

Monitoring Group  
Gerben Everts  
Chair of Monitoring Group

*Sent by email:*

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**Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest**

Dear Mr. Everts, Ladies and Gentlemen

We thank the Monitoring Group for the opportunity to give our view on the idea of strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest. We hereafter provide you with our comments on your respective Consultation Paper: „Strengthening the Governance and Oversight of the International Audit Related Standard-setting Boards in the Public Interest”.

We as EXPERTsuisse - the Swiss Expert Association for Audit, Tax and Fiduciary - represent some 5,000 Swiss certified auditors, tax and fiduciary experts as well as some 900 professional services firms managed by them. Our members would be directly affected by the implications which are discussed in your document.

In our opinion the Standard Setting of the Independent Boards has proven successful as it produces standards of high quality, which are generally accepted and recognized by the regulators. International auditing standards (ISAs) have been declared mandatory in the audit of listed entities by the Federal Audit Oversight Authority in Switzerland. In the European Union the ISAs have also been included in the audit regulation. Insofar no criticism was expressed

neither regarding the quality of the existing standards nor regarding the current standard setting model. Notably, we strongly do not agree to the concern of the Monitoring Group that nowadays there is a risk that the standards produced are not considering the public interest. The public interest is the *raison d'être* of the audit profession and has always been the DNA of the standard-setting boards. The standard-setting boards are continuously engaging with all stakeholders and the standard-setting process includes procedures such as intense reach-out activities or invitations to comment, which together with its due process guarantees that all stakeholders have a voice and gain transparency over the standard setting.

However, we recognize that there is an issue of perception in the way that the Monitoring Group assumes the audit profession would exercise “undue influence” over the standard setting.

This has to be taken seriously as we are aware that the standard setting model in the 21<sup>st</sup> century not only needs to be adaptive to the developments of the stakeholder environment and has to bear in mind the interests of the various stakeholders, but also has to ensure that it retains the highest possible repute and lets no room for scepticism. As such, we are open-minded and are willing to go beyond the current model, provided that all key stakeholders have the possibility to participate equally in the board(s) and oversight bodies so to ensure that there is no undue influence from any side.

It remains vital that standards of high quality are produced. This makes the inclusion of the audit profession indispensable, *inter alia* to ensure the practical relevance and feasibility of the standards in daily practice. As financial reporting is subject to professional judgment, so is auditing. Auditing standards have to reflect this and thus need to be principles-based. Care should be taken to avoid standards becoming (increasingly) “ticking-the-box”, especially under a false assumption that this would make audits more enforceable, transparent and less susceptible to failure.

Our main concern is that auditing standards, under the Monitoring Group’s focus on listed entities or - in broader terms - on public interest entities (PIEs) would make it increasingly difficult to apply those auditing standards to the specific situation of small and medium-sized entities (SMEs). We have to bear in mind that SMEs represent a major part of the economy, not only

in Switzerland but globally. We therefore should consider establishing and maintaining a partially or even completely separate set of auditing standards for unlisted and less complex audits in contrast to auditing standards for listed entities or PIEs, which under consideration of the increasingly complex business environment, the ever more elaborated financial reporting standards and the various public interest demands, are constantly gaining volume and complexity. Maintaining one set of auditing standards ever more raises the question on how to ensure scalability of these standards.

It must be acknowledged that nowadays the audit profession is investing much time, effort and know-how in the standard-setting. It goes without saying that these contributions in kind are substantial and as equally important as the enormous financial funding provided by the profession via IFAC. Considering that the funding of the standard setting is provided almost exclusively by the profession, it is obvious to us that, if the standard setting should be footed on a broader base, the funding ought to be broad-based, too. Funding needs to be secured by the various stakeholders, including regulatory bodies.

Bearing this in mind, the governing and supervisory structure should be a multi-stakeholder body being representative of the global key stakeholders, including those with authority to adopt standards, those that regulate and enforce them, those who benefit from them and those who have to apply them. Individual members should however not represent any group or organisation specifically. In this respect, we see value in exploring the way the IFRS Foundation Trustees model is composed.

Under such a model the standards would be produced by the standard-setting board(s) and would then be reviewed, approved and released by a different independent public interest oversight authority. This authority would oversee the operations of the standard setting board(s) and would hold the standard setting board(s) accountable.

In our view the Consultation Paper of the Monitoring Group can only be a first step in a longer process of more concrete discussions, consultations and proposals. Indeed, further information is needed to have a full overview of the proposals and their estimated benefits.

We in general welcome regular reviews of the standard-setting process, but feel that so far the Monitoring Group has not paid enough attention to vital aspects such as funding, oversight

and governance and that risks associated with changing the current standard-setting arrangements have not been adequately addressed in the Monitoring Group's Consultation Paper.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please do not hesitate to contact us.

Kind regards

EXPERTsuisse



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President



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