practices and processes?**

PIOB should already be aware of significant public interest issues and reflect those in its oversight role. PIOB should not be directly involved in education practices and processes.



**Q12. In your opinion, what else could the PIOB do to encourage adoption and implementation of international standards (ISAs, the Code of Ethics, and the IESs)?**

It is not the role of PIOB to be involved in the adoption and implementation of standards. The standard setting boards, IFAC and IFAC member bodies devote substantial resources to support adoption and implementation of the standards. PIOB oversees the standard setting process.

**Q13. Do you find the PIOB Quarterly Updates useful?**

Yes – as a general report of PIOB activities. However, the main indicator of the effectiveness of the oversight role of PIOB is the quality of the standards that are ultimately issued.

**Q14. Is there anything the PIOB could do to improve the understanding of its role as a defender of the public interest.**

The role of the PIOB is to represent not defend the public interest. The standard setting boards fully understand that their standards should serve the public interest and PIOB oversees the standard setting process to ensure that this happens. The current standard setting model does not act against the public interest.

**Q15. What would you think should be the role of the PIOB in the longer run given the set of reforms currently contemplated?**

The reforms that are suggested in the consultation paper do not appear to require the PIOB to fundamentally change its role. Oversight of the standard setting process and representation of the public interest is an important task. Reforms suggested to make the work and activities of the PIOB more transparent and efficient do not need to change the role of the PIOB.