

PERSPECTIVES ON THE WAY FORWARD FOR STRENGTHENING THE OVERSIGHT AND OPERATIONS OF THE INTERNATIONAL AUDIT & ASSURANCE AND ETHICS STANDARDS BOARDS

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EXECUTIVE SUMMARY

- High-quality international accountancy standards developed in the public interest and that are widely adopted and implemented are essential to the growth of strong and sustainable organizations, financial markets and economies. This paper sets out perspectives on the way forward to strengthen the oversight and operations of the standards boards responsible for audit & assurance and ethics.
- Improvements should be made in the following five interrelated areas:
 - Clarifying the distinct roles between oversight and standards development.
 - Enhancing multi-stakeholder representation on both the oversight body and the standards boards.
 - Improving the timeliness of standards development while retaining their quality and relevance, focusing on standards related to auditor performance; quality management within firms; the implications of new accounting standards; and emerging areas of reporting and new technology.
 - Addressing the perception that the accountancy profession is able to exert undue influence.
 - Increasing funding sources to support the proposed improvements above, and to ensure sufficient, sustainable and preferably diverse funding for the future.
- The Monitoring Group (MG) process has been lengthy. It is in the public interest to address the five issues identified above and finalize this process in a timely and responsible manner.
 - Broad support and agreement for a Public Interest Framework (PIF) is important to provide a firm foundation on which to base any significant changes to the model.
 - A multi-stakeholder approach to achieve consensus is essential.
 - Improvements will need to be appropriately funded, but a new, viable, diverse funding model has not yet been proposed or agreed.
- Notwithstanding the absence of an agreed PIF, a multi-stakeholder approach, nor identified additional funding, consideration of the perspectives set out in this paper will advance the dialogue.
 - While stakeholders need to understand all of the significant changes as an integrated package, implementation of the changes should be in a logical sequence.
 - A key, initial step is to clarify the roles and responsibilities of an oversight body, reflecting good governance and due process. The oversight body should have a distinct role as the guardian of the standard-setting model on behalf of all stakeholders. Key elements include a multi-stakeholder, diverse composition; open and transparent nominations process; and no right to intervene in a technical standard or veto its approval.
 - Once the oversight structure is agreed, enhancements to the standard-setting boards' structures can be finalized. Key elements include a multi-stakeholder, diverse membership; resolution of the issue of separate audit & assurance and ethics standards boards; proactive strategy and increased project coordination between the two boards; and enhanced staff and more efficient processes, including better use of technology.
- The widespread adoption and implementation of international standards demonstrates that the current process, in which IFAC plays a significant role, has produced high-quality, credible standards. IFAC should, therefore, continue to play a significant role ensuring the profession's constructive engagement in the standard-setting process in a public/private collaboration model that ensures the standard-setting activities operate, in fact and in appearance, in the public interest and independently from IFAC.
- To mitigate disruption risk, changes need to be implemented in a sequential manner. Full implementation will likely not occur until 2021/2022 even if consensus is reached by early 2019.
- Implementing the proposals set out below could cost an additional USD \$7-11 million per year, which will require new funding, either in cash or in-kind. *The Way Forward* provides a basis for stakeholders to discuss and agree on additional funding.

BACKGROUND

High-quality international accountancy¹ standards developed in the public interest, and that are widely adopted and implemented, are essential to the growth of strong and sustainable organizations, financial markets and economies. This paper sets out perspectives on the way forward to strengthen the oversight and operations of the standard-setting boards responsible for audit & assurance and ethics.

The current widespread adoption and implementation of the international audit & assurance and ethics standards demonstrates that the current process has produced standards that are regarded as high quality and credible. However, improvements can always be made and the following five areas should be addressed.

- Clarifying the distinct roles between oversight and standards development;
- Enhancing multi-stakeholder representation on both the oversight body and the standards boards;
- Improving the timeliness of standards development while retaining their quality and relevance; focusing on standards related to auditor performance; quality management within firms; the implications of new accounting standards; and emerging areas of reporting and new technology;
- Addressing the perception that the accountancy profession is able to exert undue influence; and
- Increasing the funding sources to support the proposed improvements above, and to ensure sufficient, sustainable, and preferably diverse funding for the future.

