

Conclusions from the Public Interest Workshop September 11, 2014

This paper summarizes the views that followed discussions between the participants of the Public Interest Workshop held in New York on September 11, 2014, and identifies the various views raised regarding the challenges faced by the profession and the role of the CAGs in the standard-setting model.

1- Session 1

Questions

- What more should the accountancy profession be doing to serve the public interest? How can the public interest awareness of audit professionals be enhanced?
- What barriers do auditors and accountants face to acting in the public interest? How can auditors bring public interest concerns to the attention of their clients?
- What contribution can international standards make to encourage auditors and accountants to act in the public interest?

In general, there was a vigorous and rich debate at all round tables and some common themes came up in the different tables: these include, in the long run, the importance of education to instill the principle of protection of the public interest in auditors and accountants; in the short run, the need to increase the awareness within the accounting profession of its public interest dimensions through stricter exercise of professional skepticism, improved tone at the top, or through other elements in the financial reporting supply chain; and the need for better communications to try to close the expectation gap.

Main ideas discussed during Session 1

1. Increasing awareness within the audit profession of its Public Interest dimension

Increased awareness could be achieved by the combination of:

- Professional Skepticism, as a state of the mind and attitude, should govern the performance of auditors, and inspire the attitude of other accountants, e.g., accountants in business. When accountants (practitioners, non-practitioners, accountants in business) do not display proper professional skepticism it is recognized as a barrier to effective performance
- Tone at the top: Audit firms need to evolve from emphasizing only the technical competence to stressing the duty of the profession to the public interest. This may come with a need to changing the mindset of the audit profession.

- Financial Reporting Supply Chain: Auditors are one link in the financial reporting supply chain, and it is recognized that the other links in the chain (e.g. preparers, etc.) would also need to be reminded of their roles and responsibilities in acting in an ethical manner.
- Audit Quality results from ethical values, commitment to the public interest, and due compliance with requirements in professional standards. There was agreement that quality across the profession is a current issue. It was suggested firms may not have done enough despite progress, and that auditors have not realized that the profession is being questioned after the global financial crisis (GFC). A behavioral change is needed in the profession. Against this background, the drive to lower audit fees was also suggested as one cause of lower quality work.

Follow up:

- The PIOB will transmit these comments to the IAASB with a view to contribute to the Board's ongoing efforts in developing an Audit Quality framework and as input to their planned review of the Audit Quality standard.
- The PIOB will transmit the emerging views to relevant IFAC governance bodies and the Monitoring Group.

2. Importance of Education

The importance of accountants' and auditors' education as a means to increase the public interest awareness of accountants was discussed in three of the round tables:

- Including the principle of "Public Interest" as a fundamental principle in the education of accountants and auditors: education is core in developing a healthy accounting profession.
- High-quality education is a condition for an effective and high-quality performance of accountants and auditors. This would apply to both initial professional education and continuing professional education for accountants and auditors.
- The notion of public interest and the public interest implications derived from the work of accountants and auditors need to be also emphasized at the practical training stage.
- Even though changing mindsets is a long-term process, it is a critical measure to enhance audit quality in the long run.

Follow up:

Based on the earlier letter sent by the PIOB to IFAC regarding its concerns about stripping the IAESB of the benefits of public interest input, formulate and transmit these comments to IFAC and IAESB with a view to enhance public interest content in education standards, focusing on enhancing the skills set of auditors in financial institutions and the stress on ethics in the current body of education standards.

3. Governance aspects of audit related to the protection of the Public Interest

It was recognized that protection of the public interest affects auditors, but also other elements of the financial reporting supply. In particular, two aspects related to governance were highlighted:

- Auditors should focus better on the fact their clients are the shareholders as well as the public at large, and not management. This will help auditors serve the public interest better.
- Auditors should report substantial public interest matters that they have identified, e.g., to management and/or the audit committee; and those which may materially affect the financial statements also in their audit report.
- Global adoption of the international auditing standards is needed. These standards should be responsive to what the public at large and investors need. To be really effective, the standard setters should be taking a leading role and make clear their strategic positioning. Standard setters should question themselves whether their response to the public interest is sufficient, and whether it would help restore the public trust in the profession.

