

**MOORE STEPHENS INTERNATIONAL RESPONSE TO MONITORING GROUP
CONSULTATION PAPER
ON
STRENGTHENING THE GOVERNANCE AND OVERSIGHT OF THE
INTERNATIONAL AUDIT-RELATED STANDARD-SETTING BOARDS
IN THE PUBLIC INTEREST**

9 FEBRUARY 2018

INTRODUCTION

Moore Stephens International welcomes the opportunity to contribute to this Monitoring Group consultation. We are a member of the IFAC Forum of Firms and the 11th largest global accounting network with over 28,000 personnel working across offices in 110 countries.

We would be happy to discuss our comments further with representatives of the Monitoring Group.

KEY POINTS

1. We do not believe that the Monitoring Group has demonstrated a sufficiently strong case for the changes that are proposed in its consultation document. It is undoubtedly true that public interest standard setters need to be seen as independent of those for whom the standards are being set. However, the current model is only as it is today because interested stakeholders other than IFAC have not provided an appropriate share of the necessary financial and resource commitment to address the weaknesses in the current model. Any changes made to the current model must demonstrably be in the public interest, cost effective and financially sustainable. They must also have been reached after wide consultation with all relevant stakeholders.
2. The Monitoring Group has not involved a broad multi stakeholder group in developing the consultation paper, thereby missing the opportunity to build a true consensus for the future. We hope that this will be done with the results of the consultation.
3. As a consequence, there is a real danger that the consultation paper proposals, if enacted, will not be perceived to be in the public interest because they are overly biased by the regulatory community, which is commonly perceived to be part of the government sector and is not multi stakeholder.
4. We strongly support reform where it has been demonstrated that there is a real need. Whilst the consultation paper does not provide sufficient evidence to support some of the proposed changes, we would support proposals to bring requirements covering auditor independence together with auditing standards, particularly for Public Interest Entities (PIEs). It is crucial for the accounting profession and the global accounting networks that there is only one standard setting body dealing with both auditing standards and auditor independence in order to ensure consistency of approach.
5. As a mid-tier global network, we use International Standards on Auditing (ISAs) as the minimum requirement of our member firms across all locations. In several jurisdictions, there are additional requirements set by regulators for PIEs. We are extremely concerned that the proposed reforms are really intended by the regulatory community to address the audit of PIEs and, over time, an unintended consequence will be that these reforms will weaken the quality of auditing standards as they apply to global non-PIEs and SMEs. Current standards are intended to be principles based and to allow for proportionality of application. We are concerned that concentration on the audit of PIEs will lead to standards that cease to be capable of being applied proportionally.
6. Public interest entities need to be clearly defined. An appropriate starting point is the definition that is used in the EU Audit Directive – being entities listed on a regulated stock exchange, credit institutions and insurance undertakings. However, we believe that this definition needs to be further refined, being both extended and contracted. The distinction between regulated and other stock exchanges is very specific to the EU and not necessarily a reflection of the market capitalisation or breadth of investor involvement in listed entities. At the same time, insurance undertakings is a broad category that can include companies in

run-off where there is little if any true public interest in their activities. We have not suggested a definition at this time, but consider that this should be a priority. We agree that there should be the capacity for specific jurisdictions to add additional categories of PIE if appropriate to their national circumstances.

7. In our view, the International Ethics Standards Board for Accountants (IESBA) must continue to set standards for ethics for the accounting profession as a whole. It is crucial that preparers and auditors are living by the same code, albeit that auditors should be required to meet the additional requirement that they are independent, which should be included in both auditing and ethics standards. We consider that IESBA should include a strong cadre of independent members to ensure the public interest is considered at all times. IESBA should also be subject to review and reform, so as to be more strategic in nature as well as recognising changes in public interest perspectives as well as failures within the profession.
8. We agree that revised governance structures should be introduced for both the IAASB and IESBA. It is recommended that a more streamlined single tier of public interest oversight be established which includes the appointment of a cadre of independent members on each board.
9. We do not agree with the Monitoring Group's statement that "dealing with any reform in stages will avoid disrupting or otherwise undermining confidence in the current standard-setting process". This statement does not indicate an understanding of the current challenges being faced by global networks in their investment in and use of artificial intelligence within audits as is expected by their clients. The uncertainty created by a phased approach will extend over a far longer period than would be necessary if the complete package of proposals were launched simultaneously and will create potential for public conflict between the global firms and regulators which would not be in the public interest. Further, presenting a complete package of proposals now would better allow stakeholders to give proper consideration to the proposals and their funding. Piecemeal proposals will simply make it impossible for any parties to undertake an appropriate assessment of the effects that the proposals are likely to have.
10. Greater clarity is required from the Monitoring Group on funding, governance and transition to enable stakeholders and the public to assess the appropriateness and viability of the Monitoring Group's complete model. Asking the accounting profession to pay for the new model on its own is unacceptable. To do so would replicate the current model which is, apparently, perceived to give the accounting profession too much influence.

