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Sent by email only to MonitoringGroup@iosco.org

ICAEW response to the Monitoring Group Consultation Paper *Review of the IFAC Reforms*

ICAEW is pleased to respond to your request for comments on your Consultation Paper on the Monitoring Group's assessment of the effectiveness of the reforms to the governance of the International Federation of Accountants (IFAC) which were agreed upon in 2003 (the Reforms). We welcome this review and agree that the Monitoring Group has identified a number of issues that are worthy of full consideration with a view to further improvements being made to the governance of IFAC standard setting.

Ultimately we consider that the focus should be on outcomes rather than processes and the key measurement for determining the success of the structure is whether it results in the issue of workable, high quality standards that are generally accepted as such by all stakeholders with an interest in them, and which meet the public interest.

We also consider that there should be a full appraisal of the cost-effectiveness of the recommendations and clear proposals regarding the funding arrangements where this process identifies additional costs that will be incurred in making proposed improvements.

In our response we have made some general points in addition to comments on each of the Monitoring Group's eighteen recommendations.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

ICAEW response to the Monitoring Group Consultation Paper *Review of the IFAC Reforms*

Memorandum of comment submitted in July 2010 by The Institute of Chartered Accountants in England and Wales (ICAEW), in response to the Consultation Paper published in June 2010 on the Monitoring Group's assessment of the effectiveness of the reforms to the governance of the International Federation of Accountants (IFAC) which were agreed upon in 2003 (the Reforms)

Contents	Paragraph
Introduction	1
Who we are	2 - 3
General points	4 - 15
Comments on the Monitoring Group's eighteen recommendations	16 40

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the Monitoring Group Consultation Paper issued in June 2010 *Review of the IFAC Reforms*.

WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK's Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.

GENERAL POINTS

Implementation of the Reforms and measurement of their success

4. We note the Monitoring Group's conclusion that virtually all of the Reform provisions have been implemented. ICAEW considers that the focus should be on outcomes rather than processes and the key measurement for determining the success of the IFAC structure and the Reforms is whether they have resulted in the issue of workable, high quality standards that are generally accepted as such by all stakeholders with an interest in them, and which meet the public interest.
5. In the period since 2003 the Boards (IAASB, IESBA and IAESB) have been very active, in accordance with the new arrangements, in developing and issuing new international standards. The IAASB embarked on a major project to enhance the clarity of the International Standards on Auditing (ISAs) and this included the significant revision of a number of the key standards. The project was completed in February 2009 with the issue of a complete set of updated and clarified ISAs and a clarified International Standard on Quality Control (ISQC) 1. The IESBA has considered key auditor independence issues and issued a revised *Code of Ethics for Professional Accountants* (Code of Ethics) that becomes effective on 1 January 2011. The IAESB has issued International Education Standards (IESs) for IFAC member bodies regarding the preparation and continual development of professional accountants, and recently announced a work programme designed to enhance the IESs. All of these developments have taken place in accordance with the measures included in the Reforms, including input from the Consultative Advisory Groups (CAGs) and oversight from the Public Interest Oversight Board (PIOB).
6. We consider that the technical input from practitioners during the development of these standards has been vital to achieving the workable, high quality standards that have now been issued by the Boards. There is always a balance to be struck between two objectives that are equally necessary: avoiding any perception that the profession has too much influence over the content of standards at the expense of the needs of other stakeholders and the public interest; and ensuring the technical quality of the standards and the practicability of their application. In our view the standards would have been poorer without the technical and practical input from the profession that was provided to the Boards and we are concerned that an unintended consequence of some of the Monitoring Group's recommendations might be that the level of technical expertise available to the Boards might be reduced.

7. IFAC has issued *Statements of Membership Obligations* (SMOs) which require member bodies to use their best endeavours to meet the obligations. These obligations include best endeavours regarding the adoption of ISAs, ISQC 1, the Code of Ethics and IESs. IFAC has embarked on a programme of assessing the compliance of member bodies with the SMOs.
8. In addition members of the Forum of Firms, comprising of twenty-one international networks of audit firms, are committed to promoting the consistent application of high quality practices worldwide, including the use of ISAs. Achieving this commitment is a vital part of the move towards generally accepted global standards. It is also important to ensure that small and medium-sized firms are engaged in the process and are confident that the standards produced by the Boards meet their needs and can be tailored to do this as appropriate.
9. As noted in last year's European Commission consultation document on possible adoption of ISAs in the EU, there is already widespread acceptance internationally from public authorities, regulators, investors and the profession that ISAs represent the best quality standards available to meet the public interest. The IFAC data on ISA adoption (<http://web.ifac.org/isa-adoption/chart>) shows that in 12 countries ISAs are required by law or regulation, they are adopted by the national standard-setter in a further 32 countries, and in 29 countries they are generally adopted as the local standards and modifications are in line with the IAASB Modifications Policy. We believe the reason so many countries have already adopted the ISAs is because they recognise that the clarified ISAs are high quality standards that have been developed in the public interest under a rigorous and transparent due process. We support that view.

