

Public Interest Oversight Board (via electronic mail)  
Madrid, Spain

October 12, 2016

Dear Public Interest Oversight Board,

Thank you for the opportunity to comment on your consultation on the PIOB 2017-2019 Strategy (hereafter the 'Consultation'). Below I respond to those questions where the International Auditing and Assurance Standards Board (IAASB) has relevant experience.

***Q1. Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?***

Yes and no. On page 10 of the Consultation the PIOB has provided an elaborate overview of its current process to identify public interest issues. The overview shows that this process is primarily observation driven, i.e., it starts with observations from the discussions of the standard setting boards (SSBs) and reading comment letters that the SSBs receive. This is in line with the PIOB's oversight role of the due process that the SSBs apply.

However, if it is the PIOB's ambition to provide public interest views relevant to the SSBs activities before or in the beginning phase of new projects, a different approach would be needed. As the Consultation states: "The PIOB intends to develop a more structured methodology for identifying public interest issues and for reflecting these in its interactions with the SSBs and the CAGs." Such methodology should allow the PIOB to provide meaningful comments early on that then can have an immediate impact on the SSBs' project deliberations

This however triggers several questions. The SSBs consult publicly about their upcoming Strategy and Work Plans, as on all their projects in several phases. In its current projects, the IAASB has taken specific steps to give greater prominence to the public interest issues it is addressing in its standard-setting, most notably through the articulation in the project proposals and public agenda material for the Board and its Consultative Advisory Group (CAG). Comment letters are analyzed in SSB Agenda papers. All these documents are fully available to the PIOB as well as the public at large. They are explicitly discussed with the CAGs (which include representatives from all members of the Monitoring Group except IFIAR), and also with IFIAR and other regulators at various levels separately.

So the PIOB should first clarify what issues it intends to identify that would not already be covered by the above described comprehensive due processes. Second, the PIOB's 'more structured methodology' should provide for such issues to be identified in an early phase. Third, what would be the implications for the resources of the PIOB to accomplish this?

It will be important to not create an expectation gap. Given the current resources and time capacity, it may be wise if the PIOB continues its useful initiative of Public Interest Workshops, but with agenda topics that take a longer term perspective— say 10 years forward. This should be prepared with experts and solid research, and it would be important for the IAASB to be actively participating in these debates.

***Q2. In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?***

It is important that a large variety of stakeholders are able to share their views on the SSBs' projects. This includes investors and regulators, of course. Speaking for the IAASB, I am pleased to note the many comment letters that we receive from investors and regulators, as well as the intense discussions with the CAG Representatives, and with regulators and audit inspection bodies separately.

Nominations for SSB membership are open to everybody, and it is interesting to see that the share of self-nominations has notably increased over the last years. If I look at the composition of the IAASB, many stakeholder categories are represented, including the regulator category (currently 3 out of 18 members). I agree that it is more difficult to find specific investor SSB members. But here it should be noted that the CAG Chair participates actively in all Board meetings, and in the case of the IAASB this Chair has a strong investor perspective.

In addition to the CAG Chair, the IAASB has official observers with active speaking rights, currently from the European Commission and the Japanese FSA. There have been some informal discussions with IFIAR leadership about IFIAR becoming an official observer as well, either in the IAASB or in the CAG, but without result so far. Instead, regular meetings with IFIAR (and other regulators) take place directly at various levels.

It may be worthwhile to explore the possibility of further adding some official observers. Such observers fully participate in the SSB's meetings but they do not have to be active in Working Groups and Task Forces, which reduces the time commitment considerably compared to SSB members themselves. We also have the opportunity to engage with external stakeholders as "correspondent members" to Task Forces and Working Groups, usually on specific matters relevant to their respective backgrounds.

However, breadth of stakeholder involvement should not be at the expense of technical expertise around the standard setting table. Such expertise is vital for high quality standards.

Finally, it is also important that the voice of small practitioners (SMPs) is heard. Currently, one IAASB member is from that stakeholder category, although IAASB leadership has strengthened its interactions with important group representing SMPs, specifically the IFAC SMP Committee.

***Q3. Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of SSB members and Chairs? Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?***

The Chair of the Nominating Committee (NC) plays an important role in supporting the high quality of the SSB memberships. The IAASB has much benefitted from the dedication of the various NC Chairs that I have observed, as well from the NC as a whole, in particular also the NC member with whom I interview new potential IAASB members. It has resulted in many very committed IAASB members, with a large variety of backgrounds, and a passion for high quality standard setting in the public interest.

For the future it remains vital that the whole nominations process continues to result in the appointment of such high quality SSB members. The Consultation does not provide an analysis whether that quality would be enhanced if the NC were comprised of more or all public members. It all depends on the qualities of the NC members and Chair themselves, and their familiarity with the Board and its talent needs. Therefore it is difficult to answer Q3.

***Q4. Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?***

No, at least not by definition. The PIOB members who have observed us know that public interest perspectives are paramount in the IAASB's discussions. Many Board members comment on that, irrespective of their background. One cannot draw a dividing line between public members and members from the accounting profession.

The more fundamental aspect of the process is for the Board as a whole, with appropriate input from the CAG and the PIOB, to set out its beliefs on the public interest issues that need to be addressed and then carry out standard-setting projects with this end in mind. Members, regardless of their backgrounds, can often engage at different levels – that is, some are highly focused on the strategic direction on a topic while others are more inclined to carefully study the language used in standard setting in light of their roles in implementation.

The issue therefore becomes achieving an appropriate balance of members who are willing to study the problems at hand, and can invest the time necessary to debate the public interest issues and how they are articulated in the standards. This involves being able to chair Task Forces, participate in them, liaise with their constituencies in their jurisdictions to bring an and informed view to Board debates in order to find practical solutions to the complex issues at hand.

