Public Interest Oversight Board

FINANCIAL STATEMENTS 31 DECEMBER 2011

CONTINUITY AND CHANGE

BDO

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Independent auditor's report on financial statements

To the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the Bank for International Settlements (BIS):

We have audited the accompanying financial statements of the **Fundación Public Interest Oversight Board** (hereafter "PIOB" or "the Foundation") which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and cash flow statement for the year ended 31 December 2011, and a summary of significant accounting policies and other explanatory notes.

Board of Trustees' Responsibility for the Financial Statements

The Board of Trustees is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Fundación Public Interest Oversight Board** as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Auditores, S.L.

Peter D. Cook
Partner

Madrid 1 March 2012

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011 (in Euros)

	2011	2010
REVENUE		
IFAC Funding (note 2, 15)	1,118,420	1,088,691
EC Funding (note 2, 15)	284,000	286,231
Ordinary exchange gains (note 2)	-	-
TOTAL REVENUE	**1,402,420**	**1,374,922**
EXPENSES		
Employee costs (note 7)	564,467	542,457
Travel and meeting costs	245,455	246,608
Technical Committee stipends (note 8)	282,000	293,250
Annual report	7,935	8,978
Occupancy (notes 5 and 14)	52,411	42,742
Recruitment costs	-	-
Telephone	11,497	19,392
Legal and other professional fees	76,583	69,964
Auditor remuneration (note 16)	10,298	5,358
Depreciation and amortization (note 2 and 10)	9,283	8,520
IT Support	33,075	34,532
Ordinary exchange losses (note 2)	2,608	3,150
Other expenses	21,322	29,472
TOTAL EXPENSES	**1,316,934**	**1,304,423**
INCOME BEFORE TAX	**85,486**	**70,499**
Taxation (note 2)	-	-
INCOME AFTER TAX	**85,486**	**70,499**
COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	**85,486**	**70,499**

STATEMENT OF FINANCIAL POSITION

at 31 December 2011 (in Euros)

	2011	2010
ASSETS		
Current Assets		
Cash (note 9)	527,313	484,744
Accounts Receivable	326,251	235,061
Prepaid Expenses	5,003	3,696
TOTAL CURRENT ASSETS	**858,567**	**723,501**
Capital Assets (note 10)	25,255	26,873
TOTAL ASSETS	**883,822**	**750,374**
LIABILITIES		
Current Liabilities		
Accounts Payable (note 4)	86,500	51,450
Accrued Liabilities (note 5)	150,783	137,870
Revenue received in advance (note 11)	300,000	300,000
TOTAL LIABILITIES	**537,283**	**489,320**
EQUITY		
Comprehensive income for the year net of tax	85,486	70,499
Endowment funds (note 13)	30,000	30,000
Other Reserves	231,054	160,555
TOTAL EQUITY	**346,539**	**261,054**
TOTAL LIABILITIES AND EQUITY	**883,822**	**750,374**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011 (in Euros)

	COMPREHENSIVE INCOME	OTHER RESERVES	ENDOWMENT FUNDS	2011 TOTAL	2010 TOTAL
Balance, beginning of year	-	231,054	30,000	261,054	190,555
Additions	85,486	-	-	85,486	70,499
BALANCE, END OF YEAR	**85,486**	**231,054**	**30,000**	**346,540**	**261,054**

CASH FLOW STATEMENT

for the year ended 31 December 2011 (in Euros)

	2011	2010
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)	85,486	70,499
Non-cash items		
Depreciation of capital assets	9,283	8,520
Decrease (increase) in working capital items (note 6)	(44,534)	14,826
NET CASH GENERATED	**50,235**	**93,845**
INVESTING ACTIVITIES		
Capital expenditures	(7,666)	(18,383)
NET CASH USED	**(7,666)**	**(18,383)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**42,569**	**75,462**
Cash and cash equivalents, beginning of year	484,744	409,282
CASH AND CASH EQUIVALENTS, END OF YEAR	**527,313**	**484,744**
CASH AND CASH EQUIVALENTS		
Cash	527,313	484,744
TOTAL CASH AND CASH EQUIVALENTS	**527,313**	**484,744**

Notes to the Financial Statements

1 Fundación Public Interest Oversight Board

The Fundación Consejo Internacional de Supervisión Pública en Estándares de Auditoría, Ética Profesional y Materias Relacionadas ("the Foundation") was constituted on 15 December 2005 under "Ley 50/2002, de 27 de diciembre, de Fundaciones", the Spanish law for not-for-profit foundations. Its legal founders were the International Organisation of Securities Commissions, the Bank for International Settlements and the International Association of Insurance Supervisors, three international regulatory groups committed to maintaining the stability of the international financial system and operating in the international public interest.

The name of the Foundation was changed to Fundación Public Interest Oversight Board in 2011.