Follow up:

The PIOB will transmit these comments to the IAASB and the IESBA with a view to contribute to the IAASB's ongoing efforts in improving Audit Quality and to stimulate the IAASB's and the IESBA's thinking regarding the role of the Audit Committee and its treatment in the current body of standards.

4. Enhanced Communications and the Expectations Gap

The importance of better communications and how to deal with the expectations gap was also a common theme in the workshop.

- Many people are not aware of the structure of the standard-setting model and of the role played by the SSBs, IFAC and the PIOB within that structure. A clear explanation of the existing structure including roles and responsibilities would be very useful.
- Different stakeholders have different expectations regarding the standard setting process. It is not always clear whether problems are caused by flaws in standards or by an inadequate implementation or enforcement of standards. The communication aspect was highlighted.
- It was noted that auditors are sometimes singled out when there are other players - before and after auditors come into play- in the financial reporting chain. There are questions around the adequacy of the financial reporting model too, which inevitably have an impact on the performance of the auditor, and where public voicing of concerns by the audit profession may help managing the audit expectation gap. There was a suggestion that regulatory fragmentation is a barrier towards closing the expectation gap; and can adversely impact the public perception of the profession.

- It was noted that the expectation gap increases if regulators do not support the profession, and it was suggested that all parties should defend the model to increase trust where warranted.
- It was suggested that the public, sometimes for understandable reasons when confronted with the occasional mind-boggling audit failure, does not necessarily understand what audit really means. It is hard to explain that auditors do not provide absolute assurance. An outsider could find it difficult to understand what an audit actually is.

Follow up:

The MG, PIOB and IFAC have agreed to produce a succinct and easy-to-understand document for the public, outlining the different roles and responsibilities of the current standard-setting model.

5. Proactivity of the Profession and How the Audit Profession is perceived

There were mixed views about how the profession is being perceived:

- Some saw the audit profession as doing a lot although it could be more proactive in anticipating issues. On the way forward, auditors should become more pro-active, develop structures and procedures to share their important knowledge not only with their clients, but also with other key stakeholders. One could think of creating so-called early warning systems and other structures with which perceived risks can be shared with regulators and appropriate actions can be considered.
- Another thought was that auditors have acted robustly since the Global Financial Crisis and noted significant changes in the regulatory and political environments. It was suggested that not all of it is helpful and one will need to see how it plays out, especially in Europe. Auditor independence and non-audit services have been focused on. A different perspective was that there was a lot of regulatory change because the profession had not been acting pro-actively anticipating issues and so regulators needed to take over.
- The fact that a number of banks had clean auditors' reports and soon after failed has led to a loss of public trust. The view was put that high-quality performance of the profession is important, but it was also noted that the profession cannot prevent failures from time to time. It is important for the audit profession to respond to this, but not in a defensive way.

Follow up:

The PIOB will transmit views to the IAASB to explore whether the role of the audit profession with regard to the audit of financial institutions can be enhanced, for instance through better communication with supervisory authorities.

6. Increased Dialogue with Regulators

- There was consensus that as part of the way forward, auditors should maintain a dialogue with relevant stakeholders such as regulators, but also with investors. Being aware of the views from these stakeholders provides crucial information to conduct high-quality assurance and audit engagements.
- It was suggested that it is useful to raise the awareness within the profession about its impact on the public interest. Relationships between the audit profession, regulators and audit inspection bodies should be collaborative, not confrontational or finger pointing.
- It was suggested that the profession may not be aware of the fact that it is in crisis. Figures provided by audit regulators indicate that audits show signs of significant shortcomings. A more intense dialogue with regulators will help to identify the root causes of deficiencies in the audit work and to enhance the trust in the profession. There are many pressures on auditors, such as incentives and client pressure, but there need to be adequate checks and balances in the system. Strict confidentiality cannot be a principle behind which the public interest can be hidden. It was also noted that a number of reports on audit inspections are often out of date, and that sometimes issues have already been resolved when the reports are published.

