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**Public Consultation: Strengthening the Governance and Oversight of the International Audit-Related Standard Setting Boards in the Public Interest**

Dear Mr Everts

By way of introduction, the Edinburgh Group is a coalition of 16 accountancy bodies from across the world, representing over 900,000 professional accountants in countries from Africa, North America, Asia, Australia, Europe and Latin America. Formed in 2000, the mission of the Edinburgh Group is to ensure that the development of the international accountancy profession meets the needs of its diverse stakeholders, reflecting progress in the global economy and society at large.

To do this, the Edinburgh Group champions the interests of SMEs/SMPs, professional accountants in business and developing nations, in particular within IFAC (International Federation of Accountants). SMEs by number, dominate the world business stage with estimates suggesting that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment and over 50% of GDP.

In the main, SMEs rely on SMPs for professional advice and the most comprehensive global survey of SMPs (the IFAC Small to Medium Practices Survey) consistently ranks the burden of regulation as one of the most significant challenges facing their SME clients.

We strongly support the principle of a single set of high quality auditing standards that are applicable to all entities. In many of the over 120 jurisdictions that have adopted International Standards of Auditing, all SMEs are subject to audit and it is vital therefore that such International Standards of Auditing are proportionate, relevant and developed with the capacity and needs of the SME stakeholder in mind. Audit standards that are not scalable will impact negatively on SMEs and could damage global growth and employment

The SME sector is not explicitly referred to in the consultation. There is no evidence in the Consultation Paper that any of the perceived concerns have emanated from SMP audits, nor that either SMPs/SMEs have been consulted as key stakeholders in the process. The existing governance and oversight arrangements for the development of International Standards of Auditing have provided for input from Board members with SMP experience and from the IFAC SMP Committee. We recognise that the current approach does not adequately address SME audit however the approach proposed by the MG is a backward step. The inclusion of SME in the standard setting process is of critical importance if we are to avoid fragmentation.

The Edinburgh Group supports a multi-stakeholder approach to standard setting and is committed to working collaboratively with the MG as the consultation process progresses to ensure that this important stakeholder is adequately reflected.

The concept of the *public interest* is not defined in the Consultation Paper and we are keen to see the MG's articulation of this as the consultation process continues. Given that SMEs are an important driver to economic growth it must be presumed that the SME sector is vital to the definition of public interest.

The proposals to potentially reduce the Board size from 18 to 12 and to reduce their involvement in drafting by increasing the staff component do not provide any comfort that the standards produced will be relevant to the SME community or that standard setting process will adequately reflect this important constituency. Together with the proposals for a single Auditing and Ethics Board and the move away from unanimous decision-making, the proposed standard-setting model would make it more difficult for the views of the SMP/SME stakeholder community to be heard and reflected in audit, assurance and ethics standards.

Arguably the greater involvement from the regulator community in standard-setting suggests a potential move towards more rules based standards and national divergence, where national standard setters may prefer to introduce their own standards for SMEs instead of using the international standards.

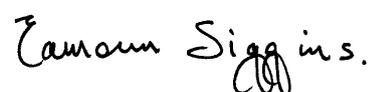
Similarly, the prospect of ethics standards being issued by separate boards – one controlled by the Monitoring Group and the other by IFAC – for different services may add complexity for SMPs offering a broad range of services to their SME clients.

The MG is correct to seek to identify potential new areas of funding. The issue is not explored in this Consultation Paper (although we understand that further details will be published in the summer) but it will be a matter of keen concern for SMPs, and most acutely relevant in developing nations.

The Edinburgh Group is concerned that the existing structures which have generated high quality standards, as adopted in over 120 countries, receive little credit in the Consultation Paper.

Perhaps it would be more appropriate, from an SMP/SME perspective, for the Monitoring Group to consider an evolution – in which the principal elements of the current standard-setting model are left intact – as opposed to a revolution, as the risks to the global economic engine of the SME sector do not appear to have been taken into account in stakeholder engagement.

Yours sincerely,



**Eamonn Siggins**  
Chairman  
The Edinburgh Group