



**PIOB WORK PROGRAM 2012 AND BEYOND  
PUBLIC CONSULTATION PAPER**

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## **1. Introduction**

### **Mandate**

The mandate of the Public Interest Oversight Board (PIOB), according to the 2003 International Federation of Accountants (IFAC) reform documents, is *“to increase the confidence of investors and others that the public interest activities of IFAC (including the setting of standards by IFAC boards and committees) are properly responsive to the public interest.”*

In fulfilling its responsibility under this mandate, the PIOB seeks to safeguard the public interest as international standards are being set by the standard-setting boards under its oversight. This mission is extended also to oversight of the work that is undertaken to assess the compliance of IFAC member bodies with their obligations to promote the adoption and implementation of international standards.

### **Goals and objectives**

The Auditing and Assurance, Ethics, and Accounting Education Standards Boards of IFAC, as well as the IFAC Compliance Advisory Panel, have as their prime measure of success the development and adoption of the highest standards of professional conduct.

### **PIOB strategy context**

Financial markets in 2012 are different from what they were before the 2008 global financial crisis. They are now more complex, more diversified, highly specialized, and often technology-intensive; some markets are very opaque and unregulated, and new techniques for pooling and spreading risk have been questioned. Risks are now widespread and highly recognized but poorly understood in some markets, which generates uncertainty. Investors are more sensitive to risk and look to auditors to identify it and ask issuers to disclose it. Auditors must be discriminating and skeptical, and standards must enable sound professional judgments and transparent opinions, promoting and demanding consistent application.

These structural changes in risk and in the perception of risk may have brought about a shift in preferences about new or improved standards or even about the assignment of responsibilities in the present collaborative system of standards setting and the way in which these responsibilities are discharged by IFAC, the Monitoring Group (MG), and the PIOB.

With several years of experience since its formation, the board considers that it is appropriate to consult on its medium term work program, with the ultimate objective to increase audit quality and thus confidence.

### **PIOB 2012 and beyond**

The PIOB was established in 2005. Since then, the board has designed and conducted its own annual program of work developing the activities described below. In addition to providing regular feedback to IFAC, it has issued an annual public report on its activities and conclusions with regard to the public interest activities of IFAC within its remit. The PIOB has found IFAC to be responsive to recommendations for improvement in its processes and believes that those processes have improved significantly since 2005.

Important progress has been made, but there is more to be done. In developing its plan for 2012 and beyond, the PIOB has considered a combination of activities that will maintain the current level of oversight and further enhance the standard-setting process, while ensuring the best possible use of resources at its disposal. For example, up to and including 2010 the oversight activities included 100% physical observation of all meetings of the Public Interest Activity Committees (PIACs), Consultative



Advisory Groups (CAGs), and Nominating Committee.<sup>1</sup> In 2011 this was reduced to 81% direct observation of meetings and 19% observation by way of telephone link. At the end of calendar 2011, the PIOB concluded a review of the impact of these alternative approaches on the level of oversight and on the extent that this level inspires confidence among the stakeholders who might adopt, implement, or benefit from the standards (see section 3). The PIOB also considered whether it should modify or introduce new techniques to enhance its oversight of standard-setting processes even further.

### PIOB resources

The PIOB comprises ten members (currently four members from Europe, two from North America, and four from Asia Pacific) and a secretary general supported by a small Secretariat of three based in Madrid, Spain. Resources are restricted and tightly managed, making the best possible use of the geographic location of members and combining meetings and observation activities wherever possible to minimize travel costs. At a high level, the allocation of available resources by activity is shown in table 1.

**Table 1. Allocation of Funds by activity, 2010–12**

*€ thousands*

<b>Allocation</b>	<b>2010</b>	<b>2011</b>	<b>2012 (budget)</b>
Oversight	666	671	835
Communications	320	307	256
Board running costs	108	123	115
Operating costs	210	216	186
<b>Total</b>	<b>1,304</b>	<b>1,317</b>	<b>1,392</b>

### PIOB key indicators of performance

Table 2 lists the main indicators of performance of the PIOB board since its creation, including attendance at board meetings, number and percentage of meetings observed, and number of standards for which the PIOB approved adherence to due process.

<sup>1</sup> PIACs operate within the aegis of IFAC. Four of them are under PIOB oversight: the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), the International Accounting Education Standards Board (IAESB), and the CAP. The three boards set international standards in their respective areas and are supported by the CAGs, which are strictly consultative bodies. The Compliance Advisory Panel oversees implementation and operation of the IFAC Member Body Compliance Program. In addition, the PIOB oversees the Nominating Committee of IFAC, which nominates candidates for these PIACs and for CAGs.

