

Monitoring Group  
Via e-mail  
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**Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest**

Dear Sir,  
Dear Madam,

**Overall**

The Belgian Institute of Chartered Accountants and of Tax Advisors (*"Instituut van de Accountants en de Belastingconsulenten – Institut des Experts-comptables et des Conseils Fiscaux"*; hereafter shortened as IAB-IEC) welcomes this public consultation on a reform of the current standard-setting model.

The IAB-IEC strongly supports the initiative to reform the standard setting model. We agree that the status quo is not an option, however, we do not think that the current model is broken. It has some flaws, which need to be addressed. This consultation paper is a first step in addressing those flaws.

In general, parts of the proposition need to be further clarified, in particular those parts concerning the impact assessment, the public interest framework and the funding arrangements.

Although the IAB-IEC agrees with most of the analysis made by the Monitoring Group (MG), it has different views concerning some of the propositions made in the consultation paper.

The IAB-IEC will formulate its opinion based on a European perspective, with an emphasis on SME's and SMP's.

The cornerstone of this reform should be a multi-stakeholder governance and oversight body, multi-stakeholder boards, and, multi-stakeholder funding.

## **Section 1: Key areas of concern in the current standard-setting model**

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?

We agree with the key areas of concern. Crucial for the success of the reform will be, if the right balance can be found between on the one hand quality of standard setting and adequate multi-stakeholder participation and, on the other hand, timeliness of standard-setting that guarantees the continuing relevance of the standards.

A lack of quality will have an adverse effect on acceptance and adoption of the standards. If multi-stakeholder participation is lacking, the independence of the standard-setting boards, of the oversight body and consequently of the standards themselves will be questioned. Untimely standard-setting will lead to the irrelevance of standards, given the pace of change in audit, accountancy and business due to rapid technological evolution.

IAB-IEC wishes to stress two important issues. The first issue is that according to article 26, 3 of the Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (hereafter: audit directive) the European Commission may adopt the international auditing standards only if they:

- (a) have been developed with proper due process, public oversight and transparency, and are generally accepted internationally;
- (b) contribute a high level of credibility and quality to the annual or consolidated financial statements in conformity with the principles set out in Article 4(3) of Directive 2013/34/EC;
- (c) are conducive to the Union public good; and
- (d) do not amend any of the requirements of this Directive or supplement any of its requirements apart from those set out in Chapter IV and Articles 27 and 28.

The reform must therefore ensure that the standard-setting and oversight model meets the conditions of article 26, 3) of the audit directive, so that the European Commission may adopt them on Union level for statutory audit as defined in article 2, 1 of the audit directive. Currently, the European Commission, a Monitoring Group member, did not take up its mandate in article 26.3 of the audit directive for adoption of ISAs in all 28 EU Member States.

The second issue is that article 26, 5 of the audit directive states that if EU Member States require the statutory audit of small undertakings, they may provide that application of the auditing standards is to be proportionate to the scale and complexity of the activities of such undertakings. Member States may take measures in order to ensure the

proportionate application of the auditing standards to the statutory audits of small undertakings.

Naturally, the same reasoning must be followed for audits, other than statutory audits, of small undertakings. Most SMEs are not required to have an audit and choose not to have one, opting instead for some other assurance or related service provided by an accounting firm. 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. The reform must ensure that standards do not focus solely on audits of listed entities or PIEs.

It is becoming increasingly difficult to set the same standards for listed/PIEs and consequently more complex entity audits as for non-listed and less complex entity audits. It seems necessary to consider whether there is a need for different requirements for listed/PIE audits as compared to unlisted/less complex audits to address the issues of complexity and the difficulties of scalability. Preferably, the more complex standards would be built or based on the less complex ones.

While IAB-IEC in principle agrees with the idea of a single set of standards applicable to all entities no matter their size or complexity, it has doubts as to whether the currently existing standards are suitable for SME audits. These doubts rest on the apparent lack of inherent scalability of these standards. Scalability is a critical ingredient for standards to be suitable for SMEs and for the principle of cost effectiveness.

Scalability is a bottom-up concept. It is about starting with requirements designed for small and simple entities and then adding requirements for larger, more complex 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 participate in both the governance and oversight as well as development of standards. This means that the SMEs that benefit from the standards and the SMPs that use them are represented on an equal footing with other stakeholders and that public consultations effectively engage the SME and SMP community.

Scalability thus requires a fundamental reversal of the current top-down concept, where standards are designed to suit PIE's and need to be simplified, by carve-outs, SME-packages, guidelines, Q&A's, technical note's or other means to meet the needs of SME's.

