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International Audit Standards Evolve at a Glacial Pace

Regulators want more influence in the self-governing profession

As rapid technological advances portend to transform day-to-day audit processes in the near future, the more theoretical world of international audit standards evolves at a much more gradual rate. Globally, the responsibility for international audit standards resides in the domain of the International Federation of Accountants (IFAC). Founded in 1977, IFAC's membership includes 175 accounting institutes and associations from over 130 countries and jurisdictions around the world. IFAC established separate independent standard setting boards for audit, ethics and education.

According to IFAC, standards issued by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), have been adopted by more than 120 jurisdictions. Although the Public Company Accounting Oversight board (PCAOB) and the American Institute of Public Accountants (AICPA) are the official audit standard setters for the United States, their pronouncements are influenced by the international boards. The recent audit scandal involving KPMG in South Africa is an example of the importance of having global standards. In that case, KPMG failed to disclose conflicts of interest that two of its partners had with a bank audit client, nor irregularities that led to the bank's collapse.

Even so, as a result of significant corporate financial reporting failures in the past two decades, the major securities and banking commissions around the world, with the cooperation of IFAC, formed the Monitoring Group (MG) in 2005, to oversee the IAASB, IESBA, as well as the International Accounting Education Standards Board (IAESB). The Monitoring Group's objective was to provide "overall governance of the standard-setting process and the review of its implementation, effectiveness and responsiveness to the public interest," while ensuring public accountability.

In pursuit of its objective, in November 2017 the MG issued a Consultation Paper, ***Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public***

Interest. The paper questioned the lack of independence of the standard setting boards from the accounting profession, and their responsiveness to the public interest. Consequently, the paper presented “options which consider changes to the number of standard setting boards, their composition, their strategic focus, geographical balance and remit; the process to nominate their members; and their current oversight arrangements, among other elements.”

IFAC initially expressed substantial alarm with regard to the MG’s proposals. While not opposed to the idea of reforms in general, and agreeable to reviewing the nomination process and discussing the prospect of multi-stakeholder composition, IFAC stated that “the Consultation Paper does not provide respondents a complete picture of what the Monitoring Group envisages for standard setting, including fundamental elements of the model with respect to funding, transition, and implementation risks, and the roles of the Monitoring Group and Public Interest Oversight Board (PIOB)—and in parts the Consultation Paper fails to accurately reflect the current arrangements, and offers proposals that are contrary to the stated aims.”

After a formal analysis of the MG paper, along with an overhaul of the IAESB, IFAC on August 28, 2018 formally responded with a paper, ***Perspectives on the Way Forward for Strengthening the Oversight and Operations of the International Audit & Assurance and Ethics Standards Boards***. In the paper, IFAC affirmed the importance of “high-quality international accountancy standards developed in the public interest and that are widely adopted and implemented” to assure continued growth of organizations, financial markets and economies.

Improvements were called for in the following areas:

- Clarifying the distinct roles between oversight and standards development.
- Enhancing multi-stakeholder representation on both the oversight body and the standards boards.
- Improving the timeliness of standards development while retaining their quality and relevance, focusing on standards related to auditor performance; quality management within firms; the implications of new accounting standards; and emerging areas of reporting and new technology.
- Addressing the perception that the accountancy profession is able to exert undue influence.
- Increasing funding sources to support the proposed improvements above, and to ensure sufficient, sustainable and preferably diverse funding for the future.

IFAC asked for prompt, responsible action so that the focus could turn to implementation and ongoing furtherance of the standards process. However, IFAC also emphasized the need for the MG to first complete a Public Interest Framework that is agreed upon to undergird the process, and to incorporate a multi-stakeholder approach that seeks to achieve consensus. The process and implementation will require substantial funding that needs to be worked out as well.

The IFAC paper delineates a proposed structure for a new oversight board to take the place of the current Public Interest Oversight Board (PIOB). Expansion and modifications to the MG and current IAASB and IESBA are also proposed. Additionally, pointing to its role in the widely accepted international standard setting process of the past several decades, IFAC would claim an ongoing presence for the profession, while assuring the independence in fact and appearance of the standard setting bodies from IFAC.

With this ambitious plan for a way forward, even if agreed to in the short run, implementation would not be expected before 2021 Or 2022. The MG has stated that a White Paper will be issued by the end of the year that “will incorporate a public interest framework, proposals on funding, an impact assessment and transition plan.”

Further details can be found at the [Perspectives on the Way Forward for Strengthening the Oversight and Operations of the International Audit & Assurance and Ethics Standards Boards](#) and [Monitoring Group publishes Summary of Feedback](#).

(<https://www.ifac.org/publications-resources/perspectives-way-forward-strengthening-oversight-and-operations-international>) and (http://www.iosco.org/about/monitoring_group/pdf/2018-05-31-Monitoring-Group-publishes-Summary-of-Feedback.pdf).