



Response to PIOB Strategy Public Consultation Paper

ICAEW welcomes the opportunity to comment on the *PIOB Strategy Public Consultation Paper* published by PIOB on 29 September 2016, a copy of which is available from this [link](#).

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 147,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Copyright © ICAEW 2016
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: ethicspolicy@icaew.com

icaew.com

MAJOR POINTS

1. We believe that the continued refining and tightening of governance and process is distracting from a more important consideration, which should be to step back and focus on outcomes. With this in mind we lay out our main recommendations below, followed by our responses to specific questions.
2. A well-researched and informed analysis of what is meant by public interest in the context of an international standard setting board for professional accountants is of critical importance to fulfil IOB's role. We have laid out below some of the considerations we highlighted as relevant in our [*Acting in the Public Interest: A Framework for Analysis*](#) report. We believe this would be a good starting point for IOB to develop its own understanding of what it means by public interest. We would be very happy to discuss this further with IOB and assist where we can.
3. Heavily engineered due process is not necessarily in the public interest as it can become an end in itself, diverting attention from a root cause analysis to determine what the problem is that needs fixing. IOB exists to provide oversight and ensure balanced stakeholder involvement. We do not believe that the need for reform is driven by the governance structure itself, but by a perceived failure to reflect input from all stakeholder groups including those that are not typically involved.
4. It is essential that technically competent accounting professionals continue to be heavily involved in the drafting of standards, not only to ensure efficient development of high quality standards but also to assist with buy-in to the purpose and spirit of the standards and to ensure that the result is capable of practical application. IOB has a role in ensuring that working groups do not lose sight of what they are trying to achieve, based on a more inclusive and expansive view of public interest. The drafting itself should be left to the working groups.
5. IOB has a role as a vocal proponent of international standards and facilitator of the public interest in the standard setting process through its oversight of the already robust due process of standard setting. IOB should be the champion of engaging and applying the public interest rather than of the standards themselves and the process that leads to their development.
6. The suggested approach indicated by IOB seems to exclude professional involvement due to perceptions of self-interest, with no clear evidence as to whether that is merited, or a vision as to what the end result will be. What is required instead is to set high expectations of how the profession should work in the public interest, a concept to which ICAEW is fiercely committed.

RESPONSES TO SPECIFIC QUESTIONS

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

7. While we do not wish to detract from the importance of due process, including consultation with regulators and other stakeholders, due process alone does not address what is meant by the public interest or the reasonable expectations of society, nor what the implications of serving the public interest might be in specific circumstances.
8. Furthermore, we do not believe that heavily engineered due process is itself in the public interest, where it can become a defence mechanism for established interests rather than a genuinely useful and constructive process that seeks to solicit and reflect the views of all

those affected by changes in standards. We suggest that IOB draws up a framework for analysing public interest in the context of international standard setting. This will entail more and wider outreach.

9. The improvements suggested in the consultation document (to board composition and the nomination process) are refinements at best, and refinements have a tendency to bring diminishing returns when compared with fresh thinking.

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

10. Yes. Much focus tends to be on the often short term interests of investors. It is worth remembering that the International Ethics Standards Board for Accountants (IESBA) Code in particular addresses all accountants' professional activities, not just audit. A wider group of stakeholders including businesses, governments, competent authorities and employees should also be represented. We do not believe that the already public process restricts the participation of parties wishing to be involved, but it may well fail to gain traction with those stakeholder groups that are not typically involved. The standard setting process needs to articulate the substance and importance of the issues under discussion, and why they matter to, for example, the average saver, consumer or investor.