**Table 2 Indicators of Performance of the PIOB Board, 2006–12**

<b>Indicator</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 (projected)</b>
% of PIOB board meetings attended	n.a.	n.a.	100	100	90	88	100
Total number of meetings observed <sup>a</sup>	21	26	33	31	28	28	20 <sup>b</sup>
Standard-setting board meetings							
Number observed	10	12	12	13	10	10	7
% observed	91	100	100	100	100	91	70
CAG meetings							
Number observed	6	6	9	6	6	5	6
% observed	100	97	90	86	100	71	100
CAP meetings							
Number observed	n.a.	n.a.	5	4	4	4	3
% observed	n.a.	n.a.	100	100	100	80	75
Other meetings <sup>c</sup>							
Number observed	5	8	7	8	8	9	8
% observed	84	100	88	100	100	81	72
Number of standards approved	<sup>d</sup>	15	11	26	6	2	13
Number of other meetings attended <sup>e</sup>	22	22	31	16	25	18	12 <sup>f</sup>

*Note:* n.a. = Not applicable.

a. Standard-setting board meetings, CAG meetings, CAP meetings, Nominating Committee meetings, and IFAC board and council meetings.

b. Meetings expected to be observed in 2012: seven out of ten standard-setting board meetings; six out of six CAG meetings; three out of four CAP meetings; four out of six Nominating Committee meetings; four out of five IFAC board and council meetings.

c. Nominating Committee and IFAC board and council meetings.

d. During its first year in operation, the PIOB approved a new “Due Process and Working Procedures” document for IFAC’s standard-setting boards that fall under its oversight; reviewed and recommended revisions to the terms of reference for the IAASB, the IESBA, and the IAESB; reviewed the processes and structure of the CAGs; and supported the recruitment of additional member organizations for the IAASB’s CAG to improve its regional balance.

e. Includes meetings with the Monitoring Group, MG members, the International Forum of Independent Audit Regulators (IFIAR), and external relations engagements.

f. On the assumption of four meetings with the MG, one with IFIAR, the International Association of Insurance Supervisors (IAIS), Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), International Accountancy Standards Board (IASB), Financial Stability Board (FSB) and two external engagements.



In 2010, after five years of operations, the PIOB carried out a self-assessment review (see <http://www.ipiob.org/news/piob-self-assessment-report-and-comment-letter-mg-review-2003-ifac-reform>). This document describes in greater detail the PIOB’s accomplishments in its first five years, the PIOB oversight model, the rigor instilled in the process of standards development, and proposed improvements in the current architecture.

In addition to many non-G-20 nations that have adopted the international accounting standards (ISAs), based on information currently available to us, table 3 summarizes the status of adoption of ISAs in G-20 nations as of October 2011.

**Table 3 Status of ISAs in G-20 Nations, October 2011**

Action	Number	%
Adopted	5	25
Partially adopted	9	45
Not adopted	6	30
Total	20	100

Significant progress has also been made on the formulation of a code of ethical conduct for accountants. While not fully adopted by any of the G-20 nations, the IESBA Code of ethics offers a benchmark for comparison of ethical standards applicable in those nations. Several other countries beyond the G-20 have fully adopted the IESBA Code of ethics.

***Q1: Do you find the mandate of the PIOB as defined in the 2003 IFAC reforms (“to increase the confidence of investors and others that the public interest activities of IFAC (including the setting of standards by IFAC boards and committees) are properly responsive to the public interest”) still appropriate? Please explain your views.***



## 2. PIOB mandate: due-process oversight

The PIOB seeks to ensure that the standards set under its oversight serve the public interest by focusing on *due-process oversight* of standards development. The PIOB mandate explicitly excludes the PIOB from assessing the technical content of the standards.<sup>2</sup> The present architecture places responsibility for the technical content of standards with the standard-setting boards. In addition to PIOB oversight, the perceived conflict of interest in having the profession set its own standards is further mitigated by the composition of the boards and the CAGs as well as revised processes—in particular, the public exposure of draft standards—that seek to protect the public interest.

If the due process conducted in standards development is robust under PIOB oversight, if CAGs and PIACs take account of the views of stakeholders, and if these bodies work effectively and give due weight to comments from public interest organizations in their discussions, then standards development should be inclusive of all substantive opinions. The final solution adopted regarding technical content will tend to be a fair outcome built on technical integrity, given all constraints and taking into account the results of impact assessment or cost-benefit analysis. This is why PIOB oversight is applied not only to finished standards, but also to the processes that underlie their development.

