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MG2017consultation@iosco.org

Kreston International comments on the Monitoring Group Consultation Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest

Kreston International Limited is a global network of independent accounting firms. Currently ranking as the 12th largest accounting network in the world, Kreston covers 119 countries with over 700 offices and a resource of more than 25,000 professional and support staff. Our member firms are involved in the audit of a range of businesses, from listed entities to SMEs.

The periodic review of governance and standard setting processes is important and we are pleased to provide our comments on the consultation paper.

Overview

The quality of standards and independence of standard setting

As an international network of independent accounting firms the availability of high quality auditing standards that are accepted widely is a great benefit in enabling member firms to serve clients operating on an international basis. The standards enable firms to understand the nature of the audit work that will be performed in different jurisdictions especially when acting as group auditor. The standards also provide a framework for ensuring the quality of audit work performed across the network including when that work only relates to the local jurisdiction.

There is a concern that changes could impact on the international adoption of standards and could lead to fragmentation both on a geographical basis and between different types of company. The consultation paper appears to focus on Public Interest Entities whereas the ISAs are used in both the SME and not for profit market.

The wide adoption of ISAs is testament to both the quality of the standards and that they are seen as being in the public interest. The current standard setting process provides many opportunities to ensure the Public Interest is reflected through extensive consultations, outreach and input from Consultative Advisory Groups.

The IAASB and IESBA are independent of IFAC in their decision making and have a balance of practitioners and public members/non-practitioners. Practitioners that are members are expected to act in the public interest and there is no evidence presented of situations where they have not. The contributions of members with practical experience of implementing standards can be expected to lead to standards that both address the issue and can be effectively implemented.

Kreston International makes a contribution to the funding of the standard setting boards through our membership of the Forum of Firms. We do benefit as a network from the availability of widely accepted standards but also see this expenditure as a contribution to the development of high quality standards in the public interest for stakeholders. Our input to the standard setting process is through responses to consultation documents as appropriate. The risk of fragmentation could lead to competing financial demands which would need to be assessed.

It is important that any changes focus on increasing the involvement of non-practitioners in standard setting whilst retaining the valuable input of practitioners and on methods of diversifying funding.

Public Interest

Public interest is one of the drivers for the proposals but is not defined although there is a commitment to developing a framework. This commitment is welcomed and this framework will be pivotal in understanding how the proposal for reform will support this objective.

When considering the framework the vital role of SMEs in economic activity must be reflected.

Funding

The desire to diversify and increase funding is welcomed and would enable both more and more senior staff to be available to the standard setting boards. One of the objectives is more timely

standard setting. However, having more resource available will not automatically lead to faster standard setting. The need to engage with a large and diverse stakeholder group and set high quality standards that are implemented effectively is time consuming and may limit the extent to which more resource can speed the process.

The move to a levy based funding model could lead to firms or networks of firms taking economic decisions about their service lines which could lead to both a reduction in competition in the audit market and the anticipated level of funding not being raised.

Ethical Standards

Kreston member firms are active in a number of jurisdictions and across a number of service lines. There are firms that do not provide audit services. The current model ensures that all members are subject at a minimum to the IESBA Code of Ethics. The division of responsibility could lead to a situation where different firms are subject to different codes or different parts of the same firm are subject to different codes. This will increase the risk of breaches and is not necessarily supportive of the public interest.

The cost and work effort involved in maintaining and aligning a number of codes would not appear to be the most efficient use of resources

A profession which is applying a unified set of ethical standards is best serving the public interest.

Responses to the specific questions in the consultation are given in the attached Appendix.

Yours faithfully

Andrew Collier
Director of Quality and Professional Standards
Kreston International

