



Public Interest Oversight Board

**STANDARD SETTING IN THE PUBLIC INTEREST:
A DESCRIPTION OF THE MODEL**

15th September 2015

STANDARD SETTING IN THE FIELD OF AUDIT AND ASSURANCE, ETHICS AND EDUCATION

This document describes international standard setting in the field of Audit and Assurance, Ethics and Education for professional accountants.

The current system is the result of an agreement¹ between the Monitoring Group (MG) and the International Federation of Accountants (IFAC). The 2010 MG Review of the IFAC Reforms and the 2012 MG Governance review and Public Interest Oversight Board (PIOB) consultation processes added specific recommendations to the original arrangements². Standard setting in these fields is the responsibility of Standard Setting Boards (SSBs) which operate with the financial and operational support of IFAC and whose members are selected by IFAC's Nominating Committee, under the agreement that standard setting processes should be transparent, receive broad public input, including from the regulatory community and be subject to public interest oversight, with such oversight receiving regulatory monitoring. The objective of this agreement is to facilitate standard setting that is responsive to the public interest and produces high-quality international standards.

The result is a three-tier model made up of:

- (i) SSBs which have the responsibility to set international standards in the fields of Audit, Assurance and Related Services (International Auditing and Assurance Standards Board, IAASB, <http://www.iaasb.org>), Ethics for Professional Accountants (International Ethics Standard Board for Accountants, IESBA, <http://www.ethicsboard.org>), and Professional Accounting Education (International Accounting Education Standards Board, IAESB, <http://www.iaesb.org>)³;
- (ii) An independent oversight body, the Public Interest Oversight Board (PIOB, www.ipiob.org), with the responsibility to oversee standard-setting processes by these three Boards as well as their nominations processes, and

¹ Current arrangements are based on two agreed texts:

- a. IFAC Reform Proposals of November 2003 (<http://www.ipiob.org/media/files/about/IFAC%20Reform%20Proposals%202003.pdf>)
- b. The Monitoring Group (MG) Charter agreed in 2008, which includes as annexes the IFAC Proposal for Assured PIOB funding of August 15, 2007, and the MOU between IFAC and the MG in relation to nominations to the PIOB Foundation Board of Trustees, dated September 4, 2008 (<http://www.ipiob.org/media/files/about/MG%20Charter%20only.pdf>).

² <http://www.ipiob.org/index.php/public-consultation>
https://www.iosco.org/about/monitoring_group/governance_review/comments/cr2.pdf

³ The IAASB issues International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Related Services (ISRSs), International Standards on Assurance Engagements (ISAEs), International Standards on Quality Control (ISQCs), and non-authoritative pronouncements such as the International Framework for Assurance Engagements and International Auditing Practice Notes (IAPN). The IESBA issues the Code of Ethics for Professional Accountants.

The IAESB issues International Education Standards for Professional Accountants (IESs), International Education Practice Statements for Professional Accountants (IEPSs) the Framework for International Education Standards and non-authoritative publications such as the International Education Information Papers for Professional Accountants (IEIPs)

- (iii) A group of international public interest and financial organizations, the MG, (http://www.iosco.org/about/?subsection=monitoring_group), with the responsibility to monitor the overall structure and to which the PIOB is accountable.

The IFAC Council is responsible for the overall governance of IFAC, and the IFAC Board oversees the management of IFAC.

ROLES AND RESPONSIBILITIES

Standard Setting Boards and IFAC Nominating Committee

SSBs are responsible for issuing high quality international standards in the public interest. SSBs may also issue non-authoritative pronouncements such as guidance material for implementation.

SSBs are made up of eighteen members including the Chair⁴. No more than nine members are practitioners⁵, at least six are non-practitioners⁶ and at least three are public members⁷. Members (with the exception of the Chair) serve a maximum of two consecutive three-year terms, and sign an annual statement that they will act in the public interest.

Practitioners are partners or staff of audit firms. Non-practitioners represent a broad category of professionals, who are generally related to the accountancy profession, but are not members or employees of audit firms⁸. Public members have a broader background and experience in serving the public interest, and are independent from the accountancy profession.

All candidates for these positions are selected through the annual nominations process managed by IFAC's Nominating Committee, chaired by IFAC's president. The PIOB oversees this process by assigning an observer in the Nominating Committee through the full nominations cycle, including interviews of candidates, and approval of IFAC's recommendation regarding which candidate to appoint.

