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

Dear Mr Everts

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the Monitoring Group Consultation - Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest.

The aim of our global network is to enable high quality audits to be conducted consistently across the more than 120 countries in which we have a presence and thus to serve the public interest. As a member of the Forum of Firms, we value the body of standards established by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) as the foundation of our network's quality assurance policies and procedures. Such policies and procedures provide our network members with the consistent framework that all member firms agree to follow regardless of the jurisdiction in which they are located. We have never questioned the quality of the standards established by the IAASB or the IESBA.

Overall, we recognise the need to review and strengthen the structure of the international audit standard-setting process so that it is responsive to changes in the global business environment. We welcome discussion of the composition of the Monitoring Group, Public Interest Oversight Board (PIOB) and standard-setting boards, their funding and remits. We are fully supportive of the stated aim that audit standards should be set in the public interest. In overall terms we favour a three tier multi-stakeholder structure.

However, we do not consider that the current system of setting auditing standards is broken nor does it contain the fundamental flaws which the Monitoring Group implies exist. As discussed further in our responses, limited reforms to incorporate a multi-stakeholder structure could be made to address the perceived concerns around independence of the standard-setting process that are the basis for the Monitoring Group's proposals without the need for a complete and disruptive change to the current system of standard setting.

We make the following overall points regarding these proposals:

- The assertion that the current standard-setting process is fundamentally flawed has not been supported with specific facts;

- The public interest framework is critical to setting the Monitoring Group's proposals in context and evaluating the proposal, but has not yet been defined;
- No impact assessment or transition plans have been prepared;
- Whilst a funding model is discussed in the consultation, it is still lacking in detail.

Our comments and detailed responses to the questions set out in the consultation are detailed hereafter.

We would be pleased to respond to any questions the Monitoring Group or its staff may have about any of our comments. Please do not hesitate to contact me or Robert Dohrer at +44 207 601 1080.

Yours sincerely,

A handwritten signature in black ink that reads 'Jean M. Stephens'.

Jean M. Stephens
Chief Executive Officer
RSM International Limited

Detailed responses

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?

We welcome the Monitoring Group's acknowledgement that the extant International Standards on Auditing (ISAs) and IESBA Code, due to the wide respect in which they are held, have been adopted in many countries worldwide. The aim of the IAASB has always been to maintain the ISAs as an up to date and relevant set of standards for auditors to follow. In this regard, the IAASB has reacted to trends in financial reporting and changes in the international business environment as they have arisen by using a thorough and detailed methodology for revising the existing ISAs, all within the transparent due process framework established by the PIOB and Monitoring Group.

We welcome periodic review of the structure the current standard setting process and agree the standard setting process needs to be responsive to current business developments to remain credible. However, the consultation paper has not provided evidence that the current process for setting standards has eroded stakeholder confidence or that standards are not being developed in the public interest. The checks and balances in the current system ensure that the views of all stakeholders are taken into account. There is extensive consultation on all new proposals as well as clear transparency and accountability to protect the public interest. In fact, the robust standard setting process has, in our view, both improved stakeholder confidence and, by their widespread adoption, demonstrated that the current standards are viewed as being responsive to the public demand for thorough auditing of financial statements. The ISAs provide a consistent international framework, developed using a rigorous technical process, within which auditors can carry out their work across a range of entities in both the private and public sectors.

We do not therefore consider that there are additional concerns that the Monitoring Group should consider.

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 agree that standards should be set in the public interest and we believe that this is the current practice.

We do not believe that current standard-setters lack independence or credibility, as neither the IAASB nor IESBA are subject to undue pressure from IFAC or others. Their work involves significant public consultation and consideration of the views of multiple stakeholders. No single stakeholder can currently exercise undue pressure as there is significant collaboration and accountability among all stakeholders with open and frank dialogue.

This has led to a set of principles based standards that respond in a properly considered manner to issues as they arise. Auditors are permitted, within guidelines, to exercise their professional judgment in responding to audit risks and issues which they detect during the course of their work. The current Monitoring Group proposals risk turning the principles-based standards into a rules-based approach to satisfy the desires of regulators, who are only one of the stakeholders. This could reduce the applicability of the standards to entities that are not subject to direct

regulation yet still obtain audits and to entities that are not in the jurisdictions governed by the regulators represented by the Monitoring Group. This could lead to a decrease in acceptance of the standards.

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 have no further suggestions however we do believe that, in order for any new framework to be widely accepted, the consultation process that leads to its development must be:

- fully open and accountable;
- involve all stakeholders, including the profession;
- agreed upon and accepted by all stakeholders.

Failure to do this could lead to a lack of acceptance of any new standards developed by a revised standard setting structure and a return to national, rather than international, standard setting, particularly in jurisdictions where the adoption of ISAs and the IESBA Code is not required by legislation.

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 do not support the establishment of a single auditing/assurance and ethics board.

