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Dear Sir or Madam,

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

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 16 national accounting, auditing and tax advisor organisations with more than 370 000 individual members.

EFAA is pleased to provide its comments to the [Consultation Paper \*Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest\*](#). We welcome the Monitoring Group’s (MG) initiative to strengthen international standard setting and the ultimate objectives of this endeavour. Below you will find ‘Key Points’ and our responses to the specific questions and options presented in the consultation paper. We focus our remarks on those issues most relevant to the SMP and SME constituencies that we represent and on which we have significant experience and expertise. Relevant to this consultation is the fact that EFAA is a long-standing member of the Consultative Advisory Groups (CAGs) of the standard setting boards (SSBs) IAASB, IESBA and IAESB.

**KEY POINTS**

**Extent of Reform Needed**

The current model has contributed significantly to promoting audit quality globally. The IAASB and IESBA are well respected and their standards have been widely adopted. The model is by no means broken. However, there are some weaknesses in the model’s design that threaten the legitimacy of their international standards. We support this initiative to examine ways of improving the present standard setting model and see this consultation paper as the initial step in a comprehensive process of consultation, development and discussion.

### **Separation of Governance and Oversight from Development of Standards**

We welcome a model where the governance and oversight of standard setting is distinct from that of the development of the standards. Such a distinction is critical to ensuring the independence and impartiality of the SSBs. The governance and oversight body, with responsibilities that include but are not limited to that of ensuring due process, should not interfere with the technical debate. The SSBs need to be truly independent and have sole responsibility for the technical development of standards. We also strongly support both the governance and oversight body and the SSBs being multi-stakeholder.

### **Role of Practitioners in a Reformed Model**

While we welcome the reformed model being more multi-stakeholder, it is essential that there is significant practitioner participation at both the level of governance and oversight and the level of standards development. 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 of high quality, relevant to the needs of business and society, and responsive to innovation and changing market needs and societal expectations.

### **SMEs are Fundamental to the Public Interest**

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. This makes SMEs central to the public interest. Even if many smaller entities are not required to have an audit, many SMEs, at least in Europe, choose to have an audit or another form of assurance or related service. The reformed model, therefore, needs to reflect this if it is to truly protect the public interest. The consultation paper fails to explicitly recognize this and seems to be solely focused on the audit of larger entities. Hence the reformed model needs to ensure that SMEs and the SMPs that typically support them, traditionally underrepresented and less engaged, participate in both the governance and oversight as well as development of international standards on par with other stakeholders.

### **SPECIFIC QUESTIONS**

***Question 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?***

#### **Independence**

The main stated concern is one of ‘perception’ rather than fact. Standard setting needs to be independent such that it is free of undue influence from any one stakeholder group. We would welcome more evidence about the perception in order to develop an adequate response.

#### **Relevance and Timeliness**

We believe the pursuit of quality outcomes to be of the utmost importance. However, the ever-faster pace of technological and societal change is placing acute stress on the ability of international SSBs to maintain relevance and act on a timely basis. Innovation is key to sustaining the relevance of professional services like audit and emerging forms of assurance. We believe process efficiencies and

additional resources should be considered in the light of the rapidly changing environment and may improve relevance and timeliness.

### **Addressing the Needs of SMEs**

As stated above SMEs account, both globally and in most if not all jurisdictions, for the majority share of private sector GDP, employment, growth and innovation as well as social and environmental footprint. SMPs act as their principle advisors and account for a sizable minority, if not the majority, share of professional accountants working in practice. Even if many smaller entities are not required to have an audit, many SMEs at least in Europe require an audit or related services. Accordingly, the reformed model needs to lend appropriate significant weight to supporting the needs of SMEs and avoid simply developing standards to suit large entity audit engagements undertaken by large accounting firms.

### **Scalable and Balanced Output**

While we agree with the principle of a single set of high quality audit-related standards applicable to all entities no matter their size or complexity we have some doubts as to whether existing standards are sufficiently suitable for SME audits due to their inherent complexity. Scalability is a critical prerequisite for standards to be suitable for SMEs and for the principle of cost effectiveness to be realised on smaller engagements. Scalability should be seen and used as a bottom-up concept, starting with requirements designed for small and simple entities and then adding requirements for larger, more complex entities including public interest entities (PIEs). In the absence of scalability there may be no option other than to pursue differential standards. For the reformed model to place appropriate emphasis on the needs of SMEs the SME and SMP constituencies will need to be adequately involved in both the governance and oversight as well as the development of standards.

