



7 February 2018

Chairman

Monitoring Group

Email: MG2017consultation@iosco.org

Attention: Gerben J. Everts

Dear Mr Everts

Monitoring Group Consultation: Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest

Introduction

The External Reporting Board (XRB) of New Zealand is pleased to make this submission on the Monitoring Group (MG) Consultation: *Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest*.

The XRB is an independent Crown Entity established by statute, responsible for financial reporting strategy and the development and issuance of both accounting¹ and auditing & assurance standards in New Zealand. It is the national standard-setter of New Zealand.

The XRB's auditing & assurance standards have the force of law in New Zealand. They are based on the standards issued by the International Auditing and Assurance Standards Board (IAASB) and are amended or enhanced with New Zealand provisions only when a compelling reason exists to do so. The "compelling reason" approach is based on the need for New Zealand, as a relatively small economy, to remain competitive in international markets and attractive to international investors.

In addition, the ethical standards for assurance practitioners in New Zealand (also issued by the XRB) align with the Code issued by the International Ethics Standards Board for Accountants (IESBA).

The governance and work of the audit-related international standard-setting boards are therefore highly important to the XRB and to the New Zealand "business" environment. It should be noted that standards issued by the XRB apply to, or are used by, a wide range of entities, not just to public interest entities (PIEs) but also non-PIEs and public sector and not-for-profit entities.

¹ The Accounting Standards Framework in New Zealand is based on a multi-sector, multi-standards approach. For-profit entities use standards that are effectively International Financial Reporting Standards (IFRS Standards). Public benefit entities (comprising public sector entities and not-for-profit entities) use standards that are based on International Public Sector Accounting Standards (IPSASs) that are issued by the International Public Sector Accounting Standards Board (IPSASB).

The XRB is required under New Zealand law to ensure affected constituents have been consulted before standards are adopted in New Zealand. To ensure our continued adoption of the international standards, those standards must be of high quality, timely, implementable and there needs to be evidence that the views of all affected stakeholders have been taken into account.

More importantly, because our standards have the force of law, it is critical to the XRB and the New Zealand constituency that the activities of the international standard-setting boards, particularly those of the IAASB and the IESBA, are subject to robust, transparent and independent due process and oversight. The international due process, in which we actively participate, contributes significantly to our local due process requirements. We place significant reliance on both the oversight and proper due process of international standard-setting. We rely on this international standard-setting process to deliver to us high quality and implementable standards across all sectors (in the for-profit and public benefit sectors).

General Comments

We do not believe the current international audit-related standard-setting model is fundamentally “broken”. The model is well-established and well-accepted internationally by many jurisdictions adopting standards issued by those boards. The current model, which involves participation by the profession in partnership with those who are not in the profession, together with independent public oversight, is considered by the XRB to be an appropriate model given the technical nature of the standards.

Notwithstanding the above, we support the periodic reviews of any governance structures to ensure their continued suitability. We also accept the current model could be enhanced to address the perception of a lack of independence from the profession as those who implement the standards. In our view, it is essential for any proposed new structure to ensure:

- There is continued independent public oversight of the work of the standard-setting boards;
- There is balanced stakeholder involvement across all levels and elements of the standards-setting structure, both in the membership of the board and in the global processes for stakeholder input; and
- Global audit & assurance standards are maintained for all sectors, and the ethics standards are consistent across the whole profession, applying to both assurance practitioners and professional accountants.

In this letter, we comment on the following specific matters in relation to the proposed reforms:

1. The risk that the Public Interest Oversight Board’s (PIOB) role as an independent oversight body will be impaired if it is to be involved directly in the development of the technical aspects of standards;
2. The risk that, in alleviating the perception of undue influence by the International Federation of Accountants (IFAC)/the profession in the standard-setting process, a similar risk of undue influence will arise in respect of regulatory bodies;
3. The potential limitation in the application of the standards, and the loss of specialised technical expertise in standard-setting, if there is a move to a single board (rather than two separate boards) for audit & assurance and ethics standard-setting, and the implications for the scope and quality of the standards; and

4. The fundamental uncertainties and practical challenges underlying the reforms, the most significant of which are: the yet to be developed public interest framework, the role of the MG and the PIOB, funding and an impact assessment of the reforms.

