

# Monitoring Group Report: Strengthening the International Audit and Ethics Standard-Setting System

By Eric Turner, CPA



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In July 2020, the Monitoring Group issued a paper ([https://www.iosco.org/about/monitoring\\_group/pdf/2020-07-MG-Paper-Strengthening-The-International-Audit-And-Ethics-Standard-Setting-System.pdf](https://www.iosco.org/about/monitoring_group/pdf/2020-07-MG-Paper-Strengthening-The-International-Audit-And-Ethics-Standard-Setting-System.pdf)) containing reforms for strengthening the international audit and ethics standard-setting system.

Canada's Auditing and Assurance Standards Board (AASB) adopts international auditing standards. The CPA profession also monitors and responds to developments in international ethics standards. What does this mean for the Canadian standard-setting process? This blog explores the reforms and their potential implications.

The Monitoring Group comprises international financial regulators such as the World Bank Group and the Financial Stability Board. The Monitoring Group's mission is to promote high-quality international audit and assurance, ethical, and educational standards for accountants. Its paper is the culmination of a process that began in 2015 to respond to concerns raised about the independence of the standard-setting process. The concerns stemmed from perceptions that the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) were dominated by accountants and auditors and heavily influenced by the International Federation of Accountants (IFAC), which funds the operations of the boards and provides other resources. A public consultation began in 2017 and received 179 responses.

The reforms described in the paper focus on achieving an independent and inclusive, multi-stakeholder standard-setting structure. The structure is designed to reinforce the public interest and foster timely, high-quality standards that respond to an accelerating pace of change.

## The Reforms in a Nutshell

Key reforms outlined in the paper will affect the IAASB, IESBA and the Public Interest Oversight Board (PIOB), which oversees the boards' work, by requiring:

- multi-stakeholder representation on the IAASB, IESBA and the PIOB, and enhanced PIOB transparency;
- new nominations arrangements for IAASB and IESBA;
- a public interest framework, which acknowledges, amongst other elements, the importance of scalability, operability, usability and readability of the standards;
- the formation (or reformation as the case may be) of stakeholder advisory councils reflecting diverse stakeholders including national standards setters; and
- further clarity around the oversight responsibilities of the PIOB versus the boards' responsibilities.

## **Reform Deep Dive**

### *Scope of standard setting*

The IAASB will continue to be responsible for setting audit, review, other assurance and related services, and quality control standards. The IESBA will continue to be responsible for setting international ethics standards for professional accountants, including auditor independence requirements.

The approach will balance priorities, including those of smaller and medium-sized enterprises, in a way that serves the public interest.

The two boards will also continue their coordination efforts to enable each to work more closely on key projects that impact their respective mandates.

### *A new legal structure*

The standard-setting boards are to be housed in a separate legal entity outside of and independent from IFAC.

### *Board members and staff*

Each board will be reduced from 18 to 16 members – a full-time, independent chair, one part-time vice-chair and 14 part-time members. Currently, only the chair is remunerated. Under the new system, all members will be remunerated.

The multi-stakeholder boards will be selected from diverse stakeholder groups including:

- investors and other users of the financial statements;
- accountants;
- regulatory members (including national standard setters);
- audit committee members;
- academics in the field of accounting or auditing; and
- audit practitioners.

Each board will have a maximum of five audit practitioners (down from nine), including those from large firms, small firms and public sector organizations.

The technical staff will be expanded and enhanced, with the capability to take forward the development of standards. This may lead to removing existing reliance on technical advisors to support individual board members and allow board members to adopt a more strategic focus in their deliberations.

The boards will have access to stakeholder advisory councils reflecting diverse stakeholders including national standard setters. As standard-related needs arise, the boards will have flexibility to appoint ad-hoc advisory groups.

#### *IFAC's role*

IFAC will maintain its role in promoting global adoption, convergence, education, implementation and compliance. This will ensure that professional accountancy organizations comply with their membership obligations, advocacy, non-authoritative guidance, sharing of best practices, surveying for implementation challenges, and building capacity of professional accountancy organizations.

