

February 8th, 2018

Dear Monitoring Group,

In order to respond the Monitoring Group Consultation to review the international standard-setting model for Audit and Ethics, we send below the responses of the Federación Argentina de Consejos Profesionales de Ciencias Económicas.

If you have any questions or you need more details, please let us know.

Sincerely,



Dr. José Luis Arnoletto
Presidente

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 Argentine Federation of Professional Councils in Economic Sciences would like to reassert the quality of the standards produced so far by IAASB and IESBA. Said quality is recognized by the Monitoring Group and evidenced in the fact that the NIAs have been adopted in more than 125 countries worldwide.

Therefore, in our view, there is no evidence that the existing standards have not been developed completely in the public interest. They remain to be an appropriate landmark for audit quality.

However, we must recognize that some stakeholders may perceive an excessive influence of the accounting profession, although we have not noticed any evidence of stakeholders complaining about such excessive influence, and the answers to public consultations on every standard proposed have not shown any evidence to such respect.

In our experience, the comments received from the regulators on the public consultation carried out in the standard-setting process have always been subject to special attention.

The fact that regulators may have perceived that their voice was not listened to properly has led the PIOB to sometimes advance beyond its original monitoring role to a more technical role when judging a final product (i.e., the final standard), besides evaluating conformance with the due process.

Thus, we consider that the current model is not broken. Notwithstanding, it is legitimate to reevaluate and search for opportunities for improvement in any system on a regular basis and, therefore, we understand the MG willingness to consult the stakeholders on the possible improvements to the standard-setting model.

2. Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?

Before trying to set up the principles for a good standard-setting model, we believe that it is necessary to specify what, in our opinion, the critical characteristics of good standards are, i.e.:

- Principle-based standards, which enables to exercise professional judgment. Auditing is not a mechanical process, and it requires appropriate professional experience, good judgment and a certain degree of intuition.
- Standards enabling auditors to exercise their competences and skills in order to challenge the management and governance of the entities being audited

and, thus, add value to audits. Standards should not generate a "compliance first" attitude impairing the effectiveness of the auditing task.

- Scalable standards which can be applied proportionally to all entity types and sizes. Additional complexities should only be addressed through an additional application guide, not through different standards.
- Standards which purpose is not only their applicability, i.e., standards that are not designed only to be monitored by regulators. While the quality of audit work should be assessed by third parties and, therefore, requires a reasonable level of documentation, it should be considered that there is a limit to the acceptable cost of audits and that, given the total time dedicated, the time spent documenting the work done may reduce the time invested in the investigation of potential issues.

Once good standard characteristics have been set forth, it should be easy to derive the standard-setting in the public interest principle. We think that public interest is better achieved through:

- Following a transparent and efficient due process, including regular public consultations on the Boards' agendas, making the best use of consulting groups, following rigorous processes for the development of preliminary discussions, the scope of the projects, feasibility assessment and terms for the development of every project selected for active work.
- A clear task distribution among standard setters and those who design standard-setting processes and oversee compliance with the processes approved (at a Governance level).
- An independent standard-setting Board and exempt from undue influence from any stakeholders.
- A balanced and multi-stakeholder representation, at standard-setting Board level as well as Governance level.
- Appropriate and sustainable funding for multiple stakeholders. We must acknowledge that arranging standards takes time and, therefore, it needs sustainable funding that is not subject to unexpected fluctuations or governmental interference.

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?

It is not easy to answer this question, as the public interest framework expected to be designed by the PIOB is not available yet.

In the face of the absence of this of public interest framework, we consider that it is not possible to fully debate the reform proposed and we can not see how the proposed reform could be completed without it.

Given that one of the criticisms made by the MG to the current model is that the standards may not have been fully developed in the public interest, it is crucial that all the stakeholders agree with such framework and support the way in which it shall be used.

Ultimately, the public interest, as a concept, is based on an assessment of the net benefits of an action or result for society as a whole. From there it is understood that no stakeholder may "own" the public interest. All the stakeholders contribute a particular insight to the standard-setting process. It is by means of this insight sharing and collaborative debate that sustainable consensus may be achieved, which will finally serve the public interest.