As described in its by-laws, the objective of the Foundation is to strengthen the international financial reporting system through overseeing the standard-setting activities of designated boards of the International Federation of Accountants ("IFAC") and undertaking any other appropriate programs and projects that will contribute to achieving its objective. The Foundation's Board of Directors is responsible for ensuring that the Foundation operates within its mandate and meets its legal and administrative obligations to the Spanish government. A Technical Committee of the Board is responsible for planning and executing the Foundation's oversight program and related activities. Support for the Board of Directors and the Technical Committee is provided by the Foundation's Secretariat based in Madrid, Spain.

In addition to its local regulatory responsibilities, the Foundation is operationally and financially accountable to the Monitoring Group. This forum of international regulators and other public interest bodies, including two of the Foundation's founding organizations, monitors the progress of a 2003 program of IFAC reforms in which the Foundation's Technical Committee performs a key public oversight role. The Monitoring Group also approves the Foundation's annual budget

2 Accounting policies

Financial statements

The Foundation's financial statements have been prepared in accordance with International Financial Reporting Standards.

Accounting estimates

Preparation of the financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and in the notes to financial statements. These estimates and assumptions are based on management's best knowledge of existing facts and circumstances as well as any current period impact of actions that the Foundation may undertake in the future. Actual results may differ from those estimates.

The financial statements are prepared in Euros.

Measurement Base

The statements of comprehensive income, financial position, changes in equity and cash flows have been prepared on an accrual basis with all assets and liabilities valued at historical cost.

Foreign currency translation

Foreign currency transactions are accounted for in Euros and translated at the rates of exchange prevailing at the transaction date. Exchange gains or losses on subsequent settlement of related balances are recognised in the income statement when they arise.

Financial instruments denominated in foreign currencies at the balance sheet date are translated to their Euro equivalent at the prevailing foreign exchange rate. Foreign exchange differences arising on translation are recognised in the income statement.

Revenue and cost recognition

Under a revised agreement dated January 2008, the International Federation of Accountants (hereinafter "IFAC") has committed to fund the operating expenses of the Foundation to a limit of EUR 1,317,000 per year, adjusted for inflation. This replaces a previous commitment to provide up to US $1,500,000 per year, adjusted for both inflation and foreign currency exchange movements. Revenue from IFAC is recognised on an accrual basis.

In September 2009 the European Commission decided to award a grant to the Foundation for the period 2010-2013 to support the Foundation´s work programme. The European Commission shall contribute a maximum of €300.000 or a 22% of the total eligible costs of the program per year. This revenue is recognized on an accrual basis based on the total eligible costs of the program. The Monitoring Group decided in October 2010 that the funds received from the European Commission should replace IFAC´s funding.

Revenue is denominated in Euros.

Operating costs are recognised as an expense when incurred.

Cash and cash equivalents

The Foundation's policy is to present cash and temporary investments having a term of three months or less from the acquisition date as cash and cash equivalents.

Capital assets

Capital assets are recorded at cost. Any impairment in the net recoverable amount as compared to the net carrying amount is recognized immediately. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Capital assets are depreciated over their estimated useful lives according to the following methods and annual rates:

	Methods	Rates
Computer equipment		
IT Equipment and Software	Straight-line	25%
Furniture	Straight-line	20%

Cash Flow Statement

The following are definitions of the terms used in the cash flow statement:

Cash and cash equivalents comprise cash on hand, current bank balances and short term deposits that can be converted to cash within two working days.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding, and disposal of fixed assets and investments.

Taxation

On 29 March, 2006, the Spanish Parliament passed legislation (Ley 4/2006, de 29 de Marzo, de adaptación del régimen de las entidades navieras en función del tonelaje a las nuevas directrices comunitarias sobre ayudas del Estado al transporte marítimo y de modificación del régimen económico y fiscal de Canarias) to exempt the Foundation from Spanish income tax.

3 Expenses by Activity

(in Euros)	2011	2010
Board related operating costs		
Oversight Program	671,374	666,408
Communications and External Relations Program	149,496	320,291
Monitoring Group and Monitoring Group members	157,428	-
Foundation Board Meetings	122,585	107,697
Other ongoing operating costs	216,052	210,027
Total expenses	**1,316,934**	**1,304,423**

4 Accounts Payable

(in Euros)	2011	2010
Professional services	5,650	-
Taxes and Social Security	60,675	47,548
Occupancy	-	-
Other	20,175	3,902
Total Accounts Payable	**86,500**	**51,450**

5 Accrued Liabilities

(in Euros)	2011	2010
Occupancy expenses	42,000	38,000
Professional fees	17,474	26,208
Accrued stipend	5,250	-
Travel and other operating costs	86,059	73,662
Total Accrued Liabilities	**150,783**	**137,870**

6 Information Included in the Cash Flow Statement

The increases (decreases) in working capital items are detailed as follows:

(in Euros)	2011	2010
Accounts receivable	91,190	235,061
Prepaid expenses	1,307	(4,270)
Accounts payable	(35,050)	14,521
Accrued liabilities	(12,913)	(13,138)
Deferred revenue	-	(247,000)
Increases (decreases) in working capital	**44,534**	**(14,826)**

7 Employee Costs

(in Euros)	2011	2010
Gross Salaries	434,093	433,225
Spanish social security fees	35,932	35,575
Other social benefits	94,442	73,657
Total Employee Costs	**564,467**	**542,457**

8 Technical Committee Stipends

Members of the Technical Committee receive fixed annual stipends of €18,750 except for the Chairman of the Committee who receives € 112.500 in recognition of his additional leadership responsibilities. All members other than the Chairman are further entitled to variable remuneration of € 750 per day of attendance at assigned public interest meetings.

