

**MONITORING GROUP CONSULTATION**

**STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE  
INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE  
PUBLIC INTEREST**



# MONITORING GROUP: STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS IN THE PUBLIC INTEREST

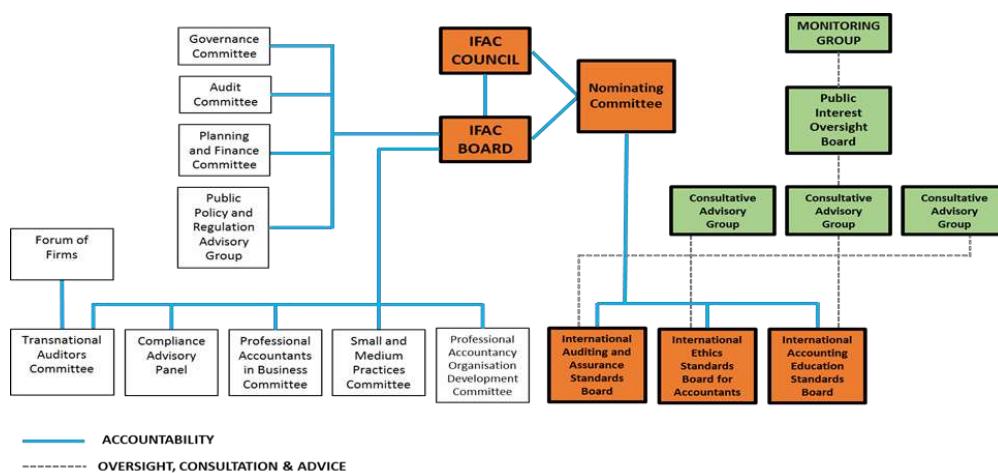
## INTRODUCTION

Following a number of corporate financial reporting failures in the early to mid-2000's, the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), and the World Bank Group (WBG), have joined together to advance the public interest in international audit standard-setting and audit quality. This group has worked with the International Federation of Accountants (IFAC) with the objective of restoring confidence that standard-setting by IFAC's independent boards is responsive to the public interest.

In order to make progress quickly, this group decided to work with the existing structures within IFAC to create a governance framework around the development of international standards for audit, assurance, ethics and education. A three-tier structure was created (**Diagram 1**<sup>1</sup>):

- three separate standard-setting **boards**, nominated, funded and staffed by IFAC were set up to develop international standards for audit and assurance, ethics, and education respectively;
- a Public Interest Oversight Board (**PIOB**) was entrusted with ensuring the protection of the public interest; and
- a **Monitoring Group**<sup>2</sup> responsible for the overall governance of the standard-setting process and the review of its implementation, effectiveness and responsiveness to the public interest. The Monitoring Group also ensures public accountability.

**Diagram 1**



1 This does not include IFAC's public sector standard setting, or its wider work with the public and not-for-profit sectors.

2 The Monitoring Group was established in February 2005 by IOSCO, BCBS, EC, FSB, IAIS and the WBG. The International Forum of Independent Audit Regulators (IFIAR) joined later. Mr. Gerben Everts, Board Member of the Netherlands Authority for the Financial Markets and Member of the IOSCO Board is Chair of the Monitoring Group.

The most recent review of the governance framework was carried out in 2013. Recognising that high- quality, robust and independent auditing is a public good and that public expectations continue to evolve, and reflecting the Monitoring Group's commitment to periodically review the effectiveness of the standard-setting process, the Monitoring Group has developed options for consideration as to whether the governance and oversight of the standard-setting process could be further enhanced to serve the public interest. To this end, the Monitoring Group has appointed a Working Group, whose work is reflected in the reform options for consideration in this document.

The review will be developed in stages, and will cover all aspects of the governance and oversight of the standard-setting process (including the nature and roles of the PIOB and the Monitoring Group itself) to identify any changes that are necessary once this stage of the consultation and reform is finalised.

The reason for dealing with any reform in stages, is to avoid disrupting or otherwise undermining confidence in the current standard-setting process. This would ensure that further changes needed to the governance in the Monitoring Group and PIOB and associated oversight arrangements build on the changes already agreed upon. Recognising that the options for change in this and subsequent papers are in many ways part of a single package, the Monitoring Group will then move to complete the remaining parts of this review in a timely manner.

The three boards have developed principles-based standards that have been adopted in numerous jurisdictions, contributing to increased trust in financial information. However, questions have been raised about the **independence** of the standard-setting process and its responsiveness to the **public interest**. The Monitoring Group notes that there is a legitimate concern among many stakeholders that the influence of the profession is at least perceived to be too strong and that addressing this issue could further strengthen public confidence, as well as encourage still-wider global adoption of the International Standards on Auditing (ISAs). It also feels that a renewed focus is needed on whether the development of new standards is carried out in a sufficiently timely way. It has therefore developed the options set out in this paper for public consultation. In doing so it has kept seven objectives in mind (set out in the box below). The Monitoring Group seeks feedback on whether changes are necessary and, if so, whether they will deliver these objectives more effectively than the current arrangements.

The Monitoring Group acknowledges that the options for reform set out in this paper are strongly interlinked and that one matter can affect the adoption of other options for reform, but is interested in receiving stakeholder views on possible unintended consequences flowing from any particular option.

The consultation also requests views on whether the reform options would enhance transparency and public understanding of the governance structure to underpin both public accountability and wider accountability to stakeholders.

**Objectives:**

- **Public interest** – The structure should ensure that standard setting is undertaken in the public interest;
- **Independence** – The structure should avoid undue influence over the standard setting process from any one constituent including those who will be required to comply with any standards;
- **Credibility** – Standard setting, and the people involved in it, need to be recognised for their skills, experience and knowledge to underpin public confidence;
- **Cost effectiveness** – In accordance with the principles of better regulation, the expected benefits of proposed standards or changes to standards should justify their cost;
- **Relevance** – Standards should be responsive to the needs of the market and the users of financial statements;
- **Transparency** – The decision making process should be open to public scrutiny and follow due process; and
- **Accountability** – Decision makers should be accountable to the public interest. Accountability between the tiers of the proposed model should also operate effectively, including management accountability to the standard setting board.

