

17 November 2017

Dear Stakeholder of the IAASB and the IESBA,

**Re: Strengthening the International Standard Setting Boards**

Over the last 15 years you and many others have contributed extensively to IAASB's and IESBA's work. This has included supporting the use of our International Standards, and contributing to their quality by means of comment letters and participation in outreach. We are grateful for this support.

**You and many other stakeholders are likely to be impacted by any new arrangement under consideration by the Monitoring Group (MG) insofar as it affects the quality and relevance of future standards.** The MG's consultation outlines options for reforms, which include proposals for a wholesale restructuring, including a partial merger, of the IAASB & IESBA. IFAC has outlined an alternative that builds on the strengths and successes of today's arrangements to better achieve the desired improvement outcomes. The MG and IFAC documents are enclosed for convenience.

**We encourage you to contribute your perspective to this reform consultation.** We believe any future arrangement should retain those qualities that were important to many stakeholders' decisions to adopt our International Standards. This will ensure continued stakeholder acceptance of the standards and confidence in their quality and technical rigor.

As the MG consultation process unfolds, **confidence in today's standards might inadvertently be eroded.** We therefore note:

- The IAASB and IESBA have been fully independent in decision-making on scope, content and timing of their standards. The Boards and their Technical Staff<sup>1</sup> have not been subject to undue pressure, influence or interference as a result of IFAC providing operational & financial support.
- The IAASB and IESBA have always given weight to the public interest throughout the standard setting process. This has included ensuring plenary contributions from all members (currently comprised of equal numbers of public members/non-practitioners : practitioners) and considering the public interest input from our international Consultative Advisory Groups (CAGs). The remarks of PIOB Observers in this regard, based on observation at each meeting, are on record as are the PIOB due process approvals.
- The level of global adoption of our auditing and ethics standards in both the private and public sectors, including adoption through legislation and by public authorities, is testimony to the confidence in the quality of the standards as a result.

**The high quality of today's standards has benefited from extensive global outreach and public consultation, and robust debates at the task force and board levels.** The standards have also been developed in an appropriately timely manner (and relatively so, when compared to other international and national standard setters). **We thereby emphasize that debate and consultation on complex topics and proposals that seek innovative and transformational change cannot be rushed.** Rather,

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<sup>1</sup> Recruitment, evaluation, retention and remuneration of Technical Staff is under the responsibility of the Managing Director, Professional Standards, who functionally reports to the Chairs of the IAASB and IESBA.

they require the necessary time to engage with global stakeholders and develop their awareness and understanding, bridge aspirational concepts and practical considerations, and engender broad public acceptance before they are finally completed and approved by our boards.

**We certainly acknowledge that improvements to the system can, and should be explored.** For example, additional investment such as stipends for voluntary (part-time) members which result in potentially more diverse and deeper pools of candidates for the boards, or investment to expand the permanent technical staff<sup>2</sup>, could have a positive impact on overall productivity of the Boards.

**However, we see unintended risks with the MG proposals as a whole.** The appendix to this letter illustrates some of the risks we identified on our initial reading of the MG document. We believe the MG and IFAC deliberations would benefit from your perspectives in this regard.

We also note that the MG consultation consists of potential change to a large number of variables within the system. **It is simply unknown whether these changes will actually improve or weaken the IAASB and the IESBA.** There is also limited experience with and a lack of specificity set forth in the MG consultation about how the proposals will operate in practice. The relevant 'public interest framework' is critical in this respect, but is not made available in the MG document.

**We have therefore emphasized to the MG the importance of a robust and appropriate analysis of current facts and processes,** so that there is clarity of where there may be actual deficiencies and, from there, which options would make a real difference. We have also emphasized the importance of global multi-stakeholder input in all phases of the standard setting process, as we have embraced.

**Further, we have recommended to the MG that piloting and testing of enhancements to the current model should be considered.** This will help maintain stable and productive operations, while at the same time allowing for experience to be gained with new practices and for adjustments to be made as needed. It is quite possible that the desired improvement outcomes could be achieved efficiently by strengthening current practices. Such piloting and testing can be monitored by a special group, including MG representatives.

**In this regard, we note already various efforts that are underway by IAASB and IESBA towards the MG's ends,** including initiatives (among others):

- To enhance the strategic and technical coordination between IAASB and IESBA to identify and resolve issues that affect both their respective standards.
- To enhance the strategic focus of deliberations, including improvement of the structure of staff papers and focusing board discussions on the most significant issues.
- To encourage staff to explore how to modernize processes and enhance efficiency, including through improved technology use.

As you further study the MG and IFAC material and consider a formal response, please do not hesitate to contact us if there are any questions or clarifications needed about how the IAASB and IESBA operate.

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<sup>2</sup> Today, the IAASB and IESBA staff have geographic diversity from North America, Asia, Australia, Europe, and Africa, and composite background experience from international and national standard setting, practice experience, regulation & inspection experience, policy setting, and legal.