RESPONSES TO DETAILED QUESTIONS

Our responses to the Monitoring Group's detailed questions are included in the Appendix.

APPENDIX

RESPONSES TO DETAILED QUESTIONS

Q1. *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?*

Dealing with each of the identified concerns in turn:

1. The adverse effect on stakeholder confidence in the standards as a result of a perception of undue influence by the profession on two grounds: (a) IFAC, representing the global accountancy profession, manages the nomination process of the standard-setting boards, and directly funds, accommodates, and provides support and staffing for the standard-setting boards – IFAC itself is funded by member organizations and the global accountancy profession; and (b) Audit firms and professional accountancy bodies provide a majority of board members and their technical advisors

We acknowledge that there is a perception issue that the accountancy profession could have undue influence over the standard setting process. However, we believe the Monitoring Group and the Public Interest Oversight Board could and should have done much more to address the perception issue by issuing annual affirmative statements on independence and undue influence issues. Whatever the future model, there must be annual affirmative statements to address the perception issue which will not go away simply because of these reforms.

Notwithstanding the need for non-auditors to be involved in the setting of audit and ethical standards, we consider that it is vital for a significant proportion of these two Boards to be made up of persons who are active auditors and have significant experience of applying the standards in practice. Standards need to support the public interest, but must also be capable of being applied in practice. Auditors do already act in the public interest and this is not just an issue that can be addressed by regulators and investors. Only a multi stakeholder model will provide the necessary counter balances to undue influence by any single interested party, including regulators.

2. Partly because of such undue influence, there is a risk that standards are not developed fully in the public interest.

We are concerned that this comment has itself moved from the possibility that there may be a perception of undue influence, as set out in the first comment, to the unsupported assertion that there actually is undue influence.

We do not believe that there is any credible evidence to suggest there has in fact been undue influence exerted by auditors or other accountants which has been contrary to the public interest. This is of course a theoretical possibility but mechanisms are already in place to safeguard against it, such as the role of PIOB which ensures that due process is followed and that the standards support the public interest. Whilst this still leaves an issue of perception, this can be addressed by a more active part being taken by PIOB in demonstrating that the public interest has been paramount.

3. The relevance and timeliness of standards. The pace of change in audit and the business environment is accelerating. It is essential to ensure that the standards are relevant and up to date in order to underpin audit quality and user confidence. Where the market or the regulatory community identifies a need for a new or revised standard, the Board should be able to respond on a timely basis (e.g. responding in a timely way to the greater use of data and analytics in audit)

We accept that there can be issues with the relevance and timeliness of standards. Some of the standards produced by IAASB such as that dealing with emissions have had limited uptake and changes to audit standards often take a very long time, as with changes to ISA 600. However, in

relation to timeliness in particular this can arise as a result of the need for widespread consultation and due process. Whilst it would of course be possible to reduce the time taken on consultation and due process this certainly does not mean that this would result in better standards. Due process simply takes time, and reducing it could result in inappropriate standards being issued.

The International Accounting Standards Board (IASB) embodies some of the features put forward in the Monitoring Group proposals. Yet the need for due process and the complexity of the issues mean that the accounting standard changes made to deal with problems made apparent in the financial crisis of around 2007 are coming into force in 2018. Similarly the Public Company Accounting Oversight Board (PCAOB) is an independent standard setting board, yet took longer to deal with the enhancement of audit reports to meet the needs of investors than the IAASB.