The Appendix to this letter comments on some of these matters in greater detail.

Specific Comments

1. Changed role of the PIOB

Proper governance of the standard-setting structure and independent oversight of due process are critical for us in our decisions to adopt international standards, using the “compelling reason” approach explained above. We, and the New Zealand business community, stakeholders and public, need to be assured the international due process is robust and transparent and there is independent oversight of that due process.

The proposed reforms envisage the PIOB will “engage” in the standard-setting process, including challenging technical judgements made by the boards in developing/revising standards and the potential ability to veto the adoption of a standard.

We are most concerned that these changes will mean the PIOB will no longer be an independent oversight body under the proposed reforms. We consider that a transparent approach makes it essential that an oversight body is not also involved directly in the development of the technical aspects of standards. The proposed changes, if implemented, will create a conflict in the role of the PIOB as an oversight body, and diminish its independence.

Once a standard-setting board has been set up with the appropriate structure (for example, independence from IFAC in terms of nominations, funding, and staffing and having appropriate qualified and diversified membership etc) the board should be entrusted to carry out its work in the public interest. A power to veto a proposed standard after proper consultation has taken place is inconsistent with due process consultation, has the risk of undermining the work of the board, and may indicate the structure that was set up was not appropriate or robust in the first place.

For these reasons, we strongly disagree with the PIOB having an “engagement” role and the power of veto.

2. Independence of standard-setting boards

The consultation paper has not provided evidence of specific areas/instances where IFAC or the accounting profession has unduly influenced the PIOB, the standard-setting boards and/or staff. Notwithstanding this, we agree, from a philosophical viewpoint, it is desirable for the audit-related standard-setting boards to be independent of IFAC and the profession to alleviate any perception of lack of independence. To this extent, we agree with the proposals to move standard-setting board nominations from IFAC, widen the diversity and geographic spread of board members and enhance the technical staff of the standard-setting boards.

We support the audit-related standard-setting boards being independent of IFAC. However, it is important that whatever governance structure is adopted, no other single stakeholder (including the regulatory bodies) should be able to exercise, or appear to exercise, undue influence on the standard-setting process. The risk of having more regulatory body representation and/or their closer direct involvement in the setting of standards is that it creates a conflict of interest or moral hazard when the regulators subsequently have to enforce those standards. In principle,

that risk is no different from the risk perceived by the MG that the profession, as the “implementers” of the standards, have undue influence over their development. We are not supportive of a structure that may transfer possible undue influence from one set of stakeholders (IFAC and the profession) to another (regulatory bodies). The principles of good regulatory design suggest the need for balance.

3. *Two boards or a single board*

We consider that audit & assurance and ethics standards should continue to be set by two separate boards. As an adopter of international standards, we rely on the experience and expertise of the members of each dedicated board to produce high quality, robust and implementable standards.

A single board may have merits: it could improve efficiency and alignment between the work of the two boards. However, we are concerned with the following problems or potential outcomes if there is a single board:

- The potential limitation in the scope of the audit & assurance standards and ethics standards to assurance practitioners only (rather than consistently across the whole profession);
- The loss of specialised technical standard-setting expertise in the fields of audit & assurance and in ethics with a single board comprising members with generic skills;
- The difficulty in finding members who have the appropriate qualifications, experience and skills, and an interest in both audit & assurance and ethics, and in wider corporate reporting/non-financial information reporting and other emerging issues;
- The effect which the widened remit to cover both audit & assurance and ethics standards within a single board could have on the quality and timing of the development and issue of standards, given the rapidly changing role of assurance and the need to respond to rapid changes in the business environment;
- The effect which the reduction of membership to 12 members in a single board (from the current 18 members in each board) could have on the quality and timing of the development and issue of standards;
- The reduced membership in a single board resulting in a less diversified board and/or the omission of national standard-setter representation that is essential to ensure robust, appropriate, applicable and globally implementable standards; and
- Having staff deal with the detailed technical matters, thereby making the standard-setting process less transparent.