#### ***Question 2: Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?***

In general, we agree.

As explained in our response to question 1, setting standards in the public interest necessitates considering the interests of SMEs. The supporting principles of cost effectiveness and relevance especially should be interpreted in this light.

#### ***Question 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 need for standards to consider the interests of SMEs should be explicitly stated. In order to operationalise this requirement the reformed model might benefit from some form of SME impact analysis such as the [EU's SME Test](#).

#### ***Question 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.***

In the absence of a robust case to the contrary, including compelling evidence to support a single board and suitable alternative arrangements for ethical standards for non-audit and for professionals working in business, we support the retention of separate boards.

We are satisfied that currently the two SSBs adequately liaise with each other, sharing information and collaborating as appropriate. We believe ethical standards are best developed, as now, by a SSB that has responsibility for both professional accountants working in business and those working in practice as well as catering for the range of services rendered by those working in practice. Moreover, the two sets of standards are quite different, audit and assurance standards are technical while ethical standards are behavioural, such that they might demand quite different skills sets from those involved in their development.

***Question 5: Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not why not?***

We note that education standards are not currently set by IFAC but rather the IAESB, an independent SSB. We see no reason for changing the existing model. The Compliance Program would, therefore, remain a responsibility of IFAC.

***Question 6: Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.***

We support the retention of separate SSBs, as we state in our response to question 4, in the absence of a robust case to the contrary. But more importantly is that the SSB(s) be truly multi-stakeholder.

Many ethical issues are common to professional accountants irrespective of whether they work in practice or in business. Indeed, as the IESBA has rightly recognized even professional accountants in practice do in fact work in a business, a business providing professional services. Of course, those working in practice have the added ethical issues associated with serving clients.

***Question 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.***

If there is a strong appetite to bring all audit-related standard setting closer together in some way, then the MG might wish to consider to ways of reinforcing the extent of SSBs liaison on audit and independence. This liaison which might comprise ongoing collaboration through a cross SSB sub-group or task force that is accountable simultaneously to both SSBs.

***Question 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.

We welcome the idea of the SSB(s) being more strategic in focus and that much of the in-session drafting be replaced by staff and board members doing the bulk of the drafting in task forces. Further we welcome the responsibility of the SSBs for undertaking broad outreach to inform the development of standards but suggest this be greatly enhanced so as to ensure insights, ideas and views of all

stakeholders, including SMEs and SMPs, get adequately captured and reflected in the process and the final output.

Multi-stakeholder strategic boards supported by a significantly enhanced staff and technical input has the potential to put all stakeholders, including SMEs and SMPs, on an equal footing. Indeed, this should help ensure adequate representation by SMEs and SMPs who presently lack the time and resource, and often fail to see the immediate relevance, of their involvement in international standard setting. These representatives should be responsible for ensuring they bring the SMP and SME voice to the table and promote the participation of their constituencies in public consultations. Similarly, it is vital that some SSB staff have appropriate SMP and SME experience and expertise.

Notwithstanding the above we believe it important that Board members be sufficiently close to the technical deliberations that they can challenge the work done by the staff and ultimately assume full responsibility for the output. Accordingly, Board members should be highly competent and have an intimate knowledge of audit and assurance either through direct practice or through close interaction with auditors.

We agree in principle with the concept of remunerating SSB members. This could help to attract qualified members who lack the support of a large employer.

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

We believe that consensus is desirable but that the present two-thirds majority is appropriate for sound governance.

While the SSBs' due process is based on a two-thirds majority we observe that the SSBs typically seek consensus, both at each juncture / decision point as well as the final formal vote. The pursuit of consensus ensures that a minority view, such as SME, does not get ignored.

***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 understand that there is research evidence to support the fact that 12 is an optimal size for the effectiveness of a corporate board. However, SSBs gain their authority and legitimacy, and in turn the widespread voluntary take-up of their output, when they have broad multi-stakeholder representation. Such representation may be difficult to achieve with a size limit of 12. The problem is exacerbated if, as we hope, the SSBs are to continue to be responsible for standards spanning the spectrum of assurance and related services and ethical issues for all professional accountants and, therefore, need a similarly broad range of experience and expertise.