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

11. A public member Chair might enhance transparency and improve the perception of the selection process. That said, the process still requires expertise from the accountancy profession and therefore an acknowledgment that to achieve standards that are fit for purpose and workable, connections to the profession are inevitable and appropriate. The goal should not be complete independence from professional input.
12. An entirely separate nominating body constituted by public members would imply that the current oversight structure is ineffective and we are not convinced that this is the case.
13. A more appropriate and significant question for the IOB to ask is 'What is the end goal of the nomination process?' Until this is answered there will be no opportunity to present alternative solutions and we will continue down the road of constant incremental re-engineering and tightening of processes without considering the root causes of perceived problems. Does a public member bring a benefit simply by virtue of being a public member who has completed a selection process? Or is it much more important to consider the qualities and expertise required to achieve desired outcomes?

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

14. Yes, public members do bring different perspectives on the public interest though we are concerned that the tone of the consultation document suggests a lack of trust in accountants' ability to offer a public interest perspective at any time, without an evidence base to support this. We should expect professional accountants to bring a perspective on the public interest as that is what the profession requires. Indeed, one might argue that the accountancy profession is the only global profession to regard public interest with such high importance. This regard is evidenced by ICAEW's [*Acting in the Public Interest: A Framework for Analysis report*](#) and more recent [*ethical guidance*](#) consultation.
15. To assume that useful, objective input is incapable of being provided as a result of self-interest can result in dangerous and unnecessary engineering. It is essential that professionals are involved, not only to ensure efficient pragmatic development of standards but also to ensure that the result is able to be practically applied.

16. We feel it worth pointing out that professional accountants are also members of the public, with a wide and diverse range of business backgrounds.
17. That does not mean to say that the overall balance of public and other members should not be reviewed. It may, for example, be appropriate to arrive at approximately even three-way representation for professional accountants in public practice, other professional accountants and 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?

18. This is again a reasonable suggestion albeit one that has manifold pitfalls created not least by use of the phrase sponsoring organisation, the meaning of which requires further clarification. Any organisation labelled as such will immediately be met with presumptions about its role and potential vested interests. Furthermore this proposal seems to be based on an assumption that lack of reward is limiting useful participation and we are not convinced that there is evidence to support this. We fear that any changes in the difficult area of funding will generate similar problems to those we outline above.

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

19. We have not come across such cases but the question leads back to a wider point. It is unclear to us how IOB might formulate public interest concerns. The public interest concerns of one stakeholder are likely to be different from those of another stakeholder. This will require IOB to consider credentials for invoking the public interest, who the relevant public is, whether public interest even applies in the particular circumstance, and if so what the relevant public reasonably wants. All these considerations will inevitably be subject to a certain level of subjective bias as different people have different public views and some are better at expressing those views than others. IOB's role should be to ask questions such as those above in reaching an assessment, and to be transparent about this process so that others can assess it and reach their own conclusions.
20. Following on from some of the questions above, we remain concerned that public interest is often used as a euphemism for the exclusive interests of investors and shareholders, rather than all those with a legitimate interest. That said there may be cases where a particular standard or issue may only be of relevance to particular stakeholder groups. In such cases it is they that will be the relevant public.

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 IOB being involved at an earlier stage by overseeing working groups and or task forces?

21. The existence of working groups facilitates the efficient development of standards. If the intention is to give such groups more power to expedite matters then it would make sense to have greater IOB involvement up front. We are therefore supportive of the suggestion.
22. However, the involvement of IOB at this stage would have to be clearly scoped and on the correct terms. The technical process of standard development is not the same as the oversight process connected with it and a blurring of the lines might result in a drop in quality. IOB's role is to ensure and oversee a public interest perspective and an involvement in technical drafting process that could compromise the primary role would need to be avoided. In practical terms that would mean that the role of IOB would be carefully scoped and limited to ensuring that working groups don't lose sight of what they are trying to achieve, based on a more inclusive and expansive view of the public interest. The drafting itself should be left to the working groups.

Q8: Where do you see gaps in the IOB's oversight?

23. We do not see any significant gaps, though in passing we note that when undertaking monitoring roles at Boards, it is not always clear whether IOB representatives are representing IOB or giving personal input.

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?