4. *Fundamental uncertainties*

While it is desirable from a philosophical viewpoint for the audit-related standard-setting boards to be independent of IFAC/the profession, there are many practical challenges and impediments to the reforms, particularly in the short to medium term. We are concerned with a number of these fundamental uncertainties, for example:

The public interest framework – The MG expects the public interest framework which the PIOB is developing to be “at the heart” of the reforms. However, it is not clear how public interest will be defined, who the stakeholders are, what the framework will look like, how it will work or how it will be different from the current assessment of public interest.

Moreover, it is unclear if the focus on “public interest” throughout the consultation paper is intended to imply that the future standards will apply only to PIEs and, potentially, different audit & assurance and ethics standards will apply to non-PIEs (rather than being scaleable across all entities). This should be made clear, as it has major implications for New Zealand where the national standard-setter uses the same set of standards across all PIEs and non-PIEs and for public sector entity and not-for-profit entity audits.

Establishing a public interest framework is an urgent and crucial aspect of the proposed reform and prompt public consultation on the proposed framework is essential.

Role of the MG and the PIOB – The respective roles of the PIOB and the MG are unclear under the proposals, notwithstanding that their roles are critical to the overall governance structure. Of greatest concern is the proposal for the PIOB to be more involved in the standard-setting process. We do not think it is acceptable for an independent oversight body to be involved directly in the technical aspects of the standards, as explained earlier. This appears to be contrary to the basic principle of governance whereby direction and execution are separated.

Funding – A funding model is important for any international structure, to give confidence to national standard-setters that the system will be sustainable and capable of delivering standards of the necessary quality for national adoption. The MG’s fundamental premise in the development of the proposed reforms is the current model, which relies on IFAC for funding, potentially compromises the independence of the standard-setting boards, and possibly results in standards not being set in the public interest. Therefore, the ability to secure alternative funding for the proposed standard-setting structure is fundamental to whether the reforms can, or should, proceed.

While we agree, to be sustainable, sources of funding should be diversified and not just fall on one group of stakeholders, it appears to us that there is no guarantee the MG and the PIOB will be able to secure the funding it needs from sources other than IFAC (and its associated bodies). On the contrary, we understand that the MG and the PIOB have not been successful in the past to secure alternative funding.

There is no indication in the consultation paper that the MG or the PIOB has the support of the key stakeholders (for example, the accounting firms) on the proposed contractual levy, how it would work or how it could be enforced. There is also no indication the proposed funding model would lessen any perceived undue influence from funders. On the contrary, we would be concerned, as an independent national standard setting body (established under a legislative framework), that soliciting funding directly from professional firms could result in the funders exerting greater direct influence than under the current structure, where unspecified funding is channelled through IFAC.

Impact assessment of the reforms – The MG has yet to conduct an impact analysis (including cost-benefit) of the proposed reforms and a detailed transition plan. In the absence of such an impact analysis and the timing of the transition, it is difficult to assess whether the proposed new structure will be better than the current structure, how long the reforms will take and when a new structure is expected to be in place. This could create a period of significant uncertainty for jurisdictions, such as New Zealand, that adopt the standards.

We trust these significant exercises will be conducted in conjunction with the issue of any further consultation, which we understand is expected in June 2018.

We have not responded separately to every question raised in the consultation paper. Many of the questions (for example, whether the standard-setting board members should be full time/part time and the proportion of full time/part time members) are dependent on some aspects underlying the proposed reforms that are currently not clear.

We would welcome a further opportunity to comment on the proposed reforms once the public interest framework has been drafted for consultation and other aspects of the fundamental uncertainties are resolved and before the standard-setting structure is finalised.

For the removal of doubt, we wish our submission to be made available to the public.

If you have any queries or require clarification on any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or myself.

Yours sincerely

A handwritten signature in blue ink that reads "G Mitchell".

Graeme R Mitchell
Chairman
External Reporting Board

APPENDIX: SPECIFIC COMMENTS

Q1 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?

We are not convinced of the validity or pervasiveness of the key areas of concerns identified in the consultation paper.