Every year, IFAC issues a public "Call for Nominations" for vacancies that will open in the SSBs the year after, and receives expressions of interest from candidates. All nominations to the SSBs are open to the general public: the "Call for Nominations"

⁴ The composition of SSBs is set forth in each SSB's terms of reference, endorsed by the IFAC Board and approved by the PIOB (art. 26.1 in the IFAC Bylaws).

⁵ A "practitioner" is a member or an employee of an audit practice firm. Individuals who are not providing audit services in the audit practice firm are designated as practitioners because their employment relationship places them in a position where they have an interest in the economic results for the firm as a whole.

⁶ A "non-practitioner" is not a member or an employee of an audit practice firm. Former members or employees of such firms can only be regarded as non-practitioners after three years have elapsed since ceasing membership in or employment by the firm. This category includes professionals from academia, the government, the public sector, international agencies, development banks and other organizations related to the accounting profession, professional accountants in business and individuals who are not professional accountants.

⁷ The definition used for the 2016 Call for Nominations reads as follows: "Public members clearly represent, and are seen to represent, the broad public interest, and therefore nominations of non-accountants are strongly encouraged for these positions. Individuals nominated for public member positions should desirably have a technical knowledge of the subject matters considered by the Board. Public members cannot be practitioners".

⁸ For instance, staff from professional IFAC member bodies, which are national organizations of the accountancy profession, or other within the current definition.

allows for nominations from any organization or individual. Positions in SSBs are voluntary, that is, are not remunerated, with the exception of the IAASB and IESBA Chairs. The voluntary nature of SSB membership – the absence of any remuneration for the standard setting work - means that candidates need to be financially independent or have the financial and institutional backing of a sponsoring or nominating organization willing to pay for the time and work of the members as well as for her/his travel costs.

Nominations of practitioners (9) and non-practitioners (6) are generally candidates sponsored by international audit networks and by professional accountancy organizations who are members of IFAC. Candidates for vacancies of public members (3), who come from the wider public interest (preparers, users, regulators and public at large), are also selected by the IFAC Nominating Committee. Nominations of public members from organizations representing the public interest are encouraged, including self-nominations. In the absence of a sponsoring organization, a self-nominated public member, if appointed, may apply for IFAC's travel support program⁹ and receive a reimbursement of actual travel expenses. He or she is not entitled to any remuneration despite the time requirement advertised for these positions¹⁰.

The same process applies to nominations of candidates to the SSBs Chairs. The IAASB and the IESBA Chairs are subject to independence requirements¹¹. The IAASB Chair is a full time position while the IESBA Chair is a part-time position¹². The IAESB Chair is not required to meet independence requirements¹³. SSBs' Chairs serve a maximum of three consecutive three-year terms, including time served as members, and can exceptionally serve a fourth term.

SSBs are supported by technical staff employed by IFAC and seconded to the SSBs. The IAASB has eight technical staff positions, the IESBA has five and the IAESB has one.

Nominating organizations have the right to provide technical advisors (TAs) to assist SSB members. This support is limited to SSB members whose nominating organizations will contribute the resources¹⁴. TAs are required to sign an annual statement affirming they serve in the public interest and cannot vote in lieu of the member. TAs have the privilege of the floor with the consent of the Board member and may participate in projects¹⁵. A TA can serve as a member of a TF in his or her own capacity, or accompany a Board member who is a member of a TF to TF meetings.

Steering Committee

⁹ Applicable also to practitioners and non-practitioners, see [IFAC Call for Nominations 2016](#)

¹⁰ IAASB, 81 to 100 days per year; IESBA, 46 to 65 days per year; IAESB, 22 to 31 days per year

¹¹ The IAASB's and IESBA's Chairs Independence requirements are set in IFAC's document "The Independence Requirements of the IAASB/IESBA Chair", which they must fulfill in order to assume the position: "The Chair shall sever all employment relationships with current or former employers and shall not hold any position giving rise to incentives or conflicts of interest which might call into question their independence of judgment in setting auditing standards"