Independent due-process oversight by the PIOB of PIAC and CAG activities should therefore contribute to developing standards that are technically constructed in the public interest, because interested stakeholders will have thoroughly debated contentious technical issues and the content of the proposed standards will have been considered and possibly accepted by the major voices that represent the public interest. If this premise is valid, then the PIOB should continue to apply independent due-process oversight as the means to help ensure that the public interest is at the core of standards development and thus promote the high technical quality of the resulting standards.

In this context, the nature of due-process oversight and its adaptation over time are very important. At present, the PIOB prescribes a series of steps and activities that must be carried out by the standard-setting board to ensure due process: (i) a due-process checklist, which IFAC submits to the PIOB, (ii) a reporting process in which CAG chairs submit to the PIOB their opinions on whether issues raised in CAG discussions have been adequately considered, (iii) since 2008, a process of internal technical review by PIOB staff, and (iv) a basis-for-conclusions document that summarizes the reasoning of the standard-setting board in dealing with the views expressed by the CAGs and participants in the consultation process. If all of these steps have been carried out, it follows, in principle, that due process has been served.

The PIOB does not find these elements sufficient to achieve an adequate level of confidence. In addition, it relies on other oversight techniques, including direct observation of standard-setting boards and committee meetings. After six years of experience, the PIOB has developed an oversight approach that avoids the risk that due-process oversight will be applied in a mechanical way and with little judgment of its public interest implications. *Respect for due process may not always guarantee protection of the public interest*, so the PIOB seeks to understand the substance and the implications of a new standard to determine whether the public interest was served in its

development process. The PIOB bases its oversight on a deep awareness of the implications of its work, and it intends to continue to apply this *informed* approach to due-process oversight in the future.

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<sup>2</sup> “PIOB responsibilities shall not include providing technical input or suggestions on the design or content of individual standards, approving proposed or final standards, etc. (For example, the PIOB shall not duplicate the role of the Consultative Advisory Groups.) As such, the PIOB shall not have the authority to stop a PIAC from proposing or issuing any standard or document.” IFAC Reform Proposals document, September 2003.



The PIOB uses various means to build its awareness of the implications of its work and to guide its independent oversight. The main one is the quality of board members and the experience they bring with them, but other sources of awareness also stand out: (i) the experience of physically observing PIAC and CAG meetings and hearing first-hand the views of participants, which is why direct observation continues to be so important, (ii) ongoing dialogue with other stakeholders, which is why communications policy is important, and (iii) the input of the Monitoring Group regarding regulatory priorities, which is why this particular dimension of the relationship of the PIOB with the MG is so important<sup>3</sup>. These three sources help to inform PIOB oversight, to ensure its high quality, and to keep oversight from deteriorating into a mechanical exercise.

Finally, the impact of PIOB oversight of the work of standard-setting boards must do more than simply protect against the risk that private interests will overtake the public interest. Oversight must also encourage improvements and a better synthesis of the various aspects of the public interest. For these reasons, the PIOB will continue to monitor the performance and the overall behavior of the boards under its mandate.

***Q2: Do you agree that the PIOB's main focus should continue to be to oversee due process and protect the public interest? Are there any other matters that the PIOB should focus on? Please explain your views.***

***Q3: Do you find the PIOB model of informed oversight the best possible model to guarantee public interest protection?***

***Q4: Would you suggest any other avenues for the PIOB to further improve its oversight of the PIACs?***

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<sup>3</sup> The MG-PIOB relationship is described in full in the paper of the Monitoring Group which is being consulted separately but in parallel to this strategy. The Nominating Committee of the MG appoints PIOB members, and the PIOB is accountable to the MG, which approves the PIOB budget.



### **3. PIOB oversight and medium-term strategic objectives**

#### **PIOB techniques and activities of oversight**

The role of the PIOB is to determine whether due process has been applied in the development of the international standards for auditing, education and ethics as well as in IFAC's compliance program and whether the standards were developed in the public interest and are in this regard suitable for issuance.

The PIOB conducts its work of oversight using a range of activities and techniques which include, but are not limited to the following:

#### **PIOB Board meetings**

- The holding of four two-day PIOB meetings to carry out its oversight function
- Interaction with IFAC leadership four times a year within the context of PIOB meetings
- Four times a year within the context of PIOB meetings, receipt, consideration, and discussion of reports from the chairs of the standard-setting boards as well as the CAGs and the CAP and semiannual meetings with them to discuss their activities
- Review and approval of membership of the PIACs and associated processes
- Review and approval of membership of the CAGs and associated processes
- Periodic receipt, review, and discussion of the agendas of the standard-setting boards and the CAGs
- Requirement of due-process checklist, CAG chair report, and basis-for-conclusions documents to assess due process in the development of standards
- At the time of issuance of a standard, consideration of the due process applied in development of the standard
- Review and approval of the terms of reference of the PIACs and CAGs
- Periodic reviews of due process applied to PIACs and CAGs.

