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08 February 2018

Gerben J. Everts
Chairman
The Monitoring Group
C/O International Organisation of Securities Commissions
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Dear Mr Everts

Monitoring Group Consultation Paper: Strengthening the Governance and Oversight of the International Audit-related Standard-Setting Boards in the Public Interest

INTRODUCTION

The Financial Reporting Council (FRC) of Australia is pleased to make this submission to the Monitoring Group Consultation Paper: *Strengthening the Governance and Oversight of the International Audit-related Standard-Settings Boards in the Public Interest*.

The FRC is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia, including oversight of accounting and auditing standard setting processes. Australia was an early supporter and adopter of international standards both for auditing and financial reporting. We believe international standards are fundamental to global investment and capital flows and efficiency in standard setting.

We would be particularly concerned if reforms introduced any risk of losing international acceptance of auditing and assurance, and ethical standards, and would not want to revert to national based standard setting.

The views expressed reflect the FRC's experience and knowledge as an oversight body. However, in formulating our comments, we also sought to confer with other key accounting and auditing stakeholders and reviewed the submissions of the **Australian Auditing and Assurance Standards Board (AUASB)**, **Australian Accounting Professional and Ethical**

Standards Board (APESB) and New Zealand External Reporting Board (XRB). Those submissions share many of the concerns expressed in this submission.

KEY CONCERNS

The FRC notes the concerns raised in the consultation paper in respect of the independence and perceptions of undue influence from the accounting profession in the standard-setting process and concerns on standard-setting boards' responsiveness to public interest. The FRC considers the paper could do more to present an evidence base that validates these concerns and demonstrates how effective the reform proposals would be to address these matters.

Our comments are based on our experience in the Australian auditing standards environment, which adopted the International Standards on Auditing (ISAs), after we issued a strategic direction to the Auditing and Assurance Standards Board (AUASB) in 2005. Since adoption, **the FRC has neither witnessed anything, nor received input from any other stakeholder, that would suggest any undue influence from the accounting profession or any lack of responsiveness to the public interest in the development of ISAs.**

The FRC welcomes the **public interest framework** you propose to develop and release for public consultation. We note you anticipate this framework to be at the heart of the reformed standard-setting process. It is unfortunate this was not available at the time the proposals were provided as it would facilitate a more comprehensive assessment of how public interest will be protected and serve as an appropriate benchmark to review the proposals.

Further, we feel it would assist stakeholders in providing feedback if all the issues/proposals are outlined **holistically rather than following the staged approach currently envisaged by the MG.**

Having said this, we are pleased to be provided an opportunity to consult on any reforms that aim to continuously improve the international audit standard setting process. We also welcome consideration of any reform which strengthens international business confidence and facilitate standards to meet the rapidly evolving business environment.

Where reform proposals are under consideration, **we encourage a principles-based approach** be implemented and reforms should be adopted only after sufficient evidence and analysis demonstrates the need for the reform. Accordingly our response is limited to principles as we believe it premature to address many of the details of the proposed reforms.

OVERSIGHT AND GOVERNANCE STRUCTURE

We provide the following guidance based on the FRC's role and experience as an oversight body in Australia.

In respect of the standard-setting oversight Board, we consider the following elements key to protecting public interest: board remit of responsibility, functions and composition.

The role of the Board should be clearly defined to include appointment of standard-setting Board members, management of budgeting and monitoring of the public interest in the standard setting processes, including assessing the due process followed by the standard setting board. To maintain independence the oversight **Board's responsibility should be limited to strategic direction and oversight of the standard setting board** and it should be, and publicly seen to be, independent of the standard making process (beyond monitoring public interest in that process). It should not be involved in work of a technical nature such as policy development and drafting. **We therefore do not support the Board being involved in detailed standard setting or holding a power to veto standards.** We do not wish to see the oversight board repeating functions that are the remit of the standard setting board. There is no evidence in the consultation paper that the oversight board having these functions better serves the public interest. This protects the independence of the oversight body and reduces the risk of vested interest influencing the standards. This principle is consistent with the remit of the FRC's, which does not involve itself in detailed standard-setting and has no power of veto.