Two of these members have elected to waive both fixed and variable stipends.

9 Cash

(in Euros)	2011	2010
Cash in Euros	527,313	484,744
Total cash	**527,313**	**484,744**

There are no restrictions on the use of cash.

10 Capital Assets

(in Euros)			2011	2010
	IT equipment and software	Furniture	Total	Total
At the lower of recoverable value and cost				
Balance, beginning of year	23,391	16,432	39,823	21,440
Additions	-	7,666	7,666	18,383
Disposals	-	-	-	-
Balance, end of year	**23,391**	**24,098**	**49,489**	**39,823**
Accumulated depreciation				
Balance, beginning of year	(8,658)	(4,292)	(12,950)	(4,430)
Depreciation	(5,230)	(4,053)	(9,283)	(8,520)
Disposals	-	-	-	-
Balance, end of year	**(13,888)**	**(8,345)**	**(22,223)**	**(12,950)**
Net, end of year	**9,503**	**15,753**	**25,256**	**26,873**

11 Revenue received in advance

Revenue received in advance at 31 December 2011 of €300,000 (2010 €300,000) represents IFAC funding received in 2011 that has been designated to fund 2012 activities.

12 Endowment funds

To meet the minimum legal capital requirements established by Spanish law, the founders (see note 1) collectively provided an initial endowment of thirty thousand Euros (€30,000).

13 Board

Positions on the Board are voluntary and there is no honorarium paid for any position held. The following persons were members of the Board during the year:

Dr. Stavros Thomadakis	Chairman until 28 February 2011
Mr. Eddy Wymeersch	Chairman from 1 March 2011
Mr. Antoine Bracchi	Board member until 28 February 2011
Mr. Robert Ward	Board member from 1 March 2011
Mr. David A. Brown, Q.C.	Board member until 28 February 2011
Mr. Chandrashekhar Bhaskar Bhave	Board member from 1 March 2011
Mr. Fayezul Choudhury	Board member until 28 February 2011
Prof. Dr. Kai-Uwe Marten	Board member from 1 March 2011
Mr. Michael Hafeman	Board member
Mr. Toshiharu Kitamura	Board member
Mme. Sylvie Mathérat	Board member
The Hon. Aulana L. Peters	Board member until 28 February 2011
Sir Bryan Nicholson, GBE	Board member from 1 March 2011

14 Government Assistance

As part of the localisation agreement in Madrid, the Foundation receives the right from the Spanish authorities to use a portion of the premises located at Oquendo, 12. This use is free of charge, except for non-structural maintenance expenses (electricity, water, elevator maintenance, etc). Based on the final agreement signed in September 2007 to establish a maximum yearly charge, the limit to allocable expenses has been set at the lower of thirty-three percent of actual costs or €42,000. The latter amount is subject to annual adjustments for changes in the Spanish Consumer Price Index.

15 Reclassification of Revenue

2010 revenue figures have been reclassified according to origin. Based on management´s understanding of the terms for cost eligibility in the 2010 EC Grant, 2010 EC grant revenue was recognized on an accrual basis and based on the total eligible costs of the program plus the expected addition to reserves.

Effective revenue from the EC Grant in 2010 amounted to 286,231 Euros instead of the 300,000 Euros originally estimated.

Following the terms of the agreement between the PIOB and IFAC, IFAC funding has made up for this shortfall in EC Grant revenue in 2010. Effective IFAC revenue in 2010 came up to 1,088,691 Euros instead of the 1.074,922 Euros originally reported.

The reclassification had no effect on the previously reported comprehensive income.

16 Auditors´ remuneration

This note shows the total remuneration payable by the PIOB to its auditors.

(in Euros)	2011	2010
Fees payable to BDO for the voluntary audit of PIOB financial statements	6,404	5,358
Fees payable to BDO for other services	3,894	-
Total Auditors´ remuneration	**10,298**	**5,358**

17 Subsequent Events

In the opinion of the management there are no significant events that need to be reported.

On behalf of the Foundation, we declare that the statements set out in pages 4 to 7 and the accompanying notes set out in pages 8 to 15, constitute the Financial Statements of the Foundation for the year ended 31 December 2011.

PIOB

Public Interest Oversight Board

Public Interest Oversight Board

overseeing international audit, ethics and education standards for the accounting profession

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