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Re: Monitoring Group consultation –  
Strengthening the Governance and Oversight of International Audit-Related Standard-Setting

We welcome the Monitoring Group's consultation. The governance and oversight of the international audit standard-setters has been of concern to us for some years, and we support moves that seek to address this.

By way of background, Aberdeen Standard Investments is a global fund management house headquartered in Scotland, with over \$764.34 billion in assets (as at 30/09/2017). We invest to further the long-term financial wellbeing of millions of underlying beneficiaries. We are best known for our active investment approach, and recognised as a long-term investor in quality businesses. We are active users of company reporting and as an international investment institution we rely on global auditing standards to support the quality of that reporting.

It is important in our view that the main audit standard-setting boards are removed from IFAC and respond to much more independent oversight and governance. Only in this way can investors and other parties have confidence that standards are set in the public interest and not simply in the interests of the profession itself. We generally support the Monitoring Board's proposals as the best way to deliver on this overarching intent.

We answer the specific consultation questions below.

Yours sincerely



Paul Lee  
*Aberdeen Standard Investments*

**Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.**

**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?**

Yes. We fully agree with the issues identified, though we suspect that in many cases the question of a lack of independence in the development of standards is more a matter of perceptions as in reality we believe that the bulk of the standards have been developed in the public interest. Nonetheless, perception matters and there is a risk of marginal decisions being taken to benefit the profession rather than the public interest. Furthermore we firmly agree that there is a need to ensure that the pace of development of new standards fully reflects the timeliness required in the modern world – while naturally following appropriate due process.

**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?**

We recognise that the overarching principle that standards should be in the public interest is the core of what we should be seeking. We have more suggestions with regard to the supporting principles:

- (a) We believe that there needs to be a Quality supporting principle, that the standards developed need to be of the highest quality. This is implied in much of what is said but articulating it specifically has real value.
- (b) We believe that the Independent supporting principle currently tries to pull together two different issues – independence and that the board membership represent the diversity of the key stakeholders. We would suggest that these two important issues be separated out into two supporting principles: Independent and Representative.
- (c) We make a comment below in response to Q3 about transparency of responsiveness to the concerns of investors and other key users of audited financial statements; this could be reflected either within the current proposed Transparent supporting principle or in a separate new supporting principle of Responsive.

**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?**

We believe that the key element of producing standards fully and transparently in the public interest is that the board(s) be responsive to the concerns raised by investors and other users of audited financial statements. This is best delivered by: (1) the board including among its membership individuals with a current or past role as an investor; (2) taking care to solicit the views of investors and other users; and (3) ensuring that the written summaries of conclusions following the consultation process explicitly include consideration of the issues raised by investors and other users of audited financial statements. By doing this the board(s) will be more likely to deliver standards that fully reflect the public interest and also will be seen to be doing so.

**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.**

We support having both standard-setting roles sitting within a single independent board. We believe that there is a natural synergy to these standard-setting obligations and that, as the consultation paper suggests, ethics should be integrated into all an auditor does – and thus into all the standards set for auditing activity. Having experienced the work of the UK Auditing and Assurance Council, which has responsibility across both auditing standards and ethical standards, we have seen the value of this integration directly. We believe the new board should be trusted to manage appropriately the workload that will arise from this combination.

**Question 5: 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?**

Yes, we agree. These roles properly sit within the professional body rather than elsewhere as they form core elements of what it means to be a profession.

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

Like the monitoring board, our focus is on auditing in the public interest, and we thus have no strong view on this issue. We would be content for IFAC to retain this role for professional accountants in business, and recognise the arguments that the profession will want to set baseline ethical expectations for all accountants.

**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.**

We believe the options considered are the right ones and have no further comments.

**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?**

Yes, and yes. We think the board will over time develop its own balance – there must clearly be scope to challenge and debate specific drafting, but the Monitoring Board's assertion that detailed drafting should not happen within the board is also clearly correct. We agree that paying board members is necessary in order for the membership to be truly reflective of the full base of stakeholders.

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

Yes. Again the board will necessarily develop its own approach, with different levels of consensus sought on different issues. But there should not be a requirement that standards are only agreed on the basis of consensus, or full unanimity.

**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?**

Yes we agree. This model seems right – a board of 12-15 people with a third each from the different stakeholder groups highlighted, the majority of whom are part-time. We firmly believe that seeking only full-time members would unnecessarily and unhelpfully restrict the membership of the board and reduce its ability to stay in close touch with changing perceptions among its stakeholders.

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

The main attribute should be a commitment to the overarching principle and the supporting principles for the board's work. That, and a willingness to apply intelligence and independence of thought to the challenges of standard-setting for audit matters. Not all members will need detailed technical expertise at the start of their tenures – indeed, the board will benefit from having members able to address key issues of debate with fresh perspectives.

**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?**

We believe that retaining scope for a Consultative Advisory Group of similar form to the current makes sense, but we would expect that the board will develop its own expectations and requirements over time – and thus it is important that the board has scope to adjust the role, remit and membership of the CAG over time.

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

Yes. We believe that adherence to the public interest is a fundamental requirement for all the board's work.

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

Yes. Having nominations administered independent of the profession is a vital element of the necessary reforms; the PIOB is the natural alternative overseer of nominations and appointments. Holding an open call for candidates is similarly a necessary part of transparency and openness.

**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?**

Yes, we agree that the proposed role and responsibilities are appropriate. We believe the PIOB should not be able to veto adoption of a standard, nor to challenge the board's technical judgements. The PIOB's role should be to ensure that the board has the right membership and that the right process is followed; it should not have a role to second-guess the substantive judgements and decisions of the board.

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

Yes, strongly.

**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?**

**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 have no detailed comments on the membership of the PIOB, nor the process for appointing its members. The crucial element for the PIOB is that its membership is sufficiently independent and robust to retain the confidence of the regulatory community, particularly those on the Monitoring Group.

Further, we believe that active consideration should be given to bringing together the PIOB and the Trustees of the IFRS Foundation; this would emphasise these bodies' roles in nominations and due process, and not in the technical elements covered by their respective standard-setting boards.

**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?**

We believe the focus should be on the public interest aspects, meaning that attention could be restricted to the board setting standards for audit and associated ethics.

**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?**

Yes, we agree.

**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?**

Yes, we agree but we would leave the detailed decision-making on the membership and skills of the technical staff for the board itself to determine and oversee. We note that the key criterion for the appointment of such staff needs to be their quality and skills, and not their geographical diversity.

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

Yes, we agree. It is crucial that the staff is fully and clearly independent from IFAC, and the profession generally; it also needs to be independent of the Monitoring Board and PIOB.

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

We have no doubt that there are many areas where the right board can identify process improvements and promote sensible suggestions for positive progress. But we do not believe it is appropriate for us, or for the Monitoring Group or PIOB, to identify these. Rather, the board should be invited to develop its own thinking on process improvements and how best to advance standard-setting in 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)?**

**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?**

Yes, we firmly agree that independence needs not to be compromised by the need to fund the work of the board, and we agree that a levy on the profession, levied by the PIOB rather than the board itself, is the most appropriate way to assure independence and provide sufficient initial funding for the board. We believe that the Monitoring Board has identified the right additional funding mechanisms beyond this levy.

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

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

We have no further comments.