

February 9, 2018

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We are pleased to have the opportunity to submit our response to the Monitoring Group's consultation paper "*Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*" (the "Consultation"). This response is submitted by Canada's Auditing and Assurance Oversight Council ("AASOC" and "the Council"). Our Council convened a special purpose one-day meeting to discuss the Monitoring Group's Consultation and this letter has been reviewed by all members of AASOC.

AASOC is the body which provides public interest oversight with respect to the setting of audit and independence standards in Canada. AASOC is comprised of members representing a comprehensive microcosm of the financial stakeholder community. The majority of AASOC members are non-audit practitioners. In the context of the current global oversight model, AASOC's role has elements of the PIOB as well as elements of the Monitoring Group. Appendix 1 provides further details about AASOC.

AASOC's strong international design influence can be sourced back to David Brown, one of the founding members of the PIOB and a past chair of the Council. Canada has a long history of contributing strongly to the international dialogue in developing high-quality auditing standards in the public interest. The International Standards on Auditing (ISAs) have been fully adopted in Canada since 2010. Our Canadian rules of professional conduct have been aligned with the International Ethics Code. As a result, AASOC has a deep interest in the Monitoring Group's proposals for reform.

We provide first in this letter a number of high level and overarching comments. Appendix 2 includes our responses to the specific questions.

### **High Level and Overarching Comments in Response to the MG Consultation**

AASOC acknowledges and agrees that reforms are needed to increase the confidence of all stakeholders in the standard-setting process.

As a Council, we are in agreement on the following key areas:

- We believe that the standard-setting boards should reflect a **multi-stakeholder** approach in which a full range of stakeholders are represented at the standard-setting tables. We also agree with the premise that no individual stakeholder or group should be able to exert undue influence over the standard-setting process. Selection of members for the standard-setting boards and the PIOB should be based on a skills matrix and their work should be guided by the public interest and not as a representative of their underlying jurisdiction. Every member brings a particular viewpoint to the table to support the public interest. It is the balance of these views from a multi-stakeholder approach that, in AASOC's view, produces the optimal result.
- AASOC agrees that, over a period of time, the nomination process for chairs and board members should operate at arm's length from IFAC. In the short run, we understand that a practical approach may involve IFAC continuing to be part of the nominations process as this would leverage the experience gained to date.
- AASOC supports an expanded professional technical staff for the IAASB and the IESBA both in terms of number and seniority. A staffing model that is focused on having employees with the right competencies and abilities will result in fewer time demands and reduced reliance on board members and their technical advisors.
- We support process improvements for the boards to improve the timeliness of setting standards. There needs to be a specific plan in place, with deadlines, accountabilities and consistent and appropriate funding in place in order to achieve these process improvements.

However, there are a number of areas where AASOC has concerns with the proposals as set forth in the consultation paper and offers the following comments for consideration:

- AASOC does not support establishing a single board to cover both auditing and assurance and ethical standards as we see this as contradicting the multi-stakeholder approach we support. AASOC is concerned that the volume of work is too high for a single board to develop standards that are appropriately responsive to the public interest and that attention to ethics standards may be dwarfed by the audit standard-setting process. AASOC also has a concern that the needs of small and medium enterprises (SMEs), which comprise a large constituency in Canada, will not be addressed adequately by a single board and has similar concerns from a public sector accounting standards perspective if funding for the International Public Sector Accounting Standards Board (IPSASB) supported by IFAC were to be lost as a result of reforms.
- AASOC disagrees with separating the setting of ethical standards for auditors from those of other professional accountants. AASOC believes that it is in the public interest that

those preparing financial statements generally abide by the same ethical standards as those auditing the financial statements. On that basis, and because two boards would be inefficient and duplicative, there should be a single ethics standards board to develop these standards.

- AASOC does not support moving to a simple majority vote of the boards to approve a new or revised standard; rather, AASOC supports the current approach of requiring a two-thirds majority. AASOC believes there is a risk that a simple majority vote could slow down the overall adoption process for new or revised standards as it may take longer to build acceptance of proposals at the national level.

AASOC also provides the following perspective for the Monitoring Group's consideration:

- The Monitoring Group's proposals will have a long-term impact on audit and ethics standard setting and its oversight. Consequently, we believe that all parties should be working together towards reform. We must not lose sight of the significant accomplishments to-date: high-quality standards that are widely accepted, including by Monitoring Group organizations, in more than 120 jurisdictions around the world. We hope that all parties will continue to work cooperatively and constructively together towards a set of reforms that builds on the credibility, respect and acceptance of the standards to date. It is very important that the current work of the standard-setting boards not be delayed given their significance to ensuring quality audits.

In conclusion, AASOC agrees that reforms are needed. AASOC encourages the Monitoring Group to consider the comments we have provided.

