



**CONSIGLIO NAZIONALE
DEI DOTTORI COMMERCIALISTI
E DEGLI ESPERTI CONTABILI**


Consiglio Nazionale Dottori Commercialisti
e degli Esperti Contabili
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MINISTERO DELLA GIUSTIZIA

Il Direttore Generale

FM/int/gp

Rome, 6 February 2018

Monitoring Group

Sent by email:

MG2017consultation@iosco.org

Re: Monitoring Group consultation, strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC), the national body representing in Italy the accountancy profession, welcomes the Monitoring Group's consultation to encourage an open and fruitful debate on the architecture of a standard setting system at international level, with specific attention to independence and responsiveness to the public interest. Reforming a standard-setting system implies a two-fold reasoning, based on the identification of:

- Criticalities and weaknesses of the current system, including details on any inadequacy;
- Any well-pondered alternative, which could also be derived from other models, where they have been experienced and have proven to be effective.

In its pursuit of a continuous improvement, the accountancy profession has already embedded significant reviews of the standard setting process leading to the model currently in place. It is willing to consider any further change, also of structural impact, to enhance effectiveness, independence and timeliness. The discussion should aim at identifying and introducing in the current system the changes or adjustments that will be largely considered as necessary for reaching the higher aim of a robust system, responding to the "rule of public interest".

In reading the consultation paper, our understanding is that the MG proposes arrangements that would in practice dismantle the current system and rebuild a new one elsewhere, rather than improvements or adjustments to the existing settlements. We would like to recall that the current system is the result of a reform that has started in 2005 and that has been thoroughly considered, reviewed and responsibly implemented by IFAC. There has been a continuous attention and update of any relevant procedure of the SSBs model.

The reliance placed by the single national authorities, as well as European institutions, on those standards is witnessed by the high adoption rate.

We would like to highlight some of the corollaries that we consider related to the proposals put forward of incorporating the Auditing and Ethics Boards into a single body, with a smaller number of appointed and remunerated members, supported by expanded technical staff:

- Regulatory attention on statutory audit, with a focus on financial markets and listed companies, excluding all other professional and service sectors, thus giving relevance to only one professional segment. We would like to emphasize that relevant advantages - in terms of shared experience/strategies and processes – derive from the synergic coexistence of all professional segments, and their related SSB, under the same organisation.
- Need to rely on staff to develop the technical supporting documents for the Board’s members.
- Limiting IFAC’s role to representation, advocacy, education and promotion activities, whereas its core activity has been for over 20 years to serve as an umbrella organisation for the production of reliable international standards for the accountancy profession that have been made available to the general public for free and to the national authorities for adoption purposes. Moreover, IFAC is a brand that has matured in the last decades and needs to continue to be associated with the value and contribution of the accountancy profession.
- A completely new institutional structure, whose procedures, funding and configuration have not been identified in the CP, will not necessarily guarantee the enhanced achievement of the standard-setting goals, including the pursuit of public interest, independence, transparency, and timeliness;

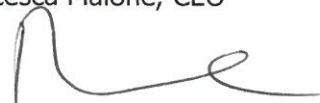
The CP does not detail the funding method for an alternative standard-setting and oversight activities, nor identifies transition costs to the new system; it is also worth underlining a non-quantifiable loss of the experience developed and gained during all these years, in terms of technical competencies, specialized staff and production environment;

“Timeliness”, which is an important benchmark on the appropriateness of a standard-setting system, is inversely proportional to the complexity of the process, which includes extended consultation, endorsement and approval. These latter imply a long internal process, but the adoption entails a long external process, in more than 150 different jurisdictions. Furthermore, attention should be paid to the overriding topics, which are to be included into the agenda and accordingly developed in the complex standard-setting process.

CNDCEC is happy to provide below more detailed responses to selected questions and to confirm its full availability for further discussions and explanations on the matter.

Yours faithfully,

Francesca Maione, CEO



CONSIDERATIONS ON THE DIFFERENT SECTIONS

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

The current standard-setting model includes different steps with the participation of several public and private parties with sector-specific expertise, as well as experts and representatives of the various stakeholders of the financial reporting chain. This 'shared' regulation model is reflected in the design and proposal phase, in the development of the standard, in the verification of the strategy underlying the standards and in the compliance measurement.

