Mr G Ramos  
Public Interest Oversight Board  
C/Oquendo, 12 – 28006  
Madrid  
Spain  

Dear Gonzalo  

**Comments on the 2017-2019 PIOB Public Consultation Paper**  

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and the national auditing standard-setter in South Africa. One of its statutory objectives is the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic. The IRBA, through its Statutory Committee for Auditing Standards, is also responsible for adopting, developing, maintaining, issuing and prescribing auditing pronouncements.  

We appreciate this opportunity to comment on the 2017-2019 PIOB Consultation Paper. Our comments in response to each question in the Paper are attached in Appendix A.  

Please e-mail me at bagulhas@irba.co.za or call us directly on +27 87 940 8796 should further clarity be required on any of our comments.  

Yours faithfully  

Bernard Peter Agulhas  
Chief Executive Officer
APPENDIX A

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

The process appears to be working but there might be opportunities to improve. It might also be useful to reflect on whether the PIOB believes that this process has achieved its objectives of protecting the public interest, keeping in mind that this might not be easily measurable. Our recommendations to improve the process to identify risks to, and protect the public interest are listed below:

1. The Nominations Committee should be more independent and should not be chaired by IFAC officials, even though all appointments are ultimately approved by the PIOB. We recommend that the Committee is chaired by an independent, public member.
2. Even though only 50% of SSBs represent the profession, we should recognize that these members are necessarily more vocal and closer to the technical discussions. In addition, technical advisors, mostly from the profession, also have speaking rights at meetings of the SSBs, which adds to the voice of the profession. It might be useful to balance the interest of the profession and the public, not through quantitative measures, but rather qualitative measures. This could include processes whereby the PIOB members proactively engage with public members to better appreciate any public interest concerns they might have. Alternatively, should a quantitative approach be taken, consideration could be given to reducing the representation from certain groups.
3. The important role of task forces should not be underestimated, as it is at this level that projects take direction. Therefore, it is recommended that their composition should receive careful attention. Due to the limited number of public members on SSBs, these representatives necessarily comprise the minority on task forces. Having one public member out of, say, eight members, on a task force does not mean that the public interest is sufficiently represented and that the task force is sufficiently balanced. We recommend that more attention, and if necessary, support, be given to public members on task forces.
4. Chairs of SSBs need to be responsive to comments from public interest members, as there is a risk that they might pay more attention to comments from the profession. It is therefore recommended that chairs are independent and act impartially, or as a minimum, be required to demonstrate how they have dealt with public interest comments.
5. Although important stakeholders have been identified (IFIAR, SEC, FSB etc.), it is recommended that the PIOB Strategy include how the PIOB builds relationships with these public interest bodies. These are different strategies. Therefore, as it is already a part of the PIOB’s mandate to reach out to its constituencies and the public at large, consideration should be given to a defined strategy to proactively reach out to public members. This might require more engagement and interaction, in addition to inviting chairmen of CAGs and Boards to report back to the PIOB.
6. The operation of task forces must be carefully monitored to avoid potential domination by the chairman or certain members. Chairmen should follow an inclusive approach and ensure that they respond to all inputs through following a Due Process. It is therefore recommended that chairmen of boards and task forces are regularly evaluated (already in place) as well as made aware of their responsibilities to be inclusive and impartial. This necessitates that careful attention is also paid to the appointment of chairmen of task forces, keeping in mind that there might be insufficient public members to fulfill these roles.
7. Where SSBs have Steering Committees, the composition and formal powers of these Committees must be carefully considered, as the constitution of these committees could necessarily result in the exclusion of certain members and constituencies, and they might believe that reporting back to the main boards on their decisions is sufficient for a Due Process.
8. Attention must be given to Terms of Reference of SSBs and task forces, and members and chairmen as well as the secretariat must be familiar with such Terms of Reference to avoid potential confusion and uncertainty around expectations of the structures. It will also be useful if there was some consistency in these Terms of Reference, so that all SSBs and task forces respond in the same manner to public interest matters.

9. We recommend that policies and procedures are in place to ensure that staff remain independent of board members, while providing the necessary support.

10. The PIOB should consider a strategy to address potential disadvantages which could be created for non-English speaking members and recognize the potential risks created by language barriers.