Yours truly,



Bruce Winter  
Chair, Auditing and Assurance Standards Oversight Council (Canada)

cc. all members of AASOC

## **Canada's Auditing and Assurance Oversight Council ("AASOC")**

AASOC was established in 2002. The specific bodies that AASOC oversees are the Canadian Auditing and Assurance Standards Board ("AASB") and the Independence Task Force ("ITF"). More information about AASOC can be found [here](#).

### **AASOC Compared to the Global Oversight Model**

Compared to the oversight model of the international audit and ethics standard-setting boards, AASOC's role is similar to the PIOB, for example, AASOC:

- reviews the AASB's strategic and operational plans;
- observes AASB and ITF meetings; and
- concludes as to whether new and revised standards have been developed following due process and are in the public interest.

Compared to the oversight model of the international audit and ethics standard-setting boards, AASOC's role is similar to the Monitoring Group, for example, with the representation on AASOC of each of Canadian securities, banking and audit inspection regulators. In this manner, AASOC deliberations benefit from continuous regulatory input and perspectives.

## **Responses to Specific Questions Posed in the Monitoring Group’s Consultation**

### **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?**

In responding to this question, AASOC starts from a position of support for the MG’s opening comment: “these standards have ... commanded international respect and have been widely adopted.” Canada is a jurisdiction where the International Standards on Auditing (ISAs) have been fully adopted. Our Canadian rules of professional conduct have been aligned with the International Ethics Code.

AASOC considered key areas of concern from our Canadian perspective and we noted the following issues:

- Poor audit inspection results across firms and jurisdictions. However, it is unclear whether this is more indicative of problems of execution rather than with the standards themselves. A better understanding of the nature and extent of these very different types of problems is essential to determining what aspects of the standard-setting processes need further reform and to develop targeted solutions.
- As noted in the Monitoring Group’s third issue, the timeliness of responding to the need for new or revised standards. AASOC agrees with this concern.
- And, in Canada, the standard-setting community and accounting profession are not immune from similar criticisms, be they real or perceived.

It is with these perspectives in mind that AASOC provides responses to the questions in the Monitoring Group Consultation below.

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

AASOC agrees with the supporting principles that have been outlined in the Consultation Paper: independence, credibility, cost effectiveness, relevance, transparency and accountability.

In particular, AASOC would like to reaffirm its position with respect to the principle of independence. While some might conclude that this suggests the complete exclusion of certain groups from the standard-setting process, we would suggest that removing a material stakeholder group will instead, by definition, produce an unbalanced result, or at least the perception of imbalance. Rather, our emphasis, as noted in the MG Consultation Paper, is that

“no individual stakeholder should be able to exert undue influence over the standard-setting process”. As such, this principle should be reframed to focus on a **multi-stakeholder** approach. There should be a full range of stakeholders represented at the standard-setting tables.

Every stakeholder, brings a particular viewpoint to the table to support the public interest. It is the balance of these views from a multi-stakeholder approach that, in AASOC’s experience, produces the optimal result.

**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?**

AASOC agrees that the phrase “public interest” is not amenable to a simple definition despite permeating the standard-setting landscape. We note, the phrase is used 85 times in the MG Consultation Paper including in the title of the MG Consultation and in the title of the international oversight body (PIOB).

AASOC believes strongly that it is important to be able to explain how the public interest is captured throughout the standard-setting process. We are therefore very supportive of the development of a framework to serve as a mechanism to achieve this goal. In fact, we think this, in and of itself, is fundamental to reforms of the standard-setting processes.

In Canada, AASOC undertook a thorough analysis of the term “public interest” in 2016 and has released on public record a paper “[What the Public Interest Means to AASOC](#)”. This paper explains how AASOC fulfils its responsibility to be satisfied that the standard-setting due process in Canada is appropriate and responsive to the public interest.

The primary debate at AASOC in finalizing our Public Interest paper centred on the ultimate judgment call as to whether a particular activity is in the public interest. There were those who felt that the full and appropriate exercise of due process was sufficient to make this judgment. Others believed that there should be a final “stand back” assessment, over and above the exercise of due process. The consensus of AASOC supported a stand back, such that the overall conclusion in considering any new or amended standard is phrased “developed in accordance with due process and with proper regard for the public interest”. Importantly, there is also an assertion that any issues that AASOC identifies as running counter to the public interest should be identified during the course of the process and dealt with by timely interaction. There should be no surprises late in the process.