24. We believe that in respect of matters with far reaching implications, such as standard setting, it is better to arrive at the right answer than a quick answer. In particular, standard development can tend to take place in response to a specific past event or crisis. In this context the tendency is towards a knee jerk reaction. Better results are achieved if time can be spent in stakeholder research and analysing what is actually needed.

25. Nonetheless, if an issue requires a short timeframe, the process needs to be capable of flexing, adapting and responding. Unnecessary delay should be avoided, but a faster process will inevitably require more resource from all parties involved in standard setting if the same level of diligence is to be retained.

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

26. It is not clear what is meant by present education curricula. At the present time we do not see a need for any new International Education Standards (IESs) but the position should be kept under review and new standards considered when circumstances change, if that is in the public interest, and if this is agreed as the best means to achieve the desired result. Key current issues include big data, cyber security, professional scepticism, independence and the wider interests of society but these are areas of constant development where professional accounting organisations may well pursue their own initiatives. We draw attention to the ICAEW [Audit Futures](#) programme as an example.

27. There is a limited role for IOB in this space given that standards are a relatively small part of education. Support materials and guidance will be more effective in many situations and frequent additions to IESs put undue pressure on less mature professional accounting organisations. As mentioned throughout our response further analysis of the concept of public interest is essential and this should inform the purpose of the education of professional accountants. However, we consider the education agenda to be a matter primarily for professional bodies who have to take account of domestic law and regulation.

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

28. In addition to a well-researched and informed analysis of what is meant by public interest, engagement with wider stakeholders who have a specific interest in education will be essential in this regard, to help identify themes such as those we mention in our response to Q10. IOB should also consider the real extent of IES adoption, and the relative merits of enforcement and support in encouraging this.

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

29. A question arises as to whether IOB should be championing individual standards the quality of which it is also claiming to safeguard. There should be a distinct separation between oversight of due process and advocacy. The latter is for the Boards themselves.

Q13: Do you find the PIOB Quarterly Updates useful?

30. Yes, updates are useful but they should not be a one-way communication. We envision really useful updates being in line with the changes proposed in this response. They should be proactive and inclusive and encourage participation rather than simply being informative.

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

31. The use of the word defender in the question suggests that there are currently a number of voices that wish to be heard but are not. It also implies that public interest is a fixed position that needs defending because it is under attack. We do not believe that this is the case as a more likely scenario is one of willing disinterest or disengagement. Therein lies the challenge of obtaining broad stakeholder views in the first place. PIOB could do more to address this, perhaps seeing itself less as a defender of the public interest and more as a facilitator of the means by which public interest is expressed.
32. The issue is how to allow PIOB to obtain the wide range of stakeholder input necessary to establish a proper public interest perspective, in a practical and timely manner. As indicated above, in establishing and considering the public interest, public input could be encouraged and responses analysed within a framework such as that suggested in our response to Q4. An inner board could be complemented by a wider and mainly virtual consultation panel which could include a number of stakeholder representatives giving high level input. This would overcome the challenge of getting the views of those who don't always volunteer input as well as addressing many of the concerns raised by PIOB without the need to overhaul the board structure. This approach will require a greater level of proactivity to establish such a panel in the first instance.

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

33. PIOB exists to oversee a due process that actually meets the needs of the public it is supposed to serve, making sure that all relevant voices have been heard and reflected. To the extent that this does not already take place we do not believe the culprit is a governance structure that is not fit for purpose. Instead we think that there needs to be clarity around what the public interest is, who the relevant public are and how they can best be engaged. The merits of any current reforms should only be considered to the extent that they support that outcome. This is just as much about consultation and communications strategy as governance. PIOB cannot assume that putting a consultation into the public domain means that all relevant people will read it. More proactivity is required.
34. We note that the wording of the question suggests that decisions on detail are already at an advanced stage. We think that this consultation should be used as an opportunity to consider views on the objectives of reform in the first instance, rather than the merits or otherwise of detailed proposals.