



CCAB

Gerben Everts
Chair of Monitoring Group

Stephen Haddrill
Chief Executive, FRC

8 February 2017

Dear Messrs Everts and Haddrill

The combined membership of the five CCAB bodies – ICAEW, ACCA, ICAS, CIPFA and Chartered Accountants Ireland – amounts to some 260,000 professional accountants in the UK and the Republic of Ireland (380,000 worldwide).

CCAB provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy.

CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

We note the key areas of concern set out in Section 1 of the consultation document. However, we believe that publication of a public interest framework is a pre-requisite in order to be able to evaluate the contention that there is a risk that standards are not developed fully in the public interest. Without such a framework we do not believe it is possible to assess objectively any evidence that standards have not been developed fully in the public interest. Similarly we believe it is not possible to evaluate objectively the options outlined in the paper without an impact assessment setting out their costs and benefits. We strongly believe that any case for change needs to be sufficiently evidenced.

Consultative Committee of Accountancy Bodies

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A consultation which at its heart is seeking to further public trust in audit, needs to address the fundamental question of whether audit needs to change to better serve the public interest, whether it is fit for purpose, and how it might evolve to serve society better (topics already considered by the CCAB bodies). Changing the standards-setting process does not answer these questions. There are frequent references in the paper to the public interest but little discussion as to what it actually is. The implication is that the public interest itself equates to a process. While process is important, it is a means to an end, not an end in itself.

We would hope that, before further discussion on these proposals takes place any failings of the current Boards – IAASB and IESBA - to meet the public interest are sufficiently demonstrated within a framework that has multi-stakeholder consensus. That said, whether or not there has been evidence of such failings, we believe that the perception of independence of standard setting for the audits of Public Interest Entities (PIEs) is critically important.

Multi-stakeholder involvement is important at all levels of the process. However, stakeholder involvement needs to go beyond the stakeholders referred to in the paper. Audit regulators and institutional investors tend to focus on capital markets and listed entities. However, standards set, including those on audit related and non-audit assurance services, also apply to SMEs and other unlisted organisations, who may have very different needs and circumstances. It is vital that their and other interests are represented properly. The Monitoring Group should understand what processes are already in place to engage all stakeholders and the reasons why they are seen as ineffective.

The consultation gives the impression that auditing standards are in crisis, yet at the London roundtable outreach event members of the Monitoring Group stated that they have confidence in the current standards. The paper bases the need for change on the premise that standards are not being developed in the public interest because of the involvement of the profession in the current process, yet the substance of that premise is not sufficiently evidenced. ISAs are recognised globally to be high quality and therefore it is wrong to put their status at risk by making widespread changes to the IAASB and governance over the creation of ISAs. The consultation conflates the process by which ISAs are created and the governance over that process. The concerns expressed over disproportionate representation in governance process should not, logically, taint the standard setting

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process itself. We trust that the Monitoring Group will consider the consultation responses with renewed focus, transparency and clarity.

For example, greater clarity is required from the Monitoring Group on funding, governance and transition to better enable stakeholders to properly assess the appropriateness and viability of the Monitoring Group's complete model. Specifically, the Monitoring Group needs to be clearer on its funding proposals before embarking on significant, possibly irreversible, changes to its operations and governance. We would support reforms to the existing boards that would include them becoming more strategic in their remit and undertaking less drafting in favour of more "horizon scanning".

The eventual final proposals should be presented for stakeholder consideration as a complete package. Any changes need to be proposed and considered as a whole, including reforms to the oversight and funding arrangements.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Iain Lawson'.

Iain Lawson

Chair of CCAB Ethics Group

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