As a principle, we consider that, therefore, it is not only the PIOB who should design the public interest framework. Ideally, the public interest framework should be designed by a multi-stakeholder group representing every player at stake.

In the absence of multiple stakeholders to draft the public interest framework, a public consultation is vital to collect comments from all the stakeholders, and we think that the public interest framework should be ultimately approved by multiple stakeholders representing all the parties.

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 do not support a merge between auditing/assurance and ethics in a single Board. Ethics key principles (integrity, objectivity, professional expertise and due care, confidentiality and professional behavior) are the same for all professional accountants, either financial statement preparers (in business or practice) or auditors.

Ethical principles are an intrinsic value of the accounting profession that should continue to be set by a single Board with the appropriate expertise to establish ethical principles and which composition may be slightly different from the one setting auditing standards which are, by nature, of a more technical character. The Ethics Board composition could include more academicians or even philosophers, while the composition of the auditing standards Board would undoubtedly require a deep recognition of the audit knowledge acquired through practice or close interaction with auditors.

Nevertheless, although we do not support an auditing-ethics merge, we could understand that auditing and independence matters could be addressed by a

single Board. In fact, the value of an auditing opinion lies mainly in the auditor's expertise and in the auditor's capacity to carry out an appropriate audit based on auditing standards, but it also lies in the auditor's independence, and one could expect that an audit expert should also be very knowledgeable of independence. Auditing and independence could be considered as a whole.

Within this configuration, ethics would remain in a separate Board and it would be addressed for all the accountants, either in the auditing practice or in business. Only independence would be addressed by the auditing standards Board.

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?

Firstly, it is important to make it clear that IFAC is not responsible for the Educational Standards. Educational Standards are set by IAESB, an independent Board sponsored by IFAC. Just like the rest of the standard approval Boards, IFAC does not interfere in any way with the Standards approval, it only provides the administrative structure to host the Board. We see no reason to change the existing model.

6. Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? If not why not?

As in question 5 above, it is important to point out that the Code of Ethics is not currently developed under IFAC's responsibility. We consider that ethical standards for all the accountants, either in business or practice, should continue to be developed by one specific single Board. (See our answer to question 4.)

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.

The MG could have considered a model closer to the one of the IFRS base, by means of which the Standard-Setting Boards would be technical boards, and should be comprised of auditing professionals and members of the "users" group, analysts, investors, academicians, and where regulators take part in the monitoring Board.

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?

The answer to that questions depends on what is understood as strategic.

Some may say that "strategic" means that the Board simply provides some broad direction to the staff in charge of executing the work under the Board's supervision.

We agree that the members of the Board should not participate directly in standard drafting, and should dedicate most of their time to research, public consultations and peer discussions. Notwithstanding, the Boards shall remain in charge of every active project, and every member should assume full responsibility for the standards on which their vote shall be cast; this exceeds just establishing the projects' strategic direction.

For the Board not to be a member of staff but to continue being managed by the members of the Board, we believe that the Board must have powers to object the work done by the staff and, to that end, the Board members should be highly competent and have thorough auditing knowledge through direct practice or close interaction with auditors (members of the auditing committee, preparers, analysts, regulators).

In principle, we do not agree with remunerating the members of the Board, supporting an altruist and voluntary work, without detriment to the degree of commitment and quality of the standards developed.

The MG provides the possibility of having full-time or part-time members of the Board. We should point out that this idea which had also been provided in due time for IASB had been rejected by the IFRS Foundation due to the risk of creating two types of members of the Board.

In any case, the balance between full-time and part-time members of the Board should be considered carefully.

In a multi-stakeholder Board it is important for all the members of the Board to be able to participate in the same way, notwithstanding the group of stakeholders they are drawn from, for the Board to not be directed by a few members of the Board with time to obtain deep knowledge of the subject matters, while part-time members of the Board may not question the positions taken.

