



**ICAS RESPONSE TO 2017-2019 PIOB STRATEGY  
PUBLIC CONSULTATION PAPER**

26 November 2016

## Introduction

1. ICAS welcomes the opportunity to contribute to this PIOB consultation. We are a leading professional body for chartered accountants with over 21,000 members working across the UK and internationally. Almost two thirds of our working membership work in business; others work in accountancy practices ranging from the Big Four internationally to the small practitioner in rural areas of the UK.
2. The ICAS Charter requires us to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.
3. ICAS is the oldest of the world's professional bodies of accountants and a member of IFAC. We are one of the 30 largest contributors of member subscriptions to IFAC.
4. We are aware that discussions are already taking place at the Monitoring Group and with IFAC on many of the matters which are included in this PIOB consultation, and we suggest that there may need to be greater cohesion in taking these matters forward. However, we would be happy to discuss our comments further with representatives of the PIOB or Monitoring Group.

## Key messages

5. Over many years IFAC has supported the development of high quality international standards in the public interest, which have obtained the input of a wide range of relevant stakeholders and been subject to rigorous due process. Accordingly, the standards have been accepted and respected globally, and implemented in a large number of countries. IFAC has also supported the public interest oversight arrangements to ensure that the public interest has demonstrably been a prime objective in the setting of standards. We believe these arrangements have worked well and, whilst there may be minor improvements which are possible, we do believe there is an urgent need for major reform.
6. We believe that any further developments to enhance the PIOB's or IFAC's structures and processes should be carefully assessed as to their impact on fulfilling the public interest and their cost effectiveness. We would not support significant increases in costs to achieve only marginal public interest benefits.
7. In general, we think that the structures and processes in place to identify the public interest aspects of the Standards Setting Boards' activities are appropriate and functioning satisfactorily, although we think there are minor improvements which could be made to improve some matters of substance and of perception.
8. We think it is important for a significant proportion of the SSBs to be made up of those experts who are active in the subject area, who have the direct experience of applying the standards in practice. Standards should be conceptually sound and reflective of the public interest, but need to be capable of effective application in practice.
9. We are concerned that the definition of "practitioner" is not appropriate for the International Accounting Education Standards Board, and that this has resulted in too much representation from audit firms but insufficient representation from those who are deeply knowledgeable about education matters such as accounting professors from Universities and Education Directors from IFAC member bodies. We strongly recommend a fundamental review of the membership criteria be undertaken for each of the SSBs and a more appropriate approach taken to obtaining the necessary experience and expertise in the subject as well as the public interest challenge.
10. We think that it could further improve the perception of objectivity if public members were involved in the IFAC Nominating Committee for the purpose of nominating the Chair and members of the SSBs. We would not favour an entirely separate Nominating Committee.

11. We strongly support the involvement of public members on the SSBs. In our experience such members, with their different backgrounds and experiences, can be hugely valuable in challenging accepted norms and introducing different perspectives on the public interest. However, the public interest remit is not the exclusive preserve of the PIOB and the public members: the practitioner and non-practitioner members should also demonstrate a strong public interest perspective in the development of standards for the profession.
12. We agree that the development of a standard can take a long time, especially as compared to the pace of change in the subject areas of the standards and in other areas of modern life. Whilst we recognise that due process needs to be followed, consideration should be given as to how the SSBs can accelerate the work of the Board and the staff supporting the Board, to develop standards within a more acceptable timeframe.
13. We suggest that standards should be amended to focus more on the objectives and outcomes they are trying to achieve – that is, becoming more “principles based” or “objectives oriented”, in order to provide more flexibility and greater effectiveness in facilitating the use of innovations in delivery. We also suggest that the SSBs undertake more “horizon scanning” and stakeholder consultation to better and more promptly identify emerging issues for which new standards or changes to existing standards are likely to be required.
14. We note that the existing education standards have only recently been completed and that they only needed to be applied from 1 July 2015. Given the length of time it takes to implement curriculum change and subsequently see the impact of this on students, we believe it would be too early to consider changing the education standards within the short term. Given the other priorities of IFAC, on a strict cost-benefit basis we believe that the IAESB and its CAG could be stood down for a period. This would allow time for the standards to be tested in the field and to obtain proper feedback.
15. Under such a scenario, there would be a regular need to reassess whether the IAESB should be reactivated. This could be undertaken annually by an Advisory Group formed from members from the Board and the CAG, and possibly a member from PIOB.
16. Whilst the importance of IFAC and its member bodies has already been recognised in the adoption and implementation of international standards, the PIOB could usefully ask the members of the Monitoring Group to work through their constituencies to do more to encourage such adoption and implementation.

