

January 31, 2018

Members of the Monitoring Group  
(Via Email MG2017consultations@iosco.org)

Dear Sir/Madam:

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

Overall, the Office does not support the proposals set out in the paper. We found that the Paper's structure, and limited impact analysis does make not a compelling case for the need to reform the international financial audit-related standard setting process. We found the close-ended questions interlinked and, to some extent, seemed designed to substantiate the view of the proposed reforms—a move to a single board regulatory standard-setting model.

The Paper does not examine whether stakeholder concerns about confidence may be rooted, at least in part, in inconsistent application of accounting and/or assurance standards. It does not set out its consideration of the sufficiency of mechanisms to foster consistency in application these standards (e.g., guidance and education, ethics) and mechanisms to identify and address inconsistent application (monitoring and regulatory). Nor does it explain why it solely attributes adverse effects of stakeholder-confidence on the undue influence of the accounting profession and standards not being developed in the public interest.

We think a broader and more robust examination of existing strengths and issues with respect to standard-setting and oversight thereof is necessary before proposing or making reforms.

Furthermore, the Paper fails to define public interest; and its implicit definition of public interest (investors in listed entities, financial institutions and regulators) seems narrow. While public interest will always evolve, a clear robust definition is essential. A clear definition would provide a basis to assess processes and propose reforms. In our view, not setting or providing a definition of public interest is a fatal flaw of the Paper. It greatly increases the risk of proposing and making reforms that will not result in high quality standards that best serve the interests of the public as a whole.

In addition, the paper fails to give sufficient consideration that the current standard setting model appropriately includes more than setting standards for financial statement audits. In our view, the model must equally protect the public interests for those other standards.

The attachment sets out responses to the specific questions posed in the paper.

Confidentiality notice: This may contain confidential information exempt from disclosure under *The Provincial Auditor Act*.

In summary, the Office recognizes the importance of having high quality auditing and assurance standards for both financial and non-financial engagements. It is also aware that at times reforms are necessary. As a legislative audit office, it is keenly aware of the importance of understanding and serving, to the extent possible, the interests of the public. To date, it has been supportive of CPA Canada adopting the international standards for assurance engagements. The proposed reform may have the unintended impact of practitioners rethinking that support.

Yours truly,

A handwritten signature in black ink that reads "Judy Ferguson". The signature is written in a cursive, flowing style.

Judy Ferguson, FCPA, FCA  
Provincial Auditor

/ah  
Attachment

Question		Response – Office of Provincial Auditor of Saskatchewan
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?	<p>No. The paper is unclear why it focuses only on ‘key areas of concern in the current standard-setting model’. The paper does not explain why it does not include consideration that stakeholder nonconfidence may be rooted, at least in part, in inconsistent application of accounting and/or assurance standards. The paper does not set out its consideration of the sufficiency of mechanisms to foster consistency in application (e.g., guidance and education) and mechanisms to identify inconsistent application (monitoring and regulatory).</p> <p>We find the paper provides insufficient information to substantiate the three concerns cited in the paper. The paper does not make a compelling case for reform of standards setting.</p> <p>The paper did not provide sufficient background of the current model. That is, it did not outline the strengths of the current model and related processes; whether key structures (e.g., IAASB, IESBA, PIOB, MG) have considered or assessed their own effectiveness in achieving their mandates and roles, and if so, those high-level results.</p> <p>The paper provides limited information on the methodology used (e.g, rational for selection of interviewed individuals) to identify the cited concerns. Also, the design of the standard set of interview questions in appendix 2 is problematic. They seem predisposed to a view that changes in the current standards setting model are needed (e.g., asks for areas of greatest improvement; but does not ask about best practices of current standard setting model or for areas of strength or that work well). The design of questions and background information in the paper suggest a cognitive bias.</p>

**Monitoring Group Consultation—Strengthening the Governance and Oversight of the International Audit-related Standard Setting Boards in the Public Interest**