#### **Observation**

- Observation of the conduct of individual boards, CAGs, CAP, and the Nominating Committee, as deemed appropriate
- Attendance at meetings of the IFAC board and council

#### **PIOB Staff support/due process analysis**

- Independent staff analysis of the due process followed in the development of each standard or PIAC strategy through either Extended or Limited reviews. Extended or Limited Reviews are analysis of the process of standards development that focus on the review of comment letters to exposure drafts, CAG chair report, Task Forces documents and basis-for-conclusions documents, to determine whether relevant comments have been properly considered, especially those coming from public interest institutions, securities regulators, and investors.
- Briefing memos on each PIAC and CAG meeting.

#### **Communications**

- Active policy of communications to engage with stakeholders to promote an effective dialogue and awareness of relevant issues

The policy of 100% direct observation of meetings during the first years of PIOB activities meant that the development of standards has benefited from the opinion of the PIOB observer with regard to the implementation of due process. Any corrections with regard to due process were implemented as the standard was developed and before the final proposal was submitted. The knowledge that PIOB was observing each meeting assured stakeholders that the public interest was being protected. When the final



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proposal of a standard was submitted for approval, the PIOB verified that due process had been followed, with additional ex post technical analysis conducted by staff. Thus PIOB oversight focused both on process and on outcomes.

**Table 4 Oversight Assurance Models**

<b>Oversight assurance model</b>	<b>Intensity of activity</b>	<b>When utilized</b>	<b>Possible features of model</b>	<b>Level of oversight assurance</b>
OA1	Very high	-High systemic impact of failure -Low confidence in PIAC	-100% observation of PIAC meetings -Independent confirmation of PIAC decisions	-High but at very high cost
OA2	High	-High systemic impact of failure -Insufficient experience levels in PIAC oversight -Significant change in external environment	-100% observation of PIAC meetings	-High
OA3	Medium	-Medium systemic impact of failure -Good experience levels in PIAC oversight -High confidence in PIAC -Steady-state external environment	-Medium levels of PIAC meeting observation (less than 100%)	-Moderate
OA4	Low	-Low systemic impact of failure -Good experience levels in PIAC oversight -High experience in PIAC	-Minimal or no PIAC meeting observation	-Low

With several years of oversight experience since formation of the board in 2005, now is an appropriate time to formalize varying oversight assurance models for PIAC activities within the scope of the PIOB mandate (table 4). Some aspects of these models were trialed in 2011. The oversight model adopted could vary for each PIAC from year to year based on many factors, including experience in previous years, confidence levels of PIAC members, and performance and nature of the work program for the year. For example, a PIAC may be considered high performing, but because a high-risk project was introduced to its agenda, the PIOB may adopt a more intense oversight model for that PIAC than was adopted in previous years.

With each of the models comes a varying level of assurance. Nevertheless, each level of assurance should be sufficient for the PIOB to be in a position to determine whether the activities of the board and its conclusions are in the public interest.

In the application of its oversight assurance models, the PIOB will be looking to verify that the PIACs

- Are composed of high-caliber, appropriately qualified, performing members
- Are composed of an appropriate mix of practitioner, nonpractitioner, and public members and represent stakeholders adequately
- Are engaging in work programs (agendas) that are relevant to the public interest, focusing on the highest-priority projects



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- Conduct their meetings in an independent, transparent, and robust manner following substantive consultation with stakeholder groups
- Supervise the drafting of the standards by highly competent and performing technical staff with adequate resources
- Follow robust due process in the development of standards, including interacting with their respective CAGs, exposing the standards to public scrutiny prior to their adoption, and considering appropriately all comments received in order to ensure the public interest.

In the conduct of its oversight work, the PIOB will be looking to verify that the CAGs

- Are composed of the right stakeholder groups and have appropriate representation
- Interact effectively with the standard-setting boards during the development of the standard
- Provide stakeholder input into the standards development process.

At the end of 2011, the PIOB determined which oversight approach would be applied to each of the boards in 2012.

