February 9, 2018
SEC/015/18 – DN

To the Monitoring Group

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

Dear Monitoring Group Members,

Ibracon - Institute of Independent Auditors of Brazil, a founder member of IFAC, which represents auditors and their associated auditing firms in Brazil, is grateful for the opportunity to contribute to this public consultation conducted by the Monitoring Group on this sensitive topic that is the strengthening of the governance of the international standards setters related to independent audit. The international independent auditing standards are essential to ensure that the investors’ needs are effectively met.

Ibracon believes that the current international independent auditing and ethical standards are effective and essential to ensure the quality of the Brazilian capital market and that the independent audits have effectively responded to the investors’ needs and served the public interest.

IFAC’s current governance model is a result of continuous improvements with the active participation of the Monitoring Group, being, in our view, highly effective and responsive to public interest for having developed high quality auditing and ethical standards and having a positive influence on the global adoption of these standards, especially in Brazil.

We understand that some participants of the international market may have the perception that the profession may have an undue influence on the standard setting process and that this format could be improved.

Accepting this situation, and looking solely at the Brazilian independent audit market, among several concerns, we would like to highlight three factors, which we summarize below:

1) In addition to the Board members who are experts in independent audit, the other members should have relevant current experience as users of audited financial statements;

2) The set of global independent auditing standards should be based on principles that can be achieved by both large and small and medium-sized auditing firms, this being essential for the Brazilian economy; and

3) In Brazil, unlike other countries, the Federal Accounting Council (CFC), a body formed by accountants, is the one that regulates the independent audit profession. Consequently, if a body like this, or its representative, that could be IFAC, is not represented on the board that will establish the international auditing standards, we run the risk of living a situation that would be undesirable, as this would entail the risk of living with local auditing and ethical standards that are different from the international ones.

Therefore, we believe that a new governance model would have to consider in the composition of the board intended to "users" the allocation of more seats that represent or guarantee seats for Small and Medium-Sized Auditing Firms and for professional bodies such as CFC. In this sense, these seats could be directed to IFAC, which would represent them, as it does today.
We have included our answers to the individual questions contained in the public consultation paper published in the Appendix to this letter. These answers are presented with the intention of being useful to the Monitoring Group, and we are at your disposal to provide additional information with respect to the comments and answers provided in this letter.

Sincerely,

Francisco A. M. Sant’Anna
President
Ibracon – Instituto dos Auditores Independentes do Brasil
Appendix:

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?

The current standard setting model of the International Federation of Accountants (IFAC) has been very effective in serving the public interest, developing high quality auditing and ethical standards. This model is also having a very positive influence on its adoption in Brazil, meeting the investors' needs.

We believe that the areas of concern identified are not specific to the current model, but should be considered in any model that may be adopted. We believe that it is important to have mechanisms that can mitigate these risks. With regard to the public interest, we believe that it needs to be better defined, and that it is not tied to a single group of representatives.

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 believe that a financing model shared by all who benefit from the standards will also be important for the sustainability of the process. The participation and responsibility should also be shared with the people and entities that participate in the process (regulators, professionals, academia, etc.), not limited to a single group and seeking to serve the diversity and the regions.

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 believe that the effectiveness of the standards should be considered both in the preparation and after the application of the standards through assessments. The work performed by an independent auditor is closely related to the financial statements. Therefore, the definition of public interest should be aligned with the accounting standards and related to independent audit.

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 believe that the current model with more than one board presents itself to be more efficient. We believe that the ethical issues are principles that should permeate all standards and require a probably differentiated group of representatives from that which should deal with the preparation of auditing and assurance standards. In any case there should be a connection between the two groups.

5. Do you agree that responsibility for the development and adoption of educational standards should remain a responsibility of IFAC? If not, why not?

Yes. IFAC has demonstrated through its actions and its members effectiveness in the development and adoption of such standards.
6. **Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? If not, why not?**

We believe that the current model, with standards applied to professionals and a section covering only auditors should be maintained. We do not agree with the separation of auditors from other accountants, let alone of large firms from small firms. This represents a disruption in the concept of profession.

