FCM COMMON POSITION ON THE CONSULTATION PAPER RELEASED BY THE MONITORING GROUP

FCM, the « Fédération des experts-comptables méditérranéens » represent the accountancy profession of the mediterranean area. It gathers 16 institutes from 12 countries (Albania, Cyprus, Egypt, France, Greece, Italy, Kosovo, Morocco, Portugal, Spain, Tunisia and Turkey) representing more than 320,000 professional accountants from both sides of the Mediterranean Sea.

The Monitoring Group (MG) released its initial Consultation Paper (CP) on November 9, 2017 proposing changes to the international standard setting process for Audit and Ethics. FCM common position paper, instead of providing detailed answers to all the questions in the consultation have chosen to provide the MG with an overview of its position on the main proposals set in the consultation. FCM hopes that the MG will find our comments helpful.

What are the issues?

The Monitoring Group consultation is premised on the assumption that there is:

- a perception of undue influence by the profession on the development of audit and assurance standards, as well as on ethical standard setting, with an adverse effect on stakeholder's confidence in the standards,

- a risk that standards are not developed fully in the public interest, partly because of such perceived undue influence,

- an issue with the timeliness and relevance of standards (implying that the IAASB and IESBA Boards would not keep up with the pace of change, for example with respect to the greater use of data analytics in the audit).

The perceived undue influence by the profession would result from:

- IFAC directly funding, accommodating, providing support to and staffing the standard setting boards,

- Audit firms and accountancy bodies providing a majority of Board members and technical advisors.

Summary of our position

The FCM first want to reaffirm the high quality of the standards produced so far by the IAASB and IESBA. Such high quality is recognized by the MG and demonstrated by the fact that the ISAs have been adopted in 125 countries in the world, as well as by large international organizations, such as INTOSAI, the World Bank, the IMF. In the Mediterranean area, most of the countries which we represent have adopted the ISAs.

There is therefore no evidence that the extant standards have not been developed fully in the Public interest. They remain an appropriate benchmark for audit quality.

However, we recognize that there may exist a perception by some stakeholders of undue influence by the accounting profession, even though we have not seen any evidence of stakeholders complaining about such undue influence and the responses to public consultation on proposed standards did not provide any evidence either.

Nevertheless, it is legitimate to reassess any system on a regular basis and we therefore understand the willingness of the MG to consult stakeholders about possible improvements to the standard setting model.

What constitute good standards?

Before responding to the main proposals of the consultation paper, we believe that it is necessary to spell out what constitute in our opinion the essential characteristics of good standards, i.e.:

- Standards that are principles based, allowing professional judgement to be fully exercised. Auditing is far from being a mechanical process as it requires appropriate professional experience, in-depth knowledge and sound judgment.

- Standards that allow the auditors to exercise their competences and skills so as to be able to challenge the management and the governance of the audited entities and thereby add value to the audit. Standards should not drive a "compliance" attitude which would be detrimental to the effectiveness of the audit work.
- Standards that are scalable and capable of a proportionate application to all types and sizes of entities. Additional complexities should only be dealt with through additional application guidance, not through the standards themselves.
- Standards that are acceptable internationally, from emerging economies to the most developed capital markets

Those characteristics of good standards are very important for us because most of the countries of the Mediterranean area have an economy based on SMEs. It would therefore not make sense for those countries to have standards designed primarily for listed entities or PIEs. At the same time they cannot afford to pull out of the international standards and revert to national standards since international standards are considered as a prerequisite benchmark for audit quality by international donors such as the World Bank (all the ROSC are measuring the adoption and implementation of international standards) and more generally by all international partners.
If the standards were to become more rules based, more complex and directed primarily at the audit of listed entities or PIEs some countries of our constituencies could get trapped into a situation where they have no choice but to adopt international standards which are not suited for their economies.

We believe that the biggest risk in the proposed model of the MG lies in a possible/ probable partition of the audit of PIES and non-PIEs with two different sets of standards where auditing standards for PIEs would become increasingly complex with almost no limit and to the extent that they would not only become inapplicable to small entities but also to medium sized entities.

That being said, once the characteristics of good standards are set, it should be easy to derive the principle of good standard setting in the Public Interest. We consider that the public interest is best served through:

- The respect of a transparent and effective due process, which includes periodic public consultations about the agenda of the Board(s), that makes the best use of advisory groups, and that follows rigorous processes in developing preliminary discussions, scoping the projects, assessing feasibility and time frames for the conduct of each project selected for active work.
- A clear separation of duties between those who set the standards and those who design the standard setting processes and oversee the compliance with approved processes (the Governance level).
- A standard setting Board that is independent and exempt from undue influence from any stakeholders group.
- A balanced, multi stakeholders' representation, both at the level of the standard setting Board and at the level of the Governance.
- An appropriate and sustainable multi stakeholders funding.

