Auditing and Assurance
Standards Oversight Council

AASOC

CSNAC

Conseil de surveillance
de la normalisation
en audit et certification

What the Public Interest Means to AASOC

August 2016

The Terms of Reference of the Auditing and Assurance Standards Oversight Council (AASOC) state that its mission is "to serve the public interest by overseeing and providing input to the development of auditing, assurance and independence standards in Canada." The mission statement goes further to say that "it is in the public interest that stakeholders in an entity have confidence in both the quality of such standards as well as the credibility of the process by which those standards are set."

This paper is intended to expand upon what the "public interest" means to us to fulfil our responsibility to be satisfied that the standard-setting process is appropriate and responsive to the public interest. The paper was prepared as a series of considerations in lieu of a short definition.

Context

While the protection of the public interest permeates all of our activities,[1] the public interest and how it might be served needs to be considered and applied appropriately to each particular situation. In some cases, the consideration is straightforward; in others there are considerable complexities and trade-offs, requiring a more thorough analysis.

1 The details of AASOC's oversight responsibilities and work plan are set out elsewhere. Due process, documented in the AASOC Oversight Framework and Operating Plan, provides the public with a concise blueprint of how AASOC exercises its authority.

Who Are AASOC's Public?

To provide a structure to our consideration of the "public", a stakeholder approach was adopted.

Fostering trust, economic growth and long-term financial stability are of immense importance to the public at large. This makes the public at large, even those who do not invest in capital markets, a stakeholder in our work. The broader public, including those who do not invest in stocks and bonds of individual companies, are also often stakeholders through investment funds, pension plans and as taxpayers.

Present and potential investors, financial institutions and other creditors of private entities and public institutions, including government related bodies and not-for-profit organizations, have a prominence as stakeholders in our considerations. In short, those economic participants who entrust or consider entrusting their money to an entity.

Additional stakeholder groups that are integral to the functioning of audit and assurance services in Canada, each with roles in serving and protecting the public interest, include:

- audit committees and similar bodies or persons charged with governance, including parliamentary committees;
- management and financial information preparers;
- providers of audit and assurance services; and
- various financial regulators and inspectors.

What Are the Interests of AASOC's Public?

In the context of auditing, assurance and independence standards in Canada, the interests of the public include:

- increased confidence in financial reporting throughout the financial infrastructure (for example, banking, insurance, investment firms, pension plans, etc.), including timely response to major changing economic circumstances;
- financial information that can be relied upon, based on the intended user and the audit or other level of assurance provided;
- high-quality, transparent, independent and useful audit and assurance reporting for stakeholders and all parties in the marketplace (directly or indirectly) impacted by such reporting;
- a high degree of consistency of audit and assurance services across different jurisdictions in today's global financial markets;
- high-quality standards and guidance that enable the provision of relevant, reliable and effective audit and assurance services in both the private and public sectors by practitioners who are free from inappropriate pressure, from any source;
- sound corporate governance and performance management in private and public sector organizations; and
- that the benefits related to these interests are achieved at a reasonable cost.

These interests contrast to what could be described as "self-interests".

An important aspect of our considerations is to be alert for any given activity that might be viewed as primarily protecting or serving the self-interest of one stakeholder at the expense of another. This has particular relevance given the extent of the involvement of professional accounting firms and CPA Canada in the assurance standard-setting environment in Canada.[2]

In addition to being alert for this issue, we further mitigate this concern, for example, through the composition of our membership to include direct participation by Canada's foremost financial reporting regulatory authorities.

2 For further information on CPA Canada's role in standard setting, please see www.frascanada.ca/item81662.aspx.

How Does AASOC Assess Whether an Action, Decision or Policy Is in the Public Interest?

To determine whether an action, decision, or policy was undertaken in the public interest, we assess the manner in which the action, decision, or policy was developed and would be perceived by the public, including:

- transparency;
- public accountability;
- competence;
- independence; and
- adherence to due process.

This includes both the participation of our stakeholders and an assessment as to whether there is a balanced outcome from the action, decision or policy.

Our primary role is to monitor that the Auditing and Assurance Standards Board (AASB) and the CPA Canada Independence Task Force (Independence Task Force) that we oversee undertake their deliberations in full consideration of these dimensions in order to conclude that the public interest was served.

Our members attend and observe the meetings of the AASB and the Independence Task Force as part of this monitoring role. While the discussion below was written in the context of application by the AASB and the Independence Task Force themselves, these same criteria are equally applicable to our own processes.

The standards developed by the AASB and the Independence Task Force have the force of law and are embedded in other regulatory and compliance systems. The AASB and the Independence Task Force adhere to the following qualities to meet the objective of acting in the public interest.