11. Careful consideration should be given to rotation of members between the PIOB, CAGs, SSBs and Staff.

12. Further recommendations to ensure that the public interest is considered could include:

   a. The PIOB becoming more involved in advocacy around adoption and convergence, highlighting the public interest.
   b. The PIOB having more direct involvement in Steering Committees of SSBs.
   c. The PIOB being alert to developments in different jurisdictions, for example, G-20 countries laying down ethics standards that are more stringent than the IESBA Code. While it is appreciated that an international, principle-based code might have to default to a lower common denominator, developments in different jurisdictions might also indicate that the bar might have to be raised in respect of the international benchmark.

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

Representatives from the Public Sector could add useful perspectives.

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?

We fully support a more independent Nominations Committee.

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

We support a Nominations Committee that is predominantly comprised of public members.

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

Yes, members from the profession are potentially conflicted, and even if not real, there could be a perception that they are.

It is also critical that there is a clear distinction between ‘non-auditors’ and ‘public members’. We do not believe that non-auditors are necessarily public members and promote the public interest.

It is also important to recognize that ‘public’ members are not necessarily ‘public interest’ members.
Finally, careful attention should be paid to rotation between members and technical advisors, to ensure that there is not a situation of ‘musical chairs’. We have observed situations where members become technical advisors, resulting in tenure on the SSBs, in whichever capacity, becoming too long. Consideration should also be given to imposing shorter periods for membership of SSBs and CAGs. These practices might place further limitations on opportunities to admit public members.

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?

While financial support might be a consideration for public members, and will assist in attracting the right calibre of member, it has to be secondary to attracting public members who have a real passion and commitment to the protection of the public interest.

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

Yes.

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?

We do not believe that it is necessary for the PIOB to be involved in the Task Force at an early stage, except to the extent that it closely monitors the composition of the Task Forces, evaluates task force chairs, ensuring that there are adequate Terms of Reference, and that chairs fully appreciate their responsibilities to be unbiased and inclusive, as mentioned above.

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

The current process appears theoretical and compliance – based, but it is not clear whether the real objectives of public interest protection is achieved. Processes to better identify public interest issues could be strengthened.

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?

Due Process protects the public interest, so this must be followed. If this process can be more effective and efficient (not necessarily shorter), the public interest will be equally protected.

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

All standards must respond to the continuously changing environment in which auditors and accountants operate. The IRBA has commissioned research which identified the competencies we believe an auditor should have, e.g., relationship building, marketing, business acumen and understanding of the business, negotiation, forensic investigation, and data analytics, which was in response to an environment which includes tendering, big data, professional scepticism, reporting on non-financial information such as Integrated Reporting,
the new Auditor Reporting Model which includes Key Audit Matters, independence requirements, and narrowing the expectation gap.

If standards, including education standards, are not responsive to the changing environment, the public will not be protected. While some jurisdictions have incorporated these new competencies in their curricula, the IAESB should seek opportunities to be equally responsive from a standard-setting and thought leadership perspective.

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?

If the PIOB has an understanding of the changes in the audit and accounting environment (particularly those changes impacting the public interest), and how these changes are responded to by the IAASB and IESBA, then they will have an understanding of the public interest issues which the IAESB should respond to.

For example, enhanced auditor reporting and transparency must necessarily protect the public interest (IAASB). Similarly, reporting of NOCLAR must protect the public (IESBA). Therefore, the PIOB must ensure that the IAESB identifies and responds to these developments by identifying appropriate competencies in their standards. It is only if the auditor or accountant is competent to operate in a changing environment, that the public interest will be protected.

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)?

We believe that this is a responsibility of IFAC, although the PIOB could play an advocacy role (refer to Question 1, 12(a) above).

Q13. Do you find the PIOB Quarterly Updates useful?

These publications are not known to many stakeholders.

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

This process of consultation is helpful. The PIOB could further consider how it identifies real public interest issues, and continue to ensure that its own members are suitably qualified and understand their role when observing SSB meetings.

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

The role of the PIOB in future should be to continue to strengthen the independence of the SSBs from the profession, which will include developing a funding model to ensure the PIOB’s own independence from IFAC.

Standard setting is currently comprised of the four focus areas: Education, Quality, Ethics and Audit. Consistent with a risk management framework approach, the PIOB could be reflecting now on the role of firm governance, and whether this is an area that should be developed further as a public interest subject.
It should also consider the suggestions above which could contribute to strengthening the protection of the public interest.