<b>PIAC and CAG</b>	<b>OVERSIGHT ASSURANCE MODEL</b>
<b>IAASB and IAASB CAG</b>	OA3(Medium Intensity)
<b>IESBA and IESBA CAG</b>	OA2 ( High intensity)
<b>IAESB and IAESB CAG</b>	OA3 (Medium intensity)
<b>CAP</b>	OA3 ( Medium intensity)

### **Oversight Comfort (OC)**

In its oversight role, the PIOB carries out a program of work designed to build sufficient evidence that the public interest is being served.

The PIOB uses a variety of tools and techniques to oversee the process, such as meetings with board chairs and first-hand observation by a PIOB member. These tools and techniques assist the PIOB in building comfort with multiple elements of quality. The relative efficacy of these techniques in targeting a particular dimension of quality may vary as well as their cost. Table 5 shows the relative efficacy of the different PIOB oversight activities in relation to different elements of standard development quality.

Building oversight comfort is in part subjective. It is a matter of professional judgment and not a matter of calculation. It is generally the case, though, that if a board member individually or the PIOB collectively is unsure or uncomfortable, then there is an identifiable reason—for example, a breakdown in consultation during exposure.



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**Table 5 Efficacy of oversight techniques on standard development quality**

PIOB oversight activity	Elements of PIACs standard development quality					
	Relevant board strategies and work programs	High-caliber board members	Balance on boards, including public members	Robust and quality debate	Wide and relevant consultation	High-caliber technical staff
IFAC board attendance and interaction with IFAC leadership	√					
Semiannual meetings with board chairs	√	√				
Review of quarterly reports	√				√	
Observation of Nominating Committee meetings		√	√			
Observation of board meetings	√	√	√	√	√	√
Observation of CAG meetings		√	√	√	√	√
Approval of CAG membership					√	
Communications policy	√					
Independent staff analysis, including comment letters and due-process reports					√	
Due-process reports, including due-process checklist, CAG chair report, and basis-for-conclusions					√	

Note: √ = Contributes to oversight comfort.



### **PIOB medium-term strategic objectives**

To fulfill its mission, the PIOB proposes the following medium-term strategic objectives:

- To continue to oversee how due process is being followed by the PIACs under its oversight
- To continue to assess whether due process has been followed effectively and with proper regard for the public interest in the finalization of each standard and other PIAC pronouncements
- To continue to oversee the processes of adoption and compliance of standards setting by IFAC member bodies
- To continue to endeavor to ensure a balanced composition of members in the standard-setting boards and Nominating Committee under its oversight, recommending any improvements
- To continue to approve the nomination of candidates to PIAC and member organizations to the CAGs, to assess any conflicts of interest that may arise, and to recommend action as required
- To continue to engage stakeholders through an active two-way communication policy, including with Monitoring Group members
- To continue to communicate to the public its activities in a transparent way
- To continue to carry out periodic reviews of due process and oversight methodologies applied.

### **New oversight techniques**

New oversight techniques were introduced and piloted in 2011. These new techniques were developed and implemented to oversee the outcomes and processes of those meetings that will not be subject to direct observation. These meetings will be subject instead to remote observations (RO) or monitoring and reporting (M&R). RO consists of staff listening in on some meetings or part of meetings. M&R consists of in-depth monitoring by the Secretariat of documents pertaining to the development of a standard. RO is conditioned by physical absence, technical difficulties, and time zone differences. M&R is procedural in nature and is based on ex post analysis. Experience is needed to assess their effectiveness and the impact of costs and resource needs, so an evaluation will be undertaken in 2012 after the first “pilot” year.

The shift to new oversight techniques and away from 100% direct observation by board members of all PIAC and CAG meetings is not without risks. In particular, it is essential to ensure that the shift to increased oversight by staff maintains the quality, informed approach to oversight discussed under section 2, that the overall oversight model continues to ensure a balanced focus both on process and on outcomes, and that a sufficient level of oversight comfort continues to be achieved.

To this end, oversight by staff of the due process of standards development has to be applied judiciously and on a continuous basis, relying on observations of meetings, discussion papers issued by standard-setting boards, CAG chair reports, minutes, basis-for-conclusions documents, staff reports, exposure drafts, and, whenever necessary, meetings with PIAC and CAG chairs. This will help to ensure that the PIOB will be able to review due process on a continuous basis and to verify due process ex post. It is also critical for the PIOB to continue to ensure that observers interact closely with PIACs, CAGs, stakeholders, and Monitoring Group members. For this reason, direct observation by board members will continue to be an important instrument of oversight.