### **Responses to Detailed Questions**

Our responses to the PIOB’s detailed questions are included in the Appendix.

We hope that our comments are helpful to the PIOB in determining its future strategy. As noted above, we would be happy to discuss these further with you.

## APPENDIX

### RESPONSES TO DETAILED QUESTIONS

#### Identification of threats to the public interest

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

We think that the structures and processes in place to identify the public interest aspects of the Standards Setting Boards' activities are broadly appropriate and functioning satisfactorily. Moreover, we do not see the general need for a "more structured methodology", although there may be minor improvements which could be made to improve some matters of substance and of perception.

We are concerned that the definition of "practitioner" and therefore also "non-practitioner" is not appropriate for the IAESB. The definition of practitioner has clearly been developed for the IAASB, but has been inappropriately extended and applied to the other SSBs. The composition of the Education Board, therefore, in our view, is fundamentally wrong, with representation from audit firms but insufficient representation from those who are deeply knowledgeable about education matters such as accounting professors from Universities and Education Directors from IFAC member bodies. Practitioners in this context should be accounting professors and Education Directors and not "partners or staff of audit firms".

We strongly recommend a fundamental review of the membership criteria for each of the SSBs and a more appropriate approach taken to obtaining the necessary experience and expertise in the subject as well as embracing the public interest challenge. This should probably involve moving away from the current practitioner / non-practitioner approach, and may need to be different for each of the SSBs.

We would support regular meetings of the PIOB with the Chairs of the CAGs and with wider stakeholders such as IFIAR, as it is important for the PIOB to obtain a broad input to its public interest perspective. More importantly, however, is the need for the SSBs to obtain input from a wide range of stakeholders and for the Boards to be transparent in how they have addressed the input received. A key role for the PIOB should be in ensuring such transparency and that matters of public interest have been properly addressed in this process.

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

We think it is important for a significant proportion of the SSBs to be made up of those who are active in the subject area, who have the direct experience of applying the standards in practice. Standards should be conceptually sound and reflective of the public interest, but need to be capable of effective application in practice.

We would support other stakeholders such as asset managers, analysts and preparer representatives being involved in the non-practitioner positions on the SSBs, as these could bring a useful and broader perspective.

Whilst there is clearly a need for the SSBs to be seen to be objective and constituted independently of the accountancy profession, the involvement of the accountancy profession, through IFAC, should be regarded as a significant benefit to the effective operation and output of the SSBs.

**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?*

We think that it could further improve the perception of objectivity if public members were involved in the IFAC Nominating Committee for the purpose of nominating the Chair and members of the SSBs. We would not favour an entirely separate Nominating Committee – a single multi-stakeholder nominating Committee would be far more effective. Consistent with our point above, we would wish to ensure that a significant proportion of SSB appointments were of experts working in the field.

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

We strongly support the involvement of public members. ICAS has four “public interest members” on its Council, and in our experience these members, with their different backgrounds and experiences, can be hugely valuable in challenging accepted norms and introducing different perspectives on the public interest.

We would also observe that the public interest remit is not the exclusive preserve of PIOB and the public members. The practitioner and non-practitioner members should also demonstrate a strong public interest perspective in the development of standards for the profession which in turn serve the public interest.

**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?*

We believe that public members should be able to be reimbursed for all their expenses by IFAC, by their sponsoring organisation, or by PIOB. We are currently unaware of the degree of difficulty in attracting new public members, but believe that some remuneration could be offered, if this is felt to be necessary to increase the attractiveness of the public member positions to a broader range of people. Consideration would need to be given, however, to the potential impact on other, unpaid, members. The SSB model has functioned successfully mostly on a volunteer basis and it would be unfortunate if the payment of public members generated a sense of unfairness or in any way demotivated the other members.

To preserve the perceived objectivity of the public members, we believe that the PIOB should pay any remuneration.