**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.**

AASOC expresses a strong view in support of retaining separate boards for auditing and assurance standards and ethical standards for the following reasons:

- As noted in question #2, AASOC supports a multi-stakeholder approach with a full range of stakeholders represented. AASOC does not believe that this could be achieved with a single board as the number of available seats will be much more limited.
- AASOC thinks that the volume of work is too high for a single board to develop standards that are appropriately responsive to the public interest. In AASOC's view there is a significant risk that the development of ethical standards will suffer in relation to auditing and assurance standards.
- A single board addressing auditing and assurance standards and ethical standards might result in the perception of undue influence being more pronounced as an unintended consequence. Specifically, a single board may need to rely more heavily on work by task forces where the involvement of technical advisors, if they were to continue to be sourced from the board member's underlying organization or constituency, would contribute to the perception of undue influence.
- We are concerned that the remit of a single board will be too large to allow for adequate focus on the issues that are important. This would be exacerbated by a reduction in the number of board members.
- AASOC is concerned that a single board will not adequately respond to the needs of small and medium enterprises (SMEs) that comprise a large constituency in many jurisdictions, including Canada, and have similar concerns from a public sector accounting standards perspective if funding for IPSASB (supported by IFAC) were to be lost as a result of reforms.

For all of these reasons AASOC supports retaining separate boards for auditing and assurance standards and ethical standards.

AASOC agrees that the IAASB and the IESBA should work more closely together to be responsive to the public interest. AASOC favours putting formal mechanisms in place, including accountability measures, which would contribute to ensuring the two boards are more aligned (see further in response to question #23 below).

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

Yes. AASOC does not see any reason to separate these responsibilities from IFAC, while noting that these responsibilities should be kept separate from the audit and independence standard-setting processes.

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

As noted in question #4, AASOC does not support a single board for auditing and assurance standards and ethical standards. Therefore, in responding to this question we start from the premise that there will continue to be separate boards.

AASOC also expresses a strong view that ethical standards should be the same for all professional accountants – those who are auditors and those who are professional accountants in business. AASOC appreciates that some may perceive that specific safeguards of the public interest in relation to audit need to be in place. However, on balance AASOC believes that it is in the public interest that those preparing the financial statements abide generally by the same ethical standards as those auditing the financial statements.

If all professional accountants are to be subject to the same ethical standards, it is logical that a single ethics standards board develop these standards. In AASOC's view, the notion of having an ethics board for auditors and another one for professional accountants in business is inherently risky. Concerns would include the potential for the perception of weaker standards for one group in comparison to another. AASOC sees no evidence that this would better serve the public interest.

Further, AASOC's perspective is that parallel boards would be inefficient and duplicative since processes and mechanisms would need to be in place to ensure that the ethical standards developed by two ethics boards are the same. For these reasons, AASOC supports a single ethics board that develops ethical standards for both auditors and professional accountants in business.

**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.**

While AASOC is supportive of retaining separate standard-setting boards for audit and ethics, we encourage better coordination between these two entities. We address this further in our response to question #23 below.

**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?**

In AASOC's view, it is about achieving an appropriate balance between a strategic and technical focus. At the one extreme, we would agree that the boards should not, for example, be drafting text itself (i.e., wordsmithing) during the course of a board meeting. But, in our view, this is not about whether a board should be a strategic board as compared to a technically focused board; rather, it requires members that can work at both levels. Board members need to be able to think strategically, see the big picture and look to emerging trends. But the underlying essence of setting standards requires technical expertise as well. In practical terms, this might be described as having a mix of members, those with a strategic orientation as well as those with capacity and patience for technical detail.

With respect to remuneration, we do not propose any changes to the current practice of a remunerated chair. We would have concerns with a board composed of a certain number of

full-time plus additional part-time members, or compensating only certain members. We do not consider such bifurcating practices to be examples of good governance.

It is the view of AASOC that all members should be compensated on a part-time basis. The compensation model we recommend is akin to, and could be benchmarked against, the remuneration that external or non-executive directors receive in a corporate model. Treating board members inconsistently could lead to a pattern of “us vs. them” or “inside vs. outside” cliques. If a board member is otherwise employed by another entity, the board member can deal with the standard-setting remuneration in line with the policies of the other entity.

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

The Consultation Paper suggests that the efforts by the boards to achieve consensus may lead to delays in the standard-setting process. AASOC does not support approving exposure drafts or standards on the basis of a simple majority. Rather, AASOC supports the current approach requiring two-thirds majority to approve an exposure draft or standard.

This conclusion and the comments which follow may need to be reconsidered when the final size and composition of the standard-setting boards are determined in order to get the right policy and decision-making result.

Having only a majority vote to issue an exposure draft or standard runs the risk of slowing down the process as this may reflect a lack of support by constituents. This could lead to having to re-expose proposals, which ultimately will slow down the process. AASOC does not see any evidence in the Consultation Paper that a simple majority vote would significantly speed up the standard-setting process.

The Consultation Paper suggests that a simple majority vote would reflect the fact that acting in the public interest requires standards that not all stakeholders necessarily agree with. AASOC observes that with the one-third representation that the Consultation Paper suggests for each of users, regulators and firms, that regulators could be more easily be voted down with a simple majority.

Also, to the extent that the standards developed by the IAASB and the IESBA do not have the force of law, working to have broad support is important for achieving buy-in and global adoption of the standards. AASOC noted that allowing for dissenting views to be published would be helpful in explaining other options considered.

