

February 7, 2018

The Monitoring Group

Sent via email to [MG2017consultation@iosco.org](mailto:MG2017consultation@iosco.org)

**Re: Strengthening The Governance And Oversight Of The International Audit-Related Standard-Setting Boards In The Public Interest**

Dear Sir/Madam:

I appreciate the opportunity to provide comments on the Monitoring Group paper on *Strengthening The Governance And Oversight Of The International Audit-Related Standard-Setting Boards In The Public Interest*.

You have stated your commitment to periodically review the effectiveness of the standard-setting process. Your paper sets out options for consideration as to whether the governance and oversight of the standard-setting process could be further enhanced to serve the public interest.

The purpose of The Public Accountants Council for the Province of Ontario (Council) is to ensure that public accounting in Ontario is practised in accordance with internationally respected public accounting standards that reflect the public interest in the delivery of superior quality public accounting services. With this responsibility, I welcome this chance to contribute to this review to enhance the standard-setting process.

As the CEO of the Council, and former Chair of the Consultative Advisory Group for the International Accounting Education Standards Board, I have a personal interest in contributing to improvements that promote the delivery of superior public accounting standards. While the views and opinions expressed on the following pages are mine, the members of the Council are aware of, and recognize the importance of providing this feedback to your paper.

I have restricted my comments to those areas that are relevant to my experience.

Yours truly,



Keith Bowman CEO

**Question 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?

There are three concerns noted within the Consultation paper:

**Concern 1** – Adverse effect on stakeholder confidence in the standards as a result of a perception of undue influence by the profession.

**Response** – It would have been helpful to identify which stakeholders have a perception that there is undue influence by the profession in the standards-setting process. This is an inherently intractable problem in the professions, but one that I believe has been managed by the profession with appropriate safeguards. The profession has a legacy of adhering to the public interest and diligently working to promote the public interest. Most professional accounting organizations have influential public representation on their boards to ensure that the public interest is considered in the governance of its members. On the identified issue of IFAC managing the nomination process of the standards-setting boards (SSBs), perhaps public representation within this process would alleviate these concerns. On the issue of IFAC funding and staffing the SSBs, this is a generally accepted model within various professions that realistically does not impact the independent, objective mindsets of the individuals involved with the SSBs. This is not to say that a more arms-length funding model could not be developed, but this should not be a priority of the current review process.

**Concern 2** – A risk that standards are not developed in the public interest.

**Response** – As a member of the IAESB CAG, and its chair for the past three years, I have seen nothing that would have ever appeared to be neglectful of the public interest. The CAG is composed mostly of educators and regulators, and as the Public Accountants Council for the Province of Ontario (Council) being one of those regulators, I have full confidence that the public interest is always paramount when standards are being discussed.

**Concern 3** – The relevance and timeliness of the standards.

**Response** – I fully support any changes that accelerate the development of updated standards, as long as the development process is thorough and properly reviewed.

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

**Comment** – I agree with the overarching and supporting principles as articulated and I believe that virtually all of these principles are met in the current business processes of the SSBs. The one area that I believe could be improved is the *relevant principle* which includes the words ‘in a timely way’. As to the concern that there is too much influence from the profession, my observations from the IAESB CAG perspective, and from my attendance at IAESB board meetings, are that the individuals from the profession are independent minded professionals who apply their skills to tasks at hand with a mindset to do the right thing for the profession in a way that recognizes public interest.

In addition, as an example of a safeguard that is in place, there are many individuals involved in the current SSB processes who are not in the auditing and accountancy profession who keep the public interest perspective reflected in the evolving standards. If there is any direct evidence of too much influence from the profession, it should be disclosed. I would not argue that the current funding model by the profession is ideal, but I have seen no evidence that indicates the public interest is being neglected.

It is stated in the paper that the Monitoring Group has *considered whether it should seek to define the public interest*. In addition, it is stated *that the Monitoring Group has asked the PIOB to support it in developing a framework which will provide a mechanism for assessing how the public interest is captured throughout the standard-setting process*.

As long as there are questions about the definition of public interest and the development of a framework to assess how public interest is reflected in the standard-setting process, the process to undertake any major change in the standard-setting process should be paused so that these important issues can be resolved. Develop this framework and then continue with the consultation process. This could slow down the change process but it is important that the appropriate amount of time is taken to get it right.

**Question 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?

**Comment** – I have no other suggestions. My experience is that the appropriate level of public interest is reflected in the IFAC standards.

**Question 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.

**Comment** – I have not been involved enough in the workings of these two boards to express a reliable opinion on whether their operations could be combined. As independence and objectivity are so closely aligned to auditing and assurance standards, I can think of no reason why they could not be combined.

**Question 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?

**Comment** – The oversight of the standards-setting processes for audit, ethics and education is most efficiently accomplished by a properly structured and staffed PIOB. This model would be simpler for stakeholders to understand and it keeps all of these inter-related processes under one oversight model.

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

**Comment** – No. To go down a path of diverging standards for accountants who are not in the audit and assurance stream is a non-starter. This can only lead to unnecessary duplication, inefficiency and an implication that one set of standards will inevitably be considered lower.

**Question 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.

**Comment** – I have no other options to suggest.

**Question 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?

**Comment** – I could support a more strategic approach for a compensated board that is supported by more professional staff. There are some who believe this model might be more expensive, but that is

only conjecture. A model should be developed to address the cost questions. The current model uses extensive time of volunteers, mostly from public accounting firms. It actually may be more cost effective to replace volunteer time, and the associated travel costs, with a professional staff model.

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

**Comment** – Yes, but consider at least a 2/3 majority being required. If anything, forcing a new standard to being approved by all board members likely leads to compromise that doesn't necessarily result in high-quality standards. Similarly, a simple majority may not be sufficient to represent the consensus of members.

