



Colombia, February 9<sup>th</sup>, 2018

**Gerben Everts**

Chair of Monitoring Group

**Stephen Haddrill**

Chief Executive of FRC, UK

Sent by email: [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

**Subject: Monitoring Group: strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest**

Dears Mr. Everts and Mr. Haddrill

The INCP (Spanish initials for the National Institute of Public Accountants), a founding member of IFAC, and Colombia's most representative accounting body would like to express its gratitude for this opportunity to make and submit some comments on the consultation paper to the Monitoring Group.

We strongly agree that the standard-setting model related to the auditing and ethic need to be reformed so that there is not a perception of undue influence of the accounting profession on the audit and assurance standard-setters.

The INCP is concerned about the perception of uncertainty surrounding the fact that those standards may not be protecting the public interest, although the consultation paper does not thoroughly analyze the reasons why the public interest is not being protected. Corrective actions need to be taken as required, although we believe that PIOB's great job would give us peace of mind in reference to any suspicion that public interest is not being protected.

Particularly, in Colombia — a developing country —, more than 95% of companies are SMEs whose credit needs and access to international markets depend on professional opinions based on international audit standards applied to both PIEs and SMEs. We are concerned that in the future assurance standards for SMEs applicable in Colombia and South America might be different from and/or issued without the same quality as those that might apply for listed companies.



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We also think that regulators are not the sole parties responsible for public interest and strongly believe that we — both users and auditors, apart from regulators — protect the public interest, and we are concerned that regulators are the ones who design and impose a given standard. Recent experiences in Colombia have proven that it is inconvenient that local regulators, for the sake of political interests rather than for protecting the public interest, issue mandatory standards, leading us back to times where each country was chaotic for the fact of having and following just local rules.

We support the idea of creating a governing board and two audit and assurance and ethics standard-setting boards. In both cases, they must be equally composed (each group must have a representation of 33%) by the three groups of stakeholders (users, regulators, and auditors). Decisions must be made on the basis of a qualified majority consisting of no less than 75% of all members. Even though the governing board may be more strategy-oriented, auditing practical experience and wide accounting knowledge must be the typical competences of the members of those two professional standard-setting boards.

We would like to thank once more the opportunity to participate in this initiative and we will be very attentive to the conclusions of it.

In case you need further information about our comments please do not hesitate to contact either Hugo Ospina [hfospina@incp.org.co](mailto:hfospina@incp.org.co); or Alexandra Peñuela [alexandra.penuela@incp.org.co](mailto:alexandra.penuela@incp.org.co)

Sincerely,

**Hugo F. Ospina**

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## ANSWERS TO QUESTIONS

### Section 1: KEY AREAS OF CONCERN IN THE CURRENT STANDARD-SETTING MODEL

**Question 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?**

Yes, we do. We are aligned with the Monitoring Group's concerns and believe that amendments must be done as required to both prevent the public from having the impression that auditors improperly influence the assurance standard-setting process and deter the risk of those standards not being entirely developed for the benefit of the public interest.

Nevertheless, we believe that, in order for the public interest to be properly protected, future standard-setting processes should not be predominantly influenced by regulators, users, or auditors.

We also agree with the need to update standards as businesses are changing; in order to do so, specialized personnel must be evidently involved in and given enough time to do their job. We would also like to say in advance that we believe it is more convenient to keep two separate boards because better specialists will be involved and may address any changes in a more timely and sufficient manner.

### SECTION 2: GUIDING PRINCIPLES (KEY CONCERNS 1-3) **Question 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 with the overarching and supporting principles set forth in the consultation paper.

**Question 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?**





None

### SECTION 3: OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS (KEY CONCERNS 1-3)

**Question 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 support the retention of two separate boards.

We believe this is the best choice because each group has been entrusted with the task of dealing with a given topic and will be given more time and staff to address any changes required in those standards.

We do not agree, however, that ethical standards must be different for auditors and professional accountants in business because ethics is a common topic for the profession as a whole.

We think that the board must set audit and assurance standards. It must do it for both listed companies and small and medium-sized entities because auditor's workmanship must be the same in both cases.

Lastly, we are concerned that a sole understaffed board and a more strategic role will not ensure the quality and relevance of standards potentially required in an evolving world. We believe it is important to understand the roles to be played by the standards board, as opposed to the roles to be played by those charged with governance. Those charged with governance shall be the various stakeholders such as regulators, users, and auditors, and none of these parties shall be allowed to exert more influence than others, thus ensuring public interest.

The governing board could focus more on the strategic roles than standard-setting boards.

The governing board must also perform oversight duties.



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**Question 5: Do you agree that responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC? If not, why not?**

Yes, we do agree.

In reference to the members' compliance program, that is an IFAC's in-house governance topic and we believe it is not to be discussed herein.