#### **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?**

As noted in question #4, AASOC does not support a single board for auditing and assurance standards and ethical standards. Therefore, in responding to this question we start from the premise that there will continue to be separate boards.

As laid out in the response to question #2, AASOC supports a multi-stakeholder approach that would mean a full range of stakeholders represented at the standard-setting tables. AASOC members agreed that even with separate boards, it may be difficult to achieve adequate diversity on either global board with only twelve members each.

AASOC notes that ensuring global diversity on the boards is particularly important when working to achieve global adoption by accountants for engagements of all sizes of entities. AASOC does not see evidence that the current size of eighteen members has adversely impacted the timeliness of developing standards.

Nevertheless, to the extent that the overall goals of protecting the public interest and achieving multi-stakeholder representation can be served by smaller than two 18-person boards, we would be open to considering a reduction. Much governance work has been done that shows that smaller groups are more effective in decision making and encouraging personal responsibility by board members.

As far as AASOC's views on remuneration of members, please see our response to question #8.

With respect to the composition of the boards, the Consultation Paper proposes one-third representation from each of users, regulators and firms. As already noted, AASOC supports a multi-stakeholder approach with a full range of stakeholders represented at the standard-setting tables with no individual party or group exerting undue influence. Every stakeholder brings a particular viewpoint to support the public interest.

Rather than prescribing one-third representation of users, regulators and firms, AASOC prefers a skillset approach that balances the views of multi-stakeholders with no more than a certain percentage representing audit practitioners. To address this, AASOC supports the development of a skills matrix for each of the standard-setting boards (see response to question #11). In developing the skills matrix, AASOC emphasizes the need to include appropriate technical expertise in order to ensure the credibility of the boards.

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

AASOC supports the development of a skills matrix for each of the standard-setting boards. This matrix should consider both the skills required at an individual level and for the boards as a whole.

For the boards as a whole, factors to consider should include:

- Diversity of personal background, experience, skills and expertise;

- Multi-stakeholder representation;
- Geographic coverage; and
- Gender.

At the individual level, factors to consider should include:

- Appreciation for the primacy of the public interest;
- Ability to think strategically;
- Capacity and patience for technical detail;
- Excellent communication skills, verbal and written;
- Ability to work with and, where appropriate, challenge permanent staff; and
- Ability to listen and consider alternate viewpoints.

Neither of these two lists is meant to be comprehensive; rather, AASOC would be supportive of a process to develop, with broad consultation, skills matrices for each board at both the macro and individual level.

**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?**

This is not a question that was discussed extensively by AASOC. In Canada, we have not established a Consultative Advisory Group for either the Canadian Auditing and Assurance Standards Board or Independence Task Force. The topic has been considered over the years. We observe that with the broad and balanced representation that we have been able to achieve on AASOC, we have been able to draw input from a diverse stakeholder perspective similar to a CAG.

From those members of AASOC that have experience with the CAGs at the international level, we observe that they appear to be a good source of input from a variety of stakeholders and represent another important piece of due process.

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

AASOC expressed strong support for the development of a public interest framework in response to question #3 above. We have not seen an outline of what the IOB's public interest framework might look like, other than the assertion that it will be used to assess whether a standard has been developed to represent the public interest.

We cannot foresee a standard-setting model where the use of task forces will not be a significant element of the process. As such, we have no reason to believe that task forces used to undertake development work should not adhere to the public interest framework.

There has been some discussion at AASOC as to the role of Technical Advisors (TA) in task force work. In current practice, the TAs are typically associated with the same employer or association of the board member. While TAs do not have speaking or voting rights at the board level, they often play important roles at the task force level, possibly leading to a perception of undue influence. Please see further discussion of this issue in response to question #21 regarding expanded professional technical staff.

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

AASOC notes that the current nominations process for the international boards is done by an open call for nominations. However, AASOC understands the concern that the appointments are made by IFAC on the recommendation of the IFAC Nominating Committee and that this might lead to a perception of undue influence by the profession, notwithstanding the PIOB's approval of all standard-setting board members. For this reason, AASOC supports change in the current nominations process for the standard-setting boards.

The Consultation Paper proposes that the PIOB be solely responsible for the appointments of members and chairs of the standard-setting boards. Given that the Consultation Paper implies there may be changes to the PIOB's composition and role in the future, but that there is uncertainty about what these changes will be, it is difficult for AASOC to provide definitive feedback on whether the nominations process should be administered solely by PIOB.

AASOC discussed a model, for the short term, where appointments are handled by a committee comprised of, for example, an equal number of IFAC and PIOB members and an independent chair appointed directly by the Monitoring Group. AASOC thinks that, at least initially, this is a practical approach to enhancing the current nominations process for all members. The IFAC nominations process includes an open call for nominations, a vetting of candidates against competencies needed, and interviews of prospective candidates including with the chairs of the standard-setting boards. AASOC understands that a practical approach may involve IFAC continuing to be part of the nominations process for the short run as this continuity would mean less disruption and would leverage the experience gained to date.

