



Monitoring Group

To the attention of Mr. Gerben Everts, Chair

MG2017consultation@iosco.org

[Sent by e-mail]

9 February 2018, Prishtina, Kosovo

Response to the Monitoring Group Consultation Paper Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest

Dear Sir/Madam,

Responses of Society of Certified Accountants and Auditors of Kosovo as a full member of IFAC, represents a wide range of perspectives including those of the auditing profession, SMPs and professional accountants in business in a Kosovo Economy. SCAAk welcomes the opportunity to comment on the [Consultation Paper Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest](#).

As part of transitional economy in Kosovo, our experience as SCAAk is that a strong governance and oversight plays a crucial role in the development of the profession and in standard setting process as well. A wide global adoption of standards has proven that current standard setting process is transparent and serves the public interest. We strongly believe that standard setting process should be organized in a manner that avoids any conflict of interest and rules should be reinforced with a view to ensuring the full independence of the standard setting process. In this regard, we think that separation of governance and oversight functions, involvement of broader stakeholders who represent groups with appropriate skillset will ensure efficient and transparent process in public interest.

KEY POINTS

Level of reform needed and a way forward

In our view, the current three-tier structure has provided sufficient protection of public interest. We would not, for example, advocate merging the activities of the PIOB and MG, since this would confuse their respective oversight and monitoring roles and would risk greater politicization of standard setting. The aim should be to communicate better the positive attributes of the current structure, while considering how stakeholders' confidence in the arrangements can be enhanced further. Thus, we believe that the current model is sufficiently overseen thus mitigating undue influence by the profession. We believe that no stakeholder should exercise undue influence in the boards.

Current model of standards setting has ensured that standards have been developed in the public interest since they were adopted globally by legislators, regulators and have served public interest. The standards setting process has been overseen by PIOB.



The present IFAC standard setting structure was designed in the context of the wider global architecture in which it operates. We believe the current structure delivers high standards in the context of the financial reporting, corporate governance and regulatory norms that currently prevail in the capital markets.

But the international architecture and the public expectations evolve and as well no process is perfect, therefore ***we believe that there is a room for improvement of the current model.***

Separation of Governance and Oversight from Development of Standards

In this regard, we believe that there is a need for further clarification between the roles and responsibilities between the Monitoring Group, the PIOB and the IFAC. Believing that this clarity is rather a question of communication than of substance we would focus on particular issues on which we would welcome more clarity are (a) the overall responsibilities in the system, (b) the oversight of compliance with the agreed processes and decisions and (c) whether and how public interest is ensured (whether it is a joint responsibility or whether and if so, how, it is broken down between the PIOB and Monitoring Group).

Growing international trade, capital flows between countries, international investments, multinational firms and international bond and equity offers emphasize the need for global financial regulation. Only strong international co-operation and regulation can serve as backbone for the global economy. With the objective of contributing to ensuring the integrity, transparency, efficiency of financial markets, and ultimately financial stability, SCAAK highly is committed to strong international standards and promotes their implementation not only in Kosovo but in our region as well.

We would encourage the Monitoring Group and the Monitoring Board to reflect on a long term model taking into account the need for an independent technical standard-setter and public oversight.

Retention of two separate boards for auditing and assurance and ethics

We support the proposal of retention of two separate boards for auditing and assurance and ethics on the basis that, although interrelated, these are two different areas. Ethical principles include more than just independence and are applied for broad range of services provided by professional accountants. Furthermore, two separate boards will attract a larger number of technical expertise and resources while avoiding extended responsibilities of the single board. It is also important taking into consideration and finding the right members with the appropriate skillset and expertise in both areas.

Ethical principles are applicable to broad range of services provided by professional accountants, hence we believe that two sets of ethical standards would not serve the purpose having in mind that professional accountants provide assurance and other business services as well.

The different standard-setting bodies should be composed of high technical competence people supplemented by a strong due process to seek the views from market participants.

