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**Submitted Electronically:** MG2017consultation@iosco.org

The Monitoring Group  
C/O International Organization of Securities Commissions  
Calle Oquendo 12  
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SPAIN

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

Dear Mr. Everts,

I appreciate the opportunity to send you my comments on the consultation paper published by the Monitoring Group.

The quality of the audit is an important factor in contributing to the quality of financial information, and the latter is in turn an essential factor for the functioning of the financial and capital markets, as well as for the good management of private and public entities.

In that sense, it is important to support initiatives intended to strengthen the process of issuing those standards. But at the same time and for the same reasons, it is necessary to be very careful not to damage, unnecessarily, a system that the facts show that it has been well designed and that it has been working very well.

I understand that the MG bases the need for proposals to enhance the governance and oversight of the standard-setting process in the following statement included at the beginning of the document: *"...questions have been raised about the independence of the standard-setting process and its responsiveness to the public interest. The Monitoring Group notes that there is a legitimate concern among many stakeholders that the influence of the profession is at least perceived to be too strong and that addressing this issue could further strengthen public confidence, as well as encourage still-wider global adoption of the International Standards on Auditing (ISAs). It also feels that a renewed focus is needed on whether the development of new standards is carried out in a sufficiently timely way"*.

However, the consultation paper does not:

- Indicate who are the many stakeholders who have expressed their concerns and where and in what way they have expressed these concerns
- specify any evidence or examples where the influence of the profession is perceived as too strong
- mention specific cases in which responses to the consultation process have criticized the standards proposed by the IAASB for not responding to the public interest or for being influenced by the interests of the profession
- refer to observations made by the PIOB regarding the process of nomination or the process of issuing standards that reveal a lack of independence or undue influence of the profession.
- mention specific cases in which the IAASB has not given a sufficiently timely response to a need to issue a standard

Notwithstanding the above, there is always room for improvement. I do not think it prudent to propose a modification to a structure (the one reflected in Diagram 1 included in the consultation paper) on the basis of perceptions, when the facts rather show that it has been working well.

That said, I must reiterate that this does not mean that it is not positive to carry out a comprehensive review of the system with the purpose of identifying opportunities for improvement, but that revision should not pose as an initial assumption the modification of the current structure.

Moreover, I do not think it appropriate to submit options to modify the current structure without including an adequate description of the characteristics of that structure and the current system for issuing audit and ethics standards. It is not clear that the MG itself has a clear idea of the essential characteristics of that structure and system when, for example, in questions 5 and 6 refers to the possibility that IFAC retains responsibility for the development and adoption of educational standards and the ethical standards for professional accountants in business, when that responsibility is not currently in the hands of IFAC but in the hands of the IAESB and the IESBA respectively, which are fully independent standard-setting boards.

It would be important for those who respond to the consultation paper to be clear that:

- IFAC is an organization composed of more than 175 members and associates from more than 135 countries and was founded with the objective of serving the public interest by contributing to the development and better functioning of the accountancy profession throughout the world
- IFAC does not respond to the particular interests of any of its members, nor to those of the auditing firms, nor to the other associations of professionals who are dedicated to other specialties within the profession; it is independent of all of them and it is at the same time the vehicle to facilitate collaboration between all of them to enable the fulfillment of public interest objectives linked to the exercise of the accountancy profession.
- The IAASB and IESBA are fully independent standard-setting boards, and IFAC has never exercised any influence whatsoever on their activities. The PIOB is surely a good witness to this and it can attest to that.
- In relation to the independent standard-setting boards, IFAC's role is limited to establishing the terms of reference, allocating the budget for the due fulfillment of its functions and conducting the process of nomination and appointment of its members. In no case does it intervene in any way in the strategy or technical activity of said boards.
- Of the current composition of 18 members on each board, no more than nine shall be practitioners and no less than three shall be public members and, in addition, all members sign a declaration committing themselves to act only in the public interest.
- The PIOB provides independent oversight throughout the entire process of standard-setting (including the nomination process) to help ensure that standards development is fully responsive to stakeholder needs, accountable and transparent. The Public Interest responsiveness of standard development requires aligning the priorities of all stakeholders and this is the ultimate objective of the current architecture in place.
- The PIOB is an essential component of this architecture and can be because it is totally independent, not participating or having direct responsibility for any of the activities, nor those corresponding to the nomination process nor those corresponding to the process of issuing standards.

