



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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Mr. Gerben Everts
Chair, Monitoring Group

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

The Canadian Public Accountability Board (CPAB) is pleased to respond to the *Monitoring Group Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard Setting Boards in the Public Interest* as issued by the Monitoring Group on November 9, 2017.

CPAB is Canada’s independent audit regulator responsible for overseeing firms that audit Canadian reporting issuers. Our mandate is to promote high quality independent auditing that contributes to public confidence in the integrity of reporting issuers’ financial reporting. We accomplish our mandate by inspecting audit firms and audit working paper files which provides us with insights into the application of auditing standards and how they might be improved.

General comments

We are broadly supportive of the reforms

While the current standard setting process for audit, assurance, ethics and education has resulted in well-adopted, high quality, principles-based standards, a number of concerns have been raised regarding the independence of the standard setting process and its responsiveness to the public interest. The pace of change in audit and the business environment is accelerating, driven largely by technological advances. We believe it is critical to ensure that standards are both relevant and developed in a timely manner in order to underpin audit quality and user confidence.

We appreciate the Monitoring Group’s efforts to address these concerns and support the Monitoring Group’s efforts to position the international audit and ethical standard setting model for success moving forward.

We believe there is an opportunity to improve the accountability across all levels of the standard setting model

We strongly believe that accountability between the various parties within the model could be strengthened in order to improve the operating effectiveness and to ensure that the public interest is appropriately embedded into all parts of the standard setting model.

Broadly speaking, we support a standard setting model where:

- The standards setting board(s) are proactive and strategic in nature, with clearly defined responsibilities and a strong focus on outcomes.
- The Public Interest Oversight Board (PIOB), operating within a well-developed public interest framework, will work within a clear and defined mandate which emphasizes the provision of effective *oversight* of the board(s). Their primary responsibility will be to ensure that standards are developed, adopted and implemented with due consideration of the public interest through proper due process. The PIOB will work collaboratively with the standard setting board(s) and hold the board(s) accountable for performance. This includes holding the board(s) accountable for achievement of their work plan and evaluating the board chair and board members.
- The Monitoring Group will be more effective and transparent, and will ensure that the mandates and objectives of the PIOB and board(s) are fulfilled and functioning as intended through reviewing the performance of the PIOB against an agreed upon work plan.

We strongly support members with a variety of experiences and perspectives across all levels of the standard setting model

We believe the best way to improve the focus on the public interest is to have a variety of different perspectives and experiences represented across all levels of the standard setting model. We support the proposals to have members on the standard setting boards and PIOB with a variety of different backgrounds. We also support both bodies continuing to have strong outreach to stakeholders through Consultative Advisory Groups or other similar mechanisms.

We strongly support increased strategic focus by the standard setting board(s)

We strongly feel that the focus of the new multi-stakeholder board(s) should be more strategic in nature as we believe it will lead to more relevant and timely standards development and will improve the ability to attract a wider variety of stakeholders. To achieve this, the board must be supported by a high calibre and expanded professional technical staff in order to supplement and support the work of the board(s).

We support the suggested reforms to the PIOB and encourage the Monitoring Group to consider implementing those reforms simultaneously with the reforms to the board(s)

We are supportive of the reformed role and responsibilities of the PIOB as set out in this consultation. We believe that the expanded functions will strengthen the PIOB and provide for added accountability in the standard setting model. We are also supportive of the notion that the PIOB's main role is to ensure that the process of standard development follows a due process that is approved by the PIOB and adheres to the agreed-upon public interest framework. Improved collaboration and communication between the PIOB and board(s) is critical to ensure that the public interest is embedded throughout the entire standard setting process.

In developing a transition plan, we encourage the Monitoring Group to consider the order in which the reforms are implemented. The consultation paper currently describes a "step by step

approach to reform". We believe that the reforms related to the PIOB and Monitoring Group should occur simultaneously with the reforms to the standard setting board(s).

Answers to specific questions

In addition to our comments above, our responses to the specific questions posed in the Monitoring Group's consultation paper are included in the Appendix to this letter.

We appreciate the opportunity to provide input on the *Monitoring Group Consultation – Strengthening the Governance and Oversight of the International Audit-Related Standard Setting Boards in the Public Interest*.

We would be pleased to discuss further any of the above comments.