Follow up:

- The PIOB will continue bringing these issues to its periodic meetings with IFAC, the MG, IFIAR and the EAIG.
- The PIOB will continue its practice to monitor comments from regulatory bodies and their treatment by SSBS, together with those of other stakeholders, and to share its relevant data base with MG members.

7. Role of the Standards to protect the Public Interest

It was recognized that the audit profession can and should do more than just follow the industry's pursuit of profit maximization. International standards can be helpful in pushing the profession towards better protecting the cause of public interest. The question was posed whether the profession has been a leader in bringing the main issues affecting the public interest to the standard-setting table.

Follow up:

The PIOB will bring this view to the next periodic meetings between the PIOB and Chairs of SSBS for discussion.

2- Session Two

Questions

- Is stakeholder input to the standard-setting process sufficiently broad and deep to enable the standard-setting boards to fully appreciate how their standards would affect the public interest? If not, what are the most significant shortcomings?
- How can the CAG model be improved to enhance the breadth and depth of stakeholder input? Is the membership in both the CAGs and the SSBs adequate to channel the public interest? Are there any gaps that need filling, e.g., investors?
- Are the CAGs effective contributors in the standard-setting process? What other steps might be taken to obtain more stakeholder input to the standard-setting process?
- Is the presence and input of a member of the PIOB at the meeting of the CAGs and/or SSBs helpful in ensuring that the public interest is being served in the elaboration of international standards? What can the PIOB do better in serving the public interest in the standard setting process? How can the PIOB's role at CAG and SSB and other meetings be improved?

Main ideas discussed during Session 2

1. Adequacy of current model to ensure public interest responsiveness

All roundtables agreed that progress has been made during the last 10 years, that the interaction between SSBs and CAGs allows arguments to be heard and that explanations are being offered by the SSBs, but raised some issues regarding participation of stakeholders and membership:

2. Improvements to the current process

Some suggestions were made to enhance current processes, especially regarding issues of stakeholder representation in the CAGS (investors and audit supervisors):

-Cooperation with stakeholders within the current structure should be enhanced. A weakness identified by many was that the voice of investors is too timid. Efforts should be made to align investors more into the standard-setting process, e.g. investor advisory group at PCAOB. Audit supervisors (IFIAR, EAIG) could also play their role in the standard-setting process by contributing to the improvement of the standards through their comments or participation in the CAG's.

-It was recognized that representation of stakeholders in the CAG's of IESBA and IAESB was not satisfactory so further efforts are required to strengthen these. Closer cooperation with IASB was also suggested.

-There was a discussion about comment letters, and it was noted that often MG members are unhappy about the outcome of the product because their comments do not appear as they were made in the final standard. There was some discussion of the "weighting" of comments and feedback to MG members if comments are not included. It was suggested that there seems to be a lack of confidence by MG members that their comments were fully understood.

-With regard to tools to collect input, it was mentioned that round tables could prove to be very useful. Furthermore, it was mentioned that a lot of questions in the Exposure Drafts could hamper effective responses from stakeholders; it was suggested to 'allocate' questions to certain groups of stakeholders, such as investors or audit committee members. Questions about technical aspects of the standard could be addressed by practitioners or regulators, for example.

-More interaction of the CAG with the Task Forces is needed, especially if strong differences of opinion exist, as this may affect the public interest and weaken due process.

-The concentration of meetings in NYC is being increasingly questioned. It was suggested to try to meet more globally.

-The usefulness of Public Members in SSBs was also discussed. Regarding the proportion of Public Members, there was a question as to whether a 50/50 split is sufficient. Should there be more public members? Are the checks and balances appropriate? There was discussion about whether public members (ideally, those who are not members of the profession) can adequately participate or whether practitioners are better equipped?

-The influence of the Technical Assistants was considered, in particular, that they may effectively upset the 50/50 balance as they "hold the pen".