Opportunity for further improvements to the Reform provisions

10. The Monitoring Group has identified a number of issues in the review that we agree are worthy of full consideration with a view to further improvements being made to the governance of IFAC. We consider that there should be a full appraisal of the cost-effectiveness of the recommendations and clear proposals regarding the funding arrangements where this process identifies additional costs that will be incurred in making proposed improvements. The standards issued by the Boards should meet the market requirements for workable and cost-effective standards, so a clear understanding of these requirements, across the full range of market participants, needs to be established. As referred to in paragraph 15 below, understanding the needs of small and medium-sized entities and practices will be an important part of this process. The issue of the IFRS for SMEs by the IASB is an example of a standard-setter responding to the needs at that end of the market.
11. We comment on each of the recommendations made by the Monitoring Group below. In practice there is some overlap in the recommendations and so it will be important to extract key matters for further consideration from the recommendations taken as a whole. We consider that the main focus in seeking further improvements regarding the governance and oversight of the Boards should not be on looking to improve the micro-management of the Boards' processes as we consider that the Boards should be in a position to do this themselves.
12. We note the Monitoring Group's recommendations regarding the PIOB and issues to do with the relationship between the Monitoring Group and the PIOB. We agree that this is an important and fundamental issue and there needs to be clarity regarding the PIOB's role, e.g. how realistic is it for the PIOB to be involved in detailed technical matters and if this role is to be enhanced, how will it be funded? We would question whether it is appropriate or realistic for the PIOB staff to acquire this type of technical knowledge and expertise given the complexity of the standard-setting process. There also needs to be clarity regarding how the Monitoring Group as a whole, individual Monitoring Group members, and other relevant stakeholders, are engaged in the public oversight process and the detailed work of the Boards.

We would not be in favour of de facto additional layers of oversight where this can not be justified on cost-benefit grounds.

Matters to be considered in due course

13. The review notes that the Monitoring Group has not revisited the overall standard-setting governance, structure and arrangements set out by the Reforms. We agree that developments in the global capital markets and issues arising from the financial crisis are relevant to any such consideration of these matters in the future. Our view is that Monitoring Group members and all other stakeholders that have been involved should promote the adoption of the Boards' standards as an important part of the response to the financial crisis.
14. We support the Monitoring Group's plan to initiate a future effectiveness review approximately three years after the completion of this one. We believe it is unlikely that circumstances will indicate the need for an earlier review. In fact there might be a need for a longer-term assessment after the three year period given the number of changes that are likely to occur in the next few years in response to the financial crisis and possible changes to the Monitoring Group itself (see paragraph 15 below). These changes need to be properly considered at the appropriate time. We also consider that the Boards and the PIOB should themselves carry out annual reviews of the Boards' effectiveness.
15. We also note that the last five year period has seen major developments in restructuring of the regulatory framework and this period of change is likely to continue in the forthcoming period. We therefore consider that there should be a reassessment of the Monitoring Group's role and membership to ensure that it is fully representative of all the relevant stakeholders worldwide that ought to be engaged with its activities. It is worth emphasising that the standards are applied by the full range of firms, including small and medium-sized practices, and reviews of the arrangements should therefore consider the effectiveness of the Boards' outputs across the full range of relevant organisations and interests, not just those related to public interest entities. The comments at paragraph 12 above and 32 below might be relevant to the appraisal of the Monitoring Group's role that we are suggesting.

COMMENTS ON THE MONITORING GROUP'S EIGHTEEN RECOMMENDATIONS

Composition of the Standard-Setting Boards

Recommendation 1: *The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity—or perhaps even a majority—of Board members with professional career experience that substantively goes beyond that of an auditor.*

16. We agree with the Monitoring Group's view that that there is a need for an appropriate mix of Board members and that having non-practitioners members with a broad experience beyond auditing is helpful. Of course it is important to ensure that all members (including practitioners) are required to be objective in fulfilling their role as members and we consider that having sufficient knowledge and experience of the detailed technical issues, and a practical understanding of the application of standards, is vital to the Boards producing workable, high quality technical standards.

