

AGENDA PAPER

Item Number: 13
Date of Meeting: 14 June 2018
Subject: Update on Monitoring Group Consultation

Action required For discussion For noting For information

Purpose

To provide the Board with an update on the Monitoring Group (MG) consultation on the current status of the proposed reforms to the governance and oversight of the international standard-setting boards given the upcoming MG Roundtables to be held in Australia on June 21 & June 22.

Background

In November 2017, the Monitoring Group issued its Consultation Paper [Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest](#) (Consultation Paper). The Consultation Paper set out proposals to address concerns about the perceived independence of the international audit-related standard-setting processes due to the significant involvement of the accounting profession in the development of standards.

The proposed reforms suggested changes to the structure of the international boards (creation of a single board for setting audit and ethics standards for auditors), the focus of the board, the board composition, board appointments and remuneration, and the funding model.

As part of the consultation process, the Monitoring Group held roundtable discussions in London, Washington DC and Singapore. APESB participated in the Singapore roundtable discussion.

APESB's [submission](#) on the Consultation Paper included the following key recommendations:

- consider the global convergence achieved to date by the IESBA and IAASB, and adopt a holistic approach to ensure reforms cover all professional accountants, not just auditors of public interest entities;
- maintain a single Ethics Standards Board (and Code) to facilitate an efficient standard-setting process and to ensure consistent ethical standards apply to all professional accountants;
- the reforms need to address non-assurance public practitioners;
- consider how the existing due-process for standard-setting could be improved;
- supportive of an oversight function but the Public Interest Oversight Board's (PIOB's) should not be able to veto proposed standards;
- adopt a super majority rule in respect of the voting rules for approving standards; and

- further consultation should be undertaken with jurisdictions to understand why they have not adopted the international standards.

Matters for consideration

Monitoring Group - Summary of Submissions

On 31 May 2018, the Monitoring Group released a summary of the feedback received in the 179 submissions it received in response to its Consultation Paper. The summary sets out an analysis of the feedback received but it does not propose or advance any policy positions.

Refer to agenda paper 13 (a) for the summary of feedback paper and to agenda paper 13 (b) for the appendix to the summary (which outlines feedback in relation to the specific questions in the consultation paper. Note that these papers were circulated by the Secretariat of the Monitoring Group as the relevant resources for the upcoming Australian roundtables to be held on 21 June 2018 in Melbourne and 22 June 2018 in Sydney.

Investors, regulators and accounting firms were listed in the summary as being the stakeholders that were supportive of the need for reform, including endorsing measures to better represent the public interest in standard-setting. While IFAC member bodies agreed with the high-level objectives of the review, they did not support many of the substantive options proposed in the consultation paper.

The Monitoring Group have summarised the reforms by the following areas:

- widespread support from all stakeholder groups (page 4 of the summary)
- support from many stakeholder groups (page 4 of the summary)
- diversity of views, ranging from support to some significant opposition from respondents (pages 4-5 of the summary).

Maintenance of a single Code of Ethics

The proposed reform that was strongly contested was whether the ethical standards should be set and maintained by a separate board to the auditing and assurance board and whether there should be separate ethical requirements for auditors and professional accountants.

There was widespread support from all stakeholder groups that ethical standards for auditors and professional accountants in business should be set by the same board, irrespective of whether final reforms result in a one or two board approach to standard setting.

Concerns raised by stakeholders in relation to merging ethics and auditing standards into one Board included:

- difficulties in managing the board's workload;
- appointing/ finding board members with the necessary skills in both audit and ethics
- Ethics might be 'crowded out' from the work of the board.

Some regulators, investors and firms supported the separation of ethics for auditors and professional accountants in business as it would:

- provide better focus on developing more robust auditor independence requirements by incorporating explicit ethical requirements in audit standards; and
- improve coordination of requirements with the International Accounting Standards Board (IASB).

Further consultation encouraged

The Monitoring Group have recognised in the summary that further consultation needs to be undertaken in relation to the proposed reforms. They will provide further opportunities, such as roundtables and webinars, for stakeholders to discuss the reforms.

The Monitoring Group are proposing to issue a White Paper by the end of the year for further consultation.

IFAC's independent analysis of responses to the Consultation Paper

The International Federation of Accountants (IFAC) commissioned Gibson Dunn, an international law firm, to provide an [independent report](#) which analyses the submissions to the Monitoring Group Consultation Paper.

The independent report notes that the respondents' views varied across different geographic locations and stakeholder groups but the majority of respondents:

- did not agree that there were significant issues in the current standard-setting process; and
- did not support the proposal to create a single standard-setting board.

The analysis also indicated a widespread support from respondents for further consultations before any significant reforms are implemented.

Please refer to Agenda Item 13(c) for a summary of the independent report.

Comparison of Monitoring Group and IFAC reports

Technical Staff have reviewed both reports issued by the Monitoring Group and the IFAC. The analysis in both reports were consistent in reporting that majority of respondents believe that:

- the current standards are widely recognised for their quality;
- the boards need to have strategic focus;
- the PIOB should not be able to veto standards; and
- there is need for more consultation on the part of the Monitoring Group before implementing these significant reforms.

The Monitoring Group's analysis indicated that majority of respondents suggested that ethics standards for *auditors* and *professional accountants in business* should be developed by the *same* board. However, MG stated that they received diverse comments in respect of whether there should be a single or two board(s) to develop audit and ethics standards for auditors.

The Gibson Dunn analysis on the other hand reported that majority of respondents were unsupportive of the proposal to create a single board. They also indicated that most respondents did not agree to the proposed simple majority voting rule. This matter was not addressed in the Monitoring Group's analysis.

This matter could be raised with the Monitoring Group as part of the upcoming Australian roundtables.

Way forward

The Monitoring Group stated that they would undertake further work to develop the White Paper which they now expect to issue for consultation by the end of the year.

In June 2018, the Monitoring Group will hold roundtable discussions in Australia to consult further with stakeholders on their proposals. The roundtables will be held in Melbourne on 21 June 2018 and in Sydney on 22 June 2018.

APESB is involved in the co-ordination of these roundtables and will also participate in these discussions. Board Members are encouraged to attend these sessions.

Technical Staff will continue to monitor the progress of this second stage of global consultations and will provide regular updates to the Board.

Staff Recommendation

The Board note the update on the Monitoring Group consultation.

Material Presented

Agenda Item 13 (a)	Monitoring Group - Summary of Feedback
Agenda Item 13 (b)	Monitoring Group - Appendix to Summary of Feedback
Agenda Item 13 (c)	Summary of IFAC commissioned Gibson Dunn report

Authors: Jacinta Hanrahan
Ruth Oliquino

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