MG needs to make sure that standard setting adequately serves the needs of SMEs as well. SMEs are arguably the most important sector of the global economy, accounting for the majority share of private



sector economic activity as well as social and environmental footprint. The reformed model needs to reflect this if it is to truly protect the public interest.

Broad practice experience and expertise, including that from SMPs and professional accountants working in SMEs, is vital to the setting of standards that are effective and high quality, boast widespread legitimacy, relevant to the needs of business and society, and responsive to innovation and changing market needs and societal expectations.

Funding of SSB

SCAAK believes that the necessary independence of the boards could be strengthened by more stable and diversified funding. A stable funding mechanism benefits the standard-setter and the PIOB, by allowing it to carry out its technical agenda and to attract high quality staff. It also provides greater assurance to jurisdictions using or are in the process of adopting international standards of their quality. Sufficient and independent funding is the key to achieving this objective.

Please find below annex with detailed answers to the questions raised. If you may have any further questions or explanations, please feel free to contact us.

Yours faithfully,

Nazmi Pllana

President of Council

Society of Certified Accountants and
Auditors of Kosovo

Ardiana Bunjaku

Executive Director

Society of Certified Accountants and
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ANNEX-SCAAK responses to the questions formulated in MG Consultation Paper

1. 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?

Key areas concern 1-3

We believe that current three tier structure of standard-setting has provided sufficient protection of public interest considering collaboration between private and public sectors. In addition, this structure has robust checks and balances in place to ensure there is no undue influence from any stakeholder groups. We believe all the boards currently operate independently in the public interest and have high-quality due process.

Currently there are more than 120 jurisdictions around the world, including Kosovo, that have either directly adopted, or use standards issued by the IAASB and IESBA. In this light we consider that public interest is well served and addressed through these standards. We believe that the background and experience of board members can be an important reinforcing mechanism in safeguarding the public interest.

While there may be concerns over timeliness of standards, we think that current standard setting process is appropriate and with some improvements in due process in cooperation with the PIAOB, this can be addressed swiftly.

2. 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 proposed principles, however we think that SME sector should be taken into consideration since SMEs account for majority share of global economy.

3. 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?

The public interest involves a broader concept. It includes not only PIE, but also SMEs, Public Sector and other stakeholders. Therefore, SSP should take into consideration these sectors as well.

4. 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 proposal for retention of two separate boards for auditing and assurance and ethics on the basis that, although interrelated, these are two different areas. Ethical principles include more than



just independence and are applied for broad range of services provided by professional accountants. Furthermore, two separate boards will attract a larger number of technical expertise and resources while avoiding extended responsibilities of the single board. It is also important taking into consideration and finding the right members with the appropriate skillset and expertise in both areas.

5. Do you agree that responsibility for the development and adoption of educational standards should remain a responsibility of IFAC? If not, why not?

Education standards are developed by IAESB, an independent standard-setting board. We believe that due process involved in setting standards from the IAESB is transparent and accountable. Compliance program should remain a responsibility of IFAC as an umbrella organization of PAOs, therefore we consider that it would be IFAC responsibility to ensure its member bodies are in compliance with requirements of SMOs. If a board member is nominated through a nomination committee of IFAC, it does not imply that the board is not independent.

6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? If not, why not?

Ethical principles are applicable to broad range of services provided by professional accounts, hence we believe that two sets of ethical standards would not serve the purpose having in mind that professional accountants provide assurance and other business services as well.

7. 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.

In order to have a credible SSP that has confidence and trust of the public we consider that SSB should be accountable for their actions. Also, oversight bodies' role should be independent and not interfere with standard-setting process.

8. 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 the board should be more strategic in nature and needs to remain up to date with all the related developments and innovations, and also to cooperate with different stakeholders in order to operate in a more efficient and effective manner. Since being a board member requires time dedication, knowledge, high expertise, being up-to-date, in our opinion we support that board members should be remunerated.