The MG has been reviewing the international standard-setting process since early 2015. In November 2017, the MG released a Consultation Paper (CP) outlining possible actions and, in May 2018, a Summary of Feedback on the CP submissions was released. IFAC commissioned an independent analysis of the feedback (the Gibson Dunn report), which was published in April 2018. Both analyses indicate that there is agreement on some proposals but diverse views on others. **These analyses have helped frame the development of *The Way Forward*.**

The MG has said it will issue a draft PIF for limited, non-public consultation, with a more mature PIF reflecting that limited consultation included in a White Paper to be issued toward the end of 2018. A draft PIF has not yet been circulated.

KEY PREMISES UNDERPINNING *THE WAY FORWARD*

1. **Timely and Responsible Resolution Required:** The MG process has been lengthy, increasing risk and uncertainty around the standard-setting process. Standard setters need to focus on standards related to auditor performance; quality management within firms; the implications of new accounting standards; emerging areas of reporting; and the way business models are adapting to new technologies and a digital world. Regulators need to focus on the more pressing issues of adoption, implementation and enforcement of the standards. Finalizing the MG review, addressing the five areas identified in this paper, and implementing any changes in a timely and responsible manner is in the public interest.

¹ International accountancy standards include audit & assurance, ethics, education and private and public sector accounting standards.

2. **IFAC Supports Improvements in the Public Interest:** IFAC will continue to carry out its current standard setting support role and be open to evolving or new models that will continue to deliver widely adopted and implemented high-quality standards developed in the public interest.
3. **Stakeholder Views:** The MG's Summary of Feedback and Gibson Dunn analyses indicate that there is agreement on some proposals but diverse views on others.
4. **Improvements:** There is broad agreement by stakeholders that improvements can be made to the current standard-setting model. These improvements include changes to: the nominations process; clarifying and reinforcing the distinct and separate roles for oversight and standards development; enhancing multi-stakeholder participation at both the standard setting and oversight levels; and addressing any perceptions that the accountancy profession is able to exert undue influence over standard setting. Standard setting needs to remain relevant, innovative and responsive to navigate the challenges and opportunities presented by a rapidly changing landscape. Accordingly, changes that increase the standard-setting boards' capacity, enhance quality, and hasten the "speed to market" of standards are welcome, and need to be part of a culture of continuous improvement. Where there is consensus among the key stakeholders on improvements that can be funded within approved budgets, they can and should be implemented quickly. IFAC is taking steps to address enhancements as part of its current strategy review.
5. **Funding:** Improvements will need to be appropriately funded, but a new, viable, diverse funding model has not yet been proposed or agreed. Under the current arrangements, the accountancy profession funds all of the standard-setting boards' activity and approximately two thirds of the Public Interest Oversight Board (PIOB)'s costs. While developing a diverse funding model is a key priority, it is not unusual for a profession to provide financial support for its standard setting or regulatory activities. In the absence of new funding sources the profession is likely to—at least in the short to medium term—bear the burden of funding international standard setting. Steps to make this funding more diverse and sustainable in the longer term need to be pursued. In addition, steps to make the profession's contribution to funding more secure and independent (such as through the use of a trust and longer-term commitments) should be considered.
6. **Need for PIF:** Broad support for a PIF is critical. It would provide a firm foundation on which to base any significant changes to the model. Notwithstanding the absence of an agreed PIF, consideration of the proposals in this paper will advance the dialogue.
7. **Public/Private Collaboration Required:** High-quality, globally-accepted international standards can only be developed with significant engagement from the accountancy profession and through strong collaboration between public and private sectors, as has been achieved successfully in the past. This approach recognizes that the public interest is best served when all stakeholders cooperate and each exercises its public interest obligations—not when the approach is controlled or unduly influenced by any one stakeholder group, such as the regulators or the profession. The proof point that the current standards are set in the public interest is that global audit & assurance and ethics standards are widely adopted and implemented in over 120 jurisdictions, notwithstanding that international standards have no legal standing and require voluntary adoption by national jurisdictions.
8. **Robust Due Process:** A key challenge is to have the right checks and balances in the process so that the accountancy profession is not seen as having any real or perceived undue influence. Appropriate, risk-based checks and balances can be built into the already robust due process,