The MG has listed the key areas of concern in the current standard-setting structure as the perceived lack of independence from IFAC and the profession (in terms of nominations, funding and provision of technical resources), the risk standards are not developed fully in the public interest and relevance and timeliness of standards. It would have been useful, given the fundamental and substantial nature of the reforms, if the MG had provided:

- Instances and/or examples where the current structure and processes were of concern to jurisdictions and national standard-setters adopting those standards or where jurisdictions have withdrawn (or refrained) from using the standards as a result of the stated concerns. On the contrary, the MG states the number of jurisdictions adopting the standards is increasing. This seems to indicate the current structure and process, which is well-established, is widely accepted by national jurisdictions; and/or
- Instances and/or examples where IFAC, through its nominations and funding, has exerted undue influence on the standard-setting boards, the PIOB and staff, or affected their ability to work independently.

The MG refers to the setting up of a working group and the carrying out of a preliminary stakeholder engagement to identify and address the concerns. In the interests of transparency, it would have been useful for the MG to provide details, including the membership and identities of: (1) the working group charged with proposing the proposed reforms; and (2) the stakeholders who were consulted in identifying the key concerns. In the absence of such information, it is not clear if the concerns are valid or widespread.

We note the proposed reforms continue to emphasize current issues with inadequate focus on the future role of assurance. There is insufficient recognition and discussion in the consultation paper of assurance beyond that provided in an audit of a PIE. It has not recognised that globally, audit & assurance standards are applied by entities other than PIEs. For example, in New Zealand, the audit & assurance standards are used by PIEs and non-PIEs and in public sector entity and not-for-profit entity audits.

The consultation paper also does not adequately address the future of assurance in relation to important and/or emerging issues like wider corporate reporting/non-financial information reporting, artificial intelligence and data analytics.

We are also disappointed the consultation paper makes no reference to the significant (and objective) contribution made by national standard-setters to the standard-setting boards and processes. National standard-setters act as a counter to any possible undue influence from IFAC and/or risks that standards are not set in the public interest.

Q2 Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

Q3 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?

We agree standards must be set, and perceived to be set, in the public interest. However, we note that IAASB standards are used by many different stakeholders and the term “public interest” has different meaning for different stakeholders.

The MG has charged the PIOB with developing a public interest framework that is “at the heart” of the reforms. However, it is not clear how public interest will be defined, who the stakeholders are, what the framework will look like, how it will work or how it will be different from the current assessment of public interest.

Moreover, it is unclear if the focus on “public interest” throughout the consultation paper is intended to imply the future standards will apply only to PIEs and, potentially, different audit & assurance and ethics standards will apply to non-PIEs (rather than being scaleable across all entities). This should be made clear as it has major implications for New Zealand as a national standard-setter which uses IAASB standards across all PIEs and non-PIEs and in public sector entity and not-for-profit entity audits. We question whether these reforms move standard-setting away from the premise “an audit is an audit” that has been followed for many years.

In general, we agree with the overarching and supporting principles as articulated. However, for the supporting principle of independence to work, it means no key stakeholder group should be able to exert undue influence over the standard-setting process. Application of this principle should require not just independence from the profession but independence from any key stakeholder group.

It is also important for any public interest framework to ensure that professional judgement is maintained in the application of the standards. Standards should remain principle-based, as rule-based standards may lead to a tick-box approach which will not be in the public interest.

Under the proposals, we are concerned the MG has replaced one key stakeholder with another. This potentially transfers the associated potential risks of undue influence or moral hazard in the standard-setting process from IFAC/the profession to the regulatory bodies. We consider regulators will be conflicted if they are heavily involved in setting standards that they have to subsequently regulate. In our view, independence should include independence from all key stakeholders, including the regulatory bodies.

Q4 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.

Q5 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?

Q6 Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

Q7 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.

We consider the two-board structure should be retained for setting audit & assurance and ethics standards.

A single board could potentially be more efficient and provide better coordination and alignment between the work of the two boards. However, this has to be balanced against the wider remit, whether the workload will be too heavy for a board of 12, whether it will improve timeliness and whether people with appropriate skills and an interest in both audit & assurance

and ethics can be found. We are concerned a smaller board with generic skills will negatively affect the scope and quality of the standards and/or the timing of their development and issue. More importantly, a single board may result in the loss of specialised technical standard-setting skills which are essential for developing the audit & assurance and ethics standards.