Over a period of time, AASOC sees the value in having a nominations process that operates at arm's length from IFAC, assuming it is robust, considering candidates against specific criteria and competencies needed. We highlight that in Canada the nominations to the standard-setting boards are made by the oversight councils.

**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?**

AASOC is of the view that any changes to the standard-setting boards and the PIOB need to be considered at the same time.

AASOC concurs that the primary objective of the PIOB is to ensure that standards development follows due process and is responsive to the public interest. Having said that, once public interest considerations are fully embedded into the standard-setting boards with a multi-stakeholder membership, AASOC would not see the need for the PIOB to challenge the technical judgments by the boards in developing or revising standards. AASOC is of the view that there should be distinct and separate roles for oversight and standards development. Governance should oversee the due process, but not intervene in the technical debate unless a previously raised material public interest issue has not been addressed.

AASOC acknowledges that there will be nuances to this issue – this won't always be straight forward. It may happen that the PIOB has a concern with the application of due process, for example, whether a concern raised by a key stakeholder during a consultation has been adequately addressed by the standard-setting board. As noted in the Consultation Paper, and as raised by AASOC in response to question #3 above, AASOC believes strongly that the PIOB should provide regular and transparent feedback to the standard-setting boards. We also concur with the Consultation Paper's assertion that this PIOB feedback should reflect the PIOB's considered position and not the opinion of an individual PIOB member. If this part of the process (i.e., timely feedback from the PIOB and comprehensive consideration of this feedback by the boards) is fully executed, then discussion as to whether the PIOB retains a veto should be a moot point.

AASOC acknowledges that the PIOB reserves the right to conclude to the negative – that either due process was not followed or the result is not in the public interest. But, in AASOC's view this situation would represent a very significant breakdown in the oversight and standard-setting process described above. AASOC recommends that a process needs to be developed to address such a situation in order to resolve the differences amongst the respective parties.

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

In response to questions #17 and #18 which follow, AASOC indicates support for PIOB membership based on an open call for nominations with candidates to be considered against a skills matrix to be developed with broad consultation. As such, the focus should not be on representation from any specific organization, including IFAC, but rather in achieving the full range of skills required to protect the public interest. In AASOC's view, it is important that the skills matrix be developed to ensure the diverse perspectives of stakeholder groups are considered.

It is AASOC's view that every member of the standard-setting boards and the PIOB does not provide service to their respective board as a representative of an underlying constituency. The primary focus of every member is to serve the public interest.

We view the protection of the public interest to be a shared responsibility and we do not believe it is beneficial for any one group to take sole responsibility for the setting or oversight of audit and independence standards.

**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?**

This is not a question that AASOC considered at any length. In response to question #11 above, AASOC supported the development of skill matrices for both standard-setting boards. It would be a logical extension to include the PIOB in the process to develop such matrices, with the process to develop such matrices to include broad consultation.

**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?**

AASOC has suggested the development of a PIOB member skills matrix in our response to question #17 above. It would also seem appropriate for PIOB members to be identified through an open call for nominations. This would mean the MG would consider the nominations against the skills matrix that is developed, rather than appointments coming directly through any specific organization in isolation. It is, however, important that the skills matrix of the PIOB covers an understanding of the public interests in standard setting and financial reporting in all sectors of the economy and not just those of publicly listed entities.

**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?**

First, to note our response to question # 6 above, AASOC does not support the separation of ethical standards for auditors from ethical standards for professional accountants in business. So, it is AASOC's view that the PIOB should continue to provide oversight over the full suite of ethical standards.

AASOC does not have a strongly held position with respect to oversight of education standards, other than to note that in the Canadian model, AASOC does not have any role in this regard, and has not seen a need to expand into this area.

Also, while the PIOB does not have oversight of the International Public Sector Accounting Standards Board, AASOC has a concern that the reforms being considered to the audit and ethics standards boards will result in funding being lost for IPSASB and IAESB.

**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?**

AASOC agrees with the roles outlined above for the Monitoring Group.

**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?**

AASOC supports an expanded professional technical staff for the IAASB and the IESBA both in terms of number and seniority. AASOC's view is that a staffing model that is focused on having employees with the right competencies and abilities will result in lesser time demands on the board members and their technical advisors. This will also reduce the reliance of the boards on task forces which should mitigate against the perception that the in kind contributions of board members and technical advisors on task forces is not sufficiently independent to set standards in the public interest.

As we noted in our response to question #8, board members need to have a strategic orientation but with capacity and patience for technical detail. The staffing model should be developed to ensure the competencies needed for staff will support this. We agree that skills in stakeholder engagement and project management will be important in a new staffing model.