Question		Response – Office of Provincial Auditor of Saskatchewan
		<p>The proposed reforms are made to address the assumed issues of undue influence and insufficient consideration of public interest in the standard setting process, and relevance and timeliness of standards (assumed root causes). In our view, the paper does not sufficiently show how it validated the completeness and accuracy of the concerns listed prior to proposing fundamental reforms, which is critical. Without sufficient validation, the basis of the reform proposals is questionable; they may be misdirected and result in wasted resources.</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>We find it troublesome and are somewhat surprised that the paper does not include a definition of the overarching principle—the <u>public interest</u>. We had assumed the paper would include the working definition of public interest that the Monitoring Group along with PIOB must use given their roles. We note the paper does not refer to IFAC’s definition of public interest.</p> <p>A clear definition of public interest is essential in that it is the underlying principle of the standard setting process, and of the monitoring role of the both PIOB and the Monitoring Group.</p> <p>Without a clear definition, the context of the paper and to some extent the context of the application of the other principles is unclear. The paper suggests public interest includes the interests of investors and banking and insurance institutions; but is silent as to whether it include interests within the government sector—of legislators and the public at large—or of smaller entities seeking audits of their financial statements. In our view, these sectors should receive equal weighting to that of larger listed entities. It is also critical to keep in mind that IAASB sets standards for more than financial statement audits.</p> <p>It is critical all assurance standards are sufficiently scalable to enable quality cost-effective financial statement audits for entities</p>

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
		<p>of all types and sizes. In Canada, a large number of entities are small to medium-sized, and the government sector is substantial and far reaching. Many of these entities require financial statement audits as they are listed on stock exchanges or part of the government (public sector) with audit requirements.</p> <p>The value proposition of audit for entities of all sizes (including small- to medium-sized entities) is not evident in the definition of <u>cost effective</u>. If it does not fit within this principle, perhaps an additional principle is necessary. Not giving these sectors sufficient consideration may result in the unintended consequence of them moving away from financial statement audits. In Canada, smaller entities are already moving to lower levels of assurance (e.g., reviews, compilations) because of the cost of audits.</p>
<b>3</b>	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?	See responses to question #2. Without a clear definition of public interest, it is difficult to assess the sufficiency of the framework. While public interest is critical and central, to be successful, the standard setting process must consider all applicable framework principles simultaneously.
<b>4</b>	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>See responses to #1 and 2 about concerns about sufficiency of work in identifying and validating key concerns, and not defining public interest.</p> <p>No. A single independent board is not practical in that the technical knowledge of skills for setting auditing and assurance standards and setting ethical standards differ significantly.</p> <p>In our view, professional accountants must have a common set of standards for ethics. A common set of ethical standards provides professional accountants with the foundation to show the public that they are an ethical, competent business professional regardless of their role, and, as such, deserve public trust. Additional standards may be necessary for</p>

**Monitoring Group Consultation—Strengthening the Governance and Oversight of the International Audit-related Standard Setting Boards in the Public Interest**

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
		<p>preparers of financial information and auditors but those should augment (not replace or displace) the common standards. Having multiple sets of standards may lead to confusion and not serve the public's interest well.</p> <p>Having a single body (separate from accounting and auditing standard setting) is best positioned to consider ethical standards.</p>
<b>5</b>	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>Unable to answer.</p> <p>See response to question #2. The paper does not include analysis of whether sufficient work is done to assist practitioners in the application of standards. Without this analysis, it difficult to assess whether the effectiveness of the current IFAC compliance structure and program.</p>
<b>6</b>	Should IFAC retain responsibility for the development and adoption of ethical standards for professional accountants in business? Please explain your reasoning.	<p>The development of standards differs from the adoption of standards.</p> <p>Development: See response to question #4. In our view, a single board separate from both accounting and auditing standards setting should be responsible for setting (developing) ethical standards for professional accountants. This board should also be separate from those responsible for oversight and monitoring of accounting and assurance standards.</p> <p>Adoption: Education and compliance programmes can play a key role in the adoption of ethical standards. See response to question #5.</p> <p>Based on information provided, we do not s</p>
<b>7</b>	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	We are unable to respond to the question in that as noted in our responses to questions #1 and 2, the paper does not make a compelling case to reform the current standard setting model.