Ethical principles do not just apply to auditors but to all accountants, whether in practice or in business. Whilst we recognise that the IESBA Code of Ethics does contain some differing requirements for professional accountants in public practice compared to those for professional accountant in business, the underlying principles of the IESBA Code apply to both. Separating the development of these two sets of requirements risks divergence in the underlying principles, which we would not view as constructive for our profession or indeed be in the public interest.

In addition, the applicability of ethical principles to accountants in business means that it is vital that members of a board that sets ethical standards have a different range of skills, experience and expertise than those who set audit/assurance standards. We therefore consider that ethical standards for all accountants should continue to be set by a single, separate, board.

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?

We see no reason to change the existing structure whereby the International Accounting Education Standards Board (IAESB) sets the educational standards and the compliance programme continues to be the responsibility of IFAC.

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

As set out in our response to question 4, our view is that IESBA should continue to set ethical standards for accountant both in public practice and in business.

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.

Other than retaining the current structure with wider multi-stakeholder composition, as discussed elsewhere in these responses, we have no further suggestions.

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?

We accept that having a board with a strategic focus separate from the staff who carry out detailed drafting is a sensible division of daily responsibilities. Having said this, the board should still retain overall responsibility for the final standards and therefore, as a matter of good governance, a vital function of the board is to review and challenge the work of its staff. In addition, members of the board bring a wealth of knowledge and experience to the drafting process and we would not want to see this expertise lost.

Inevitably therefore, the combination of the board's responsibilities and the expertise of its members results in some detailed drafting during meetings and we do not believe that this important aspect of the board's work should be diluted.

We agree that members of the board could be remunerated. However we caution that having paid full time members and volunteer part time members could result in a two-class system whereby the valid opinions of part time members are not fully considered due to the time constraints associated with their part-time engagement.

Additionally, no funding mechanism has been put forth to support compensation of board members beyond the Chair. We are not able to comment on whether we agree with remuneration of board members absent an understanding of the funding structure that would support such remuneration.

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

No, we disagree with this approach.

The process for drafting a standard inevitably involves some detailed discussion on differing points of view and, in most cases, a satisfactory resolution can be obtained. We believe that this has resulted in high quality standards that are widely accepted. The current requirement is for a two-thirds majority in the acceptance of new standards and our view is that this should be retained.

Moving to a simple majority vote would dilute this process and could mean that the valid concerns of individual stakeholders or groups of stakeholders representing a common constituent type are not properly discussed and resolved. The rush to issue a new or revised standard on the basis of a simple majority vote could therefore reduce the quality and acceptability of that final standard.

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?

See our response to question 8 for our views on full time and part time board members.

We agree that the revised board should be multi-stakeholder and come from a wide variety of backgrounds. However, given our views on the work of board members set out in our response to question 8, and, for the board to represent a sufficiently diverse range of stakeholders and expertise, twelve members seems to be too small.

A slimmed down board with less geographical representation puts at risk the current widespread adoption of ISAs as regions of the world not represented could decide to return to setting national, rather than international, standards.

In addition, whilst we recognise that regulators are one of the stakeholders, we believe that regulators should be considered as a portion of the population of stakeholders other than auditors. As such, a board comprised of one-third auditors and two-thirds other stakeholders represented equally by investors, preparers, academics, those charged with governance and regulators would appropriately represent the public interest. Staying with the two-thirds majority vote as set out in our response to question 9 will ensure that no one stakeholder group has the ability to undue influence the outcome of the standard setting process.

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

Board members should be highly qualified and experienced members of the various stakeholder groups with a thorough knowledge of auditing. They should command respect and have a deep commitment to ensuring that high quality standards are developed to serve the public interest.

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 the current CAG concept works well. It provides a useful link between member organisations and the board, contributing to the international acceptance of the standards which are developed.

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

We agree that standards should be developed in the public interest and our view is that this is currently the situation. Once the new public interest framework is proposed, we will be able to comment in more detail. However, we acknowledge that task forces should be comprised in approximately the same proportions as that of the board and that PIOB participation in and oversight of task force proceedings may be appropriate.

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

As long as the board composition is established (see our response to question 10), then we would agree with an enhanced role for the PIOB in administering the board nomination process.

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?

The roles and responsibilities of the PIOB as set out in this consultation would significantly increase its role to an extent such that it would no longer just be concerned with “oversight”. The expansion of its remit would mean that it would conduct activities that are properly the responsibility of a governance body. This would therefore lead to the conclusion that a three-tier structure would be more appropriate. Generally, we do not therefore consider that further powers should be assigned to the PIOB. However, we do believe that with appropriate membership of the PIOB, that the PIOB approving the board’s strategy and workplan may help in ensuring that the public interest is reflected in the strategy and workplan.

We would not support a proposal which gave an oversight board the power to veto standards that have been properly developed by a standard setting board composed of suitably experienced and qualified personnel representing all stakeholders through a transparent process of due diligence. This would put too much power in the hands of an oversight body.