***Q5. Do you think that Public Members should receive modest remuneration for their contribution to standard setting in the absence of a sponsoring organization? If so, who should pay?***

The first question is what the PIOB means with 'modest remuneration'. Second, why should that only apply to public members who do not have a sponsoring organization? There can be a case for individuals who would like to apply for SSB membership on a self-nominating basis and would be in need for some financial support, e.g. an SMP candidate. So far the IAASB has been fortunate in receiving high-quality applications from many, including for public membership and self-nominations, without a financial problem being presented. However, it may be considered to have some funding available in case of specific need of a candidate, after the NC has agreed to the candidate's appointment.

***Q7. Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and or task forces?***

Task Forces and working groups are 'working units', to which an SSB assigns the objective of preparing documents for an SSB's deliberation during its public meetings. Each task force or working group is supported by one or more SSB technical staff, who are responsible for preparing materials for their consideration, and much attention is given to involving the right people on particular groups, including external stakeholders. The nature and outcome of a Task Force's deliberations are transparent, including alternate views considered, and all matters are brought to the attention of the SSB itself for deliberation and decision. It is these SSBs' public meeting where decisions are taken, and therefore where oversight is best placed.

It should be noted that task forces and working groups need to operate with a high degree of efficiency and flexibility. We would therefore encourage that any oversight of task forces by the PIOB be carried out in a manner that allows task forces to continue their effective operation. There is also a serious resource issue if the PIOB would be involved in such groups more structurally.

We have offered the PIOB observation of a working group or task force at its choice to enable the PIOB to better understand the task force process. However, the PIOB has not done so yet.

***Q14. Is there anything the PIOB could do to improve the understanding of its role as a defender of the public interest?***

The IAASB has often expressed its appreciation of the PIOB's oversight, in particular for the full-time observation of our meetings, and the many constructive interventions. PIOB observers have also helped us by providing timely public interest perspectives. Such timeliness is particularly important.

As a case in point, the Consultation notes on page 7 that "the PIOB expressed its disappointment over the final outcome in the auditors' report regarding going concern, which was not deemed to be in the public interest." However, the IAASB was disappointed that the PIOB decided to only express this after the fact, when the IAASB had finalized the new and revised auditor reporting standards with full regard to the public interest including the issue of going concern, since PIOB observers had agreed during several IAASB meetings with the direction that the IAASB concluded to after a lengthy due process.

If the PIOB's ambition is to provide public interest views relevant to the SSBs activities, it is recommended that the PIOB articulates those views as early as possible, and enabled by a 'more structured methodology' (see Q1).

A further aspect where the PIOB can enhance its oversight and the perceptions thereof is transparency. The PIOB has taken useful initiatives in this regard with its Annual Reports, Workshops and Quarterly Updates after its meetings. But agenda papers of the PIOB are not public, nor are its Board meetings. The Consultation mentions on page 10 the PIOB's Public Interest Issues Papers; this might be a good example where transparency can be provided.

***Q9. Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?***

When the PIOB met IAASB leadership in June, PIOB members explicitly encouraged the IAASB to take the time needed to come to appropriate standard setting in response to the complex matters on its current agenda, in particular the Invitation to Comment (ITC) on Enhancing Audit Quality (quality control, group audits, and professional skepticism) and ISA 540 (accounting estimates).

The IAASB CAG also recently expressed explicitly its view that while the standard setting timetable is important, it is the final quality of the standards that is paramount above all else. The CAG therefore supported the IAASB taking the time necessary to ensure quality as its overarching consideration.

This advice from the PIOB and CAG was much appreciated. The essential take-away is that the timeliness of standard development can only be assessed in the context of specific projects, and in public discussions with informed stakeholders.

The outcome of such discussions will vary. The IAASB has accelerated projects several times (e.g., auditor reporting, ISA 540), and provided informative project updates in-between. On the other hand, there are examples where it became evident that more learning time is needed and, therefore, standard setting that is "too quick" would not be appropriate (e.g., integrated reporting, data analytics).

In addition, one must also view the international standard setting process as essentially a practice of change-management. To effect change on a global scale takes time in engaging with and bringing all stakeholders along the development journey. Further, the IAASB must consider the capacities of those inputting to standard setting proposals and those that must change their process to respond to new standards – despite a 120-day comment period, many stakeholders have expressed concern that the volume and complexity of consultations is becoming difficult to keep up with. So, there are always balances that needs to be achieved.

As the Consultation says on page 6: "The better the quality of standards and the governance applied in their construction, the easier their endorsement will generally be."

One element of the lead-time of new or revised standards is the time needed, after the IAASB's and PIOB's approval, for translation and implementation in national jurisdictions across the world. Certainly for developing countries this time is well needed. Too early effective dates would therefore be counterproductive.

**Q12. In your opinion, what else could the PIOB do to encourage adoption and implementation of international standards (ISAs, the Code of Ethics, and the IESs)?**

We are grateful for the PIOB's efforts with regard to adoption and implementation. On page 14 of the Consultation it says: "It would be a welcome clarification for all if the IAASB, IESBA and the IAESB informed stakeholders clearly in their published standards that these standards have received the approval of the PIOB which concluded that due process has been followed in the elaboration of the standard and that proper regard has been paid to the public interest."

Speaking for the IAASB: we are happy to do so. Indeed, already in our recently released final ISA 250 (Revised) we have added a statement at the front of the standard acknowledging the PIOB's approval of due process.

With kind regards,



Prof. Arnold Schilder  
IAASB Chairman