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
	response along with your rationale.	<p>In addition, it does not provide a definition of public interest.</p> <p>In our view, these aspects must be addressed prior to proposing or making reforms.</p>
<b>8</b>	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>We do not support IAASB focusing on strategy and outcomes. This would duplicate roles of other components of the standard-setting model (e.g., PIOB, Monitoring Group).</p> <p>Having the IAASB, as a working (operating) board, provides a layer of due diligence over and above work of the technical staff. An IAASB, with diverse membership, provides a forum for diversity of thought, which is critical in standard setting and consideration of how the proposed changes fit within the assurance standards as a whole. Moving it to more strategic in nature, as proposed, and eliminating this layer seems contrary to the stated purpose of the proposed reforms (to act in the public interest).</p> <p>About remuneration, the paper does not clearly indicate whether the current international standard-setting models are encountering problems recruiting and retaining high-quality candidates (particularly from outside of the audit profession, and smaller sized entities) in its use of a volunteer-based model.</p> <p>The decision on remuneration of board members would be, in part, dependent upon the funding model of the standard-setting process and role of the board. Both of these are unclear in the paper.</p>
<b>9</b>	Do you agree that the board should adopt standards on the basis of a majority?	<p>See response to #8</p> <p>No. In our view, a consensual approach to decision making better satisfies the principle of “generally accepted” assurance standards; decisions based on majority is contrary to this. It is</p>

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
		reasonable that the public would assume that the starting point of acceptance of quality standards would be, at minimum, that standard setters “generally accept” them.
<b>10</b>	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>The size of a board should reflect its roles and responsibilities, and be of a suitable size to enable it to carry them out without undue pressures; but not be so large that it is unproductive.</p> <p>As noted in our response to #8, we do not support IAASB being a strategic board or a governing board; rather we support it being an operating board (that is, involved in critiquing draft standards; perhaps using a process that may vary from its existing practices).</p> <p>We think it would be inappropriate to use best practice for sizes of governing / strategic boards as a benchmark for the size of an operating board.</p> <p>As for composition of the board, we support membership that does not give a single stakeholder group undue influence (real or perceived). That is, membership reflecting the varied types of stakeholders, varied sizes of users of assurance practices, geographic regions of the world that use the auditing standards, etc. The geographic representation gives it international legitimacy. The Board must collectively have sufficient requisite technical skills.</p>
<b>11</b>	What skills or attributes should the Monitoring Group require of board members?	Given our support for IAASB continuing as a working board, members must possess, at an advanced level, the competency requirements of an audit professional related to the breadth of auditing and assurance standards that IAASB deliberates and sets (e.g., financial statement audits, non-financial audits, compilations engagements, limited assurance engagements).
<b>12</b>	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?	Uncertain – see responses to questions #1 and 2 about providing insufficient information to substantiate the two issues identified, and not defining public interest.



**Monitoring Group Consultation—Strengthening the Governance and Oversight of the International Audit-related Standard Setting Boards in the Public Interest**

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
<b>13</b>	Do you agree that task forces used to undertake detailed development work should adhere to the public interest framework?	Without a clear definition of public interest, it is difficult to agree that task forces should adhere to the framework. While public interest is critical and central, to be successful, the standard setting process must consider all principles listed simultaneously.
<b>14</b>	Do you agree with the changes proposed to the nomination process?	Uncertain. The paper does not provide sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.
<b>15</b>	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>Uncertain. The paper does not provide sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.</p> <p>However, in saying that, we think PIOB should focus on the robustness and soundness of the standard setting process as a whole and not include a veto of individual IAASB decisions. Proposing a structure that includes a veto option seems contrary to the assumed concern in the paper about undue influence, the timeliness of standards, and contrary to good governance. PIOB must ensure the standard-setting process produces high quality standards that can be applied to audits of any size or type of entity, and best meet the interests of the users of those audits.</p> <p>Furthermore, as noted earlier, the paper does not recognize that the role of standard setters (and corresponding oversight) is more than standards for financial statement audits.</p>
<b>16</b>	Do you agree with the option to remove IFAC representation from the PIOB?	Uncertain. The paper does not provide sufficient information on this matter or make a compelling case for change. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms,