We will be concerned if the reduced number of board members means a less diversified board and the omission of national standard-setter representation. In our view, national standard-setters, like New Zealand, are essential and provide objective and balanced views to ensure the standards are robust, appropriate, applicable and implementable globally across individual jurisdictions.

Moreover, the creation of a single board may result in ethics standards for auditors and ethics standards for the rest of the profession being set by two separate bodies. The risk is that if IFAC retains responsibility for the development and adoption of ethical standards for professional accountants in business, the standards issued by IESBA may not be aligned with those issued by IFAC. This is currently the legislative situation in New Zealand where the XRB sets ethics standards for assurance practitioners while the professional body sets ethics standards for the rest of the profession. This can create difficulties: for example, we experienced timing challenges when implementing the requirements relating to non-compliance with laws and regulations (NOCLAR).

If a two-board structure is retained, the MG may wish to consider formalising alignment of the work of the two boards through cross-representation of a membership between the two boards.

Q8 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?

Q9 Do you agree that the board should adopt standards on the basis of a majority?

Q10 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?

Q11 What skills or attributes should the Monitoring Group require of board members?

Q12 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?

Q13 Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

Q14 Do you agree with the changes proposed to the nomination process?

We agree the standard-setting board could be more strategic in nature and need not be so involved in detailed drafting, which may be left to an enhanced technical staff. Nevertheless, the board will need members who have the necessary technical skills and competency to understand and critically review the technical content of the standards and agree wording in order for the board to approve the final standard. One risk that may arise if technical details are handled by staff is that the process may become less transparent.

On the issue of timing, the MG cites the need for consensus as an impediment to the timeliness of standards. The MG seeks views on whether timeliness can be improved by the board

adopting standards based on a majority vote if consensus is not reached. We are unclear about the MG's concerns on this matter. Currently, the Terms of Reference for both the IAASB and the IESBA effectively requires 12 out of 18 members (or 66%) to approve the issue of a standard or an amendment. We recommend the retention of a 66% threshold. We would disagree if voting is changed to a simple majority. A final standard should reflect the views and decisions of the board as a whole. A simple majority is, in our view, not sufficient for this purpose. We do not consider the quality of a standard, or views from the board as a whole, should be sacrificed in order to shorten the time for issuing standards.

We agree with the suggestions for board responsibilities and the diversity of membership criteria. However, the proposals have given insufficient attention to, and have not adequately discussed, the anticipated future increase in the role of assurance in a broader context. A wider board representation should allow for the inclusion of members from different sectors and those with expertise in the important and/or developing areas of wider corporate reporting/non-financial information reporting, artificial intelligence, data analytics, valuation and/or actuarial science.

Under the proposals, the PIOB will nominate the standard-setting board membership. We consider it important that the standard-setting board nominations process be conducted via an open call for candidates rather than by nomination by any particular stakeholder.

We do not consider it is necessary to change the current role, focus and/or the development of standards at the CAG or working group levels. All members of the CAGs and working groups should carry out their work in the public interest.

We are unable to comment conclusively on the board composition, skills requirements, whether board members should be part-time/full time and remuneration of board members in the absence of a decision on whether the standard-setting work will be carried out by a single board or two boards.

Q15 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?

Q16 Do you agree with the option to remove IFAC representation from the PIOB?

Q17 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?

Q18 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?

Q19 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?

We are unable to comment conclusively about the proposed role of the PIOB in the absence in the consultation paper of a clear statement of responsibilities between the PIOB and the MG

and the proposed public interest framework. However, our key concern relates to the changed role of the PIOB as currently set out in the consultation paper. Under the proposals, the PIOB will no longer be an independent oversight body. Having the PIOB as an independent oversight body is critical for us. Adoption of international standards means we need to be satisfied due process has been followed and there is independent oversight of that due process.

We are concerned with the potential widening of the PIOB's powers beyond that of an independent oversight body. For example, under the proposed reforms, it is envisaged the PIOB will "engage" in the standard-setting process, including challenging technical judgements made by the board in developing/revising standards and the potential ability to veto the adoption of a standard. If the MG's view is the current structure does not safeguard public interest and is not independent, it calls into question the current role of the PIOB as an oversight body. We are not convinced the proposed structure will alleviate this by removing the PIOB as an independent oversight body.