The Board should be comprised of member representatives of a cross-section of stakeholders, including private and public sector practitioners, interest groups and report users from a range of geographic regions. The diversity of the board will facilitate the board having the benefit of a broad array of backgrounds and perspectives and lend credibility to the board acting for the greater public interest.

This approach is consistent with the FRC's role, functions and diverse composition. The primary way that we execute our functions is through oversight of the Australian Accounting Standards Board (AASB) and AUASB, including appointing members to the boards, providing advice to boards in relation to strategy and budget and where appropriate, issuing strategic directions. We see the FRC's existing model as a case study for consideration by the Monitoring Group, when developing or improving the oversight model and evaluating the benefits and the limitations of reform to its structure. The healthy adoption of international standards and lack of concern raised in relation to public interest considerations lend evidence to the current Australian model functioning well.

THE STANDARD SETTING BOARDS

In the absence of evidence that indicates the current international model is not functioning, **we continue to support the model of two separate boards** to oversee auditing and assurance, and ethics, respectively. We acknowledge there is a degree of overlap in these fields; however, we caution consolidation as it may dilute the expertise of the board, with too many interests represented across a new amalgamated board's expanded portfolio. Disadvantages of this model include less board time on each issue, reduced consultation and loss of expertise.

The current international model is aligned with the Australian model under which ethics are formulated by a specialised body. In an oversight capacity, the FRC's current responsibilities are limited to supervision of financial reporting, with no jurisdiction on matters of ethics. In respect of standard setting in the Australian context, the Accounting Professional & Ethical Standards Board (APESB) is the national, and single, body that sets the code of ethics with which accountants and auditors must comply.

As noted in the oversight and governance structure section of our submission, **board composition** is also critical for standard-setting boards and **should ensure varied stakeholder interests are represented**. We support strong expertise at the board level in addition to strong expertise in staff supporting the board as well as a cross section of members. However, we note previous experience has shown it is difficult to attract members outside of the accounting profession.

To attract the best members, remuneration should be provided. Current corporate governance best practice would also suggest a smaller number of board members, say 10 to 12.

Aligned with the Australian model, **we also endorse a common ethical code for all accountants and auditors**. This ensures a consistent standard on practitioners who work on a variety of projects that encompass elements of auditing and assurance and other financial reporting. Consistency also promotes transparency for the wider business community, which we believe upholds the primary objective of this paper to promote public interest.

THE STANDARD-SETTING PROCESS

We reiterate our support for principles-based, sector-neutral standard setting and varied stakeholder representation throughout the process, noting this approach garners more adaptable development and implementation of standards necessary in today's rapidly evolving business environment.

We wish to express the importance of standard setting applying uniformly to all entities. In this regard, we would suggest that the term "public interest", when used in relation to the standard setting process, should be defined, so as to avoid any inference that the proposed reforms only apply to "public interest entities". Many jurisdictions, including Australia, impose auditing requirements on entities other than those that might meet a definition of "public interest entity". The effect of this would result in non-public entities being subject to national standards and inconsistency across industry. This is inconsistent with the current trend of globally consistent standards.

FUNDING

One area where the Consultation Paper is deficient is funding, which is critical to the success of any reform. The current model is directly funded, and the model's costs are allocated, by IFAC. In order to effectively comment on any reforms, **further details on the viability of alternative funding models need to be provided**. Any changes to funding should not allow, or lead to the perception of, undue influence by any single group of stakeholders.

CONCLUSION

We look forward to hearing more from the MG on the next steps in relation to this review. In order to ensure credibility around the reform process, both the feedback received and how this feedback was taken into consideration should be transparent to all stakeholders. As part of this, we would support the creation of a multi-stakeholder advisory group to take the next effort at developing a proposal based on the feedback and roundtable discussion.

We would be pleased to have our submission made available to the public.

Should you have any queries regarding our response, please contact me via email at billedge1@gmail.com

Yours sincerely

A handwritten signature in blue ink that reads "Bill Edge". The signature is written in a cursive style with a large initial "B" and "E".

Bill Edge
Financial Reporting Council Chair