



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

9 February, 2018

By email: MG2017consultation@iosco.org

Mr. Gerben Everts
Chair of the Monitoring Group

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

Dear Sir,

Thank you for the opportunity to comment on the above Consultation Paper. I am responding on behalf of the Office of the Auditor General of Canada.

Proposals put forward in this draft Consultation Paper are significant with implications that are far reaching in terms of possible impacts on many stakeholders. We encourage the Monitoring Group to carefully consider the feedback it receives from this consultation process and actively continue its dialogue with IFAC and key stakeholders, including those from the public sector. Where criteria are used to evaluate the effectiveness of the current standard setting process to serve the public interest, criteria should be agreed by IFAC and communicated in sufficient detail to those consulted.

We offer the attached responses to specific questions posed to respondents and trust that you will find these comments helpful.

Sincerely,

Stuart Barr
Assistant Auditor General

Enclosure

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 Monitoring Group suggests three key concerns (page 8):

1. The adverse effect on stakeholder confidence in the standards as a result of a perception of undue influence by the profession.
2. Partly because of such undue influence, there is a risk that standards are not developed fully in the public interest.
3. The relevance and timeliness of standards.

The report suggests reasons for these concerns throughout the document. While we accept that the concerns and basis for the concerns is an accurate reflection of the identified stakeholders (29 current and former standard-setters, IFAC, the PIOB and the GPPC), we do not find the concerns identified or the basis for these concerns to be well explained, much less be persuasive. Examples are as follows:

- The current standard-setting model does not fully satisfy a number of the following principles that the standard-setting process should be independent, credible, cost effective, relevant, transparent and accountable. (page 9) *Which ones? In what way does the process not satisfy them? What is the significance of “not fully” satisfying them?*
- There are problems with the current three-board structure. (page 11) *What are the problems? What is the nature and extent of the impact of these problems? Why should the model be changed?*
- The lack of remuneration for board members challenges the boards’ ability to attract high-quality candidates from outside the audit profession and this affects the timeliness and relevance of standards. (page 13) *What evidence exists that there is an inability to attract high-quality candidates from outside the audit profession or that this contributes to issues of timeliness and relevance of standards (or that these issues even exist).*
- The PIOB should focus carefully on its remit to ensure that the public interest is properly represented in the standard-setting process, that serving the public interest is more than just adhering to due process and that confusion exists with some stakeholders about the respective roles and mandates of the PIOB and the Monitoring Group. (page 18) *What evidence exists to suggest there is insufficient representation of public interest in the standard-setting process? Or to what extent and impact there is confusion with stakeholders on roles and mandates of the PIOB and the Monitoring Group.*
- Resources that support the work of the standard-setting boards may be seen as not being sufficiently independent of the audit profession to set standards in the public interest. (page 22) *What is the basis for suggesting boards are not sufficiently independent and the impact of such an issue?*
- The funding and fund allocation model that IFAC has in place raises independence concerns. (page 24) *What are the independence concerns? What is the nature and extent of impact?*

In addition to these concerns and the basis for these concerns not being well explained, we do not find them entirely consistent with our own observations and experience.

Nor does IFAC fully concur as they explain in their "IFAC's Initial Views and Reactions to the Monitoring Group Consultation" document.

In our view, the Monitoring Group should review and clarify its key concerns and the basis for these concerns to make any revisions necessary to improve the persuasiveness of its case. This would make it much easier to understand the concerns and to accept the need for options to address them.

The short answer, therefore, to the question "Do you agree with the key areas of concern identified with the current standard setting model?" is no, the report has not made a persuasive case for these key areas of concern.

We do not at this point have additional concerns that the Monitoring Group should consider.

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

Yes, we agree with the supporting principles articulated in Section 2 of the Consultation Paper.

We agree conceptually with the overarching principle of setting standards in the public interest. However, given no definition was provided, we cannot agree or disagree further.

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?

In assessing whether a standard has been developed to represent the public interest, we would further evaluate the degree to which the standard was developed in adherence to established due process. This criteria is dependent on a due process that is appropriately designed to serve the public interest.

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.

No, we do not support establishing a single independent board to develop and adopt auditing and assurance standards and ethical standards for auditors. In our view there has not been a persuasive case made to explain why the current structure needs to be changed.

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 agree that we responsibility for the development and adoption of educational standards and the IFAC compliance program should remain a responsibility of IFAC. In our view there has not been a persuasive case made to explain why the current structure needs to be changed.

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

Yes, we agree that IFAC should retain responsibility for the development and adoption of ethical standards for professional accountants in business. In our view there has not been a persuasive case made to explain why the current structure needs to be changed.

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 have no further options to suggest.

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 a board's focus should be strategic in nature. We are not in a position to say the focus should be more strategic as the case for this proposal has not been made.