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| <p>1</p> | <p><i>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?</i></p> |
| | <p>The key areas of concern identified are right areas that should be considered within the current system of governance.</p> <p>However, consideration should be given to the existing oversight governance processes and controls and how the effectiveness of these could be improved to address the perceptions of undue influence; that standards are not developed fully in the public interest; and the relevance and timeliness of standards.</p> <p>The current approach risks reducing confidence in current standards. These standards will need to continue to be effective and any proposals should emphasise the independence of the existing standard setting boards and the steps that are currently in place to ensure the public interest is considered.</p> <p>There are no matters to add to those identified by the MG.</p> |
| <p>2</p> | <p><i>Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?</i></p> |
| | <p>The overarching principle that standards must be set in the public interest is appropriate. Quality is an important principle in standard-setting and this goes beyond the credibility of the standard setters. Quality requires an appropriate balance between the factors identified and this will serve the public interest.</p> <p>It is important that principles-based approach to standards is retained. The principles-based nature of auditing and assurance standards permits their use in a wide range of settings. It is imperative that there is one set of consistent international auditing standards that can be applied by auditors of all entities.</p> <p>Principles-based standards also enable innovation on the part of auditors to address developing issues and deploy new technology to audits. This can help address the concerns over the time taken to issue new standards which is driven by the wide ranging consultation needed to develop quality standards that are accepted globally.</p> |
| <p>3</p> | <p><i>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?</i></p> |

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| | <p>Alignment with the supporting principles would be a requirement for assuring the public interest. However, there will be a conflict between the principles at times and this will need to be explained. As noted above quality and a principles based approach are also important in ensuring standards are in the public interest.</p> <p>It is important that this framework is made available for comment as part of a future consultation process before proceeding with changes to the standard-setting process.</p> |
| 4 | <p><i>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.</i></p> |
| | <p>We do not support the establishment of a single independent board. The separation of ethical standards for auditors from ethical standards for other professional accountants risks causing confusion among wider stakeholders.</p> |
| 5 | <p><i>Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC? If not, why not?</i></p> |
| | <p>Yes. We agree that the development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC.</p> |
| 6 | <p><i>Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.</i></p> |
| | <p>As noted in our response to Question 4, we do not support the separation of the setting of ethical standards for auditors from the setting of ethical standards for accountants not operating in audit. Professional accountants and their firms provide a range of services and professional accountants can work in a variety of sectors whilst there will be different expectations in these different roles, they should all follow a common set of fundamental ethical principles and in this regard the IESBA code is well respected. Any differences in the expectations of users can be met through the application of additional requirements for professional accountants in the relevant field.</p> |

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| <p>7</p> | <p><i>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.</i></p> |
| | <p>Consideration should be given to how the current boards and standard setting process can be improved. This could consider how the engagement of stakeholders outside the profession could be improved and funding increased and diversified. The transparency of the appointment process of Board members could also be examined.</p> |
| <p>8</p> | <p><i>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?</i></p> |
| | <p>It is important that the board is able to focus on strategic direction. Greater funding for standard-setting would permit more work to be undertaken by staff and for that work to be developed to a more advanced level. However, given the wide application of standards and the need to ensure quality and consideration of the public interest the Board would also need to have detailed oversight of work performed by staff.</p> <p>The current model does attract a range of high quality candidates especially from the profession and member bodies. It is not clear that remunerated roles would be attractive to candidates where the requirements could remove them from their current positions. This will be dependent on the level of funding available and the detailed expectations on remunerated Board members. The current barriers to board members from underrepresented groups, such as the investment community need to be understood and an assessment made as to whether remunerated Board positions would brake these down.</p> |
| <p>9</p> | <p><i>Do you agree that the board should adopt standards on the basis of a majority?</i></p> |
| | <p>It is understood that the IAASB's current formal process requires a two thirds majority but that unanimity is sought in decision making. Standards are applied widely and obtaining consensus is important in maintaining the credibility of the standards. This helps with application of a common set of standards across a range of sectors including SMEs, not for profit and the public sector. We do not agree with the adoption of standards on the basis of a majority without processes to safeguard the public interest and to ensure the concerns of a minority have been appropriately addressed.</p> |

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| 10 | <i>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?</i> |
| | It is difficult to see how a smaller board of twelve members would be able to meet the objectives of being diverse in geography, background and sector experience. Given that the available funding and the public interest framework are yet to be fully established it is not possible to agree changes to the structure of the board. |
| 11 | <i>What skills or attributes should the Monitoring Group require of board members?</i> |
| | <p>The IFAC Annual Call for Nominations process includes a description of the skills and attributes required of standard-setting board members. These include 'relevance of [...] professional backgrounds, technical skills, past and present contributions to the accountancy profession at regional and international levels, and the ability to make a significant contribution to the matters and areas of emphasis reflected in the work plan of a particular board when considered in combination with the mix of current board members' backgrounds'. In addition, board members are required to act in the public interest, act as an ambassador for the independent Standard Setting Boards and prepare for and attend board meetings, task forces and working groups.</p> <p>We believe these requirements remain appropriate. However, it is important that the overall composition of the Board provides a breadth of experience and provides a wide range of skills and capabilities.</p> |
| 12 | <i>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?</i> |
| | Consultative Advisory Groups (CAGs) provide important input to standard setting from a range of stakeholders. The development of the public interest framework |