## **Section 2: Guiding principles**

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?

IAB-IEC agrees with the overall thrust of these principles.

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?

As stated under question 1, we stress the importance of SME and SMP needs. SME's make up 99,8% of entities in the EU in the non-financial sector, 57% of value added / Gross Domestic Product (GDP) and 67% of employment in the Europe Union. To serve public interest, the reformed model of standard setting and oversight must take SME's into account. To achieve that goal, some form of SME test could be used, such as the EU's SME test<sup>1</sup>. The SME Test analyses the possible effects of EU legislative proposals on SMEs. By assessing the costs and benefits of policy options, it helps implement the 'Think Small Principle' and improve the business environment.

### **Section 3: Options for reform of the standard-setting boards**

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.

IAB-IEC prefers the current model of separate standard-setting boards. Ethical standards should be developed by a single board for all professional accountants, both in business as in public practice. Furthermore, ethical standards should apply to every service which professional accountants provide, and not only to audit and assurance services.

Having both the by the monitoring group envisioned single board (for auditors) and the IESBA (for professional accountants other than auditors) set separate sets of ethical principles, could create potential misalignments between two codes of ethics and create perceptions of a two-tier profession.

In addition to these arguments, the combined effects of a single board with broad responsibilities with a reduction of board members in comparison to the current boards combined, could lead to an overload of work for the respective board members, which could result in a decline in quality of the standards (see questions 8 and 10).

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?

The development and adoption of educational standards should remain a responsibility of IAESB and the IFAC compliance program should 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.

The IESBA should retain responsibility for the development of ethical standards for all professional accountants (see question 4).

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<sup>1</sup> [https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-test\\_en](https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-test_en)

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.

Reference is made to the responses to other related questions.

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 that board members should be remunerated. It is however unclear who will pay for this remuneration.

At the moment, it is rather unclear what is to be understood by "strategic decisions". This needs to be defined.

If this has to be understood in the sense that the technical input will be principally shifted to the staff level, then IAB-IEC has the following remarks. Such a shift requires a substantial expansion of the amount of staff members and the corresponding funds that have not been arranged specifically in the proposition of the Monitoring Group.

Such a shift would also undermine the goal of enhancing confidence in the independence of the standard-setting model through active participation in multi-stakeholder boards and a multi-stakeholder governance and oversight body.

By shifting the technical input from the boards to the staff level, transparency and accountability will be reduced. The relevant technical debates will be happening outside of plenary discussions at the staff level, where the impact of stakeholder influences could be exaggerated without having been properly assessed. This is contrary to the intention of reducing stakeholder influence at board level through a multi-stakeholder composition.

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

Because of the proposed multi-stakeholder composition, there is a risk of minorization of one stakeholder group by the other two stakeholder groups, when standards are adopted by simple majority.

To prevent this, reaching a consensus between all the stakeholders composing the board level is desirable. If a consensus cannot be reached and to prevent stalling of the adoption procedure, some form of qualified majority voting that prevents minorization of either stakeholder group or of specific groups such as SME's is essential.

Adopting standards by simple majority, for the sake of decision making speed, will override decision making quality and could lead to a practice of proposal and re-proposal to remedy the errors made during the fast-track adoption procedure. Debate and consultation on complex topics and proposals cannot be rushed without consequences.

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?

As explained in our answer to question 4, IAB-IEC prefers the current model of separate standard-setting boards.

It is crucial that every board has a broad multi-stakeholder composition that reflects different stakeholder perspectives such as investors, those responsible for preparing financial statements, those charged with governance, academics, regulators, SME's, SMP's, etc. In addition, the board members should represent geographic and gender diversity, while possessing diversified skills.

Reducing the boards' composition, even more so if the Monitoring Group would persevere in its proposed single board, could jeopardize the proposed multi-stakeholder model. Boards composed of only twelve members could be lacking diversity, expertise or both. This is especially the case when there is only a single board, where board members need to possess expertise in both ethics and audit, assurance and accountancy or the board needs to be composed of board members with expertise in either field.

Concerning a composition with both full time and part time members, IAB-IEC has the following considerations. The benefit of this kind of composition, would be that it could be beneficial for SME and SMP representatives, because it is more difficult for professionals operating in smaller firms or as sole practitioners to be full time members because of the negative impact this would have on their businesses. On the other hand, SME's and SMP's would be best represented by representatives who have field experience with SME's and SMP's.