In order to help ensure these objectives, the PIOB has also introduced in 2011 the assignment of individual PIOB Board members to lead the oversight activities of specific PIACs during the calendar year. Such assignment will be for one year only to reduce the risk of regulatory capture. In addition, the team leaders will be supported by another team member, who will provide support in the conduct of activities and assist in avoiding regulatory capture. Maintaining continuity of the individuals assigned to the teams through the year will help to deepen the knowledge and awareness of the PIOB, particularly in an environment of less than 100% observations of meetings.



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**Table 6: Summary of Oversight procedures and oversight responsibilities**

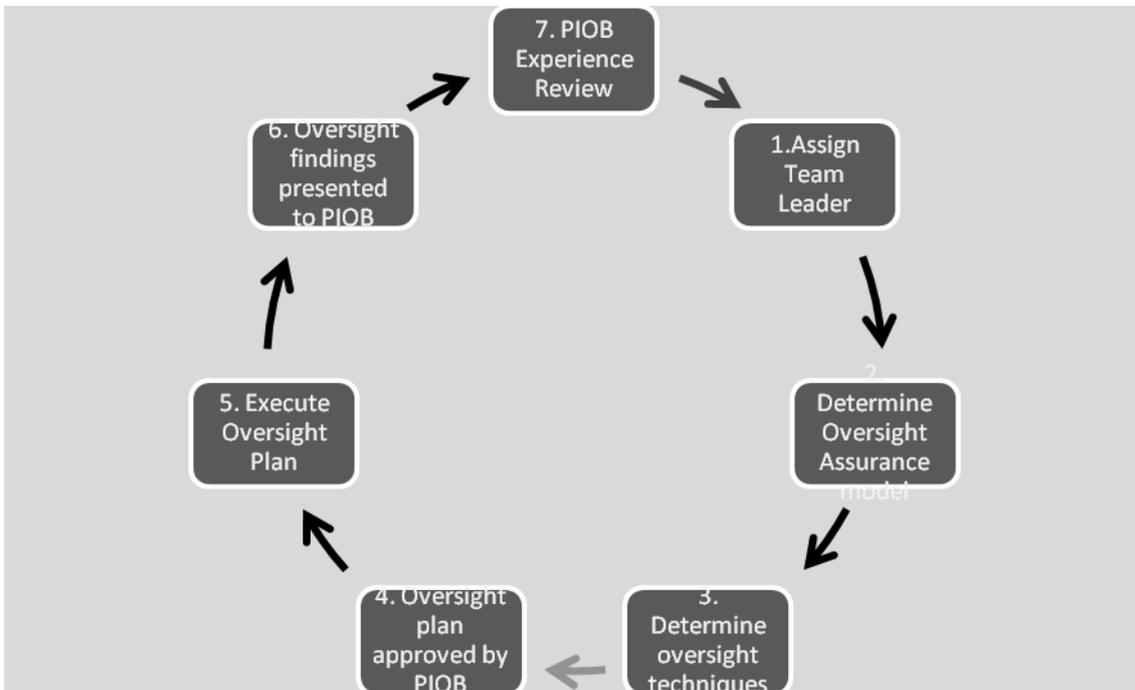
	2005- 2011		2011- 2012			
PIOB BOARD	Deliberation, review, assessment and approval. Direct Observations		Deliberation, review, assessment and approval. Direct Observations		Assignment of team leaders	
PIOB STAFF	Limited Reviews	Extended Reviews	Limited Reviews	Extended Review	Remote Observations	Monitoring & Reporting



### **Summary Oversight Assurance Cycle and Methodology**

1. At the start of each oversight year the PIOB appoints one of its members to be the lead member (team leader) assigned to the oversight of each PIAC and corresponding CAG. The team leader works with the Secretariat to develop the Oversight Plan for that year. The team leader is supported by the Secretariat and other Board Members. Team leaders will not be assigned to lead the same activity in consecutive years.
2. As part of the development of its Oversight Plan the PIOB team leader chooses an Oversight Assurance model to guide the nature scope of its work for that year (see page 9).
3. Having chosen the Oversight Assurance Model to guide the oversight work, the team leader will select a range of Oversight Activities consistent with the Oversight Assurance Model. See table 5 in page 11 for a selection of oversight activities and the elements of standard development quality towards which they contribute. The conduct of these activities during the Oversight Year will help build sufficient oversight comfort to enable the team leader and ultimately the PIOB itself to form a conclusion as to whether the interests of the public have been served.
4. The Oversight Plan developed in 4 above is presented to and approval is sought from the PIOB.
5. The Oversight Plan is executed by PIOB Board members and staff within their own responsibilities.
6. At the conclusion of the year the team leader will present the findings of their work to the PIOB along with a recommended conclusion. In rare circumstances the PIOB might seek further work to be conducted to enable a conclusion to be drawn.
7. Once all reports for individual PIAC activities have been received and adopted the PIOB Board should be in a position to form an overall conclusion as to whether in that year each PIAC has operated in a way to serve the Public Interest.