Q2. *Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?*

We broadly agree with the overarching and supporting principles as articulated but would add the principles of legitimacy and balanced membership.

The IAASB has no power to require its standards to be applied. Yet it has built legitimacy as is demonstrated by the widespread adoption of the standards that it produces. In the absence of any legal power this legitimacy has been built upon the quality of the standards that it has issued and the due process that it has followed in arriving at those standards. It has built trust through quality, through its willingness to embrace change and innovation and through its responsiveness to the needs of a wide range of stakeholders.

We are concerned that the proposals might lead to a standard setting body that lacked this legitimacy, being seen as driven by the needs of regulators and a small class of investors. This might lead some jurisdictions to, at least, question whether standards continued to meet their needs.

Balanced representation is also crucial, and should be adopted as an explicit principle. The nomination of board members should be transparent and open, whilst members should come from diverse, but relevant, backgrounds. Board Members should also possess the necessary technical knowledge, especially if standards are of a highly technical nature.

Q3. *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?*

The proposals would appear to lead inexorably to a board biased towards those involved with public interest entities, however defined. Most audits are not of such entities, yet collectively are vital to the public interest. We question whether the new board would have the capacity, expertise and experience to set standards which were sufficiently principles based to be applied proportionately to entities other than PIEs.

Q4. *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 are supportive of having a single independent board to develop and adopt auditing and assurance standards, including auditor independence standards. However:

- We reiterate our concerns expressed above about whether a board along the lines included in the proposal would have the appropriate experience to set auditor independence standards for the auditors of PIEs and non-PIEs; and

- We consider that the ethics code for the accountancy profession and the fundamental principles which underpin it, should remain with IESBA, and this would involve the creation of mechanisms to ensure consistency.

Q5. *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?*

We do. We believe the compliance programme should remain with IFAC. The IFAC compliance programme relates directly to IFAC membership, requiring IFAC Members to use their best endeavours to promote the adoption of international standards across the globe. The compliance programme has been an important driver of global adoption of standards.

Q6. *Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.*

IFAC itself does not currently have that responsibility: it is the responsibility of IESBA. We believe that IESBA should retain responsibility for setting ethical standards for all professional accountants, whether in public practice or business.

Any reform should ensure that the international auditing standards setting board should have responsibility for setting any specific or additional independence requirements for auditors of PIEs to ensure the standards are enforceable and firms appropriately regulated in the public interest.

Q7. *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 reforms proposed by the Monitoring Group represent their thinking solely in terms of standards relating to the audits of PIEs. This would encompass the setting of auditor independence standards for such entities. There is an urgent need to clarify how international auditing standards for global non-PIEs and SMEs would be affected.

Q8. *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, we are supportive of the proposal that the focus of the new board should be more strategic in nature. We are not against remunerating board members but we do caution that this will add considerably to the operational cost of the boards and the resulting benefits of such an approach have not been demonstrated by the Monitoring Group in the consultation paper.

Q9. *Do you agree that the board should adopt standards on the basis of a majority?*

We do not consider that adoption should be on the basis of a bare majority, but on the basis of a qualified majority. This builds in an additional safeguard in the public interest to mitigate the threat of a poor quality or unworkable standard being adopted. We would expect 75% of board members to have to support a proposed standard for it to be approved.

Q10. *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?*

Given that we are concerned that the proposals could result in a board that is focussed on PIEs, we are concerned that the composition proposed could not ensure that its standards were proportionate and also that the board composition was capable of dealing with the wide range of matters to be considered for standards to be accepted internationally. These issues would rise primarily in relation to the application of standards to entities of different sizes, covering both the technical aspects of standards and the ethics issues.

Q11. *What skills or attributes should the Monitoring Group require of board members?*

Board members should have practical experience of audit, whether as practitioner, user or regulator, and sufficient technical knowledge to allow proper consideration of the subject matter. The fundamental ethics principles in the IESBA Code also provide a good starting point for assessing the required characteristics of board members i.e. these individuals require integrity, objectivity and professional competence and need to demonstrate due care and professional behaviour.