Users, regulators and the profession represented approximately equally seems a reasonable place to start though it is vital that SMEs and SMPs are appropriately represented in their respective categories.

A model that allows for part-time members may prove more conducive to securing high quality SMP and SME representatives. For example, owner managers or sole practitioners may be reluctant, or find it impractical, to completely give up their current role. Moreover, we feel it may be better to have the SMP and SME constituencies represented by those simultaneously working in or as SMPs and SMEs. We are, however, keen to avoid part-time members being subordinate to their full-time colleagues.

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

We believe it is vital that all members, at both the governance and oversight level and, especially, the standards development level and irrespective of the stakeholder group they are representing, have substantial familiarity if not first had experience with audit and assurance and the relevant ethical issues. Furthermore, as stated in our responses to question 2 and 8 we believe it is vital that SMPs and SMEs have effective representation around the board table. Similarly, it is vital that some SSB staff and technical advisors have SMP and SME experience and expertise.

***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?***

The introduction of a multi-stakeholder governance and oversight board and SSBs may obviate the need for the CAGs. CAGs, however, could render more and different perspectives in the public interest.

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

Task forces should work under the guidance and supervision of the respective SSB. This should ascertain that the task forces are well defined in their role and working in the public interest.

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

We agree in principle but recommend that the specific role be discussed and further specified.

***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?***

As we state under 'Key Points' above we support the case for a multi-stakeholder governance and oversight body that includes representation of the SMEs that benefit from them and the SMPs that use them. The governance and oversight body, with responsibilities that include but are not limited to that of ensuring due process, should not interfere with the technical debate. The SSBs need to be truly independent and have sole responsibility for the technical development of standards.

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

We believe it is important to ensure the profession is suitably represented in the governance and oversight body. The profession is expected to use the standards and has the expertise to contribute towards their development. As the representative of the global profession IFAC seems a natural candidate to represent the profession on the governance and oversight body but other representation of the profession could be discussed.

***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?***

As we state under ‘Key Points’ above the governance and oversight body ought to have multi-stakeholder representation including that of SMEs that benefit from the standards and the SMPs that use them. Users, regulators and the profession represented approximately equally seems a reasonable place to start. We believe it is vital that all members serving on the governance and oversight body, irrespective of the stakeholder group they are representing, have substantial familiarity if not first had experience with audit and assurance and the relevant ethical issues.

***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?***

We strongly support the idea of an open call for nominations from all stakeholders. The overarching principle is that of the public interest. Hence, it only seems logical that the nominations process be as public as possible, both in terms of it having a transparent and open process and casting its net wide.

***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 believe the new governance and oversight body should oversee the SSBs for auditing / assurance and ethics but not education (see our response to question 5 above).

***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?***

If a new governance and oversight body is established, then it should have clear objectives and procedures in the public interest. Furthermore, if the current system with MG and PIOB is retained then their respective objectives and roles should be reconsidered and clearly stated.

***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 in principle though reiterate our response to question 11 that SSB staff should have SMP and SME experience and expertise. There may be a need for a mix of permanent technical staff and staff seconded by firms and professional accountancy organisations.

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

There may be benefit in direct employment by the SSB but the various implications will need to be carefully considered first.

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

While we see scope for process improvements, and have some initial ideas, we caution against consultation being compromised in the interests of efficiency and timeliness. Consultation that is thorough, wide and open, is key to promoting the public interest.

**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 (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?**

We believe that the funding model needs to be as broad as possible with both those benefiting from using the standards through to those that use them contributing. If the perception of independence is a key concern then part of the solution must surely be diversified funding.

**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?**

As we explain in our response to question 24 above we believe that if the perception of independence is a key concern the model should not rely on funding solely from the profession.

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

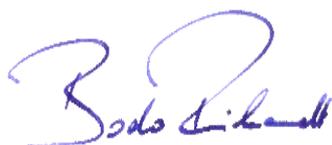
Change itself will be disruptive so we urge the MG to have persuasive evidence for a significant improvement on the status quo and discuss this evidence with all stakeholders before making final decisions.

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

We will make further comments in due course.

I trust that the above is clear. However, should you have any questions, please contact me any time.

Yours faithfully,



Bodo Richardt

President