**Summary Oversight Assurance Cycle and Methodology**



*Q5: Do you agree with the medium-term strategic objectives for the PIOB? Please explain otherwise*

*Q6: Given the implementation of the Oversight Assurance Mode in place of the 100% direct observation model, do you think that the achievement of a sufficient level of oversight comfort by the PIOB will itself provide stakeholders with a sufficient level of comfort that the public interest is being protected? Please explain your reasons.*



#### 4. Continuing to ensure the public interest

For the next few years, the PIOB intends to continue to focus on the primary tasks laid out for it under the IFAC reform and on the objective of setting high-quality standards for worldwide use. After completion of the Clarity Project and publication of the Code of Ethics, the number of newly issued standards has declined, but the pace of standard-setting activity has not diminished.

In addition to continuing its work on oversight of each PIAC and CAG, the PIOB has identified the importance of strengthening oversight on the content of the strategic plans of the standard-setting boards. PIACs' strategic plans set their work agendas for the next two to three years. These agendas largely condition those of their respective CAGs. The PIOB must assess whether priorities in work plans fully reflect the post-financial crisis public interest priorities. For the PIOB to express an informed opinion on board strategies, it must have all of the necessary elements of judgment to anticipate the priorities that serve this public interest. These elements must include, at least, the three sources of information outlined in section 2: namely, (i) the experience gained through direct PIAC and CAG observations, (ii) effective communications with stakeholders, and (iii) a strategic relationship with the Monitoring Group.

Strategic plans are put together through a process of consultation and obtain final approval from the PIOB, which has the responsibility to determine whether strategic plans are complete and has the right to ask that particular projects be included in the plan. This is no easy task, given the challenges posed by the present condition of financial markets: the responsibility to declare whether a plan is complete or not and whether the public interest issues have been included is now heavier than at any time in the past. In order to continue to ensure the public interest, the PIOB intends to sharpen oversight of the development of strategic plans.

The PIOB is considering taking additional initiatives to determine *whether additions should be made to PIAC strategies, specifically carrying out its own consultation with members of the Monitoring Group and possibly other stakeholders*. To carry out this task, the PIOB will invite the MG to share its views on the strategic plans, work priorities, and new regulatory and other developments and priorities to feed into the oversight work for setting standards in audit, ethics, education, and compliance. The discussion of strategic plans can offer the PIOB an excellent vehicle for engaging in discussion and synthesizing views as a prerequisite for deciding whether new projects are needed.

The current work plans of all three standard-setting boards include proposals to review and revise existing standards that are at the core of the PIOB priorities.

Specifically, the **International Auditing and Assurance Standards Board (IAASB)** has embarked on a priority review of the auditor's report and in several projects which respond to requirements beyond what is strictly understood today as a financial audit.<sup>4</sup> The scope of audits is expanding, and so too is the scope of areas covered by standards setting. For instance, the IAASB's project to create an assurance framework for reporting greenhouse gas emissions breaks new ground for the profession. Decisions made in the development of this framework will create precedents for the profession's response to demands from society for assurance services in other areas such as sustainability, corporate social responsibility, and environmental consciousness. A consequence of this development is a gradual widening of the range of stakeholders, which challenges the traditional "user, preparer, regulator" approach to representing the public interest. As these new

projects proceed, the PIOB, in consultation with IFAC, the PIACs, and the Monitoring Group, will need to be satisfied that all groups with a responsibility in the outcome have been represented.

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<sup>4</sup> Other IAASB projects continue to focus on financial audits, like current projects on "Auditor Reporting" and "Audit Disclosures." Attention to small and medium enterprises and developing economies is also important in this context.



Public Interest Oversight Board

The **International Ethics Standards Board for Accountants (IESBA)** has as a long-term objective the convergence of international and national ethical standards, including auditor independence requirements, through the development of an internationally appropriate Code of Ethics. To fulfill this objective, the IESBA has opened a dialogue with various regulators and national standard setters to obtain input on the types of improvements that they believe should be made to the code to gain acceptance and recognition in their jurisdictions. The PIOB intends to oversee closely the content and development of the IESBA 2011–12 strategy and work plan and the process of appointment of an independent chair in 2012.