where all views and input are rigorously evaluated and detailed responses and bases for conclusions are available. These checks and balances should include effective oversight but not include a right for any oversight body to intervene in the technical development of a standard or veto its approval.

9. **Utility:** To facilitate global adoption and implementation, the audit & assurance standards need to be scalable, and thus usable across the full range of auditable entities, the ethics standards need to apply to all professional accountants, and all standards need to be widely accessible, as they are under the current model.
10. **Multi-Stakeholder Approach:** Seeking consensus on proposals to change the standard-setting model, which could have a significant global impact on the quality and ongoing legitimacy of the standards, depends not only on the merits of the proposals but also on the manner in which the process is conducted. To enhance trust and obtain agreement, a multi-stakeholder, collaborative approach involving all key stakeholders—and not a process managed solely by the MG—is essential.
11. **An Integrated Package:** Stakeholders need to understand the way all of the significant changes will come together to form an integrated package and how they will be implemented in a logical sequence, before agreeing on any major individual change.
12. **Mitigate Disruption Risk:** Change and transition can bring significant disruption risk that must be mitigated and, where necessary, managed. The transitional risks in introducing too many significant changes (or changes where the impacts are not carefully considered), in the wrong sequence, are considerable.

THE WAY FORWARD

While the best approach is to initially agree on both a PIF that would serve as a strong foundation for any significant changes and on a multi-stakeholder approach to achieve consensus on a sound outcome, it is in the public interest to consider the proposals identified in this paper, finalize the MG review and implement any improvements in a timely and responsible manner. The [Indicative Pathway set out in Appendix 1](#) notes that the time between obtaining consensus and implementation of all changes in a properly sequenced manner could be up to three years. Accordingly, notwithstanding the absence of an agreed PIF and multi-stakeholder approach, setting out perspectives on the way forward now is an important step in progressing the dialogue. Concluding this process would allow all parties to focus on implementation of improvements and on the continued development, adoption and implementation of high quality standards.

Need for Increased Funding

Enhancements to the standard-setting model will require appropriate and, preferably, more diverse funding. A successful outcome needs to identify additional funding, either from the accountancy profession or elsewhere, as a key priority. An overall, integrated approach that focuses first on clarifying the composition and roles of the oversight body, and then making changes to the standards boards, is the best way to try to access the increased, sustainable and secure funding required to address the necessary improvements. These improvements include enhanced staffing, more efficient board processes, better use of technology and remuneration for board members. In the absence of additional sustainable funding, it is unlikely that these changes can be successfully implemented.

New Oversight Model

A new oversight model needs to reflect good governance and due process. The proposals draw on previous reviews of standard-setting governance, the submissions to the CP, the views expressed at MG roundtables, and learnings and experience from supporting the current standards boards since their inception. As the guardian of the model, the oversight body is entrusted with the responsibility to ensure that the standard-setting process results in widely adopted and implemented high-quality standards that are set in the public interest. Many stakeholders have an interest in this outcome; accordingly, the oversight body needs to ensure that it reflects these different perspectives and shared responsibility.

The oversight body's role is oversight, not operations or technical input. This aspect needs to be clarified. Key elements set out below include areas where, compared to the PIOB, the oversight body's composition and method of operations should be changed. The section concludes with some recommendations for the MG's composition and role.