### **Strengthen PIOB Oversight**

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

The only examples we have which might be seen to fall into this category are:

- Where the IAASB’s revised auditing standard on audit reports failed to require disclosure of audit materiality – as had been included as a requirement in the equivalent UK audit standard. In our view, disclosure of materiality is an important means of helping users understand the nature of an audit and its limitations, and the “margin of error” against which auditors undertake their work; and
- Where the IESBA had not pursued the concept of mandatory audit firm rotation, as is now being increasingly implemented in jurisdictions across the world.

These are judgemental matters, and our comments are made with the benefit of some hindsight. They should not therefore be seen as criticism of the respective Boards, whose decisions would have been appropriately scrutinised at the time.

In our view, the key focus here is that the SSBs should obtain a wide range of stakeholder views to feed into their deliberations, and that they consider these views appropriately and take full account of public interest arguments. However, in most situations, there are often a number of different perspectives on the public interest and it needs to be recognised that (i) no single stakeholder “owns” the public interest and (ii) it would normally be impossible to accommodate all such perspectives.

Consideration might usefully be given to increasing transparency over how the responses received to discussion papers and exposure drafts are assessed and weighted by the SSBs to provide the rationale for change (or no change). It can sometimes seem that the Boards have a pre-determined approach and that they place more weight on those comments which tend to support that approach. Greater transparency would enable stakeholders to better understand the rationale for SSB decisions and this rationale could be assessed against those stakeholders' perspective of the public interest.

**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 see this as necessary. The PIOB has sufficient opportunity to provide input at later stages of the process. However, in order to avoid wasting effort and resource, it may sometimes be appropriate for the PIOB to review the public interest case for commencing work on a new standard or significantly revising an existing standard prior to any work being started.

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

We do not see any 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?*

We agree that the development of a standard can take a long time and that this may not be acceptable to many stakeholders, especially as compared to the pace of change in the subject areas of the standards and in other areas of modern life. Therefore, consideration should be given as to how the SSBs can accelerate the work of the Board and the staff supporting the Board, to develop standards within a more acceptable timeframe. In particular, there should be more of a sense of urgency to their work, which should pervade all their development activity.

Clearly, due process always needs to be followed with full consultation across the range of stakeholders. We would note, however, that it is the proposals which are complex or contentious which have often taken the longest time – and this situation is where due process needs to be strongest and most robust.

We are aware though, of developments in practice – such as the use of data analytics in audit – where the (auditing) standard is seen as too prescriptive to facilitate the application of such innovations, and the SSBs have been slow to recognise the issue and make changes to the standard. With the rapid application of such new technology, the speed by which an auditing standard can be revised is unacceptable and leads to inefficiencies in practice.

Our suggestion is for standards to focus more on the objectives and outcomes they are trying to achieve, rather than on prescribing precisely how they are achieved – that is, becoming more “principles based” or “objectives oriented”. This would require greater judgement of the practitioner (auditor) in the implementation of the standard, but provides more flexibility and greater effectiveness in allowing for the use of innovations to better achieve the objective of the standard eg to improve the quality (of the audit). This is discussed in further detail in the report of the ICAS-FRC Steering Group “Auditor Skills in a Changing Business World”, available on the ICAS and FRC websites. Indeed, the Steering Group report makes a number of recommendations to regulators and standard setters.

We would also suggest that the SSBs and their CAGs should undertake more “horizon scanning” and stakeholder consultation to better and more promptly identify emerging issues for which new standards or changes to existing standards are likely to be required. The SSBs should also undertake regular prioritisation so that important issues are addressed in a timely manner, with other less important initiatives put on hold if necessary.

### **Supporting Accounting Education**

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

We would not expect matters of such detail to be relevant to the PIOB's terms of reference or strategy.

The education standards are high level and principles based, and would allow for further topics to be added to curricula if necessary. We do not believe that the education standards should be made any more detailed, although there may be a need for curricula to encapsulate emerging issues, such as integrated reporting, and the evolving auditor skills needed for an evolving business and assurance environment. (We would refer you to the ICAS-FRC research and Steering Group report on “Auditor Skills in a Changing Business World”, available from the ICAS and FRC websites.)

We note that the existing education standards have only recently been completed and that they only needed to be applied from 1 July 2015. Given the range of different education models and the length of time it takes to implement curriculum change and subsequently see the impact of this on the individuals who have been through the education process, we believe it would be too early to consider changing the education standards within the short term.