See <http://www.ifac.org/auditing-assurance/about-iaasb/terms-reference>

¹² <http://www.ifac.org/ethics/about-iesba/terms-reference>

¹³ <http://www.ifac.org/education/about-iaesb/terms-reference>

¹⁴ In case a nominating organization does not wish to provide a technical advisor or a SSB member does not have a nominating organization (i.e. candidate is a self-nominee), SSB staff may assist in identifying a technical advisor

¹⁵ Technical Advisors are expected to possess the technical skills to participate, as appropriate, in SSB debates and attend SSB meetings regularly to maintain an understanding of current issues relevant to their role. TAs do not need to be approved by the Board. The TA is chosen by the nominating organization. There is no formal process for his or her nomination. https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

SSBs have each established a Steering Committee (SC) or similar with the purpose to formulate views and advise on matters of strategic and operational importance. The Steering Committee's objectives, responsibilities, composition, operating procedures, and membership for the IAASB are set in <http://www.ifac.org/auditing-assurance/about-iaasb/steering-committee>. The IESBA and the IAESB have no formal ToR for their respective "Planning" Committees.

The IAASB SC is chaired by the IAASB Chair. It comprises four to six members of the IAASB and includes the IAASB Technical Director. The Consultative Advisory Group (CAG) Chair is entitled to attend meetings of the SC as an observer with privilege of the floor, or may appoint a Representative to attend with the same privilege¹⁶.

Task Forces

SSBs develop their standards and strategies and work plans through task forces¹⁷.

The commencement of a standard begins with a project proposal. The subject and initial timing of a project proposal originates from the approved Strategy and Work Plan (SWP). A proposal to start a new project is first considered by the SC, which decides the path to be followed to develop the project proposal. Typically, SSB staff prepares the proposal based on the background on the issue as manifested in the SWP and further research and consultation as necessary. In cases when the scoping and subject of a topic is more challenging, the SC may decide to set up a dedicated working group made up of Board members and others, if necessary, to help staff prepare the proposal. The project proposal is discussed by the SSB and the CAG. When the SSB approves the project proposal, it becomes the basis for drafting the project exposure draft.

Only the SSB has the authority to approve a project proposal, an exposure draft, and issue a final pronouncement. A final pronouncement issued by SSBs only becomes authoritative after the PIOB concludes that due process has been followed effectively and with proper regard for the public interest.¹⁸

A project proposal includes a proposed assignment of responsibility for the project to a Project Task Force, which is ordinarily¹⁹ chaired by a member of the SSB. The composition of the Project Task Force is determined by the senior staff member of the SSB, in consultation with the Chair of the SSB²⁰, in a manner that brings the right balance of technical expertise and public interest perspectives to the project discussions and

¹⁶ http://www.ifac.org/system/files/downloads/IAASB-Amended_CAG_Terms_of_Reference.pdf

<http://www.ifac.org/ethics/cag/terms-reference>

<http://www.ifac.org/education/cag/terms-reference>

¹⁷ For the role of Task Forces, see IFAC's standard-setting Public Interest Activities Committee's' Due Process and Working Procedures, March 2010, IFAC, at https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

¹⁸ "Only final international pronouncements issued by the SSB after the Public Interest Oversight Board (PIOB) concludes that due process has been followed effectively and with proper regard for the public interest are authoritative". IFAC's standard-setting Public Interest Activities Committee's' Due Process and Working Procedures, March 2010, page 1: https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

¹⁹ The norm is that TF Chairs are Board members. Exceptionally, some flexibility may be needed: a retiring member who was a TF Chair had to continue as a TF Chair to finalize the project; the appointment of a co-Chair may be needed; during the Clarity Project, due to the demands on the capacity of the IAASB, former Board members or TAs had to serve as TF Chairs.

²⁰ https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

sufficient direct participation by members of the SSB. The identification of Project Task Force members focuses on finding the best persons for the job. Project Task Forces may contain participants, such as external experts, who are not members of the SSB, but have experience relevant to the subject matter. Members of a Project Task Force are identified in the project summaries contained on the SSBs' websites and in the relevant project agenda papers for a SSB meeting.

Project Task Force meetings are not open to the public, but matters deliberated by the Project Task Force and the outcome of the Task Forces' deliberations are reported in the public agenda material of the SSB. An SSB member that is participating in a Project Task Force may, at the member's request, be accompanied by his or her technical advisor to support that member.