The main purpose of the options for reform is to ensure that standard-setting serves the **public interest**. The focus of this consultation, therefore, is on those standards that support audit as a public interest activity. The Monitoring Group has considered whether it should seek to define the public interest. Some elements are in its view, clear and unchanging. Standards should ensure that auditors appropriately resource, design and carry out their work in a way that reflects the risks faced by an audited entity; they provide independent and rigorous challenge that ensures the relevance and reliability of audited information; and that they drive the auditor to consider external factors and wider implications of events in markets and financial systems with the aim of preventing failures.

However, the public interest evolves as public expectations change. The Monitoring Group has, therefore, asked the PIOB to support it in developing a framework which will provide a mechanism for assessing how the public interest is captured *throughout* the standard-setting process. This framework will need to take account of factors such as:

- increasing the confidence of users in financial statements and supporting the integrity of financial markets through the delivery of high-quality audit that: (a) focuses on those risk areas which are most relevant to the financial statements of an audited entity; (b) requires an audit approach which deploys adequate resources and applies appropriate procedures in response to those risks; and (c) appropriately communicates the auditor's key findings and conclusions to those charged with governance and where necessary regulatory authorities;
- balancing the varying requirements of stakeholder groups relevant to each of the standards under consideration with a purpose of ensuring that the views of those with the greatest concern about and commitment to the public interest in a particular area are properly considered<sup>3</sup>;
- ensuring that the development of standards in the public interest is evidence based and properly resourced with the right skills and knowledge;

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<sup>3</sup> As an example, while international auditing standards particularly affecting the audits of systemically important financial institutions should be responsive to investor needs, standards that link those audits more broadly to safety and soundness considerations may bring standard setting closer to advancing the public interest.

- ensuring that standards developed will be effective in achieving the objectives set and be clearly applicable and enforceable; and
- acknowledging and carefully considering the increasing role of external audit on the proper functioning of the financial system and economic activity.

The Monitoring Group expects this framework to be at the very heart of any reformed standard-setting process, and has asked this work to be completed for its review, and approval of a draft for public consultation.

The Monitoring Group is aware of the need to manage any risk of options for changes undermining the quality of future standard-setting, and the global adoption of international standards or the progress of the important projects that the current boards are working on. Funding also needs to be secured. Any reforms will, therefore, need to be implemented over a transitional period.

The Monitoring Group has also considered the implications for IFAC, the representative body of the professional accountancy bodies globally. IFAC is the owner of the intellectual property contained in the current ISAs and Code of Ethics, and an arrangement will be needed to allow any revised model to continue to use and enhance the ISAs and the Code. The Monitoring Group welcomes the offer made by the Chairs of the IAASB and IESBA to test, on a pilot basis, some of the options set out in this paper, with a view to determine whether, if adopted, they will work effectively, and support the setting of high-quality, globally adopted standards in the public interest.

The options outlined in this paper would change IFAC's role. However, IFAC would continue to have an important role in supporting the development of the profession globally and in strengthening the quality of its work, including: thought leadership on the future development of the accountancy profession, for instance, through research; representing its global member bodies to contribute to the development of strong professional accountancy organizations and accounting firms; the development of high-quality practices by professional accountants, thus promoting the value of professional accountants worldwide; and speaking out on issues where the accountancy profession's expertise is most relevant.

### What do we want to know?

The Monitoring Group is seeking stakeholder views on options for reform as outlined in this paper, and summarised below. A complete list of the questions is included in **Appendix 1**. In responding to the consultation, respondents should take account of the principles of *better regulation*, and consider whether the options set out in this paper meet the objectives set for them in the most effective and least burdensome way.

Section	Questions
(1) Key areas of concern	1
(2) Guiding principles	2-3
(3) Options for Reform of the Standard-setting Boards	4-14
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## Who should respond?

These options have been developed to strengthen the public interest in the standard-setting process and improve its responsiveness to user needs. Correspondingly, this consultation is aimed at a wide stakeholder representation, including (but not limited to):

- Investors and users of financial statements;
- Those charged with governance;
- Academics;
- Preparers;
- Audit firms and their networks;
- Securities and other capital market regulators;
- Prudential regulators;
- Audit regulators and oversight bodies;
- National standard-setters (NSS);
- Governments, NGOs and public sector organizations; and
- Professional accountancy organizations.

## What is the consultation period?

This consultation will run for a 90 day period, commencing **9 November 2017**. Please submit comments via email to the following mail address: [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org) by **9 February 2018**. Comments will be shared publicly on the IOSCO website unless respondents indicate that their comments submitted should remain confidential.

## NEXT STEPS, PROPOSED OUTREACH AND TRANSITIONAL CONSIDERATIONS

The Monitoring Group sees the reform of standard-setting to be of great importance, but acknowledges that any reforms will need to be implemented over a transitional period, so as to minimise any disruption to the important work of the boards. To support the transition, the Monitoring Group will develop an impact assessment (see below) and a detailed transition plan. These will be developed, working closely with key stakeholders, including IFAC, the existing standard-setting boards and the PIOB. This will include matters such as transition plan and necessary legal arrangements and structures.

Further matters that will need to be considered in implementing new independent standard-setting and governance arrangements include:

- Changes to the legal arrangements, such as the legal structures for the Board(s) and oversight bodies, taxation arrangements, lease agreements, and employment arrangements;
- The location of the Board(s), supporting staff and any oversight bodies; and
- The ownership of the International Auditing Standards, Code of Ethics, and other pronouncements and guidance.

In the preparation of this consultation, the Monitoring Group has mainly focused on the independence of the standard-setting boards in the public interest, but a series of consequential changes has also been proposed to both the PIOB and the Monitoring Group itself, with the aim of further strengthening consideration of the public interest through enhanced accountability and transparency. The Monitoring Group will follow a step by step approach to reform, allowing time for changes to be implemented effectively before further changes are proposed.

The Monitoring Group will consider the responses to this consultation in early 2018, including views of the need for reform and whether the suggested changes are a proportionate response to address these requirements. The final proposals, together with the transition plan and impact assessment will be subject to public consultation. In the meantime, the Monitoring Group will work with IFAC, to appoint the next chair of the IAASB, and to appoint or reappoint members of the existing boards. This will be done through an interim nominations process.