The disadvantage of a board composition with both full time and part time members, could be that there is a risk that the weight of the part time members in the decision making process could "de facto" sometimes be exceeded by the impact that the full time members would have because of their intensive involvement in the functioning of the board. This would tend to reduce substantially the impact of the participation, for example, of part time SME and SMP representatives or of accountants in business.

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

The board should be composed of members with different skills. These skills depend on the technicality of the standards. The more technical the standards set by the board, the higher the level of technical skills required. However, not all members need to have an in depth technical knowledge. The board as a whole would gain from a diversity of input. Besides mastering the relevant technical skills required, the board members should also have a deep understanding of the stakeholders' needs and should be able to capture them in an appropriate manner. Finally they must be good communicators both within the board and vis-à-vis the stakeholders and the profession.

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?

This depends on whether there will be a single board or if the two current boards are preserved and on the composition of the board(s) and staff. In case of a small board and/or staff, the CAG could still be useful.

Only when the board(s) and the staff are sufficiently large, a CAG could be obsolete.

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

This is the only time in the consultation paper where task forces are mentioned. This needs further clarification. Furthermore, the public interest framework isn't developed yet. This makes it difficult to answer this question.

From a general point of view, task forces should be accountable to the board, must be flexible and the members of such task forces have to be experts in their respective fields.

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

We agree in principle. However, the chair of the Nominating Committee should be independent from IFAC, from the PIOB and from the Monitoring Group and the Nominating Committee should comprise an equal number of representatives of all stakeholder groups.

#### **Section 4: Oversight - role of the PIOB**

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?

First and foremost it must be clearly stated that participation and oversight are incompatible. The governance and oversight body should not interfere with the technical debate. To be truly independent, the standard setting boards should have the sole responsibility for the technical development of the standards. Therefore, the PIOB should not be able to veto the adoption of a standard or challenge the technical judgments of the boards.

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

The PIOB should be comprised of different stakeholders. The profession should be part of the multi-stakeholder representation, on equal footing with the other stakeholders. The profession may be represented by IFAC, as long as the representation by IFAC includes SMP's and accountants in business.

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?

There should be a multi-stakeholder representation that includes SME's and SMP's. All stakeholder groups should be represented equally. The size of the oversight body should ensure geographic diversity.

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?

Members should be identified through an open call for nominations from all stakeholders. The nomination process should be open, public, and transparent and should also be supported by due process and a skills matrix.

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 (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

This depends on how the new board(s) will be composed and what the competence of this/these board(s) will be. It is key that whatever competences are left to the existing boards, they should continue to be supported by IFAC. This is especially the case for education.

## **Section 5: Role of the Monitoring Group**

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?

There needs to be a clear distinction between the respective roles of the Monitoring Group and the PIOB. If a clear distinction cannot be made, the new governance and oversight model could be perceived by the public and the stakeholders as a confusing structure.

## **Section 6: Standard-setting board staff**

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 that the board member should be able to rely on the staff for executing strategic decisions and making technical preparations. An expanded staff could be necessary. It is yet unclear how this expanded staff will be funded.

If the staff is expanded, it should definitely include members with SMP and SME experience and expertise and accountants in business. To this purpose, the staff could be comprised of a mix of permanent technical staff and staff seconded by firms and professional accountancy organizations.

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

We agree in principle that the permanent staff should be directly employed by the board. However, there is need of further clarification of how this will be implemented in practice. This includes the issue of funding.

## **Section 7: Process considerations**

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

The board should try innovating through experimentation and trial and error to prevent disruption of the development of standards through a transitional period of change of the standard-setting model.

## **Section 8: Funding**

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 (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)?

Funding needs to be diversified to avoid the perception of undue influence of any stakeholder group. The proposition of the Monitoring Group needs to be further clarified to explain how the extra staff members and the remuneration of board members will be met.

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?

A contractual levy on the profession would create the perception of undue influence by the profession. Therefore, it should be avoided.

Furthermore, a contractual levy is voluntary and it cannot be made mandatory. Therefore, it cannot act as a source of secure and continuous funding.

**Open questions:**

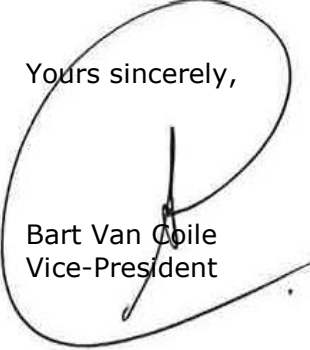
Question 26: In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.

The change of the current model will be disruptive. It should only be executed if such a change can be considered as a significant improvement to the current model.


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

We have no further comments.

Yours sincerely,



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Vice-President



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President