#### *Reactions of the board chairs*

In a joint press release (<http://www.iaasb.org/news-events/2020-07/international-audit-and-ethics-standards-boards-embrace-conclusion-monitoring-group-review-and-0>), the chairs of the IAASB and IESBA indicated they are broadly on board with the reforms. "The Monitoring Group's conclusions highlight the importance of high-quality international standards, set by independent and technically expert bodies with effective oversight," said IAASB Chairman Tom Seidenstein. "We support change that can advance our ability to deliver enhanced standards in the public interest."

#### *Implications for Canada*

##### *Our influence*

The ability to influence is critical to Canada being assured that the audit and ethics standards the profession uses meet the needs of Canadian stakeholders and are globally accepted. Although having a seat on the IAASB and IESBA boards has never been guaranteed, Canada has a strong history of involvement that has benefited the quality of international standard setting and supported the adoption of international standards in Canada.

Not having a seat on these boards would reduce the ability for the Canadian voice to be heard. So it will be important to evaluate whether and how the AASB and the CPA profession can continue to maintain that influence.

Important in this evaluation will be considering how the opportunities to be at the international standard-setting table are affected by the changes to the number of members and composition

of the boards. There appear to be some pluses and minuses that this evaluation will need to consider.

On the one hand, the reduction in the size of the boards means there may be increased competition for spots. On the other hand, the change in composition of the boards – specifically, less emphasis on practitioners – may open up opportunities for national standard setters such as Canada. And it is noteworthy that national standard setters are specifically identified as an important constituent not only in terms of the multi-stakeholder boards but also on the stakeholder advisory councils.

#### *Standard-setting model*

Another consideration is whether the international reforms should flow over into Canada's approach to standard setting. There are currently a lot of similarities between the Canadian model and the international model. For example, CPA Canada is heavily involved in supporting the setting of Canadian auditing and ethics standards, and its oversight bodies, (AASOC and its accounting standards equivalent, the Accounting Standards Oversight Council, AcSOC) have similar mandates to the PIOB.

Our model applies not only to audit and ethics standards, but also to the setting of accounting and public sector accounting standards. The composition of its boards, the relationship between its standard-setting boards and CPA Canada, staffing and the oversight of the boards may all need to be considered in relation to the new international model.

#### *Responding to the public interest*

It will also be interesting to examine how the IAASB and IESBA implement the new public interest framework into their activities and whether such a framework, or some of its elements, has merit in a Canadian context. For example, perhaps the AASB and the Auditing and Assurance Standards Oversight Council (AASOC) will see improvements that can be made to how it develops public interest views on the AASB's standard-setting activities.

#### *What's next?*

The Monitoring Group wants to see a timely implementation of its recommendations. It plans to leverage the support of IFAC and the PIOB, along with input from the boards, in developing a transition plan within nine months (i.e., by April 2021). The Monitoring Group anticipates the reforms will result in an increase in cost associated with international audit-related standard setting due mainly to expanded technical staff and remuneration of the boards' members. The estimation of funds for the revised structure will be developed as a component of transition. Implementation of the transition plan should be completed in three years. Therefore, transition to the new international system will be a measured rather than "big bang" approach. So there is time to carefully consider the implications for Canada.

The Monitoring Group will perform an effectiveness review of these recommended reforms within five years of their implementation.

*In my view...*

The Monitoring Group reforms have retained many of the critical elements of the international standard-setting process that have served the IAASB and IESBA well for many years. There are, however, some key changes with longer-term implications.

Canada cannot ignore the changes in the context of its role in international standard setting, and not just from the perspective of auditing and ethics standards.

In my view, it will be an important continuous improvement initiative to evaluate the Monitoring Group reforms in a Canadian context so that our standard setting continues to maintain its globally respected capability. I imagine the AASB and CPA Canada will be watching closely!

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