1. **Composition:** Diverse skills and experience, representation from all key stakeholder groups, including practitioner expertise.
2. **Nominations:** Open and transparent nominations process that is not restricted to nominations from MG organizations. Members appointed by MG for defined terms.
3. **Size:** Appropriate diversity would likely require an oversight body with about 15 members, certainly more than the current PIOB.
4. **Core Principles:**
 - a. Publicly accountable and transparent, including issuance of an annual report on its due process review.
 - b. Not the sole arbiter of the public interest.
 - c. No right to intervene technically on a standard or veto its approval.
5. **Key Responsibilities:**
 - a. Designing a process for evaluating adherence by the standards boards to due process and recommending enhancements.
 - b. Overseeing the development and coordination of audit & assurance and ethics standards boards' strategies, work plans and timelines.
 - c. Focusing on designing checks and balances over areas where there may be perceptions of undue influence by any one stakeholder group.
 - d. Evaluating performance of board members and board chairs.
 - e. Reviewing board requests for annual funding and approving broad parameters of the boards' budgets.
 - f. Holding board chairs accountable for work program delivery and use of funding.
6. **Funding:**
 - a. To increase the funding sources, and to engage the MG in funding, all of the oversight body's funding should be provided by the MG. This is consistent with the original goal of

the current model, which was for the PIOB to have a diversified funding base that excluded funding from the profession after an interim period.

- b. Until a new, diverse funding model is agreed on, standards boards' funding will continue to be allocated by IFAC from its Member Organization and Forum of Firm (FoF) dues. Mechanisms (such as a trust and longer-term commitments), for which there would be an appropriate role or monitoring by the oversight body, should be considered to make this funding more secure and independent from the profession.
7. **Standards Boards' Nominations:** Handled by a Nominating Panel (NP) arrangement similar to the process used in 2018 to appoint the new International Auditing and Assurance Standards Board (IAASB) chair.² Operational support for this NP would continue to be provided by IFAC. Funding for the NP would be split 50/50 between IFAC and the MG.
 8. **Location:** To facilitate interaction with standards boards that are currently based in New York, the oversight body should hold some of its meetings in New York. To enhance outreach, meetings could be held in other locations as required.
 9. **Education and Compliance Advisory Panel:** Not overseen by the oversight body. Arrangements for education standards, IFAC membership, and compliance with members' obligations to be determined by IFAC.
 10. **MG Composition and Responsibilities:**
 - a. Composition to be expanded to include international regulatory and oversight bodies responsible for non-listed and non-PIE entities and the public sector.
 - b. Consideration given to expanding geographical representation by including appropriate regional organizations.
 - c. MG attendees should be senior executives of their organizations appointed for defined terms and charged with acting in the public interest to support high-quality, relevant, and timely standard setting.
 - d. Responsibilities include:
 - i. Monitoring the public interest operation of the oversight body;
 - ii. Appointing oversight body members;
 - iii. Approving oversight body budget, and providing funding;
 - iv. Funding its share of the NP and appointing its members, including the chair; and
 - v. Acting in a publicly accountable and transparent manner.
 - e. There is also a need for improved coordination among the MG, IFAC and national standard setters.
 - f. Over time, consideration could also be given to merging the roles of the MG and oversight body into a single entity.

² This process included a seven-person panel appointed by the MG: two members and one observer each were selected by the MG from nominations submitted by IFAC and the PIOB and the MG selected the independent chair.

Standard-Setting Boards Structures

Once the oversight structure is agreed, the standards boards' structures can be finalized. Key elements to be agreed by stakeholders include:

