The Role of the PIOB in the oversight of the standard setting bodies

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You know that the Board I am chairing is designated the Public Interest Oversight Board, this is the board overseeing the standard setting for auditors and for ethics and education for accountants. These standards are best known as the International Standards on Auditing (ISA), the Ethics standards for accountants, or the International Education standards (IESs). The standard setting structure was introduced after the collapse in confidence in capital markets marked by the Enron affair and the demise of Arthur Andersen.

Many people ask themselves what the PIOB is, and why the board should be especially looking into the issues of PI, and also what means P.I. Many times, I have been asked “what is public interest”? Can you explain it, how do you see that?

Public interest is a criterion that is used in many fields: you find it in competition law, in recovery and resolution regulation to name two recent sources of European law. But also, case law has been frequently using this criterion to deal with certain critical behaviour that deserved special attention beyond the interest of the directly concerned parties.

Standards for auditors – and for accountants more generally – create a public good, this is a regime on which everybody can be confident about to the quality, the credibility and reliability of the financial statements they have certified as “fair and true”, as was the old expression. This feature is a core element in our economic systems, as numerous parties need to rely on financial statements. The wide public trust that is so created supports the functioning of the capital markets, the assessment by the investors, but also impacts the competition in the markets for goods and services. It is an indispensable element in the granting of credit and the confidence of creditors, and also defines labour negotiations. It constitutes the basis for fair business taxation and ultimately and on an aggregate basis, it is the basis for macro analyses and financial stability assessments. Without the confidence generated in the general public by solid accounting and auditing, in this case by a strong and well-functioning accounting profession, our economic systems cannot thrive.

This idea is clearly reflected in the opening statement to the Ethics Code “a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest”.

It is the overall task of the PIOB to oversee whether this objective is achieved. The present regime supports this objective in several respects: the PIOB approves the nominations of the members of the standard setting boards, it approves their strategies and work plans, it monitors the development of the standards and that all elements mentioned in the public consultations are duly taken into account. Where needed, it recommends steps to ensure that the standards
effectively respond to the public interest, that they achieve their stated objective, that they are consistent, that they can be applied by all accounting firms, large and small, and that their complexity is kept in limits, etc.

But from time to time, a proposed standard does not fully reflect the interests of the wider society. This may be due to many factors.

This may well happen despite following due process, because international standard setting in the XXI century involves global consultation processes that involve many sensibilities and standards may fail to produce, or to consider, all relevant input from stakeholders. The different interests may not have been adequately balanced, and stakeholders not well be taken in consideration. Due process is not the full solution. In these cases, the PIOB steps in and invites the SSB to meet this wider societal interest.

In other cases, PIOB interventions aim at better reflecting the “fundamental principles” sustaining the activity of the profession standards may not be compatible with the “fundamental principles” some of which as part of the Ethics Code.

To quote a few:

- **integrity** i.e. straightforwardness and honesty
- **objectivity**: no bias, conflict of interest or undue influence
- **Independence is an additional concept**
- **professional competence and due care**: acting diligently and in accordance with applicable technical and professional standards
- **confidentiality** of information, except in case of a legal or professional right or duty to disclose
- **professional behaviour** i.e. compliance with laws and regulations and avoid discrediting the profession.

The PIOB formulates remarks if these objectives have not been met, or not sufficiently reflected in the standard. The stakeholders would be affected as they would not be able to be confident in the auditor’s assessment of the financials.

The PIOB could then request the standard to be adapted accordingly. The PIOB would only intervene if there is a considerable discrepancy between the fundamental principle and the draft standard, and if the risks to stakeholders are considerable.

It is therefore not true as some have declared that the PIOB does the drafting, thus micromanaging the process.

But beyond these fundamental principles, in some cases the balancing of the different interests expressed in the final standard may be judged to be skewed in favour of the profession.
current composition of the SSBs, dominated by the accounting profession, favour this outcome and is the point of attention of the Monitoring group.

But, just as importantly, it may also be the case that the public interest does not lie with the expressed interests of stakeholders. The PI may not be the aggregation of the stakeholders’ views, but that wider interests have been disregarded. Indeed, it is inevitable that stakeholders express their own short-term interests, but these may not be fit to achieve the long-term public good. For instance, management and shareholders may agree that it is not in the interest of market value of the shares to report on going concern issues, but the long-term interest of society may require transparency.

In the case of NOCLAR, or “Responding to non-compliance with laws and regulations” the proposed standard aimed at ensuring responsible “professional behaviour” in case the auditor comes across breaches of laws or regulations. The proposal provides for an elaborate internal procedure within the audited entity. The PIOB required that a duty to reporting to authorities be introduced in the standard in order to achieve this objective. It therefore contains an exception to the confidentiality principle, and the PIOB helped ensure an adequate balance between the interest of the profession and those of the general public.

In the case of Long Association, the standards contained several exceptions that would have rendered ineffective the extension of the cooling off period for the engagement partner to 5 years. The PIOB considered i.a. this to be incompatible with the “objectivity” requirement, and with the stated objective to mitigate the familiarity threat of the audit partner. The exceptions were dropped.

Let me conclude:

Considering the contribution of the accounting profession to the public good, the PIOB, in overseeing the standard setting for accountants, contributes to ensure that the accounting function meets the objectives of public interest which it is expected to fulfil.

Our objective is to ensure that the profession contributes more effectively to the general good, the public interest, and this with less controversy.

Assessing public interest responsiveness is not an easy task. As I have argued, it requires analysis for different angles. The public interest notion is subjective, so judgement on PI responsiveness cannot escape from subjectivity. The PIOB is aware that it would be of great benefit to SSBs to know the criteria used by the PIOB to assess the PI in anticipation. The PIOB has developed a framework to assess the PI, currently under consultation with the MG. The objective is to let SSB know the PIOB framework of PI assessment, therefore minimizing subjectivity.

The PIOB objective is not to curtail the profession’s role, but to support it in its critically important public interest role.