In CNDCEC's view, the aspects currently requiring further improvements are:

- Timeliness in finalizing the standard and being able to use it, ensuring that the need that originally generated its development still exists. Maintenance of already approved standards requires today an equally complex process, that has proved to be expensive and excessively time-consuming;
- Funding is entirely provided for by the accounting profession, through the fees paid by member bodies and by the FoF. Only a limited part, mainly concerning the oversight function, is financed by national authorities, while a much larger portion should be considered if the claimed "undue influence" is to be offset. IFAC's efforts to diversify and increase the funding base, also to avoid the risk of being perceived as not independent, have not so far achieved the desired results.

In our view, it would be appropriate that the technical activity is financed by the parties with technical competencies (not limited to the profession), and that the oversight costs are borne by those who carry out this function. As of today, heavy oversight costs are reported in IFAC's financial statements;

- Relevance of the Code of Ethics which is - in its structure and content - a code essentially addressed to auditors; by using the term "professional accountant", the code has been expanded and adapted to the whole profession, but essentially, in CNDCEC's view, it stays relevant to those carrying out auditing activities; CNDCEC has several times expressed the need for the code to be streamlined, as - besides the detailed rules on auditors' independence, whose compliance must be thoroughly verified, - it should comprise the basic principles of professional ethics, common to all the professional activities, and apply to the various sectors;
- Relevance of Auditing standards: differently from what is envisaged by MG, CNDCEC has on several occasions reasserted the need to reverse the standard setting process, starting from the standards for SMEs and going on stratifying the requirements for the fields of audit and listed companies (so called think-small-first approach or scalability);
- Nomination process for boards on technical standards and, in particular, audit and assurance: CNDCEC encourages the participation of experts on the boards, also as external members. People should be elected in the boards not only because they are representatives of stakeholders but because they possess competencies on the subject-matter and can give a significant contribution to the board's activity, given their relevant role in the approval process;
- Economy of standard setting process: A very large proportion of time and human resources is dedicated to plan, define, control, and monitor the system. CNDCEC encourages to devote more time and energies to the technical and practical work of embedding the real needs and emergencies - currently perceived by the profession - into the standards.

SECTION 2: GUIDING PRINCIPLES

Public interest

CNDCEC does not share the assumption that only the regulators can stand for public interest. At local level the professional bodies are acknowledged as part of the standard-setting process, with distinct roles based on the peculiarities of each jurisdiction - CNDCEC for example is a public-sector entity. Likewise, it is not correct to assume that a model is to be assessed according to the degree of satisfaction of every stakeholder - this is precisely the assumption that the current standard setting model is trying to overcome;

The public interest concept applies to everyone, i.e. not only to the profession but also to each member association of the PIOB oversight and the MG, which may also risk being influenced by the various political pressure and trends characterizing the related associations;

Relevance and credibility of standards

Since standards enacted by the Boards are not directly binding (as IFAC is not a national or supranational governmental or parliamentary regulatory body), the fact of having been so extensively adopted and implemented proves their technical reliability, accuracy, response to market needs and diligence in complying with standard-setting procedures;

Finally, the profession and CNDCEC are concerned by the continuing reviews of standards, which need stability over time to become a reference point and "rule of law" and avoid generating confusion within the market but also among professionals.

Additional considerations: Rules vs. principles - Although the system has opted for a principle-based approach, CNDCEC believes that a greater amount of effort should be devoted to ensuring that this approach is effectively and extensively adopted. In our understanding, MG proposals risk facilitating a return to a rule-based and check-lists system, which is only useful to the professional activity of checking compliance.

SECTION 3: OPTIONS FOR REFORM OF THE STANDARD-SETTING BOARDS

(Q.4) Auditing and Ethics Board - CNDCEC does not deem useful, both in terms of governance and quality, to assign two domains - which are so structured and require such high specialization - to a single board with a reduced number of members. It is certainly important that between the two boards, which are part of the same organization, there is collaboration, fruitful discussion and the possibility of working in synergy (also envisaging some common projects on certain aspects), but their unification does not seem useful. Competencies, specializations and workloads are such that concentrating them on a few people is not a viable solution. The proposal to reduce the number of board members and to hire more qualified and expert staff would not provide a conclusive solution to the (feared) excessive involvement and undue influence of the profession because, as a matter of fact, to write a standard there is need of experts, and these are forcedly professionals (or volunteers or members of the staff, and in this case the choice is to be made based on other aspects). Furthermore, the reduction to 12 members would be even more burdensome if the scope of IAASB's work includes assurance of non-financial information (e.g. sustainability).