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

We do not agree with moving to a simple majority rule. A two-third rule is a good threshold to adopt a standard, as no individual group by itself should be able to impair the adoption of a standard.

The Board should continue to seek consensus, not necessarily having unanimity at any cost as a goal.

What matters, for a good standard configuration, if the Board does not manage to resolve the discussion points, is that the Board should at least understand the points of disagreement, the reasons for such disagreements and consequences and the existing disagreements. This is a key factor for the Standards acceptability and credibility.

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 agree with multi-stakeholder Boards where the stakeholders are drawn from the following stakeholder groups (users, regulators, professionals) with a limited number of members. The question remains whether users should include preparers or not. It should be subject to consultation later on during the process if the reform project progresses. In our experience, preparers of financial information participate in Accounting standard-setting committees but not Auditing Committees.

The ideal number of Members depends on the scope of the Board's activities (only auditing or auditing and independence) and whether the auditing and ethics Boards merge into one Board but, in any case, twelve members is undoubtedly not enough to guarantee sufficient professional and geographical background diversity, and for the Board to have all the competences necessary to address a wide variety of subject matters.

We should mark a distinction between the roles of the members of the Board, who may be part-time members, varied regarding their work and geographically, and the role of the support staff in the standard-setting process, where full-time workers is desirable.

A great majority of the members of the Board, or else all its members, shall have in-depth auditing knowledge, acquired either through auditing practical experience or through direct interaction with auditors.

11. What skills or attributes should the Monitoring Group require of board members?

See our response to question 10 above; Board members should be highly qualified, competent and respected representatives of all the stakeholder

groups, with deep auditing knowledge and understanding, acquired through direct interaction or practice with auditors.

They should be strongly committed to serving the public interest and setting global standards, i.e., they should not advocate for national positions. To that aim, geographical diversity is a key factor for the Boards' composition.

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?

Having a CAG is useful, but it should remain of a consultive nature.

We must point out that CAG members sometimes do not have the capacity or time to participate in technical debates, therefore, their advice should be obtained at a strategic level.

We could imagine that the CAG advises the Standards Approval Boards as well as the Governing Body, as in the case of the IFRS base by means of which Advisory Groups advise Trustees as well as the Board. The CAG composition could also be reconsidered.

If standard-setting evolves towards a model that will not be in close contact with auditing daily practice as it is today, with less geographical diversity and less direct interaction with the profession and professional institutes, it will be important to build a closer relationship with national standard setters, possibly through regular meetings with national regulatory bodies. At present, it is held once a year, but national standard setters could actually become close advisors of the Board. This could enhance the Board's debates and facilitate the adoption of international standards nationwide.

If the link with national standards setters is broken, the Board is deprived from a valuable source of ideas and experiences.

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

As mentioned above in our response to question 3, the public interest framework is not available yet; thus, it is difficult to answer this question.

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

See our answer to question 15 below. If a real Board governance is created and if it is a multi-stakeholder one, such governance should be in charge of the nominations.

In any case, nominations should not be in the hands of only one group of stakeholders.

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?

At present, we do not understand whether, based on the MG's proposals, the MG aims at a three-level structure, as for example, the structure of the IFRS Foundation, which includes:

- A Standard-Setting Board (like the IASB);
- A governing body (like IFRS Foundation Trustees); and
- An external Oversight Board that oversees the respect for the Foundation's public interest mission;

Or if it is aiming at a two-level structure that would have:

- Standard-Setting Board (or just one, IAASB /IESBA combined) and
- A single Oversight Board (PIOB), which would combine governance and monitoring functions.

The MG's proposal seems to aim at a two-level structure but with wide functions for the Oversight Board, which would go beyond overseeing compliance with the due process, in a way that it also includes certain governance duties, such as nominations, Board performance assessment.

We understand that the oversight function could even entail a right to veto standard setting. However, we think that the governance function would not be complete, as it would not include the responsibility for pursuing (diversified) funding of the Boards.