Yours very truly,



Brian Hunt, FCPA, FCA, ICD.D
Chief Executive Officer

APPENDIX

QUESTION	
1	<p>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?</p> <p><i>Yes, we agree with the key areas of concern identified with the current standard-setting model. There are no additional concerns that the Monitoring Group should consider.</i></p>
2	<p>Do you agree with the overarching and supporting principles as articulated? Are there additional principles which the Monitoring Group should consider and why?</p> <p><i>Yes, we agree with the overarching and supporting principles as articulated. There are no additional principles that the Monitoring Group should consider.</i></p>
3	<p>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?</p> <p><i>No, we do not have other suggestions for inclusion in a framework for assessing whether a standard has been development to represent the public interest. We are interested in the framework currently being developed by the PIOB and would be pleased to provide comments on that framework once it has been drafted.</i></p>
4	<p>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.</p> <p><i>We are neutral regarding whether the advantages of establishing a single independent board to develop and adopt auditing and assurance standards and ethical standards for auditors outweigh the challenges of a single board. If the assurance/auditing and ethics boards remain separate, we strongly support better coordination between the two boards.</i></p>
5	<p>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?</p> <p><i>In our view the education of current and future auditors is an essential role for the national and international professional bodies. We also believe that IFAC can play an important role in supporting the implementation of the auditing and ethical standards internationally. Accordingly, we agree that responsibility for the development and adoption of educational standards and the IFAC compliance programme should remain with IFAC.</i></p>
6	<p>Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.</p> <p><i>We believe that the setting of ethical standards for auditors and accountants in business should be set by the same board to have appropriate continuity between the ethical requirements for those preparing the financial statements with those auditing the financial statements.</i></p>
7	<p>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.</p> <p><i>No, we believe the Monitoring Group has identified the most significant options for reform in</i></p>

	<i>relation to the organization of the standard-setting boards.</i>
8	<p>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?</p> <p><i>Yes, we strongly agree that the focus of the board should be more strategic in nature as we believe it will lead to more relevant and timely standards development and will help the standard setting board(s) to attract a more diverse group of board members with different background and skills. However, in order for such a board to be effective, we believe it is critical that the structures surrounding the board (i.e. technical advisors, CAGs, staff, etc.) are carefully designed to ensure the final standards remain high quality.</i></p> <p><i>We also agree that remuneration of board members is important to ensure the attraction of the best quality of board members.</i></p>
9	<p>Do you agree that the board should adopt standards on the basis of a majority?</p> <p><i>Yes, we agree that the board should adopt standards on the basis of a majority. However, we believe that the definition of the majority should be a “significant majority”, not a 51% majority, and that no identifiable stakeholder group objects to the standard (e.g. a standard should not pass even if it has achieved a significant majority if an identifiable stakeholder group, such as all regulators, opposes the standard).</i></p>
10	<p>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?</p> <p><i>We support a more strategic-focus by the standard setting board(s) and thus agree with reducing the number of members and that the number should be no fewer than twelve. However, this smaller board must be supported by an expanded professional technical staff.</i></p> <p><i>We agree that the board could have both full time and part-time members, but are neutral regarding the proportion of each.</i></p> <p><i>It is vital to build consideration of the public interest directly into the standard setting model; therefore, we agree that the board(s) should have board members that have different perspectives and experiences and are diverse in nature. While we agree with the stakeholder groups identified in the consultation paper that should be included in board membership, we believe that the Monitoring Group should consider whether or not “investors” warrant their own group, or unique consideration (e.g. that a minimum of one investor must be on the board). Other factors that the Monitoring Group should take into consideration include diversity of professional experience, geography, culture, gender and size of market.</i></p>
11	<p>What skills or attributes should the Monitoring Group require of board members?</p> <p><i>We believe that each individual board member need not have the same set of skills (although there are certain attributes that all board members should possess which are set out below). Instead, the board(s) as a whole should have a full skill set which is to be determined by the Monitoring Group and PIOB and set out in a skills matrix.</i></p>

	<p><i>Skills we believe all board members should possess:</i></p> <ul style="list-style-type: none"> - <i>Most importantly, a strong commitment to the public interest</i> - <i>Strategic thinking</i> - <i>Ability to work collaboratively</i> <p><i>Skills we believe the board(s) as a whole should possess:</i></p> <ul style="list-style-type: none"> - <i>Audit experience</i> - <i>Understanding of the audit industry and the business model of audit firms</i>
12	<p>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?</p> <p><i>We agree that the concept of a CAG should be retained, as it is important to ensure that a variety of stakeholders are able to share their views on audit standards. However, we support a re-evaluation of how the CAGs should be structured and function once the board reforms are finalized in order to ensure that the CAGs are effective within the new model.</i></p>
13	<p>Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?</p> <p><i>Given that the reforms at the board level are not finalized, it is unclear how the task forces will function in the new model. We are supportive of a more strategic standard setting board where a greater proportion of the technical drafting of standards takes place at the staff level. We encourage re-evaluation of whether task forces are necessary and how the task forces should be structured and function once the board reforms are finalized.</i></p> <p><i>The task forces, as well as all parts of the standard setting model, should adhere to the public interest framework.</i></p>
14	<p>Do you agree with the changes proposed to the nomination process?</p> <p><i>Yes, in order to ensure that the standard setting board is composed of high calibre members, we agree with the changes proposed to the nomination process. In the long run, we are neutral in regards to the options proposed, being (1) fully administered through the PIOB via an open call or (2) continuing the interim process established for the nomination of a new IAASB Chair where the nomination committee is composed of an independent chair, two PIOB nominees, two IFAC nominees and 2 observers (IFAC Board chair and PIOB Board chair).</i></p>
15	<p>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?</p> <p><i>Yes, we agree with the role and responsibilities of the PIOB as set out in this consultation. We believe that the expanded functions will strengthen the PIOB and provide for added accountability in the standard setting model.</i></p> <p><i>We do not believe that the PIOB should be able to veto the adoption of a standard. In the reformed model, the public interest is embedded directly into the standard setting process through various mechanisms such as multi-stakeholder representation on the board(s). As such, we believe that the PIOB's main role is to ensure that the process of standard development follows a due process that is approved by the PIOB and adheres to the agreed-upon public interest framework (which is currently under development). We expect</i></p>