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

We do not agree that ethical standards must be different for auditors and professional accountants in business because ethics is a common topic for the profession as a whole.

**Question 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 do not have any comments on this question.

**Question 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?**

No, we do not agree. As we said beforehand, we recommend that two boards should exist: 1) assurance and 2) ethics.

Furthermore, as we commented before, we believe there must be a governing board equally composed of users, regulators, and auditors.



If the governing board (as composed) ensures that public interest is protected, the existence of the PIOB appears to be unnecessary. We would like to insist that regulators alone should not design and impose standards.

We agree that the members of the board should be remunerated.

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

We believe that it should do so on the basis of a qualified majority. Under the new approach, standards must be adopted on the basis of a qualified majority consisting of no less than 75% of all members. This will prevent any task force party from being excluded from the stakeholders.

**Question 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?**

No, we do not agree. We do not think there should be only one board. What we do believe is that members of the boards can be working full-time or not, but always on a remuneration basis. As remuneration of boards is a concern, we propose that costs related to those members are borne by those charged with governance, as represented in the Monitoring Group.

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



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Business world is increasingly complex and widely influenced by the use of technology. Accordingly, those members of the board in charge of standard-setting must be highly experienced and technically knowledgeable.

Even though each stakeholder's interests are different and, therefore, their respective knowledge, caution must be exercised to ensure the quality of standards.

**Question 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?**

In line with the needs, keeping CAGs must be considered, although their future outreach could be established to be low.

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

In reference to the use of task forces, we believe that this decision must be made by the governing body when required. We believe that these task forces must be small and very focused on topics to be addressed and, therefore, adhere to the public interest framework.

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

Yes, we agree in principle with the nomination process. We need more information on the governing board's role and whether or not the PIOB is required.

## **SECTION 4: OVERSIGHT - ROLE OF THE PIOB (KEY CONCERN 2)**

**Question 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**



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**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 governing board's duties must be clearly established, as it is equally composed of the various stakeholders whose duties must include oversight. Assuming that oversight duties will be those of the governing body, a PIOB's duties would not be required, but a group of stakeholders from the governing body could not be given veto powers at all.

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

IFAC's engagement in PIOB does not appear to be relevant because the PIOB shall not necessarily continue to exist.

**Question 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?**

Based on our previous answers, the PIOB should not exist. Therefore, we do not have any further comments.

**Question 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?**

Based on our previous answers, the PIOB should not exist. Therefore, we do not have any further comments.

We believe that the members of the governing board charged with oversight duties must be democratically elected from the group of stakeholders and equally represented by users, auditors, and regulators.



**Question 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 (e.g. issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?**

Please refer to previous answers.

## **SECTION 5: ROLE OF THE MONITORING GROUP (KEY CONCERN 2)**

**Question 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?**

No, we do not agree. As we said beforehand, the INCP supports a governing board where stakeholders are involved in establishing both the strategy and the oversight role of standard-setting boards. We do not deem necessary to keep any duties related to the oversight of a body in charge of overseeing the standard-setting processes. If the Monitoring Group is part of this oversight body, duties and structure could be eliminated. The gist is to keep a very robust governing board.

## **Section 6: Standard-setting board staff (key concerns 1- 3)**

**Question 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 do. We believe that having a more numerous technical team is of the essence to seek auditing and ethics standards of quality. Technical support in technology according to global dynamics must be considered.

**Question 22: Do you agree that permanent staff should be directly employed by the board?**

Yes, we do.

## **SECTION 7: PROCESS CONSIDERATIONS (KEY CONCERN 3)**

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

The governing board's and standard-setting boards' roles must be established first in order to address the concerns set forth in the consultation paper. Some of them must be addressed by the governing board and others by the standard-setting boards and, once again, the adoption of standards should be on the basis of a qualified majority consisting of more than 75%.

## **SECTION 8: FUNDING (KEY CONCERN 1)**

**Question 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 (e.g., independent approval of the budget by the PIOB, providing**

**the funds to a separate foundation or the PIOB which would distribute the funds)?**

While insisting on mandatorily eliminating the improper influence exerted in standard-setting processes, these funds may come from those countries represented in the Monitoring Group and just a smaller part of them shall be contributed by the profession.

In order to prevent the public from having the impression of the above-mentioned improper influence in standard-setting processes, those funds to be allocated to this new structure must be diversified as much as possible.

**Question 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?**

Auditing standards issued by IFAC are not mandatory in all jurisdictions. There are national economies that are not currently applying international standards on auditing and ethics. Based on this, it is not reasonable to apply and impose a contractual levy on audit practices.

In order to prevent the public from having the impression of the above-mentioned improper influence in standard-setting processes, those funds to be allocated to this new structure must be diversified as much as possible.

OPEN QUESTIONS:

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

In order to answer this question, each board’s roles and duties must be established to determine whether other potential areas of interest may be added.

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



None.



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