



The President

Correspondent
president@ibr-ire.be

Our reference

Your reference

Date
30 January, 2018

Dear Madam, dear Sir,

Regarding: Monitoring group consultation

The Belgian *Instituut van de Bedrijfsrevisoren - Institut des Réviseurs d'Entreprises* (IBR-IRE) thanks the Monitoring Group for its invitation to comment on its consultation paper called “*strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest*” (hereinafter “the consultation paper”).

The Belgian profession of registered auditors is well aware of its role acting in the public interest. The profession therefore shares the general objective to ensure that standard-setting is undertaken in the “public interest” and provides you with comments on the questions set out in the consultation paper taking into account the principles of better regulation.

(1) Key areas of concern

IBR-IRE agrees with the fact that the key areas of concern identified by stakeholders need to be properly addressed.

However, IBR-IRE also draws the Monitoring Group’s attention to the importance and added value of the audit for SMEs. In this context, it remains an issue for practitioners to apply ISAs even if they are scalable to an audit of a small entity. The cost is often perceived to be disproportionate. In this context, IRE-IBR has developed, in collaboration with CNCC, the *Pack Petites Entités-Kleine Entiteiten (Pack PE-KE)* providing tools to allow the auditor to perform an audit of a small entity in accordance with Belgian law and with the Clarified ISAs adopted in Belgium. The IAASB needs to be encouraged to issue standards responding to the ‘comfort’ needed by an SME and meeting the challenges of carrying out an ISA audit in this environment.



IBR-IRE also welcomes the fact that the Monitoring Group is planning to undertake and publish an impact assessment of the costs and benefits arising from the options set out in the consultation paper before any proposals are finalized. Indeed, IBR-IRE acknowledges the importance of assessing the public interest in terms of negative and positive outcomes for society as a whole. The cost and benefit ratio of any proposed action should be assessed to ensure that the benefits derived from it exceed the costs.

Actions, policies or conditions should, in any event, be proportionate to the objectives of public interest such as for instance financial transparency and competition.

(2) Guiding principles

IBR-IRE fully supports the view that legitimacy and public confidence in the profession are protected amongst others by adhering to democratic principles as a public interest criterion.

IBR-IRE agrees with the principles articulated for standard-setting such as independence, credibility, cost effectiveness, relevance, transparency and accountability.

IBR-IRE is well aware of cultural diversity as an enriching source of inspiration in Belgium. Diversity should therefore be seen as an added value. In this context, IBR-IRE supports the view that differences in cultural systems should be considered in assessing whether or not the public interest is being served.

(3) Options for reform of the Standard-setting boards

IBR-IRE does not support establishing a single independent board, to develop and adopt auditing and assurance standards and ethical standards for auditors.

Indeed, as mentioned in the consultation paper, a single board to set auditing and assurance and ethical standards for auditors poses challenges. Maintaining the structure of separate boards covering audit and assurance and ethics, might have the benefit that one type of standard (eg ethics) is not lost in a board with broader responsibilities. Separate boards may also be more attractive to potential members who may have an area of expertise in one but not all of the areas of a single board's remit which may limit the ability of some members to provide meaningful contributions to projects that are outside of their area of expertise. Separate boards could also provide more time and resources to carry out the work.



Also, it is important that the ethical standards are the same for all professional accountants. A level playing field is needed.

IBR-IRE agrees that the responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC.

Regarding any further options for reform in relation to the organization of the standard-setting boards, particular attention should be given in the standard-setting process to the following aspects:

- in order to facilitate convergence, IBR-IRE encourages the provision of principles-based professional standards taking into account the civil law and the common law perspective. Such an approach might be helpful - not only for translation purposes - but also in order to favour a more mechanical implementation in the various jurisdictions.
- the needs of the small practitioners should be taken into account.

IBR-IRE does not share the perception according to which IAASB and IESBA members may have been subject to undue pressure as a result of IFAC providing operational and financial support. The public interest has always been high on the agenda of the standard-setting boards.

Assuming that the role of the board must be more “strategic”, the question must be raised what is intended by “strategic”.

In any event, the change of the board membership (1/3 users; 1/3 regulators, 1/3 auditors) is welcomed as long as the diversity and the high technical expertise are maintained. It is however unclear to us who will pay for the remuneration of the board members. The consultation paper lacks accurate information regarding the funding.

Standards can be more sustainable if there is a consensus. IBR-IRE is therefore not in favor of the adoption of standards on the basis of a simple majority. Assuming that the board would be multi-stakeholder drawn from three groups (users, regulators and auditors), a standard adopted on the basis of a simple majority could potentially lead to the exclusion of adherence to it by a group of members. IBR-IRE therefore recommends that, where a consensus has not been reached, a simple majority would be required from each of the three groups composing the board or alternatively a qualified majority of at least 75% of the members.



Finally, the Nominating Committee would benefit from a Chair being independent, on the one hand, of IFAC and, on the other hand, of the PIOB which is responsible for the oversight of the nomination process.

(4) Role of the PIOB

In general and with respect to public oversight, IBR-IRE emphasizes the need for a separation between standard-setting (standards on auditing; Code of ethics) and oversight. This is required in order to comply with the basic principles of good governance, democracy, separation of powers and human rights, that apply to public authorities such as oversight bodies having the ultimate responsibility to adopt binding legal provisions (standards on auditing) and to control the application thereof by auditors (quality assurance reviews; investigations and disciplinary sanctions).

Standards set by the standard-setting boards in the public interest should not be vetoed by the PIOB. The boards – the composition and role of which meet the public interest criterion – need to be accountable. Also, a veto would be totally counterproductive given that the key areas of concern in the current standard-setting include the timeliness of standards.

IBR-IRE is of the opinion that the Public Interest Oversight Board would benefit from the increase of its multi-stakeholders' membership by being formally composed of representatives of national public oversight bodies. Indeed, this would strengthen the acceptance of the standards, for example at EU level.

IBR-IRE is of the opinion that the PIOB's oversight should not merely focus on the independent standard-setting board for auditing and assurance standards and ethical standards for auditors. As set out above, it is in the public interest that there is a level playing field for all professional accountants.

(5) Role of the Monitoring Group

IBR-IRE would welcome more clarity regarding the respective roles of the Monitoring Group and the PIOB.

(6) Administration including Standard-setting board staff

IBR-IRE welcomes the proposal to expand professional technical staff. However, an increased number of staff gives rise to additional costs/funding. In this respect and as set out under point (8), it is unclear to us what is intended by the proposed model of funding.



(7) Process considerations

As set out above under (3), IBR-IRE is not in favor of the adoption of standards on the basis of a simple majority.

Moreover, IBR-IRE pleads for more transparency regarding nominations of board members, taking into account diversity.

(8) Funding

Appropriate checks and balances could indeed be put in place to mitigate the risk of independence of the board as a result of it being funded in part by audit firms or the accountancy profession.

However, funding needs to be diversified in order to avoid the perception of undue influence. Indeed, the funding structure needs to be representative of the global public good and inclusive of all stakeholder groups. This would not be achieved via a contractual levy on the audit firms, rather than the global accountancy profession at large. The perception issues with respect to a lack of independence from the profession would increase. Also, there seems to be no basis on which to determine a levy and such levy mechanism would give rise to a high administrative burden.

Please do not hesitate to contact us should you need any further information.

Yours sincerely,

Thierry DUPONT
President