Given the other priorities of IFAC and the ongoing demand on its limited resources, we therefore believe that the IAESB and its CAG could be stood down for a period. This would allow time for the standards to be tested in the field and to obtain proper feedback – and this would then give a solid evidence-based foundation for future changes to the standard or for developing application guidance.

Under such a scenario, there would be a regular need to reassess whether the Board should be reactivated. We suggest that IFAC should retain the services of an education expert on its staff, and that it could also create a small Advisory Group to include a small number of members from the Board and the CAG, and possibly a member from PIOB, to consider this matter on an annual basis. The other members of the Board and the CAG could be kept informed of this review and the decision of the Group.

**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?*

As noted in our responses to questions 1, 2 and 10 above:

- the IAESB needs to have representation from those who are knowledgeable about education matters such as accounting professors from Universities and Education Directors from IFAC member bodies;
- all the Boards could benefit from the involvement of a wider range of stakeholders; and
- if the IAESB was stood down as we suggest in the short term, it would be useful for the PIOB to be involved in an Advisory Group to review annually whether there is a need to reactivate the Board.

In our view, the best way for the PIOB to enhance its understanding of public interest issues pertinent to the education standards is through the oversight which it undertakes.

### **Adoption and implementation**

**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)?*

Whilst the importance of IFAC and its member bodies has already been recognised in the adoption and implementation of international standards, the PIOB could usefully ask the members of the Monitoring Group to work through their constituencies to do more to encourage such adoption and implementation.

### **Transparency and communication**

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

We find these helpful in understanding the activities of the PIOB and the areas of its current focus.

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

We have no specific suggestions to make on this matter, though we are concerned at the tone of this question. We do not see the PIOB as the sole defender of public interest; rather we see it as one of many stakeholders involved in the SSBs who are seeking to fulfil the public interest mandate.

We would note that the PIOB does not seem to have a high profile or wide public awareness, and even within the profession there is confusion as to the respective roles of the PIOB and the Monitoring Group. We would call for greater clarity of the roles of the PIOB and Monitoring Group, and for both to seek a greater public profile.

In our view, the credibility of the PIOB would be enhanced by the development of a proper nomination process for PIOB members, with appointments being made by the Monitoring Group.

### **PIOB vision 2019 and beyond**

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

IFAC and the related SSBs are vitally important to the accountancy profession and to confidence in the capital markets, and the oversight provided by the PIOB needs to be workable, consistent itself with good governance practice and demonstrably effective.

We support the PIOB having a more balanced and diverse membership, and a more rigorous and effective nomination and appointment process consistent with good governance practice. We would also support the strengthened stability of the PIOB through obtaining independent funding for its operations and oversight from a wider range of relevant stakeholders.

In the longer term and to meet evolving public, political and societal expectations, the PIOB (and/or Monitoring Group) may need to work towards establishing the public interest standard setting activities of the SSBs within a wholly independent body, funded by a wide range of stakeholders. In this way the standard setting may be better perceived as more independent and free from any possible undue influence through funding or any other means. We would emphasise that this point would seek to address an issue of perception and not one which reflects deficiencies in the actual quality of current standards or their public interest application.

We would like to comment on the “enhancements” being discussed by the Monitoring Group in 2016, which are referenced on page 21 of the consultation paper:

(i) Independent Nomination Process

We agree that it would improve the external perception of the nomination process for the Chair and members of the SSBs to have a greater public member involvement on the IFAC Nomination Committee. We refer you to our comments in response to question 3 above.

(ii) Composition of the SSBs

We would reiterate our comments above that it is important for a significant proportion of the SSBs to be made up of those who are active in the subject area, who have the expertise and direct experience of applying the standards in practice. We would also support the involvement of a wide range of other relevant stakeholders to ensure that sufficiently different perspectives are brought to Board discussions.

We refer you to our full comments in response to questions 2 and 4 above.

(iii) Independence of PIOB

We do not believe that having a single member of the PIOB who has been nominated by IFAC is a significant threat, or would be perceived as a significant threat, to the independence of the PIOB. Moreover, we think that the contribution which an IFAC nominee could make to PIOB discussions would be extremely useful, indeed necessary, to the operation of the PIOB.