

Viewpoints of Erasmus School of Accounting & Assurance on the reforms proposed in the consultation paper by the Monitoring Group to strengthen the governance and oversight of the International Audit-Related Standard-Setting Boards in the public interest.

To the attention of: Monitoring Group: MG2017consultation@iosco.org
From: Erasmus School of Accounting and Assurance (ESAA)
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Introductory comments & summary

This paper is written to express the viewpoints of Erasmus School of Accounting & Assurance (ESAA), on the proposed reforms as presented in the consultation paper of the Monitoring Group. The viewpoints included herewith represent the opinions based on the experience of the undersigned and are not based on empirical research. ESAA considers that continuous evaluation of the current status and model, in light of public interest, is a vital part of promoting audit quality globally. Even though we believe that the current model is not broken, the need for robust standards is increasingly demanded from all stakeholders. In our view, the model is most effective with a clear segregation between standards setters and oversight (governance). We have expressed our views in this memorandum in light of these two duties:

- Governance of the standard setting boards (including segregation and stakeholder representation)
- Operation of the standard setting boards (including funding, relevance and timeliness)

ESAA agrees that changes can be made to the operation of the standard setting boards however we do not agree to the proposed changes in the governance structure of these boards. As a general note ESAA would like to point out that the consultation paper of the Monitoring Group provides no evidence to support the key concerns as included in section 1 of the paper. Considering the seven objectives that are set out in the paper we suggest to include **Innovation** as a separate objective considering the rapidly changing environment the audit profession is in.

Governance of the boards

The role of a governing body is not only to ensure compliance with- , and adherence to an agreed due process, but it has responsibilities to oversee operations of the organisation, making appointments, monitor design and effectiveness of the operations of the standard setting boards, as well as ensuring that the boards are meeting the expectations of **all stakeholders** (which includes the public at large, those charged with governance, preparers, national standard-setters, audit firms, as well as regulators and academics). The current structure ensures a clear segregation of duties between standard setting and governance. We believe that this is fundamental for acceptance and credibility of the standard setting process. We compare this structure to the concept of 'Trias-Politica' or separation of powers between the **legislature** (setting standards), **executive** (applying standards) and **judiciary** (monitor compliance with standards) powers which has proven to be effective in governing nations.

The discussion paper currently suggests that the MG should ultimately be the decision making unit regarding nominations for the board. This implies there will be no segregation between standard setting and inspection, and thus does not contribute to building stakeholder trust in the standard setting process. ESAA proposes that the governance body needs to be **multi-stakeholder** to build the confidence of all stakeholders in the standards. A consistent representation from all key stakeholder groups, instead of just regulatory representation will be critical to building the confidence needed to achieve voluntary adoption of the standards by all national standards setters and audit firms across the world, particularly if the standard setting body becomes independent from IFAC.

Operation of the boards

The same multi stakeholder strategy should apply to the standard setting board(s). ESAA believes that a single board responsible for both assurance and ethical standards will not address the key concerns of serving the public interest. Although the monitoring group suggests, without clear evidence, that audit profession's involvement in standard setting has an adverse effect on stakeholder confidence, ESAA believes that it remains **critical** that there is adequate involvement from current **practitioners** and **academia** in the oversight levels as well as standards development. Practice experience, knowledge and expertise is fundamental to setting and monitoring the application of standards that are effective, workable and respond timely to current market developments. ESAA has serious concerns about the **quality** and **effectiveness** of the standards if this is not retained under the reformed model. Standards should be robust, from a technical point of view. This implies there is a need for strong input from the audit profession where thorough knowledge and innovation are available. As an illustrative example, consider that the governing bodies of hospitals are setting the standards by which the surgeons operate their patients. This would not lead to the desired outcome for all stakeholders involved. Auditors are trained professionals who endure a post-doctoral study (and internship) before becoming registered accountant. The auditing profession is complex and requires a lot of judgement, practical and technical experience, thus it only makes sense that these trained professionals are involved in developing auditing standards.

As it relates to the relevance and timely development of standards ESAA fully agrees that **quicker development** and agreement on new standards will benefit the confidence of stakeholders and limit the uncertainty of executioners while applying new auditing techniques with the increased usage of data and artificial intelligence. As indicated in the discussion paper, under the current model, the costs of the boards are directly paid by the profession. ESAA agrees that this funding models needs to be reformed to a **broad, diversified funding base**. Standard setting benefiting the public interest and all stakeholders, should be funded by a fair representation of those same stakeholders.

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