	<p><i>the PIOB and the board(s) to work together and communicate on a regular basis to ensure that the public interest is maintained throughout the entire process. The PIOB should be able to constructively challenge the technical judgements made by the board in developing or revising standards, but through ongoing and collaborative dialogue with the board, not through withholding approval of a standard.</i></p> <p><i>We do not have suggestions for further responsibilities that should be assigned to the PIOB.</i></p>
16	<p>Do you agree with the option to remove IFAC representation from the PIOB?</p> <p><i>In order to ensure that PIOB members are of the highest calibre with a diverse set of skills and backgrounds, we support an open call for nominations to the PIOB with no organization having the ability to directly nominate PIOB members. Accordingly, we agree with the option to remove IFAC representation from the PIOB.</i></p>
17	<p>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?</p> <p><i>We suggest that the composition of the PIOB gives consideration of factors to ensure diversity, development of a skills matrix, and most importantly, a commitment to the public interest.</i></p>
18	<p>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?</p> <p><i>In order to ensure high calibre members, we believe that PIOB members should be identified through an open call for nominations.</i></p>
19	<p>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?</p> <p><i>We believe that PIOB oversight should focus only on the independent standard-setting board(s) for auditing and assurance standards and ethical standards for auditors. We do not believe PIOB oversight is required for any standard setting activities performed by IFAC.</i></p>
20	<p>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?</p> <p><i>We agree that in the medium- and long-term, a role remains for the Monitoring Group to fulfill. In the short- and medium-terms, the role and responsibilities of the Monitoring Group should remain the same in order to ensure that the agreed upon reforms are implemented successfully. In the long-term, once the reforms have been completed, and if the composition of both the board and PIOB requires members with regulatory experience, the responsibilities of the Monitoring Group may be reduced to PIOB appointments.</i></p>

	<p><i>In order to improve the effectiveness of the Monitoring Group, we believe it would be beneficial if the membership of the Monitoring Group is comprised of appropriately senior individuals who can represent and speak authoritatively for their organization and that the membership is more stable with a commitment from the Monitoring Group members to improve the continuity of members on the MG.</i></p> <p><i>We also believe the Monitoring Group can provide increased transparency into its operations and views.</i></p>
21	<p>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?</p> <p><i>Yes, we agree with the option to support the work of the standard-setting board with an expanded professional technical staff. Some specific skills that a new standard-setting board should look to acquire include strategic thinking, strong technical expertise, strong project management capabilities, and stakeholder engagement experience.</i></p>
22	<p>Do you agree the permanent staff should be directly employed by the board?</p> <p><i>Yes, we agree the permanent staff should be directly employed by the board(s).</i></p>
23	<p>Are there other areas in which the board could make process improvements – if so what are they?</p> <p><i>No, we have not identified other areas where the board(s) could make process improvements. We strongly support multiple streams to allow for more timely amendments to standards to respond to public interest issues.</i></p>
24	<p>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)?</p> <p><i>Yes, we 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. However, we would strongly encourage the Monitoring Group to continue to look for alternate sources of funding in order to diversify the funding base, and to develop a long term plan for how to achieve funding diversification. It is significantly preferable to not have the audit firms/accountancy profession as the primary funding source for standard setting.</i></p>
25	<p>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?</p> <p><i>If the profession continues to be primary source of funding for standard setting, we support the application of a contractual levy on the profession to fund the board and the PIOB. In order to allow for appropriate long term planning, we support a levy that is set for a period for no less than five years. We do not have suggestions regarding alternative measures for funding other than what is currently described in the consultation paper.</i></p>
26	<p>In your view, are there any matters that the Monitoring Group should consider in</p>

	<p>implementation of the reforms? Please describe.</p> <p><i>In developing a transition plan, we encourage the Monitoring Group to consider the order in which the reforms are implemented. The consultation paper currently describes a “step by step approach to reform”. We believe that some of the reforms, specifically those related to the PIOB, should occur simultaneously with the reforms at the board level. The reforms at the PIOB and board levels are mutually reinforcing and when done in tandem, will result in a quicker, more efficient, and more effective outcome.</i></p>
27	<p>Do you have any further comments or suggestions to make that the Monitoring Group should consider?</p> <p><i>We do not have any further comments or suggestions to make for the Monitoring Group to consider.</i></p>