**During this upcoming period of debate around reform, we will pursue our agendas and standards development work, our future strategy consultations, and our coordination efforts with steadfast dedication.** We expect the MG, IFAC and the PIOB will acknowledge and support this in order to maintain your confidence and participation in our important public interest work.

Sincerely,



Prof. Arnold Schilder  
IAASB Chairman



Dr. Stavros Thomadakis  
IESBA Chairman



James L. Gunn  
Managing Director  
Professional Standards

Illustrative Risk Considerations

Unintended Risk of MG Proposal	Assessment Considerations
<p><b>Slower standard setting and lower quality of standards</b></p>	<ul style="list-style-type: none"> <li>- Will the reduced Board plenary capacity (to between 1/3-1/2 of today's in the case of the proposed amalgamated Audit/Ethics Board ("single-Board"), coupled with a reduced board size) be adequate given the number and complexity of audit &amp; ethics issues currently being addressed by the IAASB and IESBA? Will the right amount of attention and specialized expertise, in the right balance, be brought to bear on pertinent audit and ethics issues?</li> <li>- Under the proposed staff-Board relationship model, is it reasonable to expect that staff capacity and knowledge can replicate fully that which exists in today's SSB membership such that similar quality and speed result?</li> <li>- Is there a risk that the new single-Board will conclude "decision making speed" will override "decision-making quality" on major proposals when discharging their Board responsibility? If so, does this lead to a "proposal &amp; re-proposal" practice which will ultimately be a slower approach?</li> <li>- Will geographic diversity be reduced under the option of a joint and smaller Board?</li> <li>- Will the need for coordination between the proposed IFAC-supported Ethics Board for professional accountants-other-than-auditors &amp; the new single-Board concerning audit-related ethics enhance or hinder quality, consistency and speed? Wouldn't potential misalignments between the two Codes create confusion and harm the public interest?</li> </ul>
<p><b>Lower stakeholder confidence</b></p>	<ul style="list-style-type: none"> <li>- Will transparency and accountability be reduced, as perceived by the broader stakeholder community?</li> </ul> <p>In this regard, the MG proposals appear to shift the technical input principally to the staff level, while at the same time composing a single-Board to address 'strategy' and to be less concerned with technical details. As a consequence:</p> <ul style="list-style-type: none"> <li>- Will Board plenary material be less technically oriented and transparent, with relevant technical debates happening wholly outside of plenary discussions (instead, at the staff level where stakeholder influences may occur unchecked, and also where the current broad-based input may not be replicated)?</li> <li>- Will national bodies and others therefore observe less how their input impacts on plenary decisions, and thereby reducing national acceptance of the resulting standards?</li> <li>- How will stakeholders get the same level of comfort they get to today that the Board's proposals are thoroughly vetted from a technical perspective?</li> </ul> <ul style="list-style-type: none"> <li>- Will separating ethics standards for auditors from ethics standards for the rest of the profession create perceptions of a two-tier profession in the public's mind, and can this be justified in the public interest?</li> </ul>

<p><b>Misaligned structure and mandate, thereby reduced national acceptance of standards</b></p>	<ul style="list-style-type: none"> <li>- How does a structure &amp; operating form for the new single-Board that appears to be mainly focused on audits of large, publicly listed entities reconcile with a standard setting mandate that includes standards relevant to SMPs, SME audits, public sector audits, etc.?</li> <li>- Will national stakeholder perceptions of the relevance of the standards be diminished as a result of the standards no longer reflecting local needs and concerns, less opportunity for participation in the Board or in task forces, and potential dissatisfaction where 'executive' decisions are made at the expense of consensus building which is critical in the global context?</li> </ul>
<p><b>Impractical or counter-productive change, thereby standard setting disruption</b></p>	<ul style="list-style-type: none"> <li>- What steps are needed to safeguard against disruption given limited experience with and a lack of specificity about how the proposals will operate in practice?</li> </ul> <p>For example, regarding the MG proposal for "a more strategic focused Board":</p> <ul style="list-style-type: none"> <li>- To what extent will the proposal impact clarity &amp; technical quality of the standards and resultant bases for conclusions? How will translation considerations be considered, and how does this impact local adoption processes?</li> <li>- How are members' responsibilities to comprehend and evaluate significant technical matters effected, including those pursuant to jurisdictional differences? And how are members to discharge their responsibilities concerning disposition of stakeholder input, assuming only a limited review of text?</li> <li>- What is the revised CAG-Board relationship?</li> </ul> <p>The above re-enforces the value of piloting and testing of enhancements within the stable platform of the current model.</p>
<p><b>Decline in adoption levels, less effective implementation, and lower compliance</b></p>	<ul style="list-style-type: none"> <li>- How will it be ensured that the commitments made by Member Bodies and the Forum of Firms under IFAC Membership Obligations will remain so as to support effective adoption of and compliance to the IAASB standards and the IESBA Code?</li> </ul>