Thus, we believe that the MG's proposal needs to be further clarified. Our concern is that there may be a risk of confusion between the oversight role and the governance role. Besides, we see a risk that the standard-setting Boards' independence, and therefore the global acceptability of the standards, may be compromised if the governance/oversight function has the power to veto the standards that have fully followed the development due process.

Likewise, the MG's proposal seems to exclude the profession from participating in the oversight/governance body.

We consider that setting up a robust and efficient multi-stakeholder governing body including the representation of the profession is a key factor for the reform. Such Governing Body should be in charge of:

- Sourcing funds in order to progressively establish stable resources provided by all the stakeholder groups who benefit from high quality auditing standards;
- Nominations for the Chairs and Board members positions;
- Managing the Boards performance (evaluating the Chair, evaluating the Board members, monitoring that the boards follow their work plans...);
- Overseeing the compliance of the due process;
- Promoting the global adoption and proper implementation of standards, etc.

Only by meeting all these conditions by a credible and respected governance body shall the public interest be met. The Governing body should safeguard the model, its effectiveness and credibility, including the confidence it transmits to the stakeholders. Therefore, it is crucial for the governing body to have a balanced composition and to not be in the hands of solely one group.

Naturally, in order to preserve the standard-setting Boards' independence, neither the governing nor any other oversight body should have a right to veto the setting of a standard once it has been proved that the due process has been followed.

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

See our answer to question 15 above; we believe that the members of the profession must be from within the stakeholder group that is part of the governing body. In this sense, we do not see why IFAC may not support a candidate that may run for member of the Governing body.

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?

Answering this question will be difficult as long as it is not clear whether the MG aims at a two or three-level structure (see our answer to question 15 above). That is, as long as we do not know for sure whether the PIOB would keep its oversight role or take on a governing role. To be clear, we will call the Governing body the multi-stakeholder body that must take on the governance of the Standard-Setting Boards.

As mentioned above, we are in favor of establishing a real Standard-Setting Boards governance and we consider that the Governing entity should have a multi-stakeholder representation of the 3 groups identified in MG's consultation (users, regulators and auditors).

We understand, based on question 17, that the MG does not provide for the engagement of auditing professionals in the PIOB ("composition of the PIOB to ensure that it is representative of non-practitioner stakeholders"). If the PIOB is to become the standard-setting Boards' governing body, excluding auditors from that body would not be acceptable.

If these do not need to have the same degree of technical experience as the members of the Standard-Setting Boards, all the governing body members should definitely have a high profile and recognized auditing skills, experience and knowledge, either through practice or interacting, or having interacted, with auditors during their careers.

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?

The members of the governing body should be appointed by means of an open nomination process where all the stakeholders may present candidates.

This process should not be limited to considering candidates nominated by the MG only.

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 (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

PIOB oversight by the governing body should only be exercised within the field of competence of the boards subject to the reform.

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?

The MG could play a role similar to that of the IFRS Foundation Oversight Board's, i.e., it could serve as a link between the Boards' governing bodies and the regulators, and be a custodian of the model's appropriate performance (a safety network) in case of malfunction by the governing body and failure to properly comply with the terms of the constitution in the public interest.

It could also be consulted and ratify the nominations of the Governing Board members.

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?

In principle, we agree with having an expanded professional technical staff. The members of the Board should not participate directly in standard drafting, and should dedicate most of their time to research, public consultations and peer discussions.

Notwithstanding, the Boards shall remain in charge of every active project, and every member should assume full responsibility for the standards on which their vote shall be cast; this exceeds just establishing the projects' strategic direction.

To compose such staff, a combination of permanent and associated technical staff from companies or professional associations may be necessary. Their experience and relevance should be updated and their skills should depend on the scope of the Board's activities and work plan.

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

Before we respond to this question, we would like to make it clear that IFAC is not interfering at all in the standard-setting process. It is simply providing an administrative structure to manage:

- finance;
- Staff employment contracts.

In our view, the Standard-Setting Board is a technical body, not a legal entity. Hence, the Board may not be an employer. The structure to hire IFAC staff. The selection depends fully on the reform objectives and is simply a matter of apparent independence.