AASOC notes that this will require a significant investment of funding for the boards, much larger than the current model since many of the resources are being contributed in kind to the boards' work. AASOC does not underestimate the impact of this. As a possible reference point, AASOC understands that the International Accounting Standards Board (IASB) has a staff team in the range of 70 employees. This compares to fewer than 25 staff for the IAASB and IESBA combined.

AASOC also believes that there is a useful role for secondments of staff from accounting firms, regulators or industry. AASOC is of the view that a model that provides a balance of full-time and seconded staff should be considered. We note that regulatory agencies such as the Canadian Securities Administrators and the SEC in the United States have made a secondment model work.

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

From a certain perspective, AASOC views this question as part of the larger issue of funding (see question #24 below) and how the funding may flow within a reformed model.

AASOC also notes a potential concern as to how changes in employment arrangements for permanent staff may impact staff retention during this period when important standard-setting projects are in process.

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

One area of process improvement that AASOC highlights is to achieve better coordination between the audit and ethics standard-setting boards. The international standard-setting boards have signalled a willingness for “continued exploration of closer liaison” and we note recent joint sessions of the boards. AASOC suggests that the plans should be much more concrete and ambitious than this. There are topics of overlapping interest to the two boards. They should be working together, in parallel, on joint projects to common timetables.

The standard-setting boards have also expressed support for a number of process improvements, such as: looking at due process streams; responding to concerns raised as part of due process; rebalancing detailed work undertaken at the board level; leveraging technology; and, strengthening staff resources. AASOC can see improvements that can be achieved in all of these areas.

There needs to be a specific plan in place, with deadlines, accountabilities and consistent and appropriate funding in order to achieve these process improvements. We believe that such a comprehensive and coordinated approach is a prerequisite for achieving the desired timeliness of standard setting. Only in this way will a key objective of the Consultation Paper be realized.

**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)?**

AASOC did not spend a lot of time debating the funding model. It was the view of AASOC that the initial focus of our comments, and in fact the consultation process itself, should be on determining the appropriate standard-setting model. When consensus has been reached on the overall design of the model, then funding should be addressed.

From the limited time spent discussing this topic, AASOC observes that:

- The reforms being considered, even the alternatives supported by AASOC, will cost more than the current model;
- There are a large number of participants and beneficiaries in this whole process;
- A more diversified funding base would be helpful;
- A concern exists that commercial licensing of standards might impede global adoption by national bodies that cannot afford to pay; and
- The goal should be to separate funding from influence.

AASOC appreciates that this is a tall order and does not underestimate the challenge that this represents, while observing that the funding needed is a small percentage of the economies and capital markets where the standards are used.

**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 options set out in the paper, and if so what are they?**

As noted in the response to question #24 above, AASOC did not discuss the funding proposals at any length and has no additional observations beyond those provided in response to the immediately preceding question.

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

AASOC subscribes to a process of implementing reform that leads to an orderly and effective transition. The Monitoring Group should seek to avoid disrupting important standard-setting initiatives that are currently underway.

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

AASOC provides the following additional observations:

1. As noted earlier, AASOC has a broad representation from a wide number of constituencies – from the profession to regulators and from domestic to international communities. This means we hear a diverse range of perspectives and experiences. One recent observation is that the discussion of reforms has become somewhat acrimonious.

We hope that all parties will continue to work cooperatively and constructively together towards a set of reforms that builds on the credibility, respect and acceptance of the standards to date. It is important that the current work of the standard-setting boards not be delayed given their significance to ensuring quality audits.

2. AASOC is aware of some discussion, given a redesign of the standard-setting boards to be truly multi-stakeholder bodies, as to whether the PIOB should remain in existence. For example, the analogy might be made to aligning the PIOB to be more of a trustee body, similar to the IFRS Trustees. We foresee a continuing constructive role for the PIOB. AASOC is of the view that it is appropriate to distinguish between the approach to oversight for accounting versus auditing standards. We believe that it is important to retain an appropriate level of skill from the experience of auditors in the setting of audit

and independence standards. It is our view that the art/science of providing assurance in a rapidly changing commercial environment is a skill not widely understood outside of the auditing profession. By contrast, the more direct interest and involvement of financial statement preparers in the development of accounting standards will always provide a greater insulation from the perceived self-interest of the accounting firms and/or accountancy bodies in setting auditing standards, and thus, our continued support for the PIOB.

3. While not raised in the Monitoring Group Consultation, our AASOC discussions have raised a number of questions concerning the remits of the standard-setting boards and the PIOB. Examples of the types of issues we identified, but have not tried to resolve here, include:
  - The role of the standard-setting boards as compared to accountancy bodies in developing implementation and non-authoritative guidance materials;
  - Similarly, where should the responsibility lie for developing approaches to non-audit services in areas of new commerce;
  - Whether the oversight responsibilities of the PIOB should extend beyond those of audit services for the public capital markets (e.g., compilation assignments);
  - Whether the continuing dilemma of “big GAAS” and “little GAAS” warrants further consideration.