We do not agree an independent oversight body should also be involved in the technical work of the standard-setting body. Once a standard-setting board has been set up with the appropriate structure (for example, independence from IFAC in terms of nominations, funding, and staffing, appropriate qualified and diversified membership etc) the board should be entrusted to carry out its work in the public interest. Vetoing a proposed standard after proper consultation has taken place is inconsistent with due process consultation, undermines the work of the board and may indicate the structure that was set up was not appropriate or robust in the first place.

We strongly disagree with the PIOB having the power of veto.

The proposals also suggest the PIOB has the ability to dismiss board members and prevent their re-appointment. We are unclear under what circumstances this would, or could, be done if the appointment process and member selection have been appropriate in the first place. We suggest greater clarification of the circumstances and/or criteria for such drastic measures. Likewise, we consider any changes the PIOB makes to its own terms of reference and rules of procedures and those for the board(s) should first be subject to full public consultation.

Under the proposals, the PIOB membership will be nominated by the MG. The MG states it will ensure the PIOB as a whole has an appropriate technical understanding of audit matters by taking the advice of auditing experts within the MG such as the International Forum of Independent Audit Regulators (IFIAR). Although not necessarily nominated by IFAC, we consider, given the technical nature of the standards, it is essential the PIOB should have at least one member from the profession.

We agree it is essential the PIOB's membership be widened and be more diversified. We do not support the PIOB membership be limited to or be drawn only from the MG regulatory member organisations – we do not consider this represents diversified membership. In general, we consider membership on the MG, the PIOB, the standard-setting boards, CAGs and working groups should all reflect the diversity (including geographic diversity) of key stakeholders. Even though membership may be appointed from different stakeholder groups, they should not represent the interests of any particular stakeholder group. Membership should be based on skills and technical ability, and working in the global public interest.

If the PIOB were to oversee another body, we suggest it oversees the International Public Sector Accounting Standards Board (IPSASB). IPSASB sets standards in the public interest for public sector entities and many public sector entities are major participants in the international capital markets.

Q20 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?

We agree there is a need to clarify roles of the PIOB and the MG.

We consider it may be more appropriate for the MG, rather than the PIOB, to be responsible for sourcing and collecting the funding, to ensure that the PIOB, as an independent oversight body, is not subject to undue influence from the funders.

We strongly support the PIOB remaining as an independent oversight body. If the PIOB becomes more involved in standard-setting as proposed (rather than remaining independent), we consider it important for another oversight body or function to be set up as independent oversight of the standard-setting process.

Q21 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?

Q22 Do you agree the permanent staff should be directly employed by the board?

Q23 Are there other areas in which the board could make process improvements – if so what are they?

We agree if the standard-setting board is to be perceived to be independent from IFAC, staff should be appointed by the standard-setting board. This is notwithstanding the MG has not articulated specific instances where staff independence was considered to have been unduly influenced under the current structure.

Q24 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)?

Q25 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?

We agree it is useful for the MG to diversify the funding base, rather than relying solely on one key stakeholder. The ability to secure alternative funding for the proposed standard-setting structure is fundamental to whether the reforms can, or should, proceed. However, it is unclear from the consultation paper whether the MG has secured the support of key stakeholders to alternative funding. We note the comment that funding from other sources have been unsuccessful so far.

Q26 In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.

Q27 Do you have any further comments or suggestions to make that the Monitoring Group should consider?

The MG has yet to conduct an impact analysis (including cost-benefit) of the proposed reforms and a detailed transition plan. In the absence of such an impact analysis and the timing of the transition, it is difficult to assess whether the proposed new structure will be better than the current structure, how long the reforms will take and when a new structure is expected to be in place. This may potentially create a period of significant uncertainty for jurisdictions like New Zealand that adopt the standards.

More importantly, the legal implications are unclear, for example, if IFAC, who holds the copyright to the standards, is unwilling to give up its copyright over the standards, it is not clear how the reforms can proceed.