A Project Task Force identifies issues and proposes recommendations relevant to the development of the proposed pronouncement in a paper named "Issues paper" which is ordinarily accompanied by a draft version of the proposed exposure draft of the pronouncement. "Issues papers" are developed based on research and consultation, which may include: conducting research; consulting with the SSB or the CAG, practitioners, regulators, national standard setters and other interested parties; and reviewing professional pronouncements issued by IFAC member bodies and other parties.

The "issues papers" and draft project exposure draft are tabled by the task force with the SSB and with the CAG. The task force chair attends all SSB and relevant CAG meetings. The "issues paper" is updated with the comments raised at the SSB and the CAG. The project exposure draft is the subject of discussion both at the SSB and the CAG through the process of project development. This process ends with the task force producing a final exposure draft, which is discussed and approved by the Board.

Standard development is subject to a strict due process²¹, approved by the PIOB, that aims to ensure the responsiveness of the standard to regulatory and other stakeholder input: after a project proposal is approved, an exposure draft is developed and approved by the SSB, standards are exposed for public comment for at least ninety days, comments received through comment letters are publicly available, the CAG is consulted by the task force chair at all stages throughout the process, comments received both through comment letters and CAG discussions are dealt with in the "issues paper", which is public, and agendas and minutes of meetings are publicly available. In addition, the task force chair reports back to the CAG on the disposition of all comments made by CAG representatives throughout the development of a project. For this purpose, the task force tables a "report-back" document at CAG meetings which explains how the Board has disposed of the comments made by CAG members. The "report-back" document is discussed with the CAG. Task Force and SSB Chairs may hold bilateral meetings with stakeholders to explain decisions made and collect their input.

The PIOB oversees that due process, with proper regard for the public interest, is followed throughout the development of a project. Specifically, the PIOB reviews the comments received through the consultation processes both with the public and with the CAG, and monitors the way the SSB deals with these comments. The PIOB has developed a specific process to document the tracking of comments submitted by MG members,

²¹ For a full description of due process followed, see IFAC's Dues Process and working procedures, March 2010, at: https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

European Audit Inspection Group (EAIG), and national audit oversight bodies and the way they are disposed of in the final standard.

Standards are approved by the affirmative vote of at least twelve (12) of the SSBs members present at the meeting in person or via simultaneous telecommunications link. The SSB issues a document (“Basis for Conclusions”) at the end of the process followed to develop a standard that explains the main issues raised in comment letters and the disposition of comments received. If a comment from an MG member is not taken up in the final standard, a feedback-mechanism provides that the MG member receives specific explanation from the SSB on the reasons why.

CAGs

Each SSB is supported by a CAG that offers advisory input and actively contributes to the development of SSB pronouncements.

According to the Terms of Reference (ToR) of the CAGs²², which are approved by the PIOB, “the CAG comprises Member Organizations that are interested in the development and maintenance of high-quality international standards... designed to serve the public interest”. The Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the World Bank (WB) are permanent Member Organizations of the IAASB and IESBA CAGs. The Chair of the CAG is elected by the CAG amongst its members.

The CAG Membership Panel, comprising the CAG Chair, two representatives selected by the Chair for this purpose, the SSB Chair and the SSB Technical Director, considers nominations to determine whether organizations and their representatives are suitable for membership and tries to ensure a balanced geographical spread and functional backgrounds. The appointments of all CAG members, including the Chair, are approved by the PIOB.

Member organizations’ representatives serve a three-year term, which is renewable twice (maximum of nine years). The CAG Chair serves a three-year term, renewable once, and is elected amongst its members. The Chair of the CAG leads the process to ensure adequate representation in the CAG, monitors rotation of CAG representatives and carries out an evaluation of member organizations every five years²³.

The Chair of the SSB attends CAG meetings to provide feedback on the work of the respective SSB, and the Chair of the CAG attends as an observer the respective SSB meeting to ensure coordination.