As part of the reforms being considered by the Monitoring Group, AASOC suggests that it may be worthwhile to look at and confirm or clarify where the boundaries lie on these challenging issues.



# What the Public Interest Means to AASOC

August 2016





The [Terms of Reference](#) of the [Auditing and Assurance Standards Oversight Council](#) (AASOC) state that its mission is “to serve the public interest by overseeing and providing input to the development of auditing, assurance and independence standards in Canada.” The mission statement goes further to say that “it is in the public interest that stakeholders in an entity have confidence in both the quality of such standards as well as the credibility of the process by which those standards are set.”

This paper is intended to expand upon what the “public interest” means to us to fulfil our responsibility to be satisfied that the standard-setting process is appropriate and responsive to the public interest. The paper was prepared as a series of considerations in lieu of a short definition.

## *Context*

While the protection of the public interest permeates all of our activities,<sup>1</sup> the public interest and how it might be served needs to be considered and applied appropriately to each particular situation. In some cases, the consideration is straightforward; in others there are considerable complexities and trade-offs, requiring a more thorough analysis.

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<sup>1</sup> The details of AASOC’s oversight responsibilities and work plan are set out elsewhere. Due process, documented in the AASOC Oversight Framework and Operating Plan, provides the public with a concise blueprint of how AASOC exercises its authority.



## Who Are AASOC's Public?

To provide a structure to our consideration of the “public”, a stakeholder approach was adopted.

Fostering trust, economic growth and long-term financial stability are of immense importance to the public at large. This makes the public at large, even those who do not invest in capital markets, a stakeholder in our work. The broader public, including those who do not invest in stocks and bonds of individual companies, are also often stakeholders through investment funds, pension plans and as taxpayers.

Present and potential investors, financial institutions and other creditors of private entities and public institutions, including government related bodies and not-for-profit organizations, have a prominence as stakeholders in our considerations. In short, those economic participants who entrust or consider entrusting their money to an entity.

Additional stakeholder groups that are integral to the functioning of audit and assurance services in Canada, each with roles in serving and protecting the public interest, include:

- audit committees and similar bodies or persons charged with governance, including parliamentary committees;
- management and financial information preparers;
- providers of audit and assurance services; and
- various financial regulators and inspectors.



## What Are the Interests of AASOC's Public?

In the context of auditing, assurance and independence standards in Canada, the interests of the public include:

- increased confidence in financial reporting throughout the financial infrastructure (for example, banking, insurance, investment firms, pension plans, etc.), including timely response to major changing economic circumstances;
- financial information that can be relied upon, based on the intended user and the audit or other level of assurance provided;
- high-quality, transparent, independent and useful audit and assurance reporting for stakeholders and all parties in the marketplace (directly or indirectly) impacted by such reporting;
- a high degree of consistency of audit and assurance services across different jurisdictions in today's global financial markets;
- high-quality standards and guidance that enable the provision of relevant, reliable and effective audit and assurance services in both the private and public sectors by practitioners who are free from inappropriate pressure, from any source;
- sound corporate governance and performance management in private and public sector organizations; and
- that the benefits related to these interests are achieved at a reasonable cost.

These interests contrast to what could be described as "self-interests".

An important aspect of our considerations is to be alert for any given activity that might be viewed as primarily protecting or serving the self-interest of one stakeholder at the expense of another. This has particular relevance given the extent of the involvement of professional accounting firms and CPA Canada in the assurance standard-setting environment in Canada.<sup>2</sup>

In addition to being alert for this issue, we further mitigate this concern, for example, through the composition of our membership to include direct participation by Canada's foremost financial reporting regulatory authorities.

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<sup>2</sup> For further information on CPA Canada's role in standard setting, please see [www.frascanada.ca/item81662.aspx](http://www.frascanada.ca/item81662.aspx).



# How Does AASOC Assess Whether an Action, Decision or Policy Is in the Public Interest?

To determine whether an action, decision, or policy was undertaken in the public interest, we assess the manner in which the action, decision, or policy was developed and would be perceived by the public, including:

- transparency;
- public accountability;
- competence;
- independence; and
- adherence to due process.

This includes both the participation of our stakeholders and an assessment as to whether there is a balanced outcome from the action, decision or policy.

Our primary role is to monitor that the Auditing and Assurance Standards Board (AASB) and the CPA Canada Independence Task Force (Independence Task Force) that we oversee undertake their deliberations in full consideration of these dimensions in order to conclude that the public interest was served.

Our members attend and observe the meetings of the AASB and the Independence Task Force as part of this monitoring role. While the discussion below was written in the context of application by the AASB and the Independence Task Force themselves, these same criteria are equally applicable to our own processes.

The standards developed by the AASB and the Independence Task Force have the force of law and are embedded in other regulatory and compliance systems. The AASB and the Independence Task Force adhere to the following qualities to meet the objective of acting in the public interest.