In any governance system, it is important that arrangements are subject to periodic review and assessment to ensure that they remain fit for purpose once properly embedded. The Monitoring Group will carry out such periodic reviews, and should these identify the need for further changes, the Monitoring Group will consult on them.

### **Impact assessment**

In accordance with the principles of *better regulation*, and after considering the consultation responses the Monitoring Group will undertake and publish an impact assessment of the costs and benefits arising from the options set out in this consultation before any proposals are finalised. In doing so we will work with IFAC and other stakeholders to set out this information in a fully transparent way. This will be part of the final reform proposal.

## SECTION 1: KEY AREAS OF CONCERN IN THE CURRENT STANDARD-SETTING MODEL

### KEY CONCERNS

The Monitoring Group appointed a Working Group which carried out preliminary stakeholder engagement, (interviewing 29 current and former standard-setters and engaging with IFAC, the IOB and the GPPC)<sup>4</sup> and analysis to identify the key concerns that the reform process should address. Stakeholders recognised that the auditing and accountancy professions have invested considerable funding and effort in the development of standards. These standards have, in consequence, commanded international respect and have been widely adopted. Over time improvements<sup>5</sup> have been made both to the standard-setting process, outreach and most importantly outcomes such as the introduction of extended auditor reports. However, stakeholders have also identified the following issues:

1. The **adverse effect on stakeholder confidence in the standards as a result of a perception of undue influence by the profession** on two grounds:
  - (a) IFAC, representing the global accountancy profession, manages the nomination process of the standard-setting boards, and directly funds, accommodates, and provides support and staffing for the standard-setting boards – IFAC itself is funded by member organizations and the global accountancy profession; and
  - (b) Audit firms and professional accountancy bodies provide a majority of board members and their technical advisors.
2. Partly because of such undue influence, there is a risk that **standards are not developed fully in the public interest**.
3. The **relevance and timeliness of standards**. The pace of change in audit and the business environment is accelerating. It is essential to ensure that the standards are relevant and up to date in order to underpin audit quality and user confidence. Where the market or the regulatory community identifies a need for a new or revised standard, the Board should be able to respond on a timely basis (eg responding in a timely way to the greater use of data and analytics in audit<sup>6</sup>).

The reform options in this document are intended to address these challenges. The main focus is to address the issues of independence and public interest, with the issue of the relevance and timeliness of standards being addressed by having a process which is more responsive to, and better serves the public interest. In each subsequent section of this paper, the heading identifies each of the concerns, as set out in this document that the reforms are intended to address.

**Question 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?

<sup>4</sup> The Monitoring Group's Working Group comprising delegates of Monitoring Group members met with a range of stakeholders (see appendix 2). It was also informed by the IOB's consultation on its future strategy: <http://piob.org/index.php/public-consultation-2016>.

<sup>5</sup> A number of Monitoring Group [Assessments](#) were reconsidered, along with other relevant consultations and assessments (e.g. [OECD comment papers](#), [IFRS Monitoring Board review](#), [2014 Public Consultation Paper on the Future Governance of the IPSASB](#), Evaluation of International Public Sector Accounting Standards Board by the European Commission: [Report from the Commission to the European Parliament and the Council on the activities of the IFRS Foundation, EFRAG and IOB](#)).

<sup>6</sup> IFIAR [Background Paper "Current Trends in the Audit Industry" - April 2015](#).



## SECTION 2: GUIDING PRINCIPLES (KEY CONCERNS 1- 3)

In developing options for reform, the Monitoring Group has been guided by the principles outlined below, which were derived from stakeholder engagement and root cause analysis. They are reflected in the objectives of the consultation as set out earlier in this paper.

### Overarching Principle: The Public Interest

Standards must be set, and perceived to be set, in the **public interest**. The public interest is not a defined term. It evolves as public expectations change. For example, the importance of high-quality auditing is now better appreciated than before the financial crisis and consequently, the demand that audit standard-setting become fully independent of the profession has strengthened.

As noted earlier in this paper, the Monitoring Group has asked the PIOB to support it in developing a public interest framework that serves as a mechanism for assessing how the public interest is captured all throughout the standard-setting process. This is set out in more detail in Section 4 of this consultation paper.

### Supporting principles

As part of this consultation, the Monitoring Group is asking whether standard-setters' understanding of the public interest should be strengthened through due process, such that the voices of all stakeholders are carefully reflected. In order to achieve this, and in accordance with the objectives outlined on pages 3 and 4, the standard-setting process should be:

- **Independent** - no individual stakeholder should be able to exert undue influence over the standard-setting process. The Board, its working groups and the PIOB should, at each stage, reflect the diversity (including geographic diversity) of their key stakeholders;
- **Credible** - standard-setting, and the people involved in it, need to be recognised for their skill, experience and knowledge to underpin public confidence;
- **Cost effective** - in accordance with the principles of better regulation, the expected benefits of proposed standards or changes to standards should justify the cost of any required changes;
- **Relevant** - standards should be seen by key stakeholders as being developed and issued in a way that is responsive to the needs of a fast-changing market and the users of financial statements in a timely way;
- **Transparent** - public confidence should be protected by there being full transparency over: (i) the appointment and subsequent assessment of the performance of members to the standard-setting boards both individually and for the board as a whole; (ii) transparency over key decision-making; (iii) assessing how the public interest is satisfied including principles of better regulation such as cost effectiveness; and (iv) the outcomes used to engender stakeholder confidence and trust; and
- **Accountable** - with clear lines of responsibility and reporting for all aspects of the process from setting the strategy, developing the standards and oversight.

Standard-setting must also be sustainable in the long term (eg with long term secure funding, a clear long-term strategy and the technical competence necessary to support a demanding and growing workload). If all this is achieved, the standards should be well placed to secure public acceptance and adoption in a broad range of jurisdictions over the long-term.

The current standard-setting model does not fully satisfy a number of these principles and this

has led to the concerns noted above, in particular relating to its independence because it is wholly reliant on the auditing and accountancy professions for its funding, and for providing most of its members and technical advisors at no cost.

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

**Question 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?

## SECTION 3: OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS (KEY CONCERNS 1 - 3)

### CURRENT NUMBER OF BOARDS AND THEIR REMITS

In the current three-board structure (see **Diagram 1** in the introduction), each board works independently although there have been efforts to improve the coordination of work between them, and in particular between the IAASB and IESBA.

