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**FEEDBACK STATEMENT  
AND  
PIOB STRATEGY 2017–2019**

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The PIOB issued the public consultation of its draft 2017–2019 strategy on 26 August 2016.

A total of 32 letters were received by 12 December: [PIOB Strategy 2017-2019 Consultation](#)

The annex to this document [Annex Summary of Responses](#) summarizes the comments received from respondents, grouped in the following categories:

1. Audit networks—5 letters
2. Investor associations—3 letters
3. Regulators (and national standard setters)—6 letters
4. Standard-setting boards and consultative advisory groups (CAGs)—4 letters
5. Professional accountancy organizations—12 letters
6. Individual submissions—1 letter
7. Others—1 letter

The consultation on the PIOB strategy has received wide and thorough feedback, and the document has been adapted to respond to the comments and suggestions received. Particular attention has been paid to the quality of the argument rather than the number of replies. Responding to stakeholder input makes the PIOB confident that its planned actions carry the legitimacy of having carefully considered all views.

The PIOB looks forward to working collaboratively with all stakeholders in the financial reporting process who participated in the consultation. Working together will enhance the relevance and effectiveness of the PIOB so that the public interest can be better reflected and reinforced in the standard-setting process.

The PIOB 2017–2019 strategy consultation and feedback statement coincides with the current initiative of the Monitoring Group (MG) to improve the audit-related standard-setting framework. Accordingly, the PIOB strategy was prepared in coordination with the MG. The objective is to ensure that the PIOB's role and mandate over the next three years (2017–2019) accords in full with the reforms framework agreed between the MG and IFAC.

The PIOB 2017–2019 strategy presented here is based on the remit of the PIOB, as defined by the current standard-setting framework in the field of audit and assurance, ethics, and education for accountants. The feedback statement summarizes the responses to the PIOB consultation and the way in which the PIOB takes these responses into account in its strategy for 2017–2019. If the standard-setting framework in the field of audit and assurance, ethics, and education for accountants should change in the near future, the PIOB will adapt its strategy to the reformed framework, if needed.

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Some respondents highlighted issues that may fall within the scope of possible MG reforms. This document summarizes the responses. Responsibility for the architecture of the standard-setting system is with the Monitoring Group, which is discussing reforms with IFAC. It will be up to the MG to take into account these responses in its reform work. This document does not preclude any future changes to the mandate, operations, or structure of the PIOB as a result of the current MG reform process.

## **1. IDENTIFYING THREATS TO THE PUBLIC INTEREST**

Respondents have offered useful suggestions to help the PIOB to develop a more structured methodology for dealing with public interest issues. These recommendations are now reflected in the strategy.

One of these recommendations is that the PIOB should identify public interest issues early in the development of a standard and convey these issues to the standard-setting boards (SSBs), specifically the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB). The PIOB acknowledges that this is useful guidance for the SSBs. PIOB oversight includes identifying public interest issues at early stages, most notably, through observations of SSB meetings. The PIOB considers the project proposals and exposure drafts and provides input when the SSB is discussing them. The PIOB will continue to identify public interest issues early in the development of standards. However, the PIOB is only able to assess whether a final outcome meets the public interest when all of the consultation processes have been completed, when the disposition of all comments has been monitored, and when the board has produced a final standard. Changes affecting the public interest often take place as the standard evolves and therefore cannot be identified in early stages. Oversight of the public interest responsiveness of standards will continue to require judgment regarding outcomes. The objection that PIOB comments come at the end of the development process is unavoidable, because it is only at the end of the standard-setting process that the PIOB can conclude whether the standard meets the public interest.

A more practicable suggestion is that the PIOB should draw up a framework of analysis of the public interest in international standard setting. Such a framework might help the SSBs to understand the criteria that the PIOB uses to assess the public interest responsiveness of a project and to develop the standards accordingly. This framework might include, for example, the following questions: Are the interests of all stakeholders appropriately recognized in the standard? Does the proposed standard substantively reflect the expectations of stakeholders? Is the standard effective in meeting the objective as stated by the SSBs? Is it clear and implementable? The PIOB needs to consider all of these elements when evaluating the public interest responsiveness of a standard.