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

No, we do not agree with this proposal, particularly if the proposal that the PIOB could veto new standards is adopted.

We believe that it is appropriate to have representatives of the profession on the PIOB in addition to members of IFIAR. There is currently only one representative from IFAC on the PIOB, which does not seem to be excessive or allow for undue influence. Being comprised of representatives from all relevant stakeholders, which includes the profession, gives the PIOB added credibility and, if its composition is such that no one membership body has a veto, eliminates potential independence issues.

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?

Without a clear proposal for the structure of the PIOB, it is difficult to comment on its composition. However, we consider that, in addition to one member being proposed by IFAC, the remainder of the PIOB should be comprised of suitably qualified individuals representing investors, preparers, academics, those charged with governance, and regulators.

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 believe that there should be an open and transparent nominations process for the PIOB. This will enhance the reputation and authority of the PIOB. With respect to the composition of the PIOB, see our response to question 17.

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?

In our view the remit of the PIOB should still include the work of the IAESB.

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 that the remit of the Monitoring Group should remain largely unchanged but that it may need revisiting once any new structure for standard setting as well as a public interest framework is determined. However, consistent with our response to question 18, we would like to see a more open nominations process.

We also believe that it should be recognised that the Monitoring Group was responsible for overseeing the design and operation of the current standard-setting process, which is asserted to be fundamentally flawed. The “public” may question why the same Monitoring Group would now institute revisions and yet remain in oversight of the new standard setting process if changes to the Monitoring Group itself are not also undertaken.

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 that extra professional technical staff would be useful in supporting the work of the board. This would enable board members to devote their time to other research and consultation activities in addition to their detailed review of draft standards.

The skills which these staff require would need to be responsive to the particular topic under consideration but they would need to have significant experience with auditing.

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

In order to achieve this, the board would need to be a legal entity that could employ staff. If this were not the case then either IFAC or another entity would need to employ the staff. Additionally, funding of an enhanced permanent staff has not been addressed.

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

We do not believe that the new structure and model for standard setting would improve the current process which, in our view works well. We agree with the proposal to widen the stakeholders involved in the boards, but believe this can be accomplished without a complete redesign of the current process.

Our view is that the IAASB is responsive to changes in the audit market as evidenced by its current projects, including for example, the incorporation of data analytics.

Accelerating the standard setting process could easily lead to poorly drafted standards that either do not gain international acceptance, create implementation challenges resulting in increased inspection findings by audit regulators or need significant revision. Proper scrutiny, consultation and discussion are critical to the drafting process and it is therefore important that these are not rushed nor are the standard themselves approved by a simple majority vote as set out in our response to question 9.

However, we would support piloting of innovative ways of improving timeliness.

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)?

Apart from widening the stakeholders involved in the boards, we do not consider that the current checks and balances within the standard setting process are in need of reform. We do not perceive any concerns about a lack of independence due to the current funding model. IFAC funds the current boards and this process is overseen by the PIOB to ensure that the boards' independence is not compromised by the funding structure.

However, in considering the diversified funding model in the Monitoring Group's consultation, it is critical that all stakeholders participating in the creation of and benefiting from the standards contribute to the funding, not just the accountancy profession. It would not be acceptable for other stakeholders who desire to be part of the board, eg the international regulatory community, to avoid contributing to its funding.

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?

We do see benefit in widening the funding base to include other stakeholders as part of a reform in which the standard setting board itself becomes multi stakeholder.

However, the current proposals from the Monitoring Group are costly in themselves and the suggestion of a contractual levy system is, in our view, impractical. Achieving a consensus on the level of contributions from the professional auditing firms across multiple national jurisdictions will be a lengthy and expensive process, even if it can be accomplished.

There is no international mechanism for imposing a contractual levy and no guarantee that firms will pay it. Therefore, the levy would in effect become voluntary and could be withheld if a firm or network disagreed with the direction that the board was taking on a particular standard or issue. This would lead to potential independence issues which are far greater than those which the Monitoring Group seems to believe exist in the current model funding.

Further details of the proposed funding model, whether levy based or otherwise, need to be developed.

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

We note that the Monitoring Group's working assumption is that the current ISAs would be "grandfathered" into a new structure. However, the Monitoring Group should note that IFAC retains the copyright to those standards and that there is no guarantee that IFAC will agree to their use.

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

The Monitoring Group's proposals are framed in the context of the public interest and, in particular, the capital markets. There is a danger therefore that the new structure only takes account of listed audits.

Any new structure should be responsive to the needs of auditors of small and medium sized entities as well as multinationals and listed companies. Current auditing standards take account of businesses of all sizes and governance structures (eg listed and unlisted entities) and it is critical that this is retained by any new governance and standard setting structure.

We also understand that many aspects of the overall proposal for change were referenced as still in development. We believe it is vital that the comprehensive plan for change be completed and evaluated prior to implementing change to the existing standard setting process.