Transparency

Transparency is the process of making information accessible to the public. Such information includes governance processes such as rules and regulations, decision summaries from each AASB meeting and, for new and revised AASB standards, a Basis of Conclusions that indicates how decisions were reached and public comments responded to.

Public Accountability

Public accountability refers to processes designed to ensure that obligations to stakeholders are met.

Competence

We should ensure that the AASB and the Independence Task Force have the capability, in terms of appropriate, competent and knowledgeable personnel resources, to ensure that their missions and objectives can be achieved.[3]

Independence

We should expect that members of the AASB and the Independence Task Force have an objective frame of mind and are independent from special interest groups, political pressures, and personal interests—matters that can have undue influence over responsibilities to the public. We enable and require the consideration of potential conflicts of interest and threats to independence.[4]

Establishment of, and Adherence to, Due Process

The establishment of, and adherence to, due process refers to the establishment of procedures of governance and operation, and the accurate, consistent observance of them.

This should not lead to a "checklist" mentality, but rather should prompt a due regard for the public interest throughout the process. This includes the processes to foster engagement and participation by a wide range of stakeholders who could fairly be considered to represent the public interest on the relevant issues.[5] This also includes active solicitation of feedback, where appropriate. Feedback received is weighted based on the merit of the ideas presented rather than the volume of comments received.

Analyzing and Balancing of Potential Outcomes

One aspect of due process is the consideration of the public interest in terms of analyzing negative and positive potential outcomes for the stakeholders. This assessment is undertaken by the AASB and the Independence Task Force and is overseen by us. This analysis is the process of evaluating both short- and long-term outcomes of a particular action, decision or policy. There is both a quantitative and qualitative aspect of this assessment.

Qualitatively, potential outcomes are evaluated in terms of opinions and judgments (for example, better decision-making information in an audit report). These are often collected through public consultation, interviews, or surveys.

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3 Note that we have the responsibility to appoint the members of AASB, including the Chair and Vice Chair. With respect to AASOC itself, see our Terms of Reference that addresses the breadth of experience sought in our member selection process.

4 With respect to AASOC itself, see also our Terms of Reference, which specifies that the majority of our voting members shall not be audit practitioners.

5 Where an auditing, assurance or independence standard was developed at the international level, the relevant standard setting boards will have monitored the due process and consideration of the public interest by organizations such as the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA) and the Public Interest Oversight Board (PIOB).

Quantitatively, potential outcomes may be evaluated in numerical terms (for example, an increase or decrease in audit effort or management costs related to a change in standards). Within a broader context, this also takes into account efforts to enhance the value and relevance of auditing and assurance services.

A balancing of potential outcomes, including the synthesis of qualitative and quantitative aspects, can be a significant undertaking in terms of time and resources. We, along with the AASB and the Independence Task Force, will be alert for situations where the nature or significance of a potential negative outcome can never be brought to balance by the positives, on an overall basis.

Given the subjective nature of auditing, assurance and independence standards, an over emphasis on the quantitative side may lead towards a sense of false precision. Outcomes analyses should be undertaken in a manner proportional to the importance of the matter under consideration. As the significance of an action or decision (and the associated implications for the public interest) becomes greater, so too should be the analysis of potential outcomes described above. For less significant activities, potential outcomes may be analyzed using a less formal approach in assessing the "pros and cons".

The qualities outlined above also evolve over time as we, along with the AASB and the Independence Task Force, continue to gain experience and observe the best practices in analogous situations.

Judgment Call

Ultimately, the consideration of whether a particular activity is in the public interest requires the exercise of professional judgment.

Often there are one or two elements within an auditing, assurance or independence standard that have particular public interest resonance. Our oversight focuses on those elements.

There will be situations where different stakeholders can make credible and viable arguments that their opposing proposals for an action or a standard are in the public interest. As such, different stakeholders may have opposing views as to whether a proposal is in the public interest or not, or the relative importance of any given action or standard. Our role is to oversee and challenge the balancing of these different interests and difficult judgments.

The exercise of professional judgment includes that we stand back from the full suite of criteria described above (i.e., transparency, public accountability, competence, independence, due process and balancing of potential outcomes) to consider whether the final result is in the public interest.

If we had concerns that the public interest was not being served, it would normally be expected that the issues would be identified during the course of overseeing the processes and would be dealt with by timely interaction. For example, we might ask for more information as to how a position was reached or ask the standard setters to specifically contact certain stakeholder groups.

At the conclusion of our deliberations, we will be in a position to express our view that a new or revised standard or action, including a decision to eliminate a standard, was developed in accordance with due process and with proper regard for the public interest.

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