Recommendation 2: *The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.*

17. We agree with the principle that particular groups should not receive more favourable treatment than others, and therefore understand why the Monitoring Group regards the specific allocation of Board seats to the Forum of Firms as problematic. Clearly the Forum of Firms represents a very important grouping of firms (see paragraph 7 above) that can provide nominees with expertise that is vital to the effective functioning of the Boards and successful adoption of the standards. We therefore consider that the optimal mix for the Board is likely to include a sufficient number of representatives from the firms that are part of the Forum of Firms. It is important that there is a transparent nomination process relating to both practitioners and non-practitioners.
18. It is also important to emphasise that smaller firms from outside the Forum of Firms are properly engaged with the Boards' work. As stated in paragraph 15 above, the standards produced by the Boards are designed for the needs of the full range of firms and entities, and therefore it is important not to give undue attention solely at the public interest entity end. For example, the IAASB is currently carrying out important work regarding compilations and reviews, and as stated in paragraph 22 below, the scope of the Code of Ethics is much broader than audit. IFAC therefore needs to have a structure that encourages nominations from the complete range of firms and those bodies that are in a position to represent these interests. It should be noted in this context that a 'smaller firm' might be a firm that is part of a bigger international network of firms.

Recommendation 3: *The Monitoring Group recommends that IFAC explore financial measures, such as reasonable stipends if they would not raise questions about independence and objectivity, to accompany travel cost reimbursement for Board members who are public members that are employed by an organization that cannot provide financial support of their participation as a Board member.*

19. We agree with the Monitoring Group that it might be worthwhile to explore this possibility and consideration could also be given to attracting other non-practitioners with relevant expertise and experience not currently employed by organisations as described in the paper. If public members do receive a fee then there should be robust and transparent measures to ensure independence both at appointment and on an ongoing basis.
20. However, before doing this, we consider that it is important to establish what support public members currently have. We also believe that there needs to be clear evidence that these payments are necessary before making any commitment to introducing them. Part of the assessment of whether the payments are necessary is determining the skill sets this would bring that are not currently available. It will also be important to establish clear funding proposals for any recommendations that are made.

Recommendation 4: *The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.*

21. We acknowledge the Monitoring Group's points about the perception, particularly relating to the IESBA, that the Boards' composition should be seen to support the Boards operating in the public interest. However, we also consider that the appropriate input from practitioners or former practitioners with direct experience and understanding of the issues, is vital to the aim of achieving high quality, workable standards that are of economic and public interest benefit.
22. We note that the Monitoring Group's focus is mainly on public interest audits. We note that the relevant stakeholders will be different for the independence requirements for other audits and indeed the whole range of circumstances and activities covered by the rest of the Code of Ethics. The scope of the Code of Ethics is much broader than audit and much broader than

the remit of most regulators. It might therefore be a challenge to achieve a 'one size fits all' solution.

Operating Procedures of the Standard-Setting Boards

Recommendation 5: *The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board's discussions, deliberations and decision making.*

23. We agree with the Monitoring Group's point about the need for good processes to ensure that Board members have the necessary technical information and support. In addition to the ideas raised in the paper, we consider that part of this is likely to involve the use of appropriate communication by electronic means as is done in the commercial sector.
24. The points raised by the Monitoring Group do highlight the detailed technical nature of the Boards' discussions and the challenge to ensure that Board members have the appropriate understanding of the issues so as to fulfil their roles effectively. Our view is that debates at Board meetings are enriched by technical advisors being able to actively contribute to them.
25. We would also emphasise the need to distinguish between the usefulness of informed input from all available resources and ensuring decisions are made by those properly appointed to make them. It should be clear that it is Board members themselves that take decisions.

Recommendation 6: *The Monitoring Group recommends that IFAC institute a practice among all of its Boards whereby they invite both Task Force members and external guest speakers—who might be users, members of auditor oversight bodies, regulators and other public interest representatives, or technical subject matter experts—to regularly conduct technical sessions for all Board members on key issues that are on the Board's agenda.*

26. We agree with the sentiment of this recommendation but see our comments on recommendation 5 above as we believe the current system of technical advisors at Board meetings works well. We also consider that it should be a matter for the Chairs and Secretaries of the Boards to determine what additional technical support is needed, including specific technical sessions.

Recommendation 7: *The Monitoring Group recommends that IFAC revise the manner in which the CAGs determine their agenda items, the manner in which discussion matters are presented to the CAGs, and the manner in which the CAG input is summarized and presented to Board members so that the approaches used do not appear to go beyond the CAG's technical advisory input role.*

27. We have no direct involvement in the activity of the CAGs but agree with the Monitoring Group that the role of the CAGs needs to be clear to all parties involved. We consider that the detailed review and input from the CAGs is a key part of producing quality outputs. There should be a robust and transparent procedure for Boards in situations where there is clear disagreement with the views put forward by CAGs.

Recommendation 8: *The Monitoring Group recommends that IFAC revise the approach to CAG meeting content to provide for a more realistic and effective participation approach on the part of CAG members and revise the approach to the CAG meeting process to provide for the submission of final CAG meeting minutes to the Board members before the Board meeting in which they discuss the related topics.*

28. We agree with the sentiment of this recommendation and agree that there should be protocols regarding these matters. However, we can see that there are practical challenges to meeting what the Monitoring Group is seeking whilst at the same time ensuring timely resolution at the

Boards of the matters involved. We can see there will be occasions when the need for timely decisions outweighs the need, e.g. for full final minutes, as long as the issues are clearly identified prior to decisions being taken.

Recommendation 9: *The Monitoring Group recommends that IFAC change how comment letter input is summarized and provided to Board members so that the necessary amount of time is allotted to discuss a summary that highlights the arguments made; the roles of the submitters; the frequency with which the point was raised; and whether the Board's Task Force has taken up the input in the manner recommended, and why.*

29. We agree that it would be helpful for summaries of responses to contain this type of information if it helps the quality of the decision-taking process. An absolute assessment of numbers of responses can give a misleading impression if a particular grouping has responded en-masse. However, an absolute focus by type of respondent can also be misleading as a small number of response can be interpreted as meaning those views would apply to everyone in that group, e.g. 'regulators consider' or 'investors consider'. It is of course important to find ways of ensuring that all stakeholder groups are engaged in the process and that a greater number are encouraged to respond from specific groupings.

Recommendation 10: *The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide direct feedback to individual Monitoring Group members regarding a member's input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.*

30. We agree that it is important that detailed feedback is provided to those commenting on outputs to the Boards, and that detailed analyses are produced in a timely manner to facilitate this. We believe this applies to feedback from Monitoring Group members and others that contribute to the work of the Boards.

31. Monitoring Group members are significant stakeholders and therefore we would support active dialogue between the Boards and Monitoring Group members. There are likely to be important issues where a Monitoring Group has a particular interest and, if this is the case, it would make sense for the Boards to meet directly with the Monitoring Group member to discuss the issue.

32. We also consider that there are now many other important stakeholders, regulators and standard-setters that are not currently members of the Monitoring Group. It is important for this wider grouping to be engaged and for IFAC's activities to not be skewed too much towards the needs of one particular group of stakeholders. As stated in paragraph 15 above, it is worth emphasising that the standards are applied by the full range of firms, including small and medium-sized practices, and reviews of the arrangements should therefore consider the effectiveness of the Boards' outputs across the full range of organisations and interests, not just those related to public interest entities.

Recommendation 11: *The Monitoring Group recommends that IFAC implement refinements to the manner in which a Standard or other pronouncement comes together—for example, by utilizing feedback statements—so there is a better opportunity for its constituents to anticipate what the content will, and then does, encompass.*

33. We agree with the sentiment of this recommendation which highlights the importance of a clear audit trail when standards are developed. However, the mechanisms that are used need to be demonstrated to being cost-effective in producing better standards and to allow for speedy resolution of the issues that arise, if at all possible.

Recommendation 12: *The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.*

34. We appreciate the point being made but the proxy voting system should mean that the member only gives the proxy if he/she feels comfortable to do so and we consider that it can play a helpful role in ensuring members are able to exercise their right to vote. It is important to be clear that it is Board members themselves that have this right to vote. Whatever system is established, we consider that it needs to be sufficiently flexible to deal with exceptional circumstances, e.g. serious illness of the Board member or unavailability of flights.

Oversight

Recommendation 13: *The Monitoring Group will consult with the PIOB and speak to IFAC to discern how to most effectively and efficiently draw upon and focus the talents of the PIOB members in carrying out the PIOB's core activity, its oversight work.*

35. We agree that it is vital for PIOB members to carry out the PIOB's oversight work in an effective manner. The Monitoring Group's analysis suggests a view that there are currently shortcomings regarding the PIOB's work on the detailed processes relating to the technical work of the Boards. It would therefore be helpful for the proposed discussions with the PIOB and IFAC to take place to discuss the Monitoring Group's concerns. As stated at paragraph 12 above, we would question whether it is appropriate or realistic for the PIOB staff to acquire this type of technical knowledge and expertise given the complexity of the standard-setting process.

Recommendation 14: *The Monitoring Group will consult with the PIOB regarding how best to orient the efforts of the PIOB staff members to technical issue resolution in performing oversight fieldwork, with an emphasis on starting their involvement as early as possible within the life cycle of a project and following it through to the points of considering comment letters, taking decisions, and then providing feedback.*

36. We agree that it would be helpful for these discussions to take place between the Monitoring Group and the PIOB. It is important that the PIOB has sufficient resources so that PIOB staff have the necessary time and competency to fulfil their tasks, including those relating to the technical issues being considered by the Boards. However, we consider that it is likely to be unrealistic for the PIOB staff to engage with all detailed technical issues considered by the Boards (see paragraph 35 above).

Recommendation 15: *The Monitoring Group will take a broader approach to identifying and appointing the next set of PIOB members such that factors related to geographical background, staggering of membership terms and other aspects of diversity are considered.*

37. We agree that the factors mentioned by the Monitoring Group should be taken into account in identifying and appointing PIOB members. Ensuring an appropriate level of diversity is important in establishing the credibility of the PIOB to stakeholders worldwide.

Recommendation 16: *The Monitoring Group will, in consultation with the PIOB and IFAC, determine what longer term neutral funding arrangements can be put in place for the PIOB.*

38. We support moves that are likely to result in long term adequate funding being established for the PIOB. We agree that establishing a sound financial base is vital to the PIOB achieving its goals. The point that the Monitoring Group makes about the independence of the sources is an important one. The arrangements that are decided will need to be made and put in place once the various matters covered by this paper have been resolved, e.g. with respect to this recommendation, the review of the PIOB's role and purpose, and the future membership and role of the Monitoring Group itself (see paragraphs 12 and 15 above).

Monitoring

Recommendation 17: *The Monitoring Group will consult with the PIOB as it looks at how it can best bring efficiency and effectiveness to its interactions with the PIOB on matters such as governance of the PIOB Foundation, the PIOB 's oversight work and the Monitoring Group's review of PIOB oversight costs. Regardless, the Monitoring Group and the PIOB will carry out the provision in the Monitoring Group's Charter that it meet with the PIOB by having the appropriate mix of individuals from all the Monitoring Group member and observer organizations meet with the full PIOB (or based upon practical considerations, at least a substantial majority of its members) at least once a year for a strategic discussion on market and regulatory developments, opportunities and challenges for the future, and opportunities for mutual improvement.*

39. We support these consultations taking place as establishing an effective working relationship between the PIOB and the Monitoring Group is of great importance to the success of the PIOB. However, we also emphasise our view that there needs to be a broader discussion regarding the role and purpose of the PIOB and how various important stakeholders worldwide, not currently part of the Monitoring Group, are engaged in the public oversight process (see paragraphs 12 and 15 above).

Recommendation 18: *Immediately following its completion of this Effectiveness Review the Monitoring Group will undertake to further assess its role and its approach to monitoring in light of its members' experiences; specifically, capital market developments and events since the time of the Reforms as well as what the Monitoring Group learns from completing this review. The Monitoring Group expects that its work will be conducted at the same time as the Monitoring Board of the IASCF will conduct its own structure review of its organization, resulting in possible synergies to the Monitoring Group's efforts.*

40. It seems appropriate that the Monitoring Group carries out the assessment outlined in this recommendation. As noted in paragraph 15 above, the last five year period has seen major developments in restructuring of the regulatory framework and this period of change is likely to continue in the forthcoming period. We therefore consider that there should be a reassessment of the Monitoring Group's role and membership to ensure that it is fully representative of all the relevant stakeholders worldwide that ought to be engaged with its activities. The comments at paragraphs 12 and 32 above might be relevant to the appraisal of the Monitoring Group's role that we are suggesting.

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