A separate legal entity could improve apparent independence but would add costs and divert the focus that the Board should have on being strictly technical and not dedicated to administrative tasks. Such additional costs

could be reduced if IFAC continues to assume its current support functions. There are many possible solutions. IFAC could create a subsidiary or foundation to support the Standard-Setting Boards.

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

We have many doubts as whether the new model proposed would improve the timeliness and relevance of the standards. Standard-Setting requires time, mainly because it requires public consultation or consultations on the standard drafts, but also on the Boards' strategy and work plans. Appropriate consultation is a key factor for a good Standard-Setting model. Consequently, reducing the consultation time would be counterproductive and not in the public interest.

The appropriate sufficient number of staff and a more condensed Board with less members could help accelerate the process, but, based on experience, if a standard takes time to be revised or issued, the root cause is generally the lack of appropriate definition or consensus on the objectives to revise or set a new Standard. Without the appropriate consensus and clarity on such objectives, the standard is generally exposed again and may take years to be issued.

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 (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

The current system already has controls and balances in place that the MG does not fully recognize.

.If the problem is the independence perception, we think that moving to diversified funding is key to solve this problem.

If the new system were totally funded by the profession, either through IFAC or directly from companies, there would always be the risk to question the independence of a standard. Moreover, question 25 suggests that the MG is considering making the profession pay a levy, so we perceive a contradiction between depending on the funds contributed by the profession or otherwise.

Therefore, the evolution towards diversified funding should be fast for the reform to be credible.

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?

No, we do not support the application of a "contractual" levy because it is hard to see what is meant by a "contractual" levy internationally.

Oversight and standard-setting systems sometimes are funded nationally through a tax or similar mandatory contribution established by law. Nonetheless, it is difficult to understand how that may work at an international level, as it is not possible to issue a law internationally imposing a tax on companies.

In that case, it should be a voluntary contribution and we should go back to the independence perception issue (unless, as mentioned above, the funding is diversified as in the case of the IFRS base and the funding diversification is fast and does not pose a risk to the standard-setting process funding).

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

In our view, the most important consideration is the cost on society for the model proposed and the possible consequences, including the risk of fragmentation of the professional practice.

The MG's reflection should start from the mission definition set by the Standard-Setting Boards. In this definition, the mission would result in a remit proposed by the Standard-Setting Boards and the establishment of its goals. Once the goals have been set, it is possible to get the necessary means to meet the goals and costs of said means and to judge whether the costs are commensurate with the goals.

The lack of an appropriate definition of the standard-setting model goals impairs evaluating if the new model proposed is commensurate with the goals (what improvements are expected and at what cost?) And whether the same outcome may be achieved through a simpler evolution from the existing model.

In fact, we should also consider an evolution of the following within the existing system:

- the nomination process;
- the Board composition;
- strengthening the governing body; and

- funds diversification without implementing a destructive approach of everything achieved and refunding.

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

We must point out that in our answer to question 2, MG's view should include standard-setting matters in a wider fashion when reflecting on what constitutes good auditing and assurance standards. We believe that the characteristics of good auditing standards are:

- Standards applicable to all entities and not only to a certain segment of the market.
- Standards that are actually based on principles.
- Standards which adopt a "thinking about first things first" approach.

The highest risk in the model proposed by the MG lies in a possible/probable partition of the audit of Public Interest Entities and Non-Public Interest Entities with two different sets of standards where the auditing standards for public interest entities would become more complex and almost limitless, and they would be not only inapplicable to small entities but also to medium-size entities.

We believe that such evolution would be harmful for the economy as a whole because, actually, all the economic organizations, listed and non-listed entities interact in the same markets. There is no segregation of markets, users, funding suppliers, stakeholders, etc. in the current economy.

Therefore, we recommend that the MG reflect on the characteristics of good auditing standards and consider the risk existing in the model proposed with respect to growing apart from a single set of standards for all audits, which would ultimately lead to two different audits for public or non-public interest entities or for big, middle and small entities.