Both SSB and CAG meetings are open to the public with the exception of closed or private sessions, respectively. Private sessions are typically held at each CAG meeting. A

²² IAASB CAG ToR: http://www.ifac.org/sites/default/files/downloads/IAASB-Amended_CAG_Terms_of_Reference.pdf

IESBA CAG ToR: <http://www.ifac.org/ethics/cag/terms-reference>

IAESB CAG ToR: <http://www.ifac.org/education/cag/terms-reference>

²³ IAASB CAG ToR: http://www.ifac.org/sites/default/files/downloads/IAASB-Amended_CAG_Terms_of_Reference.pdf

IESBA CAG ToR: <http://www.ifac.org/ethics/cag/terms-reference>

IAESB CAG ToR: <http://www.ifac.org/education/cag/terms-reference>

private session includes CAG representatives and the PIOB, but not SSB representatives or the public.

Public Interest Oversight Board (PIOB)

The PIOB is a Technical Committee of the PIOB Foundation. The PIOB Foundation was set up by IOSCO, BIS and IAIS in 2005, and entrusted the activities of public interest oversight to a Technical Committee (PIOB) whose members are appointed by the Foundation Board. This Committee is made up of ten members, including the Chair, nominated by the MG (except one member nominated by IFAC)²⁴, and a secretary general that coordinates a secretariat with a staff of five headquartered in Madrid. The PIOB provides independent oversight of the areas under its mandate.

The responsibility of the PIOB is to ensure²⁵ the public interest responsiveness of the processes and structures under its oversight, namely²⁶:

- (i) to ensure that standard setting follows due process and is responsive to the public interest²⁷,
- (ii) to ensure the completeness of the strategies and work plans of the SSBs²⁸,
- (iii) to oversee the process of nominations to all SSBs and CAGs under its oversight²⁹.

This responsibility is exercised by a simple majority vote of its members when consensus cannot be reached, on the basis of observations and technical analysis by staff. However, a two-thirds majority will be necessary to request the removal of the chair of any SSB or the Compliance Advisory Panel (CAP) for a good cause, or to determine whether additional IFAC activities are public interest activities that should fall under PIOB's oversight³⁰. The vote of each member carries equal weight.

The PIOB also oversees the CAP of IFAC. Through its compliance program and CAP, IFAC monitors the extent to which its member bodies have used their best endeavors to have international standards adopted in their respective jurisdictions, in line with IFAC's "Statements on Membership Obligations (SMOs)". These SMOs include obligations with respect to quality assurance review systems, adoption of IESs, ISAs, Code of Ethics, International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), and discipline and investigation.

The PIOB approves ToR of the SSBs, the CAGs and the CAP, and evaluates the adequacy of funding provided to the SSBs with reference to their strategies and work programs.

²⁴ See MG Charter, <http://www.ipiob.org/media/files/about/MG%20Charter%20only.pdf>.

IOSCO nominates 4 PIOB members, including the Chair; the EC nominates 2 PIOB members, and the IAIS, WB, BCBS and IFAC nominate one each.

²⁵ See MG Charter, page 2

²⁶ The source of these three aspects of the PIOB mandate is the IFAC 2003 Reform Proposals, pages 10 and 11.

<http://www.ipiob.org/media/files/about/IFAC%20Reform%20Proposals%202003.pdf>

²⁷ See PIOB 8th Public report and <http://www.ipiob.org/index.php/piob-oversight/standard-setting-process> for a description of PIOB due process oversight

²⁸ See <http://www.ipiob.org/index.php/piob-oversight/strategies-and-work-plans>

²⁹ See <http://www.ipiob.org/index.php/piob-oversight/nominations>

³⁰ See 2003 IFAC Reforms, page 12

The PIOB has the right to attend all meetings of the boards and committees under its oversight as observer, including closed sessions of SSBs, and has the right of the floor: the IAASB, IESBA, IAESB, their respective CAGs, CAP, IFAC Nominating Committee and the IFAC Board (except executive sessions). The PIOB applies a risk-based oversight methodology that relies on direct observations of meetings and staff monitoring as outlined in the annual Oversight Plans³¹.

Regarding *standard setting*, the PIOB mandate³² is to conduct due process oversight of the standards developed by the three SSBs mentioned above with the aim of ensuring their public interest responsiveness. Public interest responsiveness is the PIOB's primary responsibility, and respect for due process helps ensure that the public interest is embedded in standard development. Oversight of the standard-setting process, including of the CAGs and public consultation processes, helps to ensure that international standards are set in a transparent manner with sufficient attention to stakeholder input, which in turn helps to enhance their legitimacy and ensure that they are appropriate and credible.