**Question 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?

**Comment** – First, I am confused by the use of the term 'full time' for board members. If the board is to be more strategic, why would this be a full time position? I saw this position more akin to a board member of a listed entity. Twelve members is likely a model number to work to. I don't see any representation suggested from the business community in the users group.

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

**Comment** – The same skills that one would expect for a board member of a listed entity – strategic knowledge, judgment, communicator, wisdom, motivation, courage, and demonstrated strong Board Governance experience.

**Question 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?

**Comment** – I believe that the IAESB CAG, the only one I am familiar enough with to comment on, has provided a very valuable service over its life to date. This service can be best described as independent, objective knowledgeable individuals commenting on the setting and evolution of standards with a particular focus on the public interest aspects of the standards. If the public interest focus can be achieved by a board composed of individuals as described in the paper, then there is less need for a CAG being part of the process.

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

**Comment** – This question should be answered once a new model is in place.

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

**Comment** – My experience in dealing with board appointments suggests that there are almost always benefits from more collaboration in the nomination process. To have a process that does not involve the chair of the SSB(s) in the nominations is problematic. The chair is responsible for achieving maximum effectiveness of the board's deliberations and with this responsibility, should have more involvement in the makeup of the members of the board.

**Question 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?

**Comments**

I agree with most of the recommendations, with the following exceptions:

- The PIOB should be able to veto the adoption of a standard if it is not satisfied that due process to consider the public interest has been followed.
- The PIOB should not be able to challenge board recommendations for standards on technical issues as such action would essentially require a parallel level of professionally competent staff within the PIOB.
- The PIOB should only be able to evaluate the performance of the chair of the board(s). It should be the responsibility of the board chair to evaluate the performance of his members.
- The issue of the PIOB being responsible to facilitate the collection of funds for the board(s) is an interesting one. On the one hand, the assumption of this responsibility by the PIOB would satisfy those who have the perception that funding of the standard-setting process by the profession creates the perception that such funding undermines the protection of public interest. Additionally, this approach, and with the backing of the MG members, might provide the necessary clout to build a funding scheme that achieves enough resources to fund a process that protects the public interest. On the other hand, the current funding process has been quite successful in funding the standards-setting process. If the funding issue proves to be too much of a threat to the independence of the process, it may make sense to stay with the current model until a new approach is developed that is as secure as the current system has proven to be.

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

**Comment** – No. The whole standard-setting process will work best when there is collaboration between all of the stakeholders. IFAC and its members are critical stakeholders and should be involved, at an appropriate level, in the standard-setting process.

**Question 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?

**Comment** – The PIOB should consist of recognized experts who have had extensive high level experience in dealing with financial reporting, governance, regulatory matters and listed company and public sector organizations. Putting this another way, a highly respected member or chair of an audit committee would possess many of the skills needed to effectively contribute to the deliberations of the PIOB.

**Question 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?

**Comment** – Keep the process as open as possible to attract the best candidates. It may be worthwhile to solicit advice from a sample of internationally respected recruiting firms to identify current best practices to find the best candidates.

**Question 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 (eg issuing educational standards and ethical standards for professional accountants in business) where they set standards in the public interest?

**Comment** – Let's keep this as simple as possible. We already have the IFRS Foundation for accounting standards. One additional process for audit, ethics and education, all inexorably connected, under the oversight of the PIOB, should be enough.

**Question 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?

**Comment** – Yes. The members of the MG provide background insight and personal experience in dealing with international financial-related matters that add to the protection of the public interest. It may be that a reorganized system developed under this current review will yield a process that over time indicates that another layer of oversight over the PIOB is no longer necessary.

**Question 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?

**Comment** – Yes, but with a clear caveat that it is critical for the expanded professional staff to have the right skills. It is possible that a combination of permanent and seconded people might ensure that the staff is sufficiently current on the issues at hand when formulating standards.

I believe this approach enhances the likelihood that the development of new or revised standards can be accelerated. Done right, I don't expect that this approach necessarily needs to cost more than the current process, with all factors included. The specific skills needed will be tailored to the business agendas of the board(s). In addition, and importantly, employing professional staff has the potential to provide continuity and institutional knowledge in contrast with a revolving door of volunteer professionals.

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

**Comment** – Yes. The board has to be responsible for developing new and revised standards, and it must be held accountable for its actions. It can only do this by being responsible for the work of the permanent staff.

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

**Comment** – I have no other suggestions.

**Question 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 (eg independent approval of the budget by the PIOB, providing the funds to a separate foundation or the PIOB which would distribute the funds)?

**Comment** – Yes. As stated in the MG report, there only appears to be perceptions that the current process is not independent enough with the current funding model. Unless there is something more

evident than perceptions, minor tweaks to the current process should be adequate to demonstrate independence. At the same time, all funding options should be considered to determine if an expanded and more independent funding model can be negotiated.

**Question 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 opt for in the paper, and if so what are they?

**Comment** – Qualified Yes. Many of the audit regulatory bodies are funded by levies on the profession and/or listed companies. This approach seems to work well and likely could be replicated in an appropriate way to fund the PIOB and the board(s).

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

**Comment** – Are there leading practices utilized by the IFRS Foundation to fund and manage its operations, in the public interest, that might serve as good examples to be considered for audit, ethics and education standards? It would be good for the profession if all of the standards-setting activities were under one oversight organization.

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

**Comment** - The Monitoring Group has indicated that a series of roundtables will be conducted to gather stakeholder feedback. With the acknowledged lack of a definition of public interest, these roundtables should go beyond the current focus on public companies. There are other stakeholders beyond the public company realm that use the standards. It is important that they have a voice in the changes being made to the standard-setting process.