### OPTIONS FOR REFORM

In relation to the number of boards, the consultation seeks feedback on whether the issues raised in Section 1 of this paper can be addressed through:

- **A single board**, responsible for the development and adoption of international auditing and assurance standards and ethical standards for all types of audit engagement; or
- Separate boards responsible for setting (i) auditing and assurance and (ii) ethical standards; and
- IFAC continuing to set **ethical standards for professional accountants in business, and educational standards under both options.**<sup>7</sup>

In developing options for consultation, the Monitoring Group considers the advantages of a single board to include better coordination of ethical and auditing standards to focus on necessary areas of change which amplify key messages, drive consistent auditor behavior and support enhanced stakeholder engagement while reducing duplication of work effort on issues that are relevant to both auditing and ethics; providing a more flexible staffing model to support the delivery of priority projects and offer staff better career development, while delivering economies of scale; and board members focusing on the strategic challenges rather than detailed drafting. A pre-determined skills matrix would safeguard sufficient board expertise (in particular with respect to ethics).

This consultation includes the option for a single independent board responsible for setting auditing and assurance standards and ethical standards for auditors, because ethics and integrity need to be embedded in everything the auditor does. There may be advantages to integrating the development of auditing and assurance standards with ethical standards for auditors to improve the alignment between those standards, and the sharing and embedding of best practice. If a single board for auditors is developed, this does not mean a single set of standards covering ethics and technical matters for auditors, but that the issues relevant to both audit and ethics are considered by a single board. A risk with this option is that it might create too wide a remit for a single Board to deliver successfully, especially if the Board is reduced in size. The Monitoring Group recognises that this would be a risk if the Board worked as at present in reviewing detailed drafting. However, the risk can be mitigated and made manageable if the single Board adopted a more strategic role as proposed in this paper.

However, the Monitoring Group also recognises that the option of a single Board to set auditing and assurance and ethical standards *for auditors* poses challenges and that maintaining the structure of separate boards covering audit and assurance and ethics, might have the benefit that one type of

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<sup>7</sup> The Monitoring Group considers such standards to be important elements in supporting the quality of financial reporting and audit in capital markets.

standard (eg ethics) is not lost in a board with broader responsibilities. Separate boards may also be more attractive to potential members who may have an area of expertise in one but not all of the areas of a single board's remit which may limit the ability of some members to provide meaningful contributions to projects that are outside of their area of expertise. Separate boards could also provide more time and resources to handle the work.

The focus of this consultation is on those standards that support audit as a public interest activity. Therefore, this paper includes an option that the setting of ethical standards for professional accountants in business and educational standards should continue to be performed by separate boards, supported by IFAC. This is consistent with the fundamental importance that professional accountants act with integrity and objectivity, but by the nature of their work, are not required to be fully independent of the entity they work for, and the public interest considerations are not the same as they are for auditors. However, the Monitoring Group is open to considering views that ethical standards for professional accountants in business should also be included within the remit of a new board, supported by the assumption that the ethical behaviour of accountants is crucial irrespective of their role, noting that those in business prepare accounts prior to audit.

The Monitoring Group welcomes views, therefore, as to whether the setting of ethical standards for professional accountants in business should be performed by a separate board supported by IFAC or whether that work should be included in the remit of a new single board. It recognises that the arguments are balanced but it feels that the profession needs this lever to help it defend high standards and that, in relation to audit, specific safeguards of the public interest will be in place. In addition to question 6 which deals specifically with this matter, later in this paper is a specific question on whether, if there were to be a separate board tasked with setting ethical standards for professional accountants in business, it should continue to be subject to PIOB oversight as a way of ensuring consistency of approach on all ethical matters, and to ensure that the public interest continues to be represented appropriately.

On education, the issue is clearer cut. Internationally, the responsibility for educational matters often rests with professional bodies rather than with regulatory authorities, and although skills and competencies are fundamental to high-quality auditing this is a key role of the profession rather than being a function that needs to be subject to the same level of public interest oversight as auditing and ethical standards for auditors.

IFAC also runs an international compliance programme to ensure that its member bodies are conforming to the requirements of the standards. After these reforms, IFAC will continue to play an important role in working with the profession and national regulatory authorities to ensure that global standards are consistently and correctly adopted and applied.

**Question 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.

**Question 5:** Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not why not?

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

**Question 7:** Do you believe the Monitoring Group should consider any further 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.

## **CURRENT COMPOSITION AND ROLE**

The existing boards perform standard-setting functions including detailed drafting. This requires a significant time commitment from board members, estimated to be between 1,000 and 1,600 hours annually for each member of the IAASB (and in some cases more), with a lesser contribution for members of the IESBA and the IAESB. With the exception of the Chair, board members are not remunerated by IFAC.

Each standard-setting board currently has 18 members, (most of whom are supported by a technical advisor) comprising practitioners (who currently work in practice, or work for an accountancy professional body) and non-practitioners (who either do not work in practice, or who have not done so for a cooling-off period long enough to address any risk to their independence). The composition of the boards reflects IFAC's efforts to ensure geographic diversity and gain member organization buy in for their work. No more than nine members can be practitioners and no fewer than three shall be public members<sup>8</sup>. Public members may currently be members of IFAC Member Bodies and IFAC funds their travel costs. Each board has a quorum of twelve members, required to approve or withdraw International Standards and to approve exposure drafts. In practice proposals are usually approved unanimously, meaning that it may take time to resolve differences of view at board level, impacting on the timeliness of standards.

The current lack of remuneration for board members effectively requires support from employing or sponsoring organizations, challenging the boards' ability to attract high-quality candidates from outside of the audit profession. In turn, the focus on detailed drafting instead of strategy and outcomes, and the required reinforced majority to approve a standard (which in practice translates into proposals usually being approved unanimously), affect the timeliness and relevance of standards.

Each current board is supported by a Consultative Advisory Group (CAG). The objective of the CAG is to provide input to and assist the board through consultation with the CAG member organizations and their representatives at the CAG meetings, in order to obtain: advice on each of the board's agendas and project timetable (work programme), including project priorities; technical advice on projects; and advice on other matters of relevance to the activities of the board.