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.**

We believe that the Monitoring Group should have as a base the model that is working efficiently and implement improvements from it so the areas of concern have their risks mitigated. It is important to remember that a set of global standards based on principles applicable to small and large firms is essential for the Brazilian economy. We do not support a model that would result in different national standards for audits in small and large firms.

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 agree that it can be more strategic, but it should not relinquish its members’ technical knowledge and capacity so that they do not become hostages of a structure that will be created to support them in the development of standards. Members may be remunerated to ensure the possibility of participation of everyone. We believe that the remuneration should be sufficient to attract other also qualified members, as for example members of audit committees, investors, regulators, academia and preparers. The remuneration should be based on amounts comparable to the market with similar responsibilities.

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

We believe that standards should be approved by consensus and only in exception cases and absolute emergency, the voting with a majority representing more than 2/3 of the composition of the board should be used. We also believe that transparency during the process of adoption of standards is important and that standard setting boards should provide a sufficiently detailed basis for conclusions.

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?**

We believe that the number of 12 members is small to ensure the whole expected diversity of representatives. As we mentioned in our response referral letter, we see the participation of representatives of Small and Medium-Sized Auditing Firms and of professional organizations through appointments from IFAC, which represents them today, as important.
11. **What skills or attributes should the Monitoring Group require of board members?**

We believe that the profiles already developed and used by IFAC’s Nomination Committee already contemplate the core skills and attributes necessary to its members and the Monitoring Group should be based on them, adding other skills that may contribute to the identification of candidates. Maybe a balance of the composition should be sought.

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?**

Yes, we agree that it should be maintained in the current format.

13. **Do you agree that task forces used to undertake detailed development work should adhere to the Public Interest Framework?**

We agree, as long as they have the necessary representation of stakeholders, regulators and the profession.

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

We believe that the current nomination process is efficient and should not be changed, but improved.

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?**

We believe that the PIOB should not be the nomination committee in the future but should continue with its oversight role. The PIOB should not have a veto power nor contest the technical judgements so there is no weakening of the Board. Obviously, a level of resolution of important conflicts arising between the PIOB and the Board may be created.

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

We believe that maintaining IFAC, as we suggested in our referral letter, is a way of ensuring the representativeness of small and medium-sized firms and their member bodies that represent the profession. The participation of the IFAC member helps, in our view, in the consideration of the profession’s vision for different matters. A single representative of IFAC on the PIOB is of help but does not reduce the weight of the other members.

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?**

We support a PIOB composition with the participation of several stakeholders. (Investors, governance members, regulators, preparers, academics and representatives of the accounting profession).
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 Monitoring Group member organizations, or do you have other suggestions regarding the nomination/appointment process?

As long as there is a due process, we believe that a mixed processed may be implemented, focused on the concept of “best person for the job”.

19. Should PIOB oversight just focus 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 (e.g., issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

We believe that the PIOB should oversee only the boards responsible for issuing auditing and assurance and ethical standards, even because each country has its own mechanisms to define the professional education curriculum, including of the accountant.

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 (sic) work, promoting high-quality standards, and supporting public accountability?

Depending on the level reached by the reform, the role of the Monitoring Group shall change to meet the new demands.

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. The environments that are audited are in constant changes and new fields of expertise are necessary. The advancement of technology poses a risk that cannot go unnoticed. Moreover, we highlight the importance of seeking knowledge and experience, as well as regional representation and diversity in its composition.

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

We believe that there should be an entity that is responsible for hiring, such as IFAC currently does in relation to staff supporting the existing Boards.

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

We would like to reinforce the importance of the need for participation of all stakeholders, both at governance and at normative levels supported by a greater transparency throughout the standard setting process.
24. Do you agree with the Monitoring Group that appropriate checks and balances can be put into 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 who would distribute the funds)?

We believe that funding should be made by all stakeholders, including regulators, and that there should be safeguards to avoid the risk of undue influence. IFAC should continue being part of the process, even in order that the profession may contribute also financially.

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 proposed in the paper, and if so what are they?

No. As previously answered, funding should be made by all stakeholders, including regulators.

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

No comments.

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

No comments.