The **International Accounting Education Standards Board (IAESB)** produces standards for professional education that are indispensable for professional development and influence the quality of audit and other accountancy services. The setting of education standards is different from the setting of auditing standards, and the differences are highlighted in our Sixth Public Report. The IAESB strategic plan includes an ambitious cycle of revision of the eight current education standards. Given the scope of this program and the fact that a new chair was appointed at the end of 2011, the PIOB intends to continue working with the IAESB and its CAG in addressing the need to consider adding to its membership organizations and individuals with relevant diversity, expertise, and perspective.

**Adoption of international standards** in the areas of audit practice, assurance services, ethics, and education for professional accountants by many jurisdictions around the world is a global challenge. Implementation of standards is a joint responsibility of audit practitioners, other accounting professionals, accounting bodies, and national audit regulators who are charged with ensuring compliance. Implementation and compliance must be effective to serve the public interest. In this regard, the work of the Compliance Advisory Panel is very important. The CAP is already subject to PIOB oversight, but the PIOB intends to evaluate whether the public interest dimension of the CAP's work would be strengthened through the adoption of further principles and practices underlying the work of the standard-setting boards.

***Q7: Do you agree that consulting the MG and other stakeholders through an active communication policy will help the PIOB to form its own opinion on agenda-setting public interest priorities? Please explain.***



## **5. PIOB Communications**

Communications policy directs the actions whereby the PIOB engages and interacts with stakeholders. As outlined in section 2, awareness of issues with a bearing on informed oversight requires regular contact with stakeholders to listen to their concerns. Communications policy is, in short, the other side of the coin of quality oversight.

In addition, the mandate of the PIOB demands an active engagement and communications policy: confidence can only be increased if stakeholders understand how the processes of standards setting and independent oversight contribute to higher-quality standards and ultimately the ability to have greater confidence in the work of the accountancy profession.

Since the creation of the PIOB in 2005, a new discipline has been introduced in the setting of standards in the areas that the PIOB has overseen. Now the public interest is embedded in the development of standards under its oversight. PIOB oversight provides a needed element of assurance to investors, regulators, and other stakeholders at a time of economic crisis and uncertainty. The improvements achieved in terms of public interest focus and independent public interest oversight in the standard-setting process need to be communicated better to a broad range of stakeholders, including regulators, public policy makers, other international standard setters, market authorities, and the investing public.

In fulfilling this mandate, the PIOB must create greater awareness about the present system of independent oversight and the various PIOB roles that contribute to better international standards and, at the same time, maintain full objectivity over the assessment of the manner in which these standards are developed and avoiding any sense of advocacy. In 2011 the PIOB carried out a communications policy largely limited to the MG and MG members at the request of the MG, as can be appreciated in table 2 on key performance indicators in section 1. However, it intends to engage with a broader constituency of stakeholders.

***Q8: Do you agree that the PIOB has to be fully aware of the implications of its work to protect the public interest and that its informed approach to oversight requires an active interaction with all stakeholders?***

***Q9: Do you agree that the PIOB mandate requires an active communication policy explaining the processes of standard setting and their public interest focus? Do you think the present minimalist policy is sufficient? Do you think that raising awareness of the work of the PIOB should be an objective of its communications policy? Please explain.***



## **6. Resources**

Adequate resources are a condition for the success of this work program.

The increasingly global character of the PIOB after the ongoing process of board renewal requires more resources to bring the board together. Implementation of oversight techniques in addition to direct observations may require additional resources. An effective communications policy also requires the allocation of sufficient resources.

IFAC has been financing most of the budget since the creation of PIOB. IFAC funding has been provided in a manner that explicitly removes it from operational and expenditure decisions of the PIOB, which has felt able to exercise its function with full independence and without regard to the source of funding. Over the 2010–13 period, the European Union has contributed about €1.2 million to the PIOB budget or about €300,000 a year. In addition, the PIOB receives a generous in-kind contribution from the Spanish government as well as in-kind contributions from the World Bank and the Basel Committee on Banking Supervision.

In the 2003 reform agreements, both IFAC and the MG recognized it “to be in the public interest that parties other than IFAC shall fund at least 50% of the cost of the PIOB.” The PIOB agrees with the need for further budget diversification, and looks forward to progress in this front.

The PIOB is aware that resources are limited at this difficult time. In 2012, the PIOB will reallocate resources to reflect its current strategy. Beyond 2012, a resource needs analysis will be carried out with the experience acquired in 2011 and 2012 to ensure that resources are adequate.

***Q10: Do you agree with the view that has been put forward that funding has to be diversified and should not largely dependent of IFAC funding?***

***Q11: Please suggest alternative sources for diversifying and financing the PIOB budget.***