In 2011, the PIOB reflected that respect for due process may not always guarantee the public interest³³. The public consultation carried out by the PIOB in 2012 in coordination with the MG enquired about the nature of PIOB oversight, and responses suggested that oversight should be focused on protecting the public interest³⁴. The PIOB agreed that increasing its oversight capacity might enhance its ability to protect the public interest and agreed that a PIOB observer or the PIOB as a whole may raise an issue of substance if the public interest is considered to be at stake.

Regarding the SSB's *strategies and work programs*, the PIOB is mandated³⁵ to determine whether strategic plans are complete, in addition to considering whether due process has been followed in their development. Oversight of the strategies and work programs helps to ensure that SSB work is focused on the needs of users of accountancy services, appropriately reflecting the public interest. The PIOB has the right to ask that particular projects be included in the plan³⁶. The PIOB also approves changes to or extensions of the strategy and work programs.

Regarding the process of *nominations* to select candidates for SSBs, IFAC Nominating Committee and the CAP, the PIOB mandate includes overseeing the selection process managed by IFAC's Nominating Committee and approving the recommended

³¹ See PIOB 7th Public Report

³² See 2003 IFAC Reforms, page 9

³³ http://www.ipiob.org/media/files/attach/ANNUAL_REPORT11.pdf

³⁴ Audit firms and IFAC member bodies expressed serious concerns about having the PIOB go beyond due process oversight to analyze technical content, because they felt that doing so would duplicate the role of the public interest activity committees (PIACs) and CAGs. However, some regulators argued that the PIOB should increase its capacity to carry out technical assessments of standards. ESMA said that the PIOB should not limit its role to due process oversight and could consider substantive issues and, if necessary to protect the public interest, challenge the decisions of PIACs. European Securities and Markets Authority (ESMA) suggested that protecting the public interest could imply analyzing the outcome of the standard-setting process and the quality of the standards. <http://www.ipiob.org/index.php/public-consultation>

³⁵ MG Charter, art. 2.2.

³⁶ IFAC's standard-setting Public Interest Activities Committee's' due process and working procedures, March 2010, IFAC, at https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf: "The PIAC also obtains the PIOB's opinion, as at the date of that opinion, on the appropriateness of the items on the PIAC's work program, and its approval of the completeness of the strategy and work program from a public interest perspective. The PIAC adds to its work program those items that the PIOB resolves should, from a public interest perspective, form part of the PIAC's work program."

appointments to the SSBs, including the Chairs, the IFAC Nominating Committee (excluding its two ex-officio members), and the CAP. The PIOB monitors the annual “Calls for Nominations” and makes recommendations to IFAC regarding issues such as selection criteria or definition of members’ categories. The PIOB attends IFAC Nominating Committee meetings as observer through the full nominations cycle. At the end of the year, the IFAC Board submits to the PIOB for approval the list of candidates selected by IFAC’s Nominating Committee to fill the vacancies in SSBs the year after.

Regarding nominations to the CAGs, the PIOB oversees the CAG process to elect its Chair and approves its nomination, and approves the nomination of new member organizations as well as the appointment of the first representative. The PIOB oversees the five year evaluation of CAG member organizations conducted by the CAG Chair and approves any recommendations.

Oversight of the nominations process helps to ensure that the persons involved in standard setting collectively bring sufficient technical competence and breadth of perspectives to develop appropriate standards.

Regarding oversight of the CAP, the PIOB mandate is limited to being consulted on its strategy and work program and overseeing the due process followed in the reviews of the SMOs.

The PIOB reports to the public through its annual report.

IFAC funds about 50% of the PIOB budget³⁷. The rest of the PIOB budget is supported by the European Commission, which has provided PIOB funding since 2010 through an annual grant³⁸, other MG members which have contributed to PIOB funding since 2013, as well as the United Kingdom Financial Reporting Council (UK FRC) and the Abu Dhabi Accountability Authority (ADAA).

The MG

The MG is the group of regulatory and international public interest and financial organizations committed to advancing the public interest in the field of auditing. It meets this objective by supporting the development of high-quality international standards for auditing and assurance and accountant ethics and education, and by exchanging views relating to international audit quality, and regulatory and market developments having an impact on auditing.