## **OPTIONS FOR REFORM**

In order to make the work of the Board accessible to a wider range of multi-stakeholder (non-practitioner) members, the consultation seeks feedback on whether this can be achieved by:

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<sup>8</sup> A public member is an individual who satisfies the requirements of a non-practitioner and is also expected to reflect, and is seen to reflect, the wider public interest. Not all non-practitioners are eligible to be public members. Each board has to have at least three public members.

- Establishing a single independent board, comprising no fewer than 12 remunerated members to ensure representative diversity, with a remit to be more strategic and less operational in focus, as compared with the current model; and
- Ensuring that the Board as a whole has both strategic and technical competence to effectively lead the development of standards.

Some suggest that a Board of 12 members could be too small to enable proper stakeholder representation and to cover the range of skills required, and that a larger size could better serve this purpose. Alternatively, to work as proposed, a smaller Board can be supported by an expanded professional technical staff contracted to deliver the necessary detailed technical work. Board members who wished to have a technical advisor to support their work would be free to do so, drawn from the technical staff of the Board.

Therefore, the Monitoring Group welcomes stakeholder views on what the optimal size of the board should be to effectively lead the development of standards; whether it should have a more strategic or a more operational focus; and what are the minimal technical competences required.

The anticipated responsibilities for an independent board would include:

- Development and execution of a strategic plan, annual work plan and other projects;
- Determining the need for new standards or changes to existing standards;
- Setting the objectives of those standards;
- Scrutinising and challenging draft standards and resolving the way forward on contentious matters;
- Detailed review, adoption and promotion of high-quality standards, noting that the Board should not draft text itself in board meetings;
- Undertaking broad outreach to inform the development of standards and to provide the standard-setting boards with a stakeholder/user perspective;
- Evaluation of technical staff; and
- Developing board operating procedures, and reviewing them as necessary to maximise the standard-setting board's effectiveness

On timeliness, the Monitoring Group has considered the need for consensus to be achieved before the adoption of a standard. It recognises that standards can be more sustainable if there is consensus. On the other hand, the drive for consensus can also mean that there is too much compromise of the public interest, and that timeliness is sacrificed. This consultation seeks input as to whether timeliness can be improved by the board adopting standards for issue on the basis of a majority vote if consensus is not reached. This 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.

To ensure that Board members embed the public interest into the standard-setting process in a way that enhances stakeholder confidence, mitigates undue influence, ensures that the board focuses on strategic issues and challenges, and enhances the timeliness of developing and issuing standards, this consultation seeks views as to whether this can be realised through:

- **multi-stakeholder representation** on the board. The composition of the board should take account of a representative geographic diversity, and a diversity of views to provide differing perspectives of the public interest;

- the development of a **skills matrix** to drive the assessment of potential members. The skills matrix should describe the attributes necessary to discharge the role effectively and will include a balance of strategic and technical skills (both auditing and ethics), capability and understanding amongst the members of the Board to maintain stakeholder confidence in its work. It will be important that the Board as a whole has a balance of skills to ensure an appropriate focus on ethical matters. Acting in the public interest will be a key consideration for all board members;
- a smaller, **more strategic** board to facilitate effective development work (eg question and challenge the technical drafting) as well as deal with key issues, decision making and planning (in doing so the Monitoring Group is interested in stakeholder views about whether a larger board may be needed to ensure appropriate diversity and the necessary skills to deliver the board's work – see question 10); and
- continuing to use the **CAG** to provide timely practitioner and other stakeholder input into the board's project activity from both a strategic and technical perspective, as long as this input adheres to the public interest framework developed by the PIOB. However, if stakeholders have suggestions for more effective ways of gaining advice to support the board's work, then the Monitoring Group would be interested to hear them. In this proposal, the CAG, should it be retained, will continue to be subject to PIOB oversight.

Not all board members will need to commit the same amount of time – an option could be that one quarter of the members will be full time members, with the remainder of the board members being part-time. Concerns were expressed that a permanent full time board position would not be attractive at the initial stage after the reform to anyone other than auditors and professional accountants. This will probably develop in time, as was the case in the International Accounting Standards Board. The alternative is an immediate start with a permanent, full-time board that might better resource the necessary work of the Board, and also better address any risk to independence should board members continue to have other engagements.

The Monitoring Group would appreciate stakeholder views on this issue. Whether a new board was comprised of full time or part time members would not affect the need for additional support from a permanent, qualified technical staff. This is discussed in more detail in **Section 6** of this paper.

The chair of the board will be responsible for the timely delivery of the board's strategy, succession planning, ensuring that the views of board members are considered and taken into account, and for ensuring that standards are set in the public interest. The chair will be responsible for ensuring that the Board both collectively and for each member is accountable to the PIOB and to stakeholders for the delivery of the agreed work programme and objectives and will also ensure that due process is followed in the public interest. It is also proposed that the chair will also have a role in making recommendations to the PIOB regarding the appointment or reappointment of members to the board. All board members should be independent<sup>9</sup>, strategic, challenging and at all times committed to act in the public interest, including by respecting due process.

The consultation seeks views on deriving the membership of the board using the following criteria:

- The board should be multi stakeholder, drawn from three groups – **users (including investors, preparers, academics and those charged with governance), regulators (including audit, securities supervisors and enforcers and prudential regulators) and auditors**. Board members must be equally represented from the three groups. One

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<sup>9</sup> For non-practitioner members this will include ensuring that former practitioners have been subject to an appropriate cooling-off period.

full-time board member should be drawn from each group. The Chair must not come from a practitioner/ audit firm background. Members should be drawn from a diverse group of countries and backgrounds;

- **Job descriptions will be developed** for the roles – it is anticipated that the full-time members in addition to the Chair should provide leadership for an aspect of the Board’s work eg outreach, technical matters, audit or ethics;
- **Board members should be remunerated** at a level commensurate with comparable public interest corporate governance roles – members should play a significant role in stakeholder engagement and outreach; and
- The board will operate on a **partial rotation/staggered term basis** – eg not all of the members will rotate off in any one year. Members will, therefore, be appointed for an initial term of three or four years, with the possibility of re-appointment for a further three year term.