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| | would provide a basis for considering the effectiveness of the CAG in considering public interest issues. |
| 13 | <i>Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?</i> |
| | Board members and technical advisors are currently required to confirm they will act in the public interest. The development of the public interest framework should enable greater clarity in this area. |
| 14 | <i>Do you agree with the changes proposed to the nomination process?</i> |
| | We agree with the proposed changes to the nomination process. |
| 15 | <i>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?</i> |
| | The PIOB should not be able to veto the adoption of a standard or be able to change requirements which have been approved by the board following a properly conducted consultation process. The PIOB should be involved in the development of a standard in order to guide it constructively in the public interest. The maintenance of an approval process that seeks unanimity would greatly reduce the need for a power of veto. |
| 16 | <i>Do you agree with the option to remove IFAC representation from the PIOB?</i> |
| | IFAC and its member bodies is an important stakeholder in the standard setting process and given the proposed changes to the structure of the boards it would be appropriate for IFAC to have representation on the PIOB. It is not evident if the current representation has prevented the PIOB fulfilling its remit. |
| 17 | <i>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?</i> |

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| | <p>The composition of the PIOB should be broad and balanced so that stakeholders, including the accountancy profession, are represented but there is no dominant party.</p> <p>The skills and attributes of members should be similar to those of standard-setting board members.</p> |
| 18 | <p><i>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?</i></p> |
| | <p>The introduction of an open call for nominations would support a breadth of representation and transparency which could enhance the perception that the PIOB is acting in the public interest.</p> |
| 19 | <p><i>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?</i></p> |
| | <p>Yes, the PIOB should continue to oversee the work of the other standard-setting boards.</p> |
| 20 | <p><i>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?</i></p> |
| | <p>We believe the MG should retain its current oversight role. The MG could focus on improvements to the current standard setting process. Some proposals might require additional funding and, as such, would benefit from the MG's proposals for widening the sources of funding available for standard-setting.</p> |
| 21 | <p><i>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?</i></p> |

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| | We agree with the option to support the work of the standard-setting board with an expanded professional technical staff. However, the resource implications of this need to be addressed and it is unclear that that the new body would be a more attractive employer than IFAC and would be able to hire the required number of suitably qualified staff. |
| 22 | <i>Do you agree the permanent staff should be directly employed by the board?</i> |
| | The appropriate employing entity will depend on the final legal structure. The current structure where staff are employed by IFAC is not considered to have generated conflicts of interest. |
| 23 | <i>Are there other areas in which the board could make process improvements – if so what are they?</i> |
| | We have no other suggestions at this time. |
| 24 | <i>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 (e.g. independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?</i> |
| | We do not have any evidence to support that the current funding models has led to any undue influence however the perception that this may be the case should be addressed. We support the MG’s proposal to seek out new sources of funding for standard-setting so that additional funding can be invested in both more and more senior staff. This should be undertaken regardless of the wider changes. |
| 25 | <i>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?</i> |
| | A “contractual levy” will not necessarily remove the perception of influence. Indeed the requirement to pay could be seen as increasing the motivation for attempts to influence. The current contribution by this network is seen as supporting the wider profession and in the public interest. Collecting a |

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| | “contractual levy” would be complex and could lead to fragmentation or reduced competition. |
| 26 | <i>In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.</i> |
| | The matters that we consider should be considered are set out in the introduction to this response. |
| 27 | <i>Do you have any further comments or suggestions to make that the Monitoring Group should consider?</i> |
| | A standard setting approach that responds to technology advances is not going to be timely. It is important that the standards remain principle based and enable auditors to implement technology in a manner that meets the expectations of standards and maintains audit quality. |