## *Transparency*

Transparency is the process of making information accessible to the public. Such information includes governance processes such as rules and regulations, [decision summaries](#) from each AASB meeting and, for new and revised AASB standards, a Basis of Conclusions that indicates how decisions were reached and public comments responded to.

## *Public Accountability*

Public accountability refers to processes designed to ensure that obligations to stakeholders are met.



## Competence

We should ensure that the AASB and the Independence Task Force have the capability, in terms of appropriate, competent and knowledgeable personnel resources, to ensure that their missions and objectives can be achieved.<sup>3</sup>

## Independence

We should expect that members of the AASB and the Independence Task Force have an objective frame of mind and are independent from special interest groups, political pressures, and personal interests—matters that can have undue influence over responsibilities to the public. We enable and require the consideration of potential conflicts of interest and threats to independence.<sup>4</sup>

## Establishment of, and Adherence to, Due Process

The establishment of, and adherence to, due process refers to the establishment of procedures of governance and operation, and the accurate, consistent observance of them.

This should not lead to a “checklist” mentality, but rather should prompt a due regard for the public interest throughout the process. This includes the processes to foster engagement and participation by a wide range of stakeholders who could fairly be considered to represent the public interest on the relevant issues.<sup>5</sup> This also includes active solicitation of feedback, where appropriate. Feedback received is weighted based on the merit of the ideas presented rather than the volume of comments received.

## Analyzing and Balancing of Potential Outcomes

One aspect of due process is the consideration of the public interest in terms of analyzing negative and positive potential outcomes for the stakeholders. This assessment is undertaken by the AASB and the Independence Task Force and is overseen by us. This analysis is the process of evaluating both short- and long-term outcomes of a particular action, decision or policy. There is both a quantitative and qualitative aspect of this assessment.

Qualitatively, potential outcomes are evaluated in terms of opinions and judgments (for example, better decision-making information in an audit report). These are often collected through public consultation, interviews, or surveys.

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3 Note that we have the responsibility to appoint the members of AASB, including the Chair and Vice Chair. With respect to AASOC itself, see our [Terms of Reference](#) that addresses the breadth of experience sought in our member selection process.

4 With respect to AASOC itself, see also our [Terms of Reference](#), which specifies that the majority of our voting members shall not be audit practitioners.

5 Where an auditing, assurance or independence standard was developed at the international level, the relevant standard setting boards will have monitored the due process and consideration of the public interest by organizations such as the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA) and the Public Interest Oversight Board (PIOB).



Quantitatively, potential outcomes may be evaluated in numerical terms (for example, an increase or decrease in audit effort or management costs related to a change in standards). Within a broader context, this also takes into account efforts to enhance the value and relevance of auditing and assurance services.

A balancing of potential outcomes, including the synthesis of qualitative and quantitative aspects, can be a significant undertaking in terms of time and resources. We, along with the AASB and the Independence Task Force, will be alert for situations where the nature or significance of a potential negative outcome can never be brought to balance by the positives, on an overall basis.

Given the subjective nature of auditing, assurance and independence standards, an over emphasis on the quantitative side may lead towards a sense of false precision. Outcomes analyses should be undertaken in a manner proportional to the importance of the matter under consideration. As the significance of an action or decision (and the associated implications for the public interest) becomes greater, so too should be the analysis of potential outcomes described above. For less significant activities, potential outcomes may be analyzed using a less formal approach in assessing the “pros and cons”.

The qualities outlined above also evolve over time as we, along with the AASB and the Independence Task Force, continue to gain experience and observe the best practices in analogous situations.



# Judgment Call

Ultimately, the consideration of whether a particular activity is in the public interest requires the exercise of professional judgment.

Often there are one or two elements within an auditing, assurance or independence standard that have particular public interest resonance. Our oversight focuses on those elements.

There will be situations where different stakeholders can make credible and viable arguments that their opposing proposals for an action or a standard are in the public interest. As such, different stakeholders may have opposing views as to whether a proposal is in the public interest or not, or the relative importance of any given action or standard. Our role is to oversee and challenge the balancing of these different interests and difficult judgments.

The exercise of professional judgment includes that we stand back from the full suite of criteria described above (i.e., transparency, public accountability, competence, independence, due process and balancing of potential outcomes) to consider whether the final result is in the public interest.

If we had concerns that the public interest was not being served, it would normally be expected that the issues would be identified during the course of overseeing the processes and would be dealt with by timely interaction. For example, we might ask for more information as to how a position was reached or ask the standard setters to specifically contact certain stakeholder groups.

At the conclusion of our deliberations, we will be in a position to express our view that a new or revised standard or action, including a decision to eliminate a standard, was developed in accordance with due process and with proper regard for the public interest.

Auditing and Assurance  
Standards Oversight Council

**AASOC**



**CSNAC**

Conseil de surveillance  
de la normalisation  
en audit et certification

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