To maintain user confidence in the standards and the standard-setting process, the board collectively will need to continue to demonstrate a high level of technical competence, so that in adopting a standard, the board can have assurance that it has been developed: to achieve the objectives that the board has set; and can be practically used by the profession to deliver high-quality audits.

**Question 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?

**Question 9:** Do you agree that the board should adopt standards on the basis of a majority?

**Question 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?

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

**Question 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?

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

## CURRENT NOMINATIONS PROCESS

Currently, standard-setting board members are appointed by IFAC on the recommendation of its Nominating Committee and with the approval of the PIOB. Vacancies on the independent standard-setting boards are filled through an open call for nominations.

The selection process is based on a number of elements, the primary criterion being the personal qualities and abilities of the nominee in relation to the position for which they are being nominated. However, the selection process also seeks a balance between the personal and professional qualifications of a nominee and representational needs. Accordingly, consideration is also given to



other factors including geographic, sectoral and gender representation, size of organization, and level of economic development.

### **OPTIONS FOR REFORM**

In order to address the current concerns set out elsewhere in this consultation document, the Monitoring Group seeks views on proposals that would require:

- The standard-setting board nominations process to continue to be conducted via an open call for candidates; and
- Once reforms to the Boards have been successfully implemented, the nominations process be administered solely by the PIOB.

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

## SECTION 4: OVERSIGHT - ROLE OF THE PIOB (KEY CONCERN 2)

### UNDER THE CURRENT MODEL

The PIOB comprises members nominated by Monitoring Group members and approved by the Group as a whole. Currently, the objective of the PIOB is to protect the public interest through:

- ensuring that the processes of standard development under its oversight follow due process and are responsive to the public interest;
- ensuring the completeness of the strategies and work plans of standard-setting boards;
- overseeing the nominations process to all standard-setting boards and CAGs under its oversight; and
- overseeing the work of the Compliance Advisory Panel (CAP).<sup>10</sup>

Stakeholders have raised with the Monitoring Group the view that the PIOB should focus carefully on its remit to ensure that the public interest is properly represented in the standard-setting process – indeed, some stakeholders have emphasised that serving the public interest is more than just adhering to due process. Concerns have also been raised about the confusion that exists with some stakeholders about the respective roles and mandates of the PIOB and the Monitoring Group.

### OPTIONS FOR REFORM

This consultation proposes that the current oversight arrangements need to be strengthened to serve the public interest through due process and accountability. The PIOB should continue to ensure that the public interest is properly represented in the development of standards, by adopting an approach which takes into account the relative threat to the public interest. This will allow the PIOB to deploy its resources where the risk to the public interest is greatest.

To allow the public interest to be better embedded, the Monitoring Group has asked the PIOB to support it in developing a framework that serves as a mechanism for assessing how the public interest is captured throughout the standard-setting process. This will support the dialogue between the standard-setting board(s) and the PIOB. The intention is that the standard-setting board should have a clear understanding of issues which are likely to raise public interest concerns within the PIOB.

Dialogue between the standard-setting board(s) and the PIOB should focus on how the public interest is best served – it should be constructive and direct. The PIOB should provide regular and transparent feedback to the standard-setting board(s), and this feedback should reflect the PIOB's considered position. Given that the PIOB will give a view on whether a standard has been developed to fully represent the public interest, the question is whether the PIOB should hold powers that would allow the PIOB to veto the adoption of a particular standard and/or the ability to instruct the standard-setting board(s) to take measures to remedy any identified breach of the public interest.

The options set out in this consultation are predicated on the assumption that the independent standard-setting board(s) becomes multi-stakeholder in nature, comprising independent

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<sup>10</sup> The [Compliance Advisory Panel](#) provides advice to IFAC staff on the implementation and operation of [the Member Compliance Program](#). It issues recommendations on revisions to the Statements of Membership Obligations and membership admission.

members and becomes more responsive to the public interest.<sup>11</sup>

The consultation sets out the PIOB's functions to include:

- Ensuring that standard-setting properly represents the public interest through adherence to the public interest framework under development;
- Ensuring public accountability<sup>12</sup> and transparency to stakeholders is discharged, both in standard-setting (eg the PIOB should retain its ability to change the terms of reference and rules of procedure for the board(s)) and the PIOB itself;
- Involving in the nomination of members to the standard-setting boards (the role will change over time – in the short term, the nomination process will include IFAC and PIOB nominees under an independent chair, but in the medium term this should move to the PIOB acting as the nominating committee. Nominations need to be supported by skills matrix, due process, and be fully open and transparent;
- Approving of the standard-setting board's strategy and workplan;
- Holding the board and its chair publicly accountable for achievement of the strategic plan and annual work plan;
- Evaluating the performance of the standard-setting board members, including the chair. This includes the possibility to dismiss standard-setting board members or to prevent their re-appointment; and
- Facilitating the collection of funds for the independent standard-setting board(s), and approving its budget based on proposals developed by the board.

The PIOB will be asked to provide advice to the Monitoring Group during any transition period to a new standard-setting model, on whether the recommendations are being implemented as planned. This will require additional resources to support the PIOB's strengthened remit and associated work.

The role and functions of the PIOB as set out in this consultation paper will form the basis of the PIOB's accountability to the Monitoring Group, for ensuring that the public interest is properly served by the standard-setting process. This accountability includes ensuring that the PIOB engages in the standard-setting process in a way that allows it to respond quickly to public interest needs. The PIOB should, in turn, hold the standard-setting board, and its members – including in particular its chair to account where the board fails to implement its strategy and achieve its objectives as planned.

The Monitoring Group has included within this consultation a specific question about how membership of the PIOB will be appointed. The Monitoring Group will serve as the nominating committee for the PIOB. In determining the membership of the PIOB, the Monitoring Group will consider the need for the membership to be representative of the wider non-practitioner stakeholder community, particularly in respect of geographical diversity, and will consider the suitability of applications with reference to a skills matrix (to be developed) which will identify those skills and attributes needed to represent and advocate for the public interest.

Given the inclusion of an option in this consultation for a single independent board to set auditing and assurance standards and ethical standards for auditors, the consultation includes a specific question as to whether PIOB oversight should focus solely on that board, or whether it should continue to focus also on the work of other standard-setting boards that might remain as entities

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<sup>11</sup> The public interest oversight function is an important condition for the adoption of ISAs by the European Commission: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02006L0043-20140616&qid=1496331326497&from=EN>

<sup>12</sup> The PIOB is developing a framework for evaluating whether the public interest has been met, including the attributes necessary to assess the public interest in the standard setting process.

supported by IFAC.