1. **Composition:** Multi-stakeholder, diverse membership with sufficient subject matter competence to understand the issues and challenge staff as appropriate. A specific objective would be to obtain representation from preparer and investor groups, which has been a challenge in the past.
2. **Size:** Appropriate diversity would likely require boards of at least 15 but no more than 18 members.
3. **Separate Boards:** Audit & assurance and ethics should be handled by two separate boards. The audit & assurance board should focus on principles-based, scalable auditing & assurance standards for all entities. The ethics board mandate would include the ethics code for all professional accountants.
4. **Board Coordination:** Specific steps to continue to ensure proactive strategy and project coordination between the two boards.
5. **Role:** Responsible for strategy, setting project objectives, providing direction, and approving work plans, timelines and final standards. Detailed drafting to be done by staff/task forces/sub-groups of the boards as they see fit.
6. **Location:** To mitigate disruption risk, the boards should, at least for the medium term, continue to be based in New York.
7. **Operational Support:** Provided at cost by IFAC under a Service Level Agreement.
8. **Remuneration:** The chairs of the boards would be remunerated on a full time, or nearly full time, basis as is currently the case. The boards' deputy chairs would also receive an appropriate stipend. Other board members would receive a stipend to compensate them for spending their time on board activities. This is anticipated to be approximately 25-35% of their time, (lower than the time currently required of the volunteer board members) but to be clarified once the board structures and staffing resources are finalized.
9. **Standards Approval:** Super majority as is currently the case.
10. **Stakeholder Consultative Groups:** Created (or possibly revised in the case of the existing Consultative Advisory Groups) to provide the boards with separate stakeholder perspectives on matters of strategy, issues, priorities and projects.
11. **Staff:** Enhanced staff (including quantity and capabilities), which can include secondments where required. Technical advisory groups to be utilized as necessary and as agreed by the boards. Staff to continue to functionally report directly to the boards. Staffing support provided at cost by IFAC under a Service Level Agreement.
12. **Processes:** Review and enhance processes, including use of technology, to improve speed and efficiency.
13. **Sequencing of Changes:** Staff and process changes should commence before full implementation of board composition changes. This sequence ensures combined technical capacity of boards/staff maintained at a high level throughout transition.
14. **Transparency and Due Process:** Strong adherence to both as is currently the case.

Cost of Proposals/Funding

The proposals with the most significant cost implications are:

- Remunerating board members;
- Enhanced staffing;
- Increased operational support (facilities, etc.) for larger/upgraded staff; and
- Increase in oversight body's role and size.

The current budgeted cost of the IAASB and International Ethics Standards Board for Accountants (IESBA) for 2019 prior to making any of the proposed changes is estimated to be approximately USD \$17 million. Implementing the proposed changes would cost an estimated additional USD \$7-11 million per year, largely due to replacing volunteer board members and technical advisors with paid board members and staff. The range reflects assumptions made, especially around potential differences in size of boards and remuneration levels.

The above costing is premised on the new standard-setting boards being supported by IFAC, appropriately "ring-fenced" through Service Level Agreements and other measures. A move of the boards to a new structure outside of IFAC would incur significant additional costs, which we have not estimated.

New funding, either in cash or in kind, would be needed to implement these changes.

Securing additional funding is a challenge and there is no certainty it would be forthcoming, even if a new oversight model and standard-setting boards structures are agreed. However, the proposals set out herein provide a basis to explore the feasibility of additional funding with other stakeholders. Conversely, if these changes, or changes along these lines, are not agreed, it is likely that additional funding from the accountancy profession will be limited and it is uncertain if new sources of significant funding would be found in the short to medium term.

IFAC'S Role in Standard Setting

As noted, the widespread adoption and implementation of international standards demonstrates that the current process, in which IFAC has played a significant role, has produced standards that are regarded as high-quality and credible. IFAC should, therefore, continue to play a significant role ensuring the profession's constructive engagement in the standard-setting process and promoting the adoption and implementation of the standards. The proposals set out a way for this engagement that mitigates disruption risk while ensuring the standard-setting activities operate, in fact and appearance, in the public interest independently from IFAC.

IFAC's role would be as follows.

Audit & Assurance and Ethics standards development:

1. **Nominations:** Participate in the NP and provide operational support and funding.
2. **Funding:** Provided by IFAC from dues collected from its Member Organizations and the FoF until a new, diverse funding model is developed and agreed.
3. **Corporate and Staff Support Services** (e.g., HR, IT, Communications, Facilities): Provided by IFAC at cost under Service Level Agreements. The provision of these services by IFAC under properly constituted Service Level Agreements does not compromise the independence of the standard setting process.