In my opinion, except questions 1, 4 and 14, all the other matters raised in the remaining questions can be analyzed and discussed without the need to pose as a basic assumption that the current structure, the current architecture of the system, must necessarily be modified.

Only if, in analyzing these other issues, it is concluded that a good solution can only be achieved if the structure is modified, then that modification should be considered.

Regarding question 1, I have already said that in my opinion it is not proven that these areas of concern are based on concrete real facts. In any case, it is possible to think of measures to reduce the possibility of a perception of lack of independence or undue influence on the part of the accounting profession. The dissemination of the characteristics of the structure and the system of issuing standards can contribute to this, as well as the dissemination of the PIOB reports on their oversight task.

It is also important to avoid that a change in the system could lead to a perception of undue influence on the part of other stakeholders, such as regulators. Balance is a fundamental part of the system and, in my opinion, one of the qualities of the current system.

Regarding the lack of timely response to the need for new standards, if this were actually happening, it is very possible that it is due more to a matter of available resources or a question of procedures than to a question of the structure of the system. That is, it could be improved without changing the current structure.

Regarding question 4, I believe that two separate boards should be maintained, one for audit standards and other for ethical standards, since the competencies required for their respective members are significantly different. In any case, if necessary, joint working groups can be set up to address certain issues, and then, where appropriate, the standards will be issued by the corresponding board.

The issue of the board members' competence is a fundamental issue. It is not possible to think of issuing high quality audit standards without the participation of professionals with extensive and current or recent experience in auditing. This does not imply an undue influence of the audit firms in the elaboration of the standards. On the contrary, the first ones interested in not being seen as influencing the standards are the Firms themselves. Therefore, the Firms must grant full autonomy to the members of their organizations that are called to serve on the boards, and this must be done explicitly by means of a declaration to that effect.

In addition, if in any case there is an attempt of undue influence from an audit Firm or from the profession as a whole, the system has sufficient safeguards to ensure that this influence has no effect. Among those elements we can mention: the board chairman, the other members of the board, the consultation process and the oversight of the PIOB.

Regarding ethical standards, they are generally common to all accountants, whatever the specialty they are engaged in, so it would not be advisable to separate the issuance of these standards.

In relation to question 14, assigning to the PIOB the responsibility for the nomination process would imply significantly weakening the system. There would no longer be a true independent oversight and the independence of the PIOB would be threatened when it comes to having to monitor and report on the performance of members who were elected in a process carried out under its responsibility.

On the contrary, it seems to me that we have to work on how to improve the operating effectiveness of the PIOB so that it better fulfills the task assigned to it today in accordance with its current terms of reference.

In summary, these more than twelve years of history of the current system and structure have allowed the issuing of high quality standards and in those years IFAC has demonstrated its unconditional commitment to the public interest by putting all resources requested by the Board and the PIOB at the service of the proper functioning of the system .

The audit is an exclusive competence of the accountants and one of the main activities to which the accountants dedicate themselves, and being that IFAC is the only global organization that represents this profession, it is unthinkable that it does not have a key institutional role in the standard-setting process for the profession.

History shows that IFAC can do it without impugning the public interest at all; on the contrary, serving it.

It is positive that the Monitoring Group fulfills its task of ensuring the continuous improvement of the system, but it is important that before proposing substantial modifications to the structure of the system, the analysis of the real problems is deepened and the different possible solutions are raised, to determine if it is really necessary that the improvements to be introduced imply substantial changes in said structure.

I am grateful again for the possibility of participating in this process through the comments included in this letter, whose publication I expressly authorize.

Sincerely,

A handwritten signature in black ink, appearing to read 'F. del Valle', with a stylized flourish at the top.

Fermín del Valle  
Former IFAC President