In order to ensure that the PIOB is viewed by stakeholders as independent of the accountancy and audit professions, this consultation proposes that IFAC will no longer be able to propose a member of the PIOB. The Monitoring Group will ensure that the PIOB as a whole has an appropriate technical understanding of audit matters by taking the advice of auditing experts within the Monitoring Group such as IFIAR.

The Monitoring Group is also committed to the development of a statement of roles and responsibilities that will publicly set out the remit of the PIOB and the Monitoring Group, as this is an area which some stakeholders have commented is confusing and subject to overlap.

**Question 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?

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

**Question 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 be required to have?

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

**Question 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 (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

## SECTION 5: ROLE OF THE MONITORING GROUP (KEY CONCERN 2)

### UNDER THE CURRENT MODEL

Under the current model the Monitoring Group is responsible for:

- Monitoring the implementation and effectiveness of the standard-setting reform process;
- Appointments to the PIOB through its Nominating Committee, which relies on nominations from specific Monitoring Group member organizations; and
- Monitoring the execution by the PIOB of its mandate, including approval of the PIOB's annual budget.

### OPTIONS FOR REFORM

This consultation will not, in the medium term, require changes to the role and remit of the Monitoring Group itself. The Monitoring Group will continue to be responsible for nominations to the PIOB in a more transparent and robust fashion, and subject those candidates to a more demanding skills and capabilities assessment in order to reflect the needs of the new model, as discussed in the previous section of this consultation paper. The Monitoring Group will also ensure the PIOB's accountability to stakeholders, and ensure public accountability through global stakeholder engagement, as well as continue to approve the PIOB's budget and hold it accountable. However, the Monitoring Group acknowledges that as a result of the outcome of this consultation, consequential changes may be needed in due course to the Monitoring Group itself. If that is the case, these will be developed once the changes considered in the current consultation have been addressed.

**Question 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?

## SECTION 6: STANDARD-SETTING BOARD STAFF (KEY CONCERNS 1- 3)

### UNDER THE CURRENT MODEL

Under the current model a very limited number of staff support the work of the standard-setting boards. Much of the work is directly undertaken by board members or by the technical advisors of board members – these resources are a very significant contribution in kind supporting the current standard-setting activity. As the current resources are either in the form of technical staff and logistical support, or provided in kind by audit firms or professional accountancy bodies who support board members, these resources may be seen as not being sufficiently independent of the audit profession to set standards in the public interest.

### OPTIONS FOR REFORM

To address stakeholder concerns about independence, the standard-setting board staffing model needs to change from a small in-house technical staff supplemented by in-kind contributions from the audit firms and professional accountancy bodies into a fully self-supporting body, independent of the IFAC and/or its members.

The new model proposed in this consultation will require a significant increase in permanent technical staff to undertake detailed technical work in support of the board's strategic objectives as the balance of responsibilities between board members and staff changes over time. The board will also need to employ staff on merit and with different skills such as stakeholder engagement and project management to move projects forward more quickly than is the case at present. In the transitional period, this may include the use of secondments from different stakeholders to help to build additional capacity. In the longer term the use of short term technical secondees will help the board respond to urgent projects which need to be undertaken, and also to ensure that the staff of the Board is regularly refreshed with those who have up-to-date practical technical skills.

This will incur additional costs (funding is covered in **Section 8** of this paper), but will not require contributions in kind from board members and the organizations that employ or sponsor them. The staff should be appointed on merit, where possible, represent geographical diversity, and be split between short-term and long-term employees to ensure that the technical capability of the staff remains up to date and fully aware of the needs of the market.

In order to address concerns about the independence of the standard-setting process, and to ensure that all parties involved work in the public interest, the staff will need to be employed, compensated and evaluated by the independent board itself rather than IFAC. The Monitoring Group recognises that this will need to be implemented over a transitional period so as to support the ongoing standard-setting work. The chair of the independent board will be responsible for the appointment of its senior staff.

**Question 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?

**Question 22:** Do you agree that permanent staff should be directly employed by the board?

## SECTION 7: PROCESS CONSIDERATIONS (KEY CONCERN 3)

### OPTIONS FOR REFORM

In order to address stakeholder concerns about the timeliness and relevance of the standard-setting process and the quality of the standards, any new or revised Board will need to consider:

- Introducing a process that supports a balance of shorter and longer term projects that is flexible and responsive to stakeholder views and changes in the environment (eg multiple process streams, including a focus on emerging issues);
- Being responsive to the need for, and supportive of innovation in the audit market – for instance by recognising within its work programme the need to accommodate the growing use of data analytics and technology in both audit and audited entities and ensure that this is reflected in the standards that are developed through the development of supporting principles;
- Increasing use of technology to improve efficiency, reduce costs and improve the speed with which new or revised standards can be exposed and brought to market;
- Adopting standards on the basis of a majority vote;
- Streamlining documentation requirements for the board, the CAG and task forces;
- Developing best practice project management capability in support of the Chair;
- Enhancing stakeholder engagement; and
- Following the principles of better regulation.

The Monitoring Group proposes to direct the board to consider process improvements rather than itself setting detailed requirements, as the design, implementation and monitoring of the standard-setting process is a responsibility of the independent board which will develop its own processes.

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

## **SECTION 8: FUNDING (KEY CONCERN 1)**

### **UNDER THE CURRENT MODEL**

The current model is directly funded, and the model's costs are allocated by IFAC, which raises independence concerns as the costs of the Boards and the salaries of the staff who work to support them are in effect directly paid by the profession. IFAC's 2016 accounts currently reflect an annual cost of around \$18 million for all three standard-setting boards including IFAC's overhead costs, and further estimated contributions in kind of \$12.5 million, per annum, which are largely provided by those who sponsor board members, or provide board members with access to a technical advisor. The fact that these contributions are paid directly or provided directly to the organization which is currently responsible for the appointment of board members creates a significant risk or perceived risk that there may be a link between willingness to pay and ability to influence the standard-setting process in some way.