In our view, entrusting Ethics to the board that develops audit standards and choosing to focus only on the statutory audit area risks giving the public the wrong impression that ethics basic principles are not the same for the entire profession and change according to the different activities. On the contrary, it is important to ensure the public that ethics as such does not change according to given situations and

activities, but this can be achieved through a restructuring of the code also with the current board structure;

- We do not share the proposal of entrusting boards with a role more focused on strategy, as the word "strategy" is not defined in the CP and we believe that the standard-setting is basically a technical activity. Yet we agree that there is need to improve the current situation where every single word is over weighted up, while this kind of work should be delegated to the staff. Today each board (and IFAC board) publishes a strategy document (as draft calling for comments) in a different cycle and this may lead to confusion. To avoid this, we suggest that strategy, or better reasoned planning of work that well considered the market needs, should be considered by all boards together.

- We do not share the proposal of leaving only Education SSB in IFAC and creating a new and separate body for Audit and Assurance and Ethics: professional accountants are those who face new challenges and changes, so they are fully aware of the competencies needed to carry out the professional activity. Separating Education would give the impression that this area is less important, while, on the contrary, it is fundamental for the application of any technical and ethical principle. Furthermore, it should be working in synergy with the other fields to provide professionals with appropriate intellectual tools;

- With specific reference to the audit, we wish to highlight that MG's proposals on listed entities do not consider that, at European level and in the single jurisdictions, there are precise audit requirements also for SMEs – in our view, a whole audit segment should not be excluded from a well-structured standard-setting activity at international level. The question is then if the set of standards should be the same, if a think-small-first approach should be adopted, or if there is need to indicate those requirements SMEs are not required to comply with (which is the current approach).

(Q.8) Board Chair and staff – Remuneration of a non-practitioner chair, and the establishment of a board with a more strategic remit, supported by an expanded professional technical staff, does not seem the right solution to grant either an improvement of the governance system or a reduction of the (alleged) undue influence; on the contrary it risks generating an overlapping of functions between CAG and Board, and paying people to think and not to work;

(Q.9) Voting system - The adoption of each standard – a function which had been switched years ago from IFAC Board directly to the relevant Boards, in order to grant greater authority and limit the intervention of IFAC Board to a mere role of coordination of the system, without deciding on the contents, - should still be based on a reinforced majority and not a simple one. When a technical activity requires specific skills and practical experience, only an extensively discussed and shared approach will ensure that the vote formalizes an entire scientific process. The vote should not be imposed to other parties, as this may risk creating divisions between the different representatives at the board. For what concerns the vote at 50%+1, we do not agree with the proposal to reduce the threshold that today foresees the approval by 2/3 of the members. On the contrary, the trend should be towards the unanimous approval, since the higher is the approval, the more the standard will be deemed technically valuable and authoritative also by those who must implement it at national level. If the majority required for the approval was reduced at 50%+1, there would forcedly be an analysis of the reasons in favour and against the standard, and this could result in a standard that, although approved by IFAC, will not be endorsed in the single jurisdictions which will decide independently on the authority of the standard;

(Q.11) With reference to the competencies and skills of the board members, there should be a diversification to represent the idea of a mixed/multi-stakeholder model. We deem useful that the number of technical experts stays higher than the number of non-technical experts. Task forces, i.e. sub groups or groups integrated with other members having special expertise, can develop the first part of the work and then bring it back into the board, for the purpose of a final discussion and plenary decision; the majority of the members should have the required competencies and in case of particular sectors where a specific skill is necessary, it is important to foresee the possibility to integrate boards, task-forces or staff with experts in that particular field.

(Q.12) Simplification - If the Board members fully represent all stakeholders, and without the reduction to 12, we would suggest taking into consideration the possibility of excluding the CAG, in order to further simplify an already over-structured process.

(Q.14) Nomination process: CNDCEC believes that the nominating process can be improved, particularly with reference to the appointment of the nominating committee and its chair. We do not consider as necessary to foresee a greater and direct level of decision of PIOB in the nominating process, it should instead continue to control and verify that the IFAC process is developing in a correct and transparent way, also by having access to all the existing documentation. We could, as an example, consider the appointment of an external chair, by the PIOB or other group of stakeholders.