9. Do you agree that the board should adopt standards on the basis of a majority?

In order to represent the views of all the stakeholder groups (users, regulators and auditors) and since board members are equally represented (as proposed in CP) from these three groups, we propose that the decisions by the board should be made on the basis of 3/4 (75%) majority. We believe that the success of the current model in having standards adopted across the world is mostly due to this consensus approach in reaching decisions by standard setting boards.

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?

In our opinion we believe that the proposed model of 1/3 of representatives from regulators, 1/3 from users and 1/3 from the profession is a balanced and appropriate approach because of the variety of stakeholders. The proposal of 12 members might not be enough to achieve the level of geographical and professional diversity, but this number does not need to be exhaustive as to generate unproductive discussion and prolonged decision making.

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

In our opinion there is no need for significant changes to the skills and attributes from those currently being applied for SSB members, who are competent, highly skilled professionals in their respective fields. Furthermore, we believe that SSB members and technical advisors should have SMP/SME experience and expertise as well.

We support the proposal that the chair of the board must not come from practitioner/audit firm background.

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?

Taking into consideration that the number of board members is proposed to be reduced to 12 members, we believe that the role of Consultative Advisory Groups (CAGs) is necessary by expanding the network of professionals providing inputs and further advice on board activities.

The Consultative Advisory Groups (CAGs) form an important part of the overall due process and consultative efforts. More thought could be given to enhancing transparency of the CAGs themselves, for example, the nominations process and the transparency around the CAG deliberations and how CAG views are dealt with by each board.



13. Do you agree that task forces used to undertake detailed development work should adhere to the Public Interest Framework?

The taskforce roles and compositions should be defined, and we believe the taskforces or expert groups should represent a different range of expertise and stakeholders and should be highly competent in the fields depending on the issues needed to be addressed.

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

We do not see any necessary changes for the current nomination process because as proposed in CP, PIOB might have a conflict of interest by having governance and oversight roles.

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?

Referring to our comment in question 7, we believe that PIOB should be multi-stakeholder body with the responsibility to oversee operations of the board but not to interfere in the technical aspect of SSP. We do not support veto in none of the processes.

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

No we do not agree.

We believe that IFAC should be able to continue to nominate people for approval by the MG, for appointment to the PIOB. In this regard it is important to have balanced representation of all stakeholders in the PIAOB including people with strong auditing and accounting knowledge and expertise.

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?

The PAIOB should be comprised of non-practitioner with a background and expertise in audit, assurance, independence and ethics, in order to oversee the SSP and SSB. The members should represent geographical and skill diversity.



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 Monitoring Group member organizations, or do you have other suggestions regarding the nomination/appointment process?

We do not agree with appointments through MG members, thus we suggest that the nomination process be an open call, public and transparent, in order to include different range of groups.

19. Should PIOB oversight just focus 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 do not agree to change the current model, as we already mentioned, the model is fit for purpose and there can only be some improvements.

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 (sic) work, promoting high-quality standards, and supporting public accountability?

We support the current model, except for appointing PIOB members (referring to answer on question 18).

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 proposed options but specifically proposed that the technical staff have SMP and SME background and expertise.

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

We agree that the staff be employed by the board, but this raises concerns about becoming a legal entity and also funding issues.



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

- Improve process to ensure timeliness of standard
- Have clear objectives when a standard need to be revised or issued.
- Review each standard in a consistent timeframe

24. Do you agree with the Monitoring Group that appropriate checks and balances can be put into 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 of the budget by the PIOB, providing the funds to a separate foundation or the PIOB who would distribute the funds)?

The funding model needs to represent stakeholder groups.

Proposed funding model by levying fees from audit firms would deepen perceived undue influence by the profession in the SSP.

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 proposed in the paper, and if so what are they?

Refer to question 24.

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

We do not have any matters beside those mentioned in previous questions.

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

We do not have any additional comments. Relevant suggestions are included in the responses to the questions.