IFAC itself is funded by contributions from its member organizations. These costs are in part derived from IFAC's financial statements and cover the cost of the three standard-setting boards.

### **OPTIONS FOR REFORM**

In order to address stakeholder concerns about their confidence in the standards as a result of the profession's level of influence, the funding of standard-setting needs to be supported by a new model designed to enhance independence. The funding for this model should not be provided solely by the accountancy and audit professions, although they, along with investors are the main beneficiaries of having high quality, globally accepted standards that reflect the needs of a fast developing audit market.

To ensure that the standard-setting reforms are successful, the independent standard-setting board and the PIOB require a sufficient and sustainable funding mechanism that will not undermine the independence of the new arrangements. This requires there to be a clear separation between those who fund the Board's work, and those who determine who will sit on that board and ultimately be responsible for the adoption of new and revised standards. The aim of any new mechanism for collecting and allocating funding will be, therefore, to ensure that there is no link between funding contributions and the ability to influence the work of the board or the PIOB or the membership of either entity.

The scope for diversifying the funding base of the independent board and the PIOB will be further explored, although the Monitoring Group will seek a dialogue with those that use the standards issued by the Board (audit firms), those that benefit from high-quality audit (investors and preparers) and the international regulatory community as a way of providing adequate and sustainable funding. A preferred option would be to move to a situation whereby the Board and PIOB are less reliant on funding from the accountancy and auditing professions to fund their work, although the Monitoring Group is aware that this is a challenging proposition, given the limited progress that has been made to date on diversifying the providers of the PIOB's relatively small funding. The Monitoring Group is also mindful of possible practical difficulties in sourcing additional funding from the international regulatory community.

The Monitoring Group is minded that the PIOB should collect and allocate funds independently of the standard-setting boards (rather akin to the role of the IFRS Trustees with respect to the IASB) and that funds be collected via a contractual levy on audit firms. This 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. Using the PIOB to collect and allocate the funds



also reduces the ability to link the provision of funding to the ability to influence the standard-setting process. The Monitoring Group welcomes stakeholder views about whether a levy mechanism should be used to fund the board and the PIOB, and whether a contractual levy specifying a consistent level of funding to be provided over the medium term would address current concerns about the lack of independence, and influence over the standard-setting process.

The Monitoring Group recognises the need to develop a detailed budget for the new Board(s) and the PIOB, and also to agree with stakeholders how this will be funded, including any transitional arrangements. In order to provide sustainable funding for the new model, the Monitoring Group will seek to agree with audit firms a significant and ongoing contribution (in 2016 the firms provided \$11.8 million directly to IFAC for this work, and made further significant contributions in kind estimated at around half of the \$12.5 million provided by entities which support the work of members of the current boards and the staff who work with them), supplemented by funding from the other stakeholder groups, including Monitoring Group member organizations.

The Monitoring Group welcomes stakeholder views on how greater diversification in funding might be achieved. Alternative measures for funding the Board's operations might include: contributions from Monitoring Group member organizations; commercial licensing of standards; seeking donations from foundations who support the work of the Board; and imposing levies on the beneficiaries of standards on bodies such as stock exchanges and listed entities.

The Monitoring Group is giving this further consideration, including matters such as the cost, legal and practical implications of any proposed arrangement, how much would be raised from the firms, and what costs would be met by other parties, but has raised specific questions on which it welcomes stakeholder views.

**Question 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 (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

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

**OPEN QUESTIONS:**

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

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

## APPENDIX 1: QUESTIONS FOR RESPONDENTS

The Monitoring Group is seeking responses to the following questions, which are covered in **Sections 1 – 8** of this consultation paper:

QUESTION	
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?
2	Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?
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?
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.
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?
6	Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.
7	Do you believe the Monitoring Group should consider any further 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.
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?
9	Do you agree that the board should adopt standards on the basis of a majority?
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?
11	What skills or attributes should the Monitoring Group require of board members?
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?
13	Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?
14	Do you agree with the changes proposed to the nomination process?
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?
16	Do you agree with the option to remove IFAC representation from the PIOB?

<b>17</b>	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 be required to have?
<b>18</b>	Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?
<b>19</b>	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 (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?
<b>20</b>	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?
<b>21</b>	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?
<b>22</b>	Do you agree the permanent staff should be directly employed by the board?
<b>23</b>	Are there other areas in which the board could make process improvements – if so what are they?
<b>24</b>	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 (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?
<b>25</b>	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 opt for in the paper, and if so what are they?
<b>26</b>	In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.
<b>27</b>	Do you have any further comments or suggestions to make that the Monitoring Group should consider?

**APPENDIX 2: STAKEHOLDER VIEWS GOVERNANCE SSB**

To ensure that the proposed reforms address the root cause of the limitations of the current standard setting system, the Monitoring Group Working Group has consulted a range of stakeholders (eg SSB members, IFAC staff and board members, other standard setters, PIOB staff and board members, members from the audit profession, etc.), and various documents provided by IFAC and by other stakeholders interviewed. This root cause analysis is supported by a detailed evidence record which included a standard set of questions for each stakeholder interview.

This approach provided the Monitoring Group with valuable evidence and insights. This was then used to identify the key concerns with the current model set out in section 1 of the consultation paper. These include undue influence (in fact and/or appearance) in the standard setting process by the global accountancy profession and the concern that the public interest is not appropriately considered throughout the standard setting process, resulting in standards that are not developed in a way that sufficiently reflects the public interest.

**EXAMPLE OF USED EVIDENCE RECORD**

<b>FEEDBACK ON THE CURRENT MODEL - EVIDENCE RECORD</b>	
<b>Completed by:</b>	
<b>Date of meeting:</b>	
<b>Individual's name:</b>	
Short biography of the individual:	
(1) What principles do you think an effective standard setting model should be based on? Are there certain principles which you think are more important than others, and what makes them more important?	
(2) Which areas of the current standard setting model do you think require the greatest improvement and why?	
(3) Of those areas mentioned above, what suggestions can you share regarding potential solutions?	
(4) Are there other standard setting models in existence that you believe exhibit best practices? If so, what are they and what aspects in particular do you think are particularly effective and why?	
(5) Are there other key stakeholders the Working Group should consider speaking to at this stage of the process?	