Q12. *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 would not retain a CAG with its current role and focus, unless it were necessary to supplement the board due to the board's narrow focus and experience.

Q13. *Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?*

Yes.

Q14. *Do you agree with the changes proposed to the nomination process?*

We support an independent nominations process. We agree that this should be managed by the oversight body, but they should not participate in the election process.

Q15. *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?*

We believe that the current oversight model is unnecessarily complex. There should be one oversight body combining the key roles of the PIOB and MG.

We do not believe that an oversight body should be able to veto the adoption of a standard or override the technical judgements made by the board in developing or revising standards. The role of the oversight body should be to manage the process of board appointments, ensure proper due process is followed, and challenge the board to ensure that a strong public interest approach has been taken in the development and finalisation of standards.

We consider a key role of a PIOB to be the annual affirmation of the independence of the standard setting process from undue influence from any single stakeholder. The current PIOB has failed to adequately address this issue.

Q16. *Do you agree with the option to remove IFAC representation from the PIOB?*

IFAC should have formal representation in line with all other stakeholders.

Q17. *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 have?*

The oversight body should have a broad mix of stakeholder representatives with the necessary organisational background to provide the structure with legitimacy and credibility. The body should also have some representation of stakeholders who are knowledgeable about the subject matter of standard setting.

Q18. *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?*

There is a need for far greater transparency and openness on such matters. Members of the single oversight board should be subject to an open call and not restricted to nominations from within individual Monitoring Group members or from within Monitoring Group member organisations only.

Q19. *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?*

A new single tier of oversight should be introduced to focus only on the independent standard-setting boards for auditing and assurance standards and ethical standards for auditors.

It should not oversee the work of other standard-setting boards, such as the educational standards setting board and the ethical standards setting board for the profession, but both these boards should be required to have independent members on their boards to reflect the public interest.

Q20. *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?*

As noted above, we do not consider there is a need for both a Monitoring Group and a Public Interest Oversight Board. The current governance of the standard setting boards linked to IFAC is over complex in order to try and ensure the actual and perceived independence of the standard setting boards. As argued by the Monitoring Group's consultation document, this clearly has not been achieved, although there is also no credible evidence to the contrary, only a perception.

A new multi-stakeholder Monitoring Group would be much more in the public interest and would ensure greater transparency and accountability.

Q21. *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?*

The question assumes the acceptance of the other proposals. We agree that the standards setting boards need sufficient professional staff and there is clearly an urgent need to review the resource and skills requirement. It is of great concern that these two questions have been asked in this consultation paper. We consider that the current boards have suffered from a lack of resource.

Q22. *Do you agree the permanent staff should be directly employed by the board?*

We are supportive of this proposal if the cost efficiency gains and public interest gains can be demonstrated.

Process Considerations

Q23. *Are there other areas in which the board could make process improvements – if so what are they?*

We have no comments on this matter.

Funding

Q24. *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)?*

We believe the only funding model that will meet the public interest perception will be a balanced multi stakeholder funding model set out from the start.

If funding for the new board is to be only sourced from audit firms and/or the accountancy profession as is the case in the current model, we do not believe that any future checks and balances can be put in place to make it appear any more independent than at present.

Q25. *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?*

We strongly believe that a new multi-stakeholder funding model implemented from the start is the only solution.

We also believe there is a strong likelihood that any funding programme applied solely on the accounting firms will, over time, reduce the number of global networks prepared to participate in PIE audits.

Open Questions

Q26. *In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.*

Yes, there are a number of matters that the Monitoring Group needs to consider. As highlighted at various places through this response these include:

- The need to provide far greater clarity over the proposed funding model and the proposed transition process.
- The need to ensure that proportionality is properly taken into account in any new standard setting model.
- The need to clarify how a proposed new board will address our concerns regarding audits of PIEs and non-PIEs and SMEs.

Q27. *Do you have any further comments or suggestions to make that the Monitoring Group should consider?*

There is a clear need for the Monitoring Group to present its full proposals in one phase and not to delay its considerations on crucial matters such as funding, governance and transition to a later date. Stakeholders need the opportunity to assess the proposed model as a “whole” and not on a piecemeal basis.

We have no further comments.