4. **Standard Setting Input:** The profession is a key stakeholder in the standard-setting process and, like all stakeholders, IFAC would continue to provide input on behalf of the global profession through its outreach and committee activities.

International Public Sector Accounting Standards (IPSAS) development: Continue to contribute to and promote the development, adoption and implementation of high-quality, international, public sector accounting standards to enhance governments' accountability and transparency. IFAC will continue to play a significant role ensuring the profession's constructive engagement in the IPSAS standard-setting process in a public/private collaboration model, overseen by the Public Interest Committee that ensures the standard-setting activities operate, in fact and in appearance, independently from IFAC.

Education Standards development: Continue to support education standards under a new model not overseen by the oversight body.

Compliance Advisory Panel: IFAC membership and compliance with members' obligations monitored by IFAC and not overseen by the oversight body.

Adoption and Implementation: As part of IFAC's ongoing role supporting standard setting, IFAC will also continue to promote adoption and implementation through advocacy, non-authoritative guidance, sharing of best practices, surveying for implementation challenges, and building capacity of professional accountancy organizations.

MG/IFAC Memorandum of Understanding: The respective roles of the MG and IFAC should be set out in a new Memorandum of Understanding between the two parties.

INDICATIVE PATHWAY

Appendix 1 conceptualizes, as a basis for discussion, an indicative sequencing and timetable for the above. It reflects the fact that it is likely that certain decisions need to be agreed and implemented before subsequent decisions are made and additional funding is provided. This pathway indicates that even if consensus is achieved by early 2019, it will likely be mid-2021, or even later, before all changes are implemented.

NEXT STEPS

The Way Forward sets out a pathway to address the five issues identified in this paper to strengthen the oversight and operations of the international audit & assurance and ethics standards boards, namely:

- Clarifying the distinct roles between oversight and standards development.
- Enhancing multi-stakeholder representation on both the oversight body and the standards boards.
- Improving the timeliness of standards development while retaining their quality and relevance; focusing on standards related to auditor performance; quality management within firms; the implications of new accounting standards; and emerging areas of reporting and new technology.
- Addressing the perception that the accountancy profession is able to exert undue influence.
- Increasing the funding sources to support the proposed improvements above and to ensure sufficient, sustainable and preferably diverse funding for the future.

All stakeholders should engage with their constituents to reach a timely and responsible resolution to these matters.

As a final step, there needs to be agreement on an orderly process for monitoring the effectiveness of the new model, including arrangements for a formal independent review five years after implementation is completed.

Appendix 1 -- INDICATIVE PATHWAY

	Sept 2018	Oct 2018	Feb 2019	April 2019	June 2019	Nov 2019	Jan 2020	June 2020	Jan 2021	June 2021
Targeted Consultations on key elements	Orange									
Agreement-in-Principle ¹			Blue							
Agreement-in-Principle on Oversight Governing Documents for MG, Oversight Body, NC ¹				Blue						
Agreement-in-Principle on SSBs Governing Documents ¹					Blue					
SSBs Operational Improvement Plans					Blue					
SSBs Operational Improvements Implementation						Orange				
Agreement-in-Principle on Funding Arrangement Plan ¹					Blue					
Ratification ²						Blue				
Oversight Body and SSBs - Staff Talent Acquisition						Orange				
Oversight Body Nominations							Orange			
Oversight Body Composed							Blue			
New SSBs Nominations ³						Orange				
New SSBs Composed/Commence Operations										Blue
Funding Arrangement Plan Implementation						Orange				

¹ Agreement-in-Principle means agreement among MG, IFAC and FoF as required after considering views of all key stakeholders.

² Ratification means ratification/approval of oversight governing documents, standard-setting boards' governing documents and funding arrangement plan by MG, IFAC, and FoF, as required.

³ This process will not commence until after the oversight body is operational. Depending on the time required for this process, the new standard-setting boards may not be composed and fully operational until January 2022.