SECTION 4: OVERSIGHT - ROLE OF THE PIOB

(Q.15) Nominating process - PIOB must not have either the veto or the possibility of interfering in the merits. In our view, a weakness can be perceived in the system of appointment of PIOB members, as they are selected *ad personam*, but are appointed by the single entities comprised in the MG - this results in an overlapping between MG and PIOB.

(Q.16) The proposal to eliminate IFAC's members from PIOB (to avoid a situation of self-control, even if different people are involved), seems acceptable, but the function of liaison needs to be granted.

(Q.18) A solution might be to have PIOB appointment system revised to include a public call for nomination.

(Q.19) Oversight on the standard setting process: MG intention is to reconsider and enhance PIOB's role, but there is no specific indication on how such enhancement should occur, except for the reference to the appointments, the approval of the board(s) strategic plan and its role in facilitating the approval of the related budget. It is also necessary to reconsider PIOB's geographical distribution and composition, but the proposals pose the three following risks:

- Weakening the nature of the oversight function, foreseeing PIOB's intervention in assessing the contents of the standards, which should instead be avoided;
- Introducing an additional and complex structure which should in turn be regulated;
- Increasing the costs without defining who is going to bear them.

SECTION 5: ROLE OF THE MONITORING GROUP

(Q.20) The CP calls for a generic change and improvement without providing explanations on how it will be put into practice. The MG, according to CP, will still nominate PIOB members and decide on its budget. MG function is important, but, as already said, simplifying the entire system is equally

important, and we wish to emphasize the need for approaching the issue with a holistic vision and avoid over structuring the oversight procedures, which are additional to the national ones. Over time, MG has become structured and has maintained a more and more complex function. CNDCEC's concern is that MG itself risks being influenced by general public pressures that do not reflect technical/scientific opinions.

SECTION 6: STANDARD-SETTING BOARD STAFF

(Q.22) The hiring of additional, dedicated staff, contracted directly by the boards seems inappropriate both for budget concerns and because the decisions would be eventually taken by the structure, to which we all acknowledge high competence in the technical aspects. The staff should thus be hired by IFAC (and not directly by the boards) in order to grant a good coordination, direction and leadership.

SECTION 7: PROCESS CONSIDERATIONS

(Q.23) As already anticipated in the first section, it is important to think about a simplification, avoiding the introduction of new and overlapping competencies, and trying to see the whole like the sum of well-defined and distinct steps. Therefore, it is preferable to improve what has been done so far, and not destroy the entire system and rebuild everything from scratch, without having a feasible alternative based on a concrete and well-structured system that has properly considered sustainability, including HR, logistic structures and finally funding.

SECTION 8: FUNDING

CNDCEC agrees with the need to diversify funding and acknowledges that IFAC has tried for many years to encourage the participation of other parties to fund both the boards and PIOB, but this has proved to be a challenging task and, as a matter of fact, during these years, no radical change took place. The CP provides no detailed explanations on how to finance a standard-setting system, which is undoubtedly expensive and burdensome also in terms of budgeting procedures.

- The current model is financed by IFAC member bodies and by networks of audit firms. The standards issued by IFAC boards are perceived as credible, technically reliable and robust, as the implementation and adoption in more than 120 countries testifies. CNDCEC believes that the participation of audit firms with a share of almost 50% represents a critical issue and a shift to an external new system supported by private companies may even more rise the critical level.
- MG proposes to restructure the boards and externalize their activity but does not provide explanations on how these new structures would be financed. Instead of remunerating board members, chairs, and staff, and funding a new logistic structure, CNDCEC believes that rationalizing costs and valuing voluntary work and expertise is more appropriate.
- CNDCEC deems that the profession should finance the technical part – SSBs – while external authorities and stakeholders should finance the oversight. In addition, CNDCEC believes that it is likely that IFAC members will not continue to finance this new model, if they are not involved in the decision-making process. Coming to the final consequences, if the new standard-setting model, as the one envisaged by MG, will be financed only by listed firms and by large audit networks, the perception of an undue influence, and conflict with the safeguard of public interest, will continue to persist.