The MG is composed of representatives from the following organizations: the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International

³⁷ 2014 PIOB Financial Statements: <http://www.ipiob.org/index.php/public-reports>.

³⁸ In September 2009, the European Commission decided to award a grant for the Foundation for the period 2010-2013 to support the Foundation’s work program. In April 2014, these contributions were renewed with a multi-year funding program for the period 2014 -2020.

Organization of Securities Commissions (IOSCO), and the World Bank (WB). The responsibilities of the MG are to³⁹:

- (i) Cooperate in the interest of promoting high-quality audit and assurance, ethical and educational standards for accountants.
- (ii) Monitor the implementation and effectiveness of the IFAC reforms and to undertake effectiveness assessments of the IFAC reforms at least every five years.
The MG has the right to make recommendations to IFAC and the PIOB based on its assessment, including proposals for amendments to the 2003 IFAC Reforms.
- (iii) Appoint the members of the PIOB through its Nominating Committee.
The MG Nominating Committee, composed of representatives of BCBS, the European Commission, IAIS, IOSCO, and the World Bank, has the responsibility to develop its own processes to source and nominate PIOB members.
IOSCO has the right to nominate four PIOB members, including the Chair. The EC has the right to nominate two members, and the BCBS, IAIS and the WB have the right to nominate one member each. IFAC can nominate one member to the PIOB.
- (iv) Monitor the execution by the PIOB of its mandate and consult and advise the PIOB with respect to regulatory and legal developments.
- (v) Convene to discuss issues and share views relating to international audit quality as well as regulatory and market developments having an impact on auditing.
- (vi) Approve the annual PIOB budget according to an established approval process.

In accordance with its responsibility to monitor the PIOB's public interest role, the MG addresses issues relating to PIOB funding⁴⁰. Both IFAC and the MG consider it in the public interest that parties other than IFAC shall fund at least 50% of the costs of the PIOB⁴¹.

The MG meets at least twice a year, and at least once a year with the PIOB and with IFAC to discharge its monitoring role. Each MG member decides who will represent the member organization. Decisions are taken by consensus, but if a vote is required, the vote of each member carries equal weight.

The MG receives the PIOB annual report before publication to provide comments.

Extending the scope of SSBs under PIOB oversight requires agreement between the MG, the PIOB and IFAC.

The MG may at any time make recommendations to IFAC and /or the PIOB regarding the 2003 IFAC reforms and operations of the PIOB⁴².

³⁹ MG Charter, 2008, page 1

⁴⁰ MG Charter, page 5

⁴¹ 2003 IFAC Reform Agreement, section 2.6

⁴² MG Charter, page 3: <http://www.ipiob.org/media/files/about/MG%20Charter%20only.pdf>

APPENDIX – GLOSSARY OF TERMS

ADAA - Abu Dhabi Accountability Authority

BCBS - Basel Committee on Banking Supervision

CAP - Compliance Advisory Panel

CAG - Consultative Advisory Group

EAIG - European Audit Inspection Group

EC - European Commission

ESMA - European Securities and Markets Authority

IAESB - International Accounting Education Standards Board

IAIS - International Association of Insurance Supervisors

IAASB - International Auditing and Assurance Standards Board

IEPSs - International Education Practice Statements for Professional Accountants

IEIPs - International Education Information Papers for Professional Accountants

IESs - International Education Standards for Professional Accountants

IESBA - International Ethics Standard Board for Accountants

IFAC - International Federation of Accountants

IFRS - International Financial Reporting Standards

IFIAR - International Forum of Independent Audit Regulators

IAPN - International Framework for Assurance Engagements and International Auditing Practice Notes

IOSCO - International Organization of Securities Commissions

IPSAS - International Public Sector Accounting Standards

ISAEs - International Standards on Assurance Engagements

ISAs - International Standards on Auditing

ISQCs - International Standards on Quality Control

ISRSs - International Standards on Related Services

ISREs - International Standards on Review Engagements

MG - Monitoring Group

PIACs - Public Interest Activity Committees

PIOB - Public Interest Oversight Board

SC- SSB Steering Committee

SSBs - Standard Setting Boards

SMOs - Statements on Membership Obligations

ToR - Terms of Reference

UK FRC - United Kingdom Financial Reporting Council

WB - World Bank