



February 9, 2018

Delivery by E-mail

Mr. Gerben Everts
Chair, Monitoring Group

Dear Mr. Everts:

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

The Office of the Superintendent of Financial Institutions Canada (OSFI) welcomes the opportunity to comment on the Monitoring Group's consultation paper *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*.

OSFI is responsible for the prudential supervision of federally regulated financial institutions in Canada and private pension plans that are subject to federal oversight. A cornerstone of our supervision is our reliance on the external audit process of financial institutions. Our willingness to rely on audited financial statements depends on our continued ability to place confidence in high-quality international audit and ethics standards. As such, we share the goal of strong international auditing standards and their consistent application in Canada. We firmly believe that audit and ethics standards should serve the public interest and be free from undue influence by the audit profession.

OSFI agrees with the Monitoring Group that the current framework for setting international audit and ethics standards allows for possible undue influence by the audit profession. We also agree that a number of reforms are needed to the standard-setting boards. However, in our view the reforms for oversight – the role of the Public Interest Oversight Board (PIOB); the Monitoring Group; standard-setting board staff; as well as process considerations and funding – are too complex and difficult to execute in the near term. We suggest the Monitoring Group undertake a phased approach to the reforms.

The first phase should address structural changes needed in the near term to strengthen the independence of standard-setting boards and should include:

- Maintaining separate boards for audit and ethics with a single set ethics standards for all accountants; and enhancing the coordination of the boards to ensure joint consideration of topics that cover both auditing and ethics (i.e. professional skepticism);
- Changing the nominations process to be independent of the International Federation of Accountants (IFAC);
- Changing the composition of the boards to include multiple stakeholders to achieve better diversity and representation; and
- Balancing the focus of the boards between strategic and technical work.



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The second phase should study the effectiveness of the reforms made in the first phase. The study results can be used to determine the need for further reforms. All other elements of the reform proposals should be determined after the effectiveness study. This includes changes to the PIOB and funding.

Although current audit and ethics standards are high-quality, significant work is underway to further strengthen the standards and any changes resulting from the reforms should not impede the current work of the boards.

Additionally, the setting of audit and ethics standards is different from the setting of accounting standards. For example:

- The development of audit and ethics standards impact the audit profession more than other stakeholders (i.e. audit firms must deal with the cost of change and ensure compliance); and
- Stakeholders other than the audit profession are less engaged with audit and ethics standards relative to accounting standards (possibly due to accounting directly impacting net income, whereas audits have less visibility).

Rather than responding to all 27 questions, we have chosen to provide an Annex (attached) with more detailed comments on our points above.

To maintain public confidence and stakeholder engagement over today's audit and ethics standards, we encourage continued transparency through public consultation on key changes proposed during the reform period.

Should you wish to discuss this further, please contact either Karen Stothers, Senior Director, Accounting Policy Division by telephone at (416) 973-0744 or by e-mail at Karen.Stothers@osfi-bsif.gc.ca or Kenneth Leung, Director, Accounting Policy Division by telephone at (416) 973-2103 or by e-mail at Kenneth.Leung@osfi-bsif.gc.ca.

Yours truly,



Carolyn Rogers
Assistant Superintendent, Regulation Sector

ANNEX – Detailed Comments

Phase I – Standard-setting board reforms

1) Separate standard boards should be maintained

We strongly believe the current structure should maintain separate boards for setting: (i) auditing and assurance standards and (ii) ethics standards. Combining the boards could result in ethics standards receiving less attention and present a significant work load for a single board. Maintaining separate boards would continue to allow for a sufficient level of focus on the development of both audit and ethics standards.

2) A common set of ethics standards should continue to apply for all accountants

- We strongly believe IESBA should continue to cover ethics standards for all accountants to ensure there is a common set of ethics standards.
- Preparers of financial information should also be held to equally-high ethics standards as auditors to ensure high-quality financial reporting.

3) Nominations process should move to be independent of the profession

To avoid undue influence by the profession, IFAC should not have the power or the ability to appoint standard-setting board members nor be members of the nominating committee. The nominations process should continue to be conducted through an open call for candidates.

4) Composition of standard-setting boards should be expanded to be multi-stakeholder

Standard-setting boards should have a multi-stakeholder representation. More specifically:

- Members should be added from the community of users of audited financial information, like those charged with governance, financial statement preparers, regulators and investors.
- Diversity should be an objective; members should reflect the geography and diversity of the stakeholder groups, including the broader public.
- A strong voting majority, consisting of two-thirds of the membership, should be required to approve or withdraw standards. This will ensure sufficient voting representation across stakeholders.

5) The focus of the boards should be balanced between strategic and technical aspects of standard-setting

- There should be clear strategic direction for standards development with work plans, stakeholder engagement and deadlines that meet the public interest.
- The boards need to have the knowledge and ability to address and resolve technical issues in standards development in addition to being strategic.

6) *Coordination between boards should be formalized*

- A formal agreement or memorandum of understanding should be established between the audit and ethics boards for topics of common interest. This should include establishing plans on joint activities and alignment of project goals and timelines.
- An oversight body should hold the boards accountable for fulfilling their mutual obligations.

Phase II – Further reflection after standard-setting board reforms

After the reformed structure for the key issues in Phase I are in place, we suggest that a study be undertaken to determine the effectiveness of these changes to identify whether further changes are necessary. Care should be taken to avoid disruption of the existing projects underway and aim to preserve the public confidence in today's audit and ethics standards.

1) *Public interest should be studied once reforms have occurred*

Public interest oversight is an important element. After implementing the Phase I reforms, the Monitoring Group can evaluate whether further changes to the PIOB and the Monitoring Group are needed to address any remaining public interest or independence concerns. In the meantime, the existing role of the PIOB and Monitoring Group should be retained.

2) *Funding needs further study*

Funding is a complex issue and any changes made to the funding model will need to demonstrate how independence from the profession is improved.

- We support a model whereby the main beneficiaries of high-quality standards bear the costs associated with developing these standards.
- The new funding model should also consider the potential increase in funding required under a reformed structure.
