

February 9, 2018

The Monitoring Group
Via email: MG2017consultation@iosco.org

Dear Members:

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

Thank you for the opportunity to comment on the above-noted document. MNP LLP (MNP) is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include a sizable contingent of publicly traded entities, as well as small to mid-size owner-managed businesses, credit unions, co-operatives, First Nations (i.e. Aboriginal peoples in Canada), not-for-profit organizations, municipalities and government entities. We believe that we are positioned well to provide feedback on this important issue.

We have reviewed the Consultation Paper ("the Paper") and have provided our comments below.

Objectives of the Proposal

MNP believes The Monitoring Group, the PIOB and the three boards each have a critical role in standard setting. We support the continued focus on ensuring that the standards meet the public interest, and agree that periodic review of existing processes and standards is necessary to maintain high quality standards.

We believe that The Monitoring Group should take time to thoroughly define "the public interest". Without a well-articulated definition, it is difficult to assess whether or not the public interest is currently being met. It is also difficult to assess whether the proposals will further the public interest.

The Paper references preliminary stakeholder engagement with 29 current and former standard-setters, and engagement with IFAC, the PIOB and the GPPC. We are concerned that this may not be a large enough sampling of stakeholders on which to draw definitive conclusions. Further, we are not aware of any specific evidence to support a lack of confidence in the audit standards, the standard setting process, nor audited financial statements. We would be interested in reviewing any analysis The Monitoring Group has on specific instances of undue influence, or the disregarding of stakeholder views in the standard setting process since The Monitoring Group's last governance framework review in 2013. We are also interested in reviewing the various stakeholder responses to the Paper to assess how wide spread the perceptions and key concerns presented in the paper are.

In our view, the current standard setting process is robust, resulting in high quality standards with wide international support. We are concerned that the Paper proposes large scale restructuring in response to issues which may not in actuality exist, or may only be a perception of a small subset of stakeholders. While we support opportunities to strengthen the standard setting process, we believe a more incremental, less disruptive, approach would be beneficial to ensure the positive aspects of the current model are not lost and to prevent unintended consequences which could surface from a new model which may be implemented over a short period of time.

If further analysis determines that the key concerns noted in the Paper are in fact present, incremental changes to the current model could include: broadening and strengthening the stakeholder engagement on standard changes - e.g., increased use of surveys, focus groups, and roundtables; increasing PIOB input and consultation on the nominating committee; increasing diversity of the current standard setting boards; and/or making adjustments to the current funding model and reducing or eliminating the significant amount of volunteer hours.

Structure and Function of the Standard Setting Boards

We believe that two standard setting boards should be retained for auditing and ethics standards, respectively. With the diversity of knowledge required, it would be too difficult to appropriately staff a singular board. A one-board model could result in too much dependence on staff and a board that can't effectively undertake its role. Further, we believe that a singular board would have difficulties giving each of ethics and auditing topics the respective priority and focus that these important areas require. While ethics and auditing standards both apply in an audit, we believe there is not sufficient inter-relation to necessitate, nor generate any significant efficiencies from, a singular board.

We believe that in a two-board model, the ethics setting board should continue to have purview over all ethics standards for all professional accountants. Two separate sets of ethics standards could create inefficiencies in the standard setting process and could result in difficulties in application by accountants. In addition to auditors, we believe that accountants working in business as well as those public practice accountants performing review, compilation and consulting engagements have a significant impact on the overall public interest. Therefore, we believe the ethics standards for all accountants should remain the responsibility of the same experienced and knowledgeable board, with strong governance and oversight.

We are concerned that the large reduction of board members in the proposal will result in a lack of regional representation and diversity on the boards. We believe that the standard setting boards should continue to be large enough to maintain an appropriate regional representation and diversity of knowledge.

In Canada, a substantial majority of audit and other assurance services are provided to private enterprise, not-for-profit organizations, governments and government entities. We believe it is essential to ensure that the standard-setting boards have sufficient diversity to develop standards which can be applied to a wide array of assurance services, not just audit of public companies.

If further analysis confirms that staff shortages have caused delays in the standard setting process, we agree that a larger staff would assist with timeliness. However, we note that in recent years the timeliness of many standard changes in the ISAs has been improving (recent standard changes to ISA 250, ISA 800, ISA 805, and ISA 810 each were completed in approximately 1.5 years). There have been certain standard changes which have taken quite a long time (such as ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* completed in approximately 8 years). However, when standard changes are of such a significant impact, and stakeholder views vary widely, time is required to result in quality standards supported by all stakeholders. Due process does, and

should, take time. We believe that consensus and quality of standards is paramount. Rapid changes based on a majority vote could be a disservice to the public interest. Changes, without appropriate due process, could result in low quality standards and a necessity for further changes to the same standards in the future. Low quality, constantly changing standards will erode the public confidence in the standard setting process, and the standards themselves; further it would decrease audit quality while concurrently increasing audit costs.

We agree that development and adoption of educational standards and the current compliance program should remain the responsibility of IFAC. The accountancy profession itself is best suited to undertake these important education and compliance tasks. This will allow the standard-setting boards and governance framework the ability to focus solely on the development of high quality standards.

Oversight of Standard Setting Boards

We agree that strong oversight of the standard setting boards is important to achieve public confidence. We agree with continuation of a three-tiered model (staff, standard setting board, oversight bodies). The oversight body should continue its direct observation of the standard setting process on individual standards, as well as overall reviews of the effectiveness and efficiency of the standard setting process as a whole, publishing details of its activities in regular public reports.

We believe the best quality standards, and standard setting process, will be achieved with a multi-stakeholder approach at all levels. A multi-stakeholder approach will ensure effective communication and cooperation between stakeholder groups occurs and that the views of all stakeholders are appropriately addressed in the standard setting process. To this effect, we believe that all stakeholders, including IFAC, should continue to have representation at the oversight level. We also believe that the oversight body should be involved in providing input on strategy and direction of the standard setting boards.

Funding

We agree that significant standard board funding being sourced by in-kind volunteer service does create the perception of the entities providing those services having the ability to assert influence, lest the boards risk having those volunteer services withdrawn.

We agree that an incremental change to the current model could be made to adjust the funding structure. Creating some separation between the funding model and the standard setting process would be beneficial to create public confidence that funders do not have undue influence. We believe the current funding model of the IFRS Foundation provides a good example of the separation needed between funding and influence over the standard-setting process. Further, in establishing an appropriate funding model, we believe it is important for all significant stakeholders, including professional accountants, to participate in that funding model. Multi-stakeholder funding would serve to reduce the perceived influence of one singular stakeholder providing the funding.

In implementing a new funding model care must be taken to ensure that no unintended consequences exist in the new model. Where new funding sources are brought in, care must be taken to ensure the model is structured in such a way that the public does not view these new funders to have added influence in the standard setting process.



We look forward to reviewing The Monitoring Group's deliberations and responses to comments received, the Impact Assessment, and providing additional comment on future consultation papers put forward by The Monitoring Group.

Yours truly,

MNP LLP

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