November 28, 2016

Mr. Eddy Wymeersch, Chair
Public Interest Oversight Board
C/ Oquendo, 12
28006 – Madrid, Spain

Dear Mr. Wymeersch:

We are pleased to provide our response to the 2017-2019 PIOB Strategy Consultation Paper.

The Auditing and Assurance Standards Board (AASB) establishes standards for assurance and related services engagements. The AASB contributes to the development of International Standards on Auditing (ISAs), which it adopts as Canadian Auditing Standards (CASs), by participating in consultations and activities of the International Auditing and Assurance Standards Board (IAASB) to ensure that auditing needs particular to the Canadian environment are considered.

We have chosen to answer only some questions asked in the Consultation Paper. Our responses are provided in the Appendix to this letter. We have not responded to all of the questions, as some topics are either beyond the scope of our mandate, or we did not have any specific views to share with you.

We would be pleased to elaborate on our comments if you require. If so, please contact me or, alternatively, Eric Turner, Director, Auditing and Assurance Standards (+1 416 204 3240 or email eturner@cpacanada.ca).

Yours truly

Darrell Jensen, FCPA, FCA
Chair, Auditing and Assurance Standards Board

Cc: Ms. Stephenie Fox, Vice President, Standards
Q1. Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?

The AASB believes that the international standard-setting process, which includes oversight by the PIOB, is a robust process. Public interest is appropriately considered throughout the process, through the involvement of the Consultative Advisory Groups (CAG) and the Monitoring Group, thoughtful consideration of response letters, including those from members of the Monitoring Group, and inclusion of public members on the standard-setting boards. As a result of such rigorous process, the International Standards are high-quality, and well-respected globally.

We are supportive of a periodic review of the process followed to identify potential improvements. However, we understand that IFAC and the Monitoring Group are currently considering reforms to the international standard-setting process. We think that the PIOB should consider its strategy in light of these reform considerations.

Q2. In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?

One aspect of a robust standard-setting process is that it is open and consultative, engaging with a variety of stakeholders, including investors and regulators. We note that investors and regulators are represented in the standard setting process, through membership on the Monitoring Group, the PIOB and the CAGs. Response letters from certain investor and regulator groups are given appropriate consideration by the IAASB. The IAASB, as well as the Canadian AASB, conducts outreach as a standard is being developed. Investors could be better represented in Canadian outreach sessions. This likely applies to other jurisdictions as well.

We note that the membership discussion in the appendix of the paper does not mention the public sector. With an increased focus on regulators and investors, the unique issues in the not-for-profit and government sectors may not be given due consideration. According to the SSB definitions on page 24, it is not clear if the legislative audit community and offices are considered “practitioners” from audit firms or “non-practitioners”. From an international perspective, this important group of external auditors could be overlooked in both categories even though the size and extent of entities they audit is extensive. We recommend that this be clarified in the terms to ensure there is adequate representation from this group.
Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?

Public members may have different perspectives than those of the accounting profession. However, at the same time, we believe that members from within the accounting profession also bring different perspectives based on their experiences. Our experience at the AASB and our observation from our oversight body is that members from the profession have a variety of backgrounds and bring different views to the table. In addition, the public interest is viewed from an overarching perspective by the oversight body. We believe that the current structure in place appropriately addresses public interest issues.

Q6. Did you come across cases where auditing, ethics and education standards did not adequately respond to your public interest concerns?

We believe it is important that International Standards on Auditing can be applied efficiently and effectively by all auditors and audit firms and for audits of all sizes of entities. The IAASB recognizes that there may be different public interest issues between listed and non-listed entities and has set different requirements in various places throughout the ISAs on this basis. However, such a distinction in the standards is not necessarily sufficient to fully address scalability issues. For example, in Canada there are many smaller listed entities, and many of these may be audited by smaller audit firms. If standards requirements are not appropriately scalable, it can create market inequities that may not be in the public interest.

We believe that there is a need to consider whether the current representation of the small and medium-sized practices community on the IAASB is appropriate to address scalability issues perceived to exist in the current ISAs.

Q7. Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and/or task forces?

The AASB is not supportive of the PIOB being involved at an earlier stage by overseeing working groups and/or task forces. We note that working groups/task forces do not make binding decisions. It is important, in our view, for technical work to be conducted in a manner that allows open and wide-ranging discussions. There is a possibility that PIOB involvement in overseeing this work could distract working groups/task forces from appropriate consideration of all alternatives. PIOB involvement may have an unintended consequence of diminishing perceived freedom to express varying views. Further, as the IAASB makes final decisions based on its broader mandate to act in the public interest, we believe that PIOB oversight at that level is likely to be most effective. In addition, such involvement by the PIOB
would require a significant amount of resources. It may be more beneficial to invest elsewhere in the standard-setting process.

Q9. Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?

We are not sure that arbitrarily shortening the length of time to develop a standard is in the public interest. We recognize that the standard setting boards need to respond to public interest issues. However, the response must be of high quality to be in the public interest. There is a risk that quality could be sacrificed for speed. Also, when there is pressure to complete a project on an unrealistically short timeline, there is a risk that options and issues may not be fully considered. Not fully considering issues and options could negatively affect implementation and execution, which could pose an audit quality risk. With that being said, there could be opportunities to explore other models whereby solutions to address the highest needs are dealt with more quickly, while longer-term projects address broader or all-encompassing matters.

Regardless of the approach, enough time needs to be built into the process to allow national standard setters, such as ourselves, sufficient time to consider the proposals. We are required to translate exposure drafts and other documents into French. We need a reasonable amount of lead time to complete translation and to consult with our stakeholders. The input we receive from our stakeholders informs our response to the IAASB. We also require sufficient time to consider responses and develop a thoughtful and complete response. If the IAASB shortens the length of time allowed to respond to a proposed standard, the quality and robustness of national standard setters’ input may be reduced.

We also note that time is required for national standard setters to develop training and implementation guidance prior to the effective date of final standards.

As part of our Strategic Plan for 2016-2021, we are committed to continuous improvement of our own standard setting processes. Therefore, as an adopter of international standards, we are supportive of efforts to make standard setting more efficient.