**Monitoring Group Consultation—Strengthening the Governance and Oversight of the International Audit-related Standard Setting Boards in the Public Interest**

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
		so that changes best address key areas where changes are needed.
<b>17</b>	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>PIOB should be comprised of individuals who collectively have both the strategic and technical competence to strategically lead the standard setting—only then can it fulfill its primary role of protecting public interest.</p> <p>Furthermore, similar to IAASB, it should be equitably comprised of members from various stakeholder groups (see response to #2 about public interest including the government sector, and small-medium sized entities) and be geographically represented to provide sufficient diversity of thought and perspective, and avoid undue influence of any particular stakeholder group.</p>
<b>18</b>	Do you believe that PIOB members should continue to be appointed through individual MG members or should PIOB members be identified through an open call for nominations from within MG member organizations, or do you have other suggestions regarding the nomination/appointment process?	We encourage the use of a transparent appointment processes that attract high quality applicants from the international community with differing views. As such, we are more supportive of open calls for nominations than nominations/ appointments through individual Monitoring Group members.
<b>19</b>	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>We support a broader role for PIOB (see response to #17 and 18) in that there is significant interplay and interdependencies between the quality and implementation of auditing and assurance standards, education standards and ethical standards for professional accountants.</p> <p>See response to #4 about having a common set of ethical standards for professional accountants.</p>
<b>20</b>	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?	Uncertain –The paper does not provide sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.
<b>21</b>	Do you agree with the option to support the work of the standard-setting board with an expanded professional technical	Uncertain – depends upon the funding model and the primary role and purpose of the Board. The paper does not provide

**Monitoring Group Consultation—Strengthening the Governance and Oversight of the International Audit-related Standard Setting Boards in the Public Interest**

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
	staff? Are there specific skills that a new standard-setting board should look to acquire?	sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.
<b>22</b>	Do you agree the permanent staff should be directly employed by the board?	Uncertain – depends upon the funding model and the primary role and purpose of the Board. The paper does not provide sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.
<b>23</b>	Are there other areas in which the board could make process improvements if so what are they?	Uncertain. The paper does not provide sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.
<b>24</b>	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>Uncertain. The paper does not provide sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.</p> <p>Also, in our view, checks and balances must exist for all groups or Boards involved in the standard setting process and oversight thereof—this would include PIOB and the Monitoring Group.</p> <p>Each should be comprised of members from various stakeholder groups (see response to #2 about public interest including the government sector, and small-medium sized entities) and be geographically represented to provide sufficient diversity of thought and perspective.</p> <p>To avoid undue influence of any particular group, each should be equally represented from users (investors, preparers, academics, and those charged with governance), regulators,</p>

**Monitoring Group Consultation—Strengthening the Governance and Oversight of the International Audit-related Standard Setting Boards in the Public Interest**

<b>Question</b>		<b>Response – Office of Provincial Auditor of Saskatchewan</b>
		and auditors.
<b>25</b>	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?	Uncertain. The paper does not provide sufficient information on this matter. The concerns we raise about not validating assumed concerns or defining public interest must be clarified before making reforms, so that changes best address key areas where changes are needed.
<b>26</b>	In your view, are there any matters that the Monitoring Group should consider in implementation of the reforms? Please describe.	<p>See responses to #1 and 2 about concerns about sufficiency of work in identifying and validating key concerns, and not defining public interest.</p> <p>The Monitoring Group should publish all responses to this paper, and responses to future requests on its website. This would provide a open and transparent process in the due process that the Group is proposing and making reforms (similar to that expected of standard setting). Open and transparent process also can also foster confidence in the process and assist in 'buy-in' of changes.</p>
<b>27</b>	Do you have any further comments or suggestions to make that the Monitoring Group should consider?	In our view, the current standard setting model appropriately includes more than setting standards for financial statement audits. The paper focuses solely on standard setting for financial statement audits of exchange-listed entities. We suggest the MG sufficiently consider the processes to develop, implement, and oversee the other standards in concert with its consideration of processes related to financial statement audits. In our view, the standard-setting model must equally protect the public interests for those other standards.