



Warsaw, 9 February 2018

**Position
of the Accountants Association in Poland
on the Monitoring Group Consultation Paper including the evaluation of
IFAC's activities in the area of setting standards on auditing and
professional ethics**

Preamble

Globalization, economic uncertainty, international conflicts, refugees and immigrants, climate changes, global giant corporations buying land on a mass scale, cryptocurrencies and hacker attacks nowadays impact every economic activity. Accounting also needs to face these phenomena. They affect especially auditors who – in the conditions of increasing risk and uncertainty – have to prepare opinions on the going concern of an audited business entity. All players in the global market need to adapt to these changes. IFAC is also one of these players. In this context, the attempt to assess the activity of IFAC in the scope of developing auditing standards undertaken by the Monitoring Group (GM) is not surprising.

General remarks

The Accountants Association in Poland issues the following position on the paper of the Monitoring Group of 9 November 2017 with the consideration of the materials prepared by IFAC on this issue of 17 November 2017 r.

The Accountants Association in Poland, member of IFAC since 1998, is on the position that criticism provides added value only when:

1. it gives grounds for considering a given issue from a different perspective,
2. it is constructive, which means that it does not only give explanation of the basis of the remarks made but also proposals of changes with their justification.

In the current situation:

1. The activities of IFAC are assessed by the Group which was asked to participate in these activities, but it has not decided to be involved. It is always easier to criticise than to create.
2. The criticising Group does not precise how it sees the process of establishing the standards. Therefore, the criticism is not constructive.
3. The framework of the present principle of setting ethical and auditing standards by IFAC is determined by:
 - cooperation between private and public sectors,
 - preventing undue influence from any of the stakeholders,
 - applying rigorous due process,
 - independent oversight over public interest in all aspects of establishing the standards, including the nomination process,
 - financial involvement (everything at the expense of IFAC),
 - acting with consideration of differences between setting international standards and setting standards in a domestic context.

This framework may be considered – at least in its assumptions – as a good practice. If one criticizes it, it would be appropriate to indicate which of the above characteristics are wrong or how the process should be redeveloped.

4. The premises for the necessity to change the way the standards are established expressed by the Monitoring Group, namely that:
 - only regulators can act in public interest,
 - the current model of standard setting does not fulfil many tasks in a satisfactory way which are presented in the Consultation Paper,
 - acting in public interest requires developing standards with which not all the stakeholders will agree,

are controversial and pose a threat (especially the first one) of politicization of the process of setting the standards of professional ethics and auditing and a drastic conceptual change toward rule-based standards.

5. **The Accountants Association in the vast majority of cases described and analyzed agrees with the views of IFAC on the critical remarks made by the Monitoring Group.**

Selected detailed remarks

1. **AAP does not share the view of MG that *only regulators may act in the public interest*.** The regulator – by definition – acts in the public interest, but it should be accompanied with a broad

consultation with main groups of stakeholders. Because we cannot assume that only the regulator fully understands and protects the public interest. Thus, non-governmental and non-regulatory bodies whose task is to monitor the regulators are increasingly significant. In order to avoid some imperfection of regulators' actions, it is worth considering the solution similar to "true and fair override" or "fair presentation override". It does not undermine the adequacy of the assumption that the regulator acts in the public interest.

2. **AAP does not agree with the opinion that actions in the public interest require developing standards with which not all the stakeholders will agree.** Such understanding must result in the assumption that these stakeholders do not want to and will not act in the public interest. Dilemma "how much of public good and how much of private good" has been and still is a subject of disputes among philosophers, ethicists, psychologists and economists, and it will not be resolved by the regulators developing accounting and auditing standards.
3. **AAP acknowledges that the actions aimed at the review of the structure, volume and style of presentation of the standards developed by IFAC is desired. AAP declares its support to IFAC in such actions.** AAP thinks that it is justified that IFAC undertake verifying actions not so much in relation to the framework for developing the standards mentioned, as in relation to the final result of this process. The standards – only due to their volume and language (style) of presentation – are not an easy to interpret and implement document. International (global) standards refer to standard conditions of entities' businesses and adopt standardized (generally accepted) solutions, but for some countries it may be necessary to modify such assumptions and partially allow domestic solutions, which would be more appropriate for the conditions in such countries. However such modifications cannot affect relevant general principles.
4. **AAP believes that partial adjustment of auditing standards to the conditions of a given country should be allowed.** This view results from the belief that standards describing framework of auditing should not be excessively detailed and should not include all the possible circumstances.
5. **AAP shares the view with IFAC and does not support the establishment of one board for both standards on auditing and ethics.** However, participation of representatives of one board in the other seems a good solution. Also it may be considered to establish permanent committees (groups) of the observers mutually monitoring activities of the Boards.
6. **AAP is of the view that transparency of the document presenting ethical issues and possibility of its easy implementation is a priority.** The idea to divide ethical standards for professional accountants into two separate sets of standards: one for auditors and one for all other persons in the accountancy profession depends on the level of generality of the structure of ethical concepts. On the general level, all persons connected professionally with the profession of auditor

or another accountancy profession should be characterized by the same moral principles. However, in relation to professional groups special norms might occur, as the nature of their work differ in terms of specific characteristics.

7. **AAP supports the composition of IFAC standard-setting boards which encompasses: investors, preparers of financial statements, those responsible for oversight, academics, regulators and representatives of the profession of auditor (auditors' chambers) from all countries (states).**
8. **AAP does not agree with the position of the MG concerning the risk that the standard setting system will be a rule-based rather than a principle-based which will lead to eliminating professional judgement as a necessary element of audit.** Judgement, in addition to professional skepticism, based on knowledge and experience, is critical for practicing as accountant or auditor. The assumption that IFAC could depart from setting principle-based standards so far does not bring any proof or justification.
9. **AAP does not share IFAC concerns that combining the process of setting standards with public oversight may potentially undermine legitimacy and credibility of standard setting and trust in standards which have already been developed.** IFAC may consider a solution based on mutual monitoring and providing earlier opinions on drafts in an active form rather than only passive form i.e. criticism. Generally incorporation of oversight into the standard setting process is possible because it will allow the oversight to better understand the idea of a standard and, on the other hand, create an opportunity to appropriately meet requirements of the oversight.

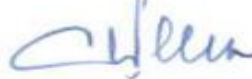
Conclusions:

The Accountants Association in Poland in vast majority shares IFAC's views, and especially:

- the experience of 40 years of standard setting on auditing and ethics cannot be wasted,
- radical changes in the times of challenges resulting from digital technology faced by those who use the current standards in practice may bring opposite effect of the one desired.

It does not mean that the AAP does not opt for verifying actions. AAP supports IFAC's plan of „seven reforms that build on past successes” mentioned in the document.

Franciszek Wala



President

Main Board