We disagree that board members should be remunerated. As the Consultation Paper indicates, board members shall be expected to demonstrate a high level of technical competence. Competent individuals that are in high demand in their respective professions are unlikely to be willing or able to serve only the board to the exclusion of other professional activities. It is often this professional association that drives and sustains the competencies the board desires.

Remuneration of a board member also implies a break in employment from a board member's current employer. This break in employment could have significant economic repercussions to an individual that simply cannot be addressed to the satisfaction of potential board members. These economic considerations would have a negative impact on the pool of potential board members and could serve to reduce, not improve, the overall performance of the board.

We also hold the view that direct remuneration of a board member would do little to change the independence of a board member from the profession or stakeholder group from which they were selected. Board members are selected from stakeholder groups to ensure a wide diversity of perspectives inform board deliberations. These perspectives are expected and naturally come from their experience. Further, given the limited time frame board members would serve, remunerated members may ultimately return to the profession or stakeholder group from which they were selected upon completion of their term. As such, we feel a change in model from contribution of services in kind to remunerated positions may address independence in appearance but not in fact and as such, would have no significant impact.

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

We would be open to a due process that adopts standards on a basis other than consensus but hold the view that acting in the public interest requires standards to be developed that appropriately consider the input of all stakeholders. Where approval of a standards on the basis of majority (such as, for example, 2/3rds majority) could achieve standards that continue to best serve the public interest, with a significant increase in the efficiency of due process, we would support such a change.

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 with changing the composition of the board as a persuasive case for this change has not been made.

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

No, we do not have a comment at this time. The skills and attributes needed will depend, in part, on any changes to the ultimate role and responsibility of the board.

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 with the retention of the concept of a CAG with the current role and focus.

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

Given the significant contribution a task force makes to the standard setting process, we agree their adherence to an agreed public interest framework is critical. Given no specific framework was outlined in the paper, this response remains a theoretical one.

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

Yes, we support the changes proposed to the nomination process.

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 subscribe to the view expressed in the Consultation Paper that serving the public interest is more than just adhering to due process. The application of due process requires analyzing and balancing potential outcomes. We strongly believe the role of an oversight board such as the

PIOB is as set out in the current objectives of the PIOB which separate oversight from standard setting. PIOB should not engage in intentional direct technical input into standards. Standard setting boards are to oversee the construct of appropriate, timely, relevant standards. The role of an oversight board such as the PIOB as it relates to specific standards issued is to oversee the board's adherence to and application of established due process.

We therefore disagree that the role and responsibilities of the PIOB should include directly vetoing the adoption of a standard. We would, however, support a model of due process where PIOB is to report on its observations concerning the application of due process during the standard setting process and, where concerns are noted, require the Board to respond to those concerns to the satisfaction of PIOB prior to adoption of a final standard.

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

No, we do not agree with the option to remove IFAC representation from the PIOB. It is important that PIOB and IFAC maintain effective two-way communication and we believe that this communication is greatly facilitated by direct observation and participation in board and PIOB activities by representatives of each body. We would support an option that limited IFAC participation in PIOB to that of a non-voting member. We feel this option would protect the independence of the PIOB while continuing to enable effective communication and sharing.

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 have no comment.

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?

We have no comment.

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?

We have no comment.

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?

We have no comment.

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?

It is very difficult to comment on the appropriate mix of in-house professional technical staff and contributions in kind. We believe IFAC, which is accountable for the quality and timeliness of standard setting, is best positioned to determine the most appropriate staffing model weighing the costs and benefits including which models best serve the public interest.

Notwithstanding any move to increase permanent technical staff supporting the board and its work, we struggle to see how independence in both fact and appearance from the audit profession could be fully addressed. It is very likely that individuals with the key competences needed to properly support the board would be recruited and selected from the audit profession. In the absence of a long-term career path serving IFAC and its Boards, technical staff would need to be mindful and plan for their eventual return to audit profession. In our view, increasing the use of permanent technical staff would not fully address the stakeholder concerns stated in the Consultation Paper concerning independence from the audit profession, irrespective of where responsibility for compensation and evaluation rests.

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

Please refer to our response above to question 21.

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

We are supportive of the concept of continuous improvement and agree with the Monitoring Group that this responsibility rests with the Board.

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)?

We are unable to agree or disagree with the funding proposals communicated in the Consultation Paper. In order to properly engage in stakeholder consultation concerning funding, current funding mechanisms require greater clarity and transparency.

We note that the options proposed are quite preliminary and in our view, require further exploration as to their practicality. We also note that the Consultation Paper has scoped out discussions of the IFAC's public sector standard setting. The impact of funding proposals on the funding of the international public sector accounting standards board should be directly addressed in stakeholder consultations.

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 are not supportive at this time of a "contractual" levy on the profession to fund the board and the PIOB. We believe appropriate consultation concerning funding models would include alternatives and an analysis of the pros and cons of each alternative in the context of the objective being sought in the agreed due process framework.

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

We have no comment.

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

We have no comment.