Appropriate Governance that serves the Public Interest.

At present, it is unclear to us from the MG proposals whether the MG is aiming at establishing a true multi-stakeholders' Governance of the standards setting Board(s) or whether it is aiming at expanding the powers of a PIOB composed only of regulators.

We consider that establishing a strong and effective multi stakeholders' Governance body which includes representation from the profession is key to the reform. Such Governance body should be in charge of:

- Seeking funding with a view to progressively establish stable resources provided by all stakeholder groups who benefit from high quality audit standards,
- Appointing the Chair(s) and Board members
- Managing the performance of the Board(s) (assessing the Chair, assessing the Board members, controlling that the board(s) delivers on its work program...)
- Overseeing the respect of the due process
- Promoting the global adoption and proper implementation of standards, etc.

It is only through the proper conduct of all these tasks by a credible and respected Governance body that the public interest will be best served. The Governance body must be a guardian of the model, of its effectiveness and of its credibility including the trust it conveys for the stakeholders. It is therefore key that the Governance body has a balanced composition and is not in the hands of one single group.

Of course, in order to preserve the independence of the standard setting Board (s), neither the Governance nor any Oversight body should have the right to veto the issuance of a standard, once it has been demonstrated that an appropriate due process has been followed.

Board Composition

We are not supportive of merging the audit/assurance and ethics standard setting into a single Board but we admit that audit and independence matters could appropriately be dealt within a single Board.

We agree with having a multi stakeholders Board(s) selected from the three following groups of stakeholders (users, regulators, practitioners) with a reasonably limited number of Members.

The Board should collectively have the competence to cover all the sectors or the constituencies for which it is setting standards, including the Public sector and the not for profit. It is therefore important that the Board members are not only multi-stakeholders in terms of the group of stakeholders from which they originate, but also in terms of their competences.

The ideal number of Members depends on whether the Boards are merged into a single one or not, but 12 is certainly not enough to ensure sufficient diversity of professional and geographical backgrounds and for the Board to possess all the competences needed to deal with a wide variety of topics. We are particularly concerned that it would become even more difficult for a Member from a Mediterranean country to make it to the Board and that consequently the voice of the Mediterranean countries will never be heard in the debates on the international standards.

Due to the technical nature of the standards, especially with regards to audit and assurance work, one third only of practitioners is not enough, 40-50% would be more efficient.

A strong majority of Board members, if not all members, should have an in-depth knowledge of auditing acquired either through practical experience of auditing or through direct interaction with auditors (audit committee members, regulators, etc...).

We agree in principles with having an expanded professional technical staff to support the Board(s). The Board members should not be directly involved in the drafting of the standards, and should rather devote most of their time to research, public consultations and discussions within the Board. However, the Board(s) should remain in command of each active project and each member should take full responsibility for the standards on which he/she will cast a vote; this goes much beyond setting the strategic direction for the projects.

We are however concerned by an evolution of the standard setting that would become more costly and restricted to very few constituencies. Moving away from a model based on the voluntary contribution in kind of Board members coming from a wide variety of horizons to a model where the Board would be composed of a very limited number of paid members may not enrich the debates around the Board table. The Professional institutes will certainly not have access to the Board anymore and there is a risk that only members from the firms be appointed to represent the profession.

In addition, we are not convinced that the auditing standard setting requires full time Board members as do the Accounting standard setting. Auditing standards setting is different from Accounting standards setting in that Auditing standards deal with the process of auditing. Auditing standards should therefore require fewer efforts than accounting standards which may embrace very complex technical issues that require full time members which completely master the issues.

We therefore urge the MG to really balance the pros and cons of the existing and the proposed model before entering into a reform which may be much more costly while bringing little additional benefits (if any) and rather think about an appropriate evolution of the existing model to ensure multi-stakeholders representation in the Board and the Governance body and to ensure that no group is exercising undue influence on the standard setting.

Funding

To ensure independence of the Board, funding must be diversified and not only come from the profession.

Here again Auditing standard setting is different from Accounting standard setting and if we can understand that the corporates accept to finance the accounting standard setting because it sets the framework under which their financial statements are going to be issued, it is not sure that they will accept to finance the auditing standards which they may simply see as the process under which the auditor will carry their work.

Similarly, we do not see how a “contractual” levy on the firms could work either at an international level.

The Model proposed by the MG also questions the funding presently coming from the profession as a whole (i.e. the professional institutes) through IFAC.

Finally, funding must be sustainable because standard setting takes time and must not be subject to annual fluctuations in its funding.

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