The consultation paper posed several structural considerations that, in the PIOB's view, merit consideration to enhance the public interest responsiveness of the current model:



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1. Would the composition of SSBs benefit from wider representation of stakeholders other than the accounting profession, especially investors, audit committee members, preparers, and regulators?
2. Should the Nominating Committee be independent from IFAC in selecting nominations to the SSBs?
3. Should the current definition of SSB members be reviewed, especially those of public members and non-practitioners?
4. Should a scheme for remunerating public members, and all SSBs members in general, be introduced?

The comments received, which are summarized below, in no way preclude the outcome of the current dialogue between the MG and IFAC regarding possible reforms to the current standard-setting system in the field of audit, assurance, ethics, and education for accountants.

The consultation has yielded very broad support (from the profession, regulators, and professional member bodies) for reviewing the current SSB composition so that the accounting profession's interests are not perceived to dominate the concerns of other stakeholders. One audit firm and five professional organizations, however, do not see the need for changes to the current standard-setting model.

The quality of the current body of standards is not questioned; however, all of the audit networks but one acknowledge that some stakeholders continue to perceive the accounting profession as having undue influence in the standard-setting process. The introduction of PIOB oversight has not fundamentally changed this perception. The networks also acknowledge that the lack of remuneration for SSB members constrains the effective involvement of non-practitioners.

Most audit firms support the present dialogue and agree that reforms are needed to eliminate this perception. All firms but one support a review of all elements within the current standard-setting structure and recommend fundamental changes to the standard-setting model. A large number of respondents recognize the importance of maintaining the level of technical expertise through the presence of audit practitioners in SSBs. There is also broad support for an independent nominating process and especially for a chair of the Nominating Committee who is a public member. Some respondents, while supporting an independent chair of the Nominating Committee, stress that membership in this committee should be made up of a broad range of stakeholders in order to translate this diversity into the SSBs themselves. They also believe that the Nominating Committee should have sufficient understanding of the roles and expectations of the positions being filled. However, IFAC and one professional accountancy organization think that consulting on an independent chair of the Nominating Committee and on an entirely separate Nominating Committee exceeds the remit of the PIOB, as these issues are being discussed with the MG.

A majority of respondents are supportive of remunerating public members, but some professional organizations have doubts. The professional organization referred to above



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thinks that public members should not be proposed as SSBs members unless they have a sponsoring organization that will bear the costs. For this organization, the underlying problem is the unwillingness of other stakeholders (associations of preparers, regulators) to bear the costs of sponsoring a member to the SSBs. The role and position of public members, including their nomination, is a subject of significance. A key to finding high-quality public members is the provision of adequate remuneration.

The PIOB agrees with the comment that it should await the results of the Monitoring Group's work before implementing any changes to its structure, role, or operations.

Audit networks outline what they consider to be a standard-setting model under which, in their opinion, stakeholders would feel confident that the standards produced are in the public interest and that the high quality of the standards is preserved. The following are the main changes recommended:

- The standard-setting process needs to ensure that all key stakeholders are fairly represented. The current categorization of board members in three categories is ambiguous and should be reconsidered. Stakeholder groups represented in the SSBs should be investors, regulators, audit committee members, preparers, and practicing auditors.
- SSBs should be smaller; most firms suggest 12 members. Members of the SSBs must have the technical competence to deliberate technical standards. SSBs should operate at a more strategic decision-making level (that is, SSB members could be responsible for strategic decision making and approval, with highly qualified staff responsible for leading project development). This approach would require hiring more staff.
- Remuneration should be considered for all members to attract the most qualified members, who may not be willing or able to commit the necessary time on a voluntary basis.
- The chairs of all standard-setting boards should be independent professionals, objective, and without conflicