**The Institute of
Chartered Accountants
of Pakistan**

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**CHIEF OPERATING OFFICER
& SECRETARY**

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Monitoring Group
C/- International Organization of Securities Commissions
Madrid, Spain

By e-mail: MG2017consultation@iosco.org

Comments on the Monitoring Group Consultation paper

The Institute of Chartered Accountants of Pakistan (ICAP) appreciates the opportunity to comment on the **Monitoring Group Consultation paper** on strengthening the governance and oversight of the international audit related standard-setting boards in the public interest.

Firstly, we acknowledge and appreciate International Federation of Accountants (IFAC) for its commitment and contribution in significantly increasing the public confidence in the accountancy profession, achieving convergence to international standards and improving audit quality and credibility.

We understand that the key to assessing any public interest decision is transparency of the decision-making process. We trust that IFAC and its standard-setting boards have adhered to the principle of public interest while serving the accountancy profession and developing the standards. However, we note that significant concerns on the existing standard-setting and its governance model, raised by different stakeholders are driving the debate regarding the reforms in the auditing and assurance and ethics standard-setting boards.

ICAP supports the initiatives which seek to provide global accountancy profession and its stakeholders with the culture and environment that is built on the foundations of trust and public interest. We consider that during the ongoing examination of the existing standard-setting model and discussions about the reforms, it is important to look to the future and ensure that the revamped model includes integrated governance reforms, facilitates and builds on the existing convergence to international standards and further improves the quality and credibility of the audit.

The Monitoring Group Consultation paper highlights the areas of concerns in the existing model and raises questions about the independence and responsiveness to the public interest. However, Monitoring Group Consultation paper falls short of highlighting the matters/ instances where independence of the standard-setting process and its responsiveness to the public interest has been debatable. We also understand that the wider stakeholder involvement and input (most importantly IFAC involvement) is a requisite for the identification of the deficiencies in the existing model and formulation of the reform strategy.

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HEAD OFFICE: Chartered Accountants Avenue, Clifton, Karachi-75600 (Pakistan). Phone: (92-21) 99251628, UAN: 111 000 422
Fax : 99251626 Website: www.icap.org.pk, E-mail: secretary.office@icap.org.pk
Page 1 of 3

We believe that the underlying objective of the Monitoring Group's proposed reform program is establishment of a robust and strong standard-setting model that safeguards public interest. In this context, **the detailed evaluation and transformation of the existing established model should also be considered as a reform option,** as it has successfully served the accountancy profession for a long period of time.

We also note that the Monitoring Group intends to follow a staged reform approach. Presently, the reform proposals aim to transform and improve the standard-setting boards. On the other hand the review of governance and oversight of the standard-setting process (including the nature and roles of PIOB and the Monitoring Group) would be done by the Monitoring Group after the finalization of standard-setting reforms.

In this regard we support the initiative to reform the standard-setting model. However, **we do not support the phased approach as envisaged by the Monitoring Group**. We strongly suggest that the Monitoring Group in consultation with IFAC and other stakeholders engages in the further examination of the existing standard setting, governance and oversight structures and provides clearer integrated reform package that covers both the standard-setting boards and its governance.

We support the reform of the standard-setting boards for the reason that design weaknesses in the existing model if left unanswered, risk undermining the credibility of standard-setting boards and the legitimacy of the international standards. Therefore, in principle, we support the changes proposed by the Monitoring Group to the standard-setting boards. However, we do not support formation of a single standard-setting board.

However, our major concerns are on the limited proposals for the governance model and the planned phased approach. The governance structure for global audit/assurance and ethics standards setting is an integral part of the design of a standard-setting model that is independent, fit for the future and has the confidence of all stakeholders. We strongly recommend that the reforms of the standard-setting boards and operations, and its governance, are integrated and aligned, and presented for consultation with all the stakeholders. To do otherwise i.e. phased reform approach would only create more uncertainty, risk of and impediments to international convergence and erosion of public confidence. These risks are significant and call for the integrated reform approach.

With regard to the governance structure we envision an inclusive and outward looking governing body that is responsible for the governance and oversight of the standard-setting boards. We note that the proposals in the Monitoring Group Consultation paper mandate governance intervention in standard setting. In our view, **the governing body should not be allowed to directly intervene in work of the standard-setting board(s) and technical debate.** Further, the governing body should be multi-stakeholder and multi-sourced therefore providing all relevant groups with confidence in the design and effective operations of the standard setter. Accordingly, we do not support the proposal of governing body's member's appointment through individual MG members. In this context it would be appropriate to redesign governing body responsible for the governance and oversight of the standard-setting boards.

We advocate making both the standard-setting boards and its governance structure more broad based.

However, we consider that **adequate current practitioner involvement at both the standards development and governance levels is vital and crucial.** We recognise that practice experience and expertise are relevant and essential to setting standards that are practical, responsive and effective. The quality, acceptability and effectiveness of the standards will be at risk if under the reformed model practitioners role on the governing body and standard-setting boards is not retained.

Finally, we note that there are other significant practical considerations (sustainable and broader funding base, transition approach etc.) that must be addressed within the reform program. From practical standpoint, these matters require careful consideration and consultation before any recommendations are made for reforming the standard-settings processes and governance structure.

Our responses detailed by the questions contained in the Monitoring Group Consultation paper, are presented in the 'Appendix' to this letter.

We trust that our comments and responses are helpful to the deliberations on the reform proposals.

In consideration of the criticality and complexities of the matter, we firmly believe that the Monitoring Group and IFAC need to be continually engaged to ensure robust and effective practical implementation of the final reform package.

Should you require further clarification on our comments, please contact the undersigned at abdul.malik@icap.org.pk

Yours truly,

Abdul Malik

ICAP comments on Monitoring Group Consultation Paper
Strengthening the Governance and Oversight of International Audit –
Related Standard-Setting Boards in the Public Interest

Question 01
Do you agree with the key areas of concern identified with the current standard-setting model? Are there additional concerns that the Monitoring Group should consider?

We believe that the IFAC led auditing, assurance and ethics standard-setting model has contributed significantly in developing the global set of standards and improving the audit quality. However, we support the initiative to reform the standard-setting model on the basis of a detailed and careful review of the existing model, wherein due consideration is given to the stakeholders (including IFAC) comments and suggestions.

We support the reform approach that simultaneously covers both the governance model and standard-setting model. The approach should be based on the thorough examination and analysis of the existing structures, allowing for substantial dialogue and engagement of stakeholders. In this context, the detailed evaluation and transformation of the existing established model should also be considered as a reform option, as it has successfully served the accountancy profession for a long period of time.

Question 02
Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

We agree with the overarching and supporting principles identified after root cause analysis of the concerns. The principles that we believe the reformed model must reflect include:

• Well-defined separate roles of oversight and standards development;
• Participation of all stakeholders at both the oversight and standard-setting levels; and
• Broad-based sustainable funding mechanism.

Question 03
Do you have other suggestions for inclusion in a framework for assessing whether a standard has been developed to represent the public interest? If so what are they?

We strongly believe that the "Public interest framework" should be developed and adopted only after detailed public consultation. It must be exposed for comments and input from all the stakeholders in order to have a comprehensive framework covering all aspects and avoid future revisions or changes.

Question 04
Do you support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors, or do you support the retention of separate boards for auditing and assurance and ethics? Please explain your reasoning.

We support the retention of separate boards for auditing and assurance and ethics on the basis that the auditing and ethics require specialized expertise and constitution of a single board could potentially reduce the focus on each of the topic areas. The single board model may also limit

ICAP comments on Monitoring Group Consultation Paper
Strengthening the Governance and Oversight of International Audit –
Related Standard-Setting Boards in the Public Interest

the ability to provide meaningful and timely contributions to projects that are outside of the area of board members expertise.

Question 05
Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?

We are of the view that responsibility for the development and adoption of educational standards and IFAC compliance program should remain the responsibility of IFAC as no concern is identified in context of education, competence and quality of audit indicating current arrangement is reasonable and also fits well with proposed reforms.

Question 06
Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.

We do not support the bifurcation of ethics standards for professional accountants as ethical principles for all professional accountants would always remain same. Therefore, ethical standards setting by two different boards would create risk of different sets of ethical standards. Accordingly, to avoid risks and gaps, current structure i.e. separate board for ethics should retain the responsibility of the development and adoption of ethical standards for both professional accountants in business and practice.

Question 07
Do you believe the Monitoring Group should consider any further options for reform in relation to the organization of the standard-setting boards? If so please set these out in your response along with your rationale.

The reforms set out in consultation paper with respect to standard-setting boards are based on the concern that the influence of the profession is perceived to be too strong. We also note that IFAC (through IFAC preliminary views at November 17, 2017) expressed its reservations on the content and proposed reforms of the Monitoring Group.

As mentioned earlier, we support the changes proposed to the standard-setting boards. However, it is important and essential that further detailed analysis of deficiencies in the current standard-setting and governance model along with the action plan are shared with stakeholders for improved understanding and feedback. In this context, the detailed evaluation and transformation of the existing established model should also be considered as a reform option.

Question 08
Do you agree that the focus of the board should be more strategic in nature? And do you agree that the members of the board should be remunerated?

We agree that focus of boards should be more strategic rather than being involved in detail drafting of standards to enhance timely development of standards. We also support the reform of remunerating the board members as it would bolster the commitment and alter the perception of association with the boards.

ICAP comments on Monitoring Group Consultation Paper
Strengthening the Governance and Oversight of International Audit –
Related Standard-Setting Boards in the Public Interest

Question 09
Do you agree that the board should adopt standards on the basis of a majority?

We agree with the principle of majority for the board's adoption of a standard. However, the principle of simple majority should not be followed rather bar for publication of any standard should be set at a higher level i.e. 3/4th of total members of board in order to have better acceptability and credibility of standards among the stakeholder and to avoid any sense of alienation.

Further, we suggest that in order to improve transparency and to protect public interest, dissenting notes of board members should also be included in the adopted standard.

Question 10
Do you agree with changing the composition of the board to no fewer than twelve (or a larger number of) members; allowing both full time (one quarter?) and part- time (three quarters?) members? Or do you propose an alternative model? Are there other stakeholder groups that should also be included in the board membership, and are there any other factors that the Monitoring Group should take account of to ensure that the board has appropriate diversity and is representative of stakeholders?

We support the multi-stakeholder representation on the boards having appropriate technical mix, geographical diversity and all stakeholder representations. Accordingly, the standard-setting boards should be redesigned in such a way that all significant stakeholders could participate in standard development on equal footing. We strongly believe that adequate practitioner role and involvement in the standard-setting boards is vital for practical, responsive and effective standards setting.

We also support the proposal of board composition in terms of mix of remunerated full time and part time members to enhance the timeliness of standard setting, provided risk to independence is properly addressed.

Question 11
What skills or attributes should the Monitoring Group require of board members?

Board members should be of high stature and respected reputation, and should have the ability and skills to garner respect across all stakeholder groups. The board members should have strategic/technical skills, appropriate experience, and competence to make informed strategic decisions and understanding and sensitivity to public interest. It is vital that the adequate current practitioner involvement in the standard-setting boards is maintained.

Question 12
Do you agree to retain the concept of a CAG with the current role and focus, or should its remit and membership be changed, and if so, how?

We believe that the Consultative Advisory Group (CAG) is an integral and important part of the board's formal process of consultation on a technical project. Accordingly, current role of CAG to provide timely practitioner and other stakeholder input into the board's project activity from

ICAP comments on Monitoring Group Consultation Paper
Strengthening the Governance and Oversight of International Audit –
Related Standard-Setting Boards in the Public Interest

both technical and strategic prospective should be retained for facilitation of the standard-setting boards. However, the use of CAG should be subject to governing body oversight.

Question 13
Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?

We understand that the 'public interest framework' is yet to be developed. However, due to questions raised about the independence of the standard-setting process and its responsiveness to the public interest by different stakeholders (as mentioned in the MG consultation paper), the development work of task forces should adhere to public interest framework so that concerns in current model are addressed at each stage of reformed model.

Question 14
Do you agree with the changes proposed to the nomination process?

We believe that the proposed nomination process should be changed after the concerns on composition and role and responsibility of the governing body (currently PIOB) as indicated in our responses to the relevant questions are appropriately considered.

Question 15
Do you agree with the role and responsibilities of the PIOB as set out in this consultation? Should the PIOB be able to veto the adoption of a standard, or challenge the technical judgements made by the board in developing or revising standards? Are there further responsibilities that should be assigned to the PIOB to ensure that standards are set in the public interest?

It would be critical to have a robust governing body that is responsible for the broad governance beyond the oversight role. In consideration of the significance of the matter, we strongly consider the need for an integrated reform approach i.e. reform of the standard-setting boards and its governing body.

We do not support staged consideration of reforms to the PIOB.

We also oppose the proposal of empowering any governing body to veto the adoption of standard. The governing body should not be allowed to directly intervene in work of the standard-setting boards and technical debate.

It is fundamental that the standard-setting model is created on the foundation of trust for all so that governance has no role responsibility in the standard-setting process. In the multi-stakeholder governance model, the role of governing body in its capacity as an "oversight body" should be primarily, i) to ensure standard-setting model is robust to address public interest and maintaining stakeholder confidence and ii) to oversee due process and it should not intervene and challenge the judgements of a competent board.

ICAP comments on Monitoring Group Consultation Paper
Strengthening the Governance and Oversight of International Audit –
Related Standard-Setting Boards in the Public Interest

Question 16
Do you agree with the option to remove IFAC representation from the PIOB?

We don't support the proposal of removing IFAC representation from PIOB or the governing body. We understand that PIOB should be a multi-stake holder body comprising of members of all stake-holders group to build the confidence across all stakeholders in the design and effective operations of the standard-setting boards.

Question 17
Do you have suggestions regarding the composition of the PIOB to ensure that it is representative of non-practitioner stakeholders, and what skills and attributes should members of the PIOB be required to have?

We advocate that the governing body should have multi-stakeholder representation considering that it will have governance responsibilities in addition to the oversight responsibilities. Accordingly, the skillset and attributes of its potential member should reflect the following governance qualities:

- Experience of serving in governance role;
- Demonstrated commitment to service the public interest;
- Demonstrated leadership and strategic thinking;
- Strong understanding of audit and ethics;
- Interest in promoting standards and audit quality globally.

We also emphasize that adequate practitioner role and involvement in the governance structure is important for quality, acceptability and effectiveness of the standard-setting process and publications.

Question 18
Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?

The reforms in the governance structure need to be integrated and aligned with the reforms in the standard-setting boards.

We strongly oppose the proposal of PIOB member's appointment through individual MG members.

The governing body needs to be multi-stakeholder (auditors, users, academics, regulators etc.) to build confidence across all stakeholder groups. It should be multi-sourced and should be open and transparent and supported by due process of assessing the candidate. We recognise that the multi-sourced stakeholder composition of governing body is fundamental for effective oversight and development of the environment for voluntary adoption of the standards.

ICAP comments on Monitoring Group Consultation Paper
Strengthening the Governance and Oversight of International Audit –
Related Standard-Setting Boards in the Public Interest

Question 19
Should PIOB oversight focus only on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors, or should it continue to oversee the work of other standard-setting boards (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

We envisage a robust and outward looking governing body that is responsible for the governance and oversight of the standard-setting boards for auditing and assurance standards and ethical standards. We understand that it would be appropriate to redesign the governing body responsible for the governance and oversight of the standard-setting boards.

Question 20
Do you agree that the Monitoring Group should retain its current oversight role for the whole standard-setting and oversight process including monitoring the implementation and effectiveness of reforms, appointing PIOB members and monitoring its work, promoting high-quality standards and supporting public accountability?

We understand that changes to roles and responsibilities of the Monitoring Group should be considered in conjunction with the proposed changes to roles and responsibilities of PIOB. All these changes should be considered as part of a fully integrated reform package.

Question 21
Do you agree with the option to support the work of the standard-setting board with an expanded professional technical staff? Are there specific skills that a new standard-setting board should look to acquire?

We agree with the option to support the work of strategic focused board with an expanded professional technical staff with different skill set. A composition of long-term and short-term staff will enable the board to ensure skills of resources remain up-to date and market focused with interruption of detailed technical work.

Question 22
Do you agree the permanent staff should be directly employed by the board?

We support the proposal of directly hiring the permanent staff by the board on specific skillset matrix criteria.

Question 23
Are there other areas in which the board could make process improvements – if so what are they?

We support the proposed reforms for further improvement of standard issuance process that are more time efficient and sensitive to stakeholders needs.

Question 24
Do you agree with the Monitoring Group that appropriate checks and balances can be put in place to mitigate any risk to the independence of the board as a result of it being funded in part by audit firms or the accountancy profession (e.g. independent approval

ICAP comments on Monitoring Group Consultation Paper
Strengthening the Governance and Oversight of International Audit –
Related Standard-Setting Boards in the Public Interest

of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

We support the view that appropriate checks and balances should be put in place to mitigate any risk to the independence of the boards as a result of it being funded in part by audit firms or the accountancy profession. This sound and robust system will be required in order to quash any link between funding contributions and the ability to influence the standard-setting process.

Question 25
Do you support the application of a "contractual" levy on the profession to fund the board and the PIOB? Over what period should that levy be set? Should the Monitoring Group consider any additional funding mechanisms, beyond those opt for in the paper, and if so what are they?

We don't support the application of contractual levy on profession as perception of independence will always be at risk if funding is predominantly collected from the auditing profession. A broader and diversified funding model should be pursued on the principle that standard-setting in the public interest benefits all stakeholders and its sources of funding should reflect that.

Question 26
In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.

We believe successful implementation of the standard-setting reforms will be dependent on the governance structure that is being simultaneously reformed. We also note that there are other significant practical considerations (sustainable and broader funding base, transition approach etc.) that must be addressed for the implementation of the reform program.

Also we must strive to reduce the complexity and length of our standards whenever possible, which may also speed up their adoption.

Question 27
Do you have any further comments or suggestions to make that the Monitoring Group should consider?

We note that standard-setting without major involvement of profession will be exposed to the significant risk of quality and effectiveness of standards. Practice experience and expertise are vital in developing a workable standard so adequate practitioner's involvement at standard-setting and governance level is important. Accordingly, we believe that the quality, acceptability and effectiveness of the standards will be at risk if this is not retained under the reformed model through current practitioners on the governing body and standard-setting boards.

Further, in view of the criticality and complexities of the reform program, we firmly believe that the Monitoring Group and IFAC need to be continually engaged to ensure robust and effective practical implementation of the final reform package.