July 14, 2020

Letter to Member Organizations

Dear Colleague,

We are writing to inform you that earlier today the Monitoring Group published its final paper (the “Paper”) concerning reforms to the global standard-setting process for audit, assurance and ethics, *Strengthening The International Audit And Ethics Standard-Setting System*.

The Paper, which is the product of an extensive multi-stakeholder consultation process over the last few years, demonstrates a renewed commitment to a global standard-setting ecosystem that is responsive to the public interest. It maintains strengths of the current arrangements that have contributed to broad worldwide adoption, to date, of the International Standards on Auditing and the IESBA Code of Ethics, while recommending enhancements where needed. Moving forward with the recommendations will enhance the collective trust and confidence of stakeholders in the standard-setting process, thus ensuring the continued widespread adoption and implementation of the standards.

We are pleased to report that the Paper recognizes the important and necessary role that IFAC and the profession will continue to play in the standard-setting process. While there will be changes in the way standards are developed, the recommendations are aligned with our Strategy and there is no change to our Vision, Mission, Purpose or Strategic Objectives. Our strategy since the 2003 IFAC Reforms has been to support an independent standard-setting process for audit, assurance and ethics standards, and the adoption and implementation of the resultant standards. That is our strategy today, and that will continue to be our strategy after any recommendations emanating from the Paper are implemented. While we will have less direct involvement with certain aspects such as the nominations process, we will now have even wider latitude and a greater opportunity to express our views and input to the boards on standard-setting matters that we believe need to be addressed.

While not every one of the recommendations that IFAC put forward was ultimately included, the Paper has evolved and improved significantly over the last two and a half years, recognizing the important role the profession needs to play, while also addressing any perceptions of independence and undue influence, with appropriate checks and balances and allocations of responsibilities. Comments on specific aspects in the Paper are set out below. The Paper has benefitted significantly from the consultation process and from the input from our Member Bodies, IAASB and IESBA leadership, the Global Public Policy Committee (GPPC), and the IFAC Board. We would like to acknowledge the leadership and partnership of the Monitoring Group and the Public Interest Oversight Board (PIOB) in this endeavor.
Recognizing that the consultation process has been quite complex, and that we are now only at the “end of the beginning”, we wanted to take this opportunity to provide some additional context on the Paper itself and an explanation of next steps.

As you consider the recommendations, we urge you to reach out and engage with your members, national standard setters and other key stakeholders and continue to provide us with your feedback. It is important. IFAC is also willing to assist you with any of these efforts if required, and/or with any discussions with your local Boards and Councils.

*The Paper – Key Considerations*

Our goals throughout the consultation process, as the global body representing all of you, were four-fold:

1) Working collaboratively and constructively with the Monitoring Group, the PIOB, IAASB and IESBA leadership, and the GPPC to ensure the solutions are fully in the public interest;
2) Ensuring a sustainable structure for the standard-setting boards that is responsive to the public interest, and that is independent, credible, cost-effective, transparent, relevant and accountable;
3) Ensuring that IFAC and the profession emerge from the consultation positioned as strongly as ever vis-à-vis their relationships to and engagement with the standard-setting boards;
4) Reaching a timely conclusion of the consultation phase to end the uncertainty caused by the process, which started in 2015, and thereby curtail the risk of any further erosion of stakeholder confidence in the global standard-setting system.

The release of the Paper today and the recommendations contained therein are consistent with these goals.

The Paper maintains many of the strengths of the current system, including a significant role for IFAC and the profession, not only in supporting the independent standard-setting boards but also in our adoption and implementation efforts. The Paper commits to engaging with IFAC on any future fundamental changes to the standard-setting structure.