Follow up:

-The PIOB will follow through with CAG Chairs regarding the possibility that Investor Groups and Audit Supervisors join the CAGs.

-The PIOB will continue discussing with IFAC the composition of the SSBs and will continue to carefully monitor the treatment of comments by MG members by the SSBs. The other observations need further discussion and addressing

3. Participation and Membership

Participants were of the view that broader participation in the CAGs was desirable:

-It was pointed out that higher representation for non-Anglo-American participants was necessary. Once more, it was suggested that investor groups need to be represented in the CAGs since they are important stakeholders.

-Need to do outreach in the different jurisdictions to clear the concern over having the right people on board. The extent to which a CAG chair could actively canvass to get wider participation on the CAG was unclear. The issue needed to be clarified.

-It was suggested that there should be an induction process when the CAG takes on new members.

4. Role of the PIOB

There was general agreement that the PIOB contribution was "very valuable", that the audience is relatively happy and there is an increasing impact. A number of useful suggestions were however made by discussants:

-PIOB contribution varies according to individual members, and the PIOB's role is not clear. SSBs and CAGs expect the PIOB observer to listen and participate during discussions. A crucial role of the PIOB is to stimulate balanced discussions at both SSBs and CAGs. It was suggested that PIOB members may act as a sounding board for clarifying issues, by way of interaction with the chair, with CAG members or interventions in the meeting. Active participation in that sense is valued. If matters of grave concern are discussed, a public interest statement would be necessary.

-It was agreed that PIOB representatives should participate more actively in the meetings especially of the CAGs. It was felt that such participation would be more beneficial than a mere statement at the end of the meeting. Only one participant felt that the PIOB should only deal with the process and not with the content of the standards. PIOB members should be encouraged to speak and contribute to the CAG as a member of the CAG. This would encourage stronger debate and should be formalized.

-Both SSBs and CAGs prefer consistency and continuity from PIOB members as observers. Continuity in observations is desirable because otherwise subtleties escape; but can it be achieved.

-PIOB member's observations should reflect the PIOB's stance to the topic at hand rather than the member's personal opinion.

-It was suggested that it would be useful for the PIOB member to give feedback to the CAG, to check that the issue was heading in the right direction in the public interest.

Follow up:

The PIOB will consider these suggestions for improvement of its role in a strategic review in the coming months.

Appendix 1 – Final list of participants (43)

CAG Members

Matthew Waldron
Irina Lopez
Vania Borgerth
Marie Lang
Myles Thompson
Nigel James
Hilde Blomme
Anne Molyneux
Keith Bowman
Pam O’Connell
Uchino Hayanari
Jim Dalkin

PIOB

Eddy Wymeersch – PIOB Chair
PIOB Members:
Nic Van der Ende
Chandu Bhav
Jane Diplock
Maria Helena Pettersson
Karel Van Hulle
Michael Holm
Jules Muis
Chuck Hortsmann
Gonzalo Ramos – PIOB Secretary General
Susana Novoa – Director of Oversight
Claudia Deodati – Oversight Advisor

CAG/SSB Chairs

Linda de Beer – IAASB CAG
Arnold Schilder – IAASB
Kristian Koktvedgaard – IESBA CAG
Wui San Kwok – IESBA
Aileen Pierce – IAESB CAG

IFAC

Warren Allen – IFAC President
Olivia Kirtley - IFAC Deputy President
Fayez Choudhury – IFAC CEO
Russell Guthrie - Chief Financial Officer,
Executive Director, Professional
Relations
Gary Pflugrath - Director, Public Policy
& Regulation
Ken Siong - IESBA Technical Director
James Gunn - Managing Director,
Professional Standards

MG

Cameron McInnis - IOSCO
Richard Thorpe - FSB
Jonatan Bravo - IOSCO
Nathalie Berger - EC
Janine Van Diggelen – IFIAR

OTHER

Noémi Robert - Fédération des Experts
Comptables Européens
Muneer Hassan - South African Institute
of Chartered Accountants