IAASB and IESBA will continue to exist as separate, independent boards with their current mandates, and they will remain in New York City. The boards will be housed in a legal entity independent from IFAC, but we will continue to provide, as we do now, operational and administrative support. This support will be provided through a Service Level Agreement. At the same time, the Paper stipulates new nominations arrangements that will resolve any perception of undue influence by the profession on IAASB and IESBA. The articulation of a Public Interest Framework, which includes explicit reference to the scalability, operability, usability, and readability of standards, adds an important element of clarity to the public interest focus.

The Paper further clarifies the role of the PIOB and their oversight responsibilities versus the IAASB’s and IESBA’s operational responsibilities. It also mandates multi-stakeholder representation and membership on both the PIOB and on the IAASB and IESBA.
We have consistently noted that members of the profession need to be included as part of the standard-setting boards (and the PIOB) to continue to represent the needs and expectations of both small and large professional accountancy organizations and their constituents in promulgating international standards. While we agree with the intent to have all stakeholders represented on the boards, we would like to see a higher level of practitioner expertise. We will need to ensure as we move through the transition planning phase that the perspectives of the profession will be properly represented in any new arrangements.

With respect to a new funding model for the standard-setting boards, which was a key goal of the Monitoring Group, we are disappointed that there has been no progress thus far in securing new sources of funding from outside the profession. A more diverse funding model would further address the perception of undue influence. In addition, the Monitoring Group will continue to look to IFAC and the profession to contribute to the PIOB’s funding (with a two-year goal to reduce this to less than 50%). We have repeatedly made our position clear that no amount of PIOB funding should come from the profession, and that there needs to be a more diverse model for funding the boards’ activities. We will continue to press this issue and urge the Monitoring Group to intensify its efforts to identify a new, diverse funding model for both the boards and the PIOB.

The Transition Planning Phase - Issues to be Resolved

With the consultation now behind us, the focus of our attention will turn to reaching agreement with all key stakeholders on the outstanding issues so we can commence implementation. IFAC looks forward to working with the Monitoring Group, PIOB, IAASB and IESBA leadership, and the GPPC over the next nine months on the transition planning phase, which has been set aside to resolve several important outstanding issues as well as to agree on an implementation plan:

a. Finalizing the skills matrices for members of IAASB/IESBA and the PIOB;
b. Establishing a conflict of interest policy to govern members of IAASB/IESBA that will accommodate robust secondment agreements;
c. Ensuring IAASB and IESBA continue to have high-quality technical support at both the board and staff level -- particularly important given the reduced number of practitioners on the boards and a new nominations process;
d. Defining terms of the legal structure that will house IAASB and IESBA;
e. Agreeing arrangements that ensure IFAC and the profession are engaged on any future fundamental changes to the standard-setting structure;
f. Drafting the Service Level Agreement whereby IFAC will provide operational and administrative support to the legal entity housing IAASB and IESBA;
g. Costing all recommendations contained in the Paper;
h. Monitoring and assessing progress on the development of a new, diverse funding model;
i. Agreeing final changes and adopting an implementation plan that will need to be appropriately sequenced, and that fits within the funding available.

We do not underestimate the challenges in this last step given the financial outlook for IFAC’s Member Organizations and the firms in the current environment combined with the absence, to date, of any new, diverse funding model.
Each of these matters was considered to a greater or lesser extent during the consultation phase, so we are not starting from scratch. We are confident, therefore, that we will be able to reach a satisfactory resolution on all matters and then commence implementation, which could take up to three years. This timing is intended to allow for the orderly sequencing and execution of the transition plan, without disruption to the delivery of standards.

In conclusion, we hope you share our sense of accomplishment with the progress that has been made so far. Global standards are the bedrock on which our profession and reputation are built, and in a COVID / post-COVID environment, the reliance on high-quality and trusted international standards by both the private and public sectors that are set in the public interest will only become more important than ever.

We will continue to keep you updated as we make progress on the next phase. As noted above, please engage with your members and key stakeholders, continue to provide us with your feedback and counsel, and feel free to call on us for any assistance with your local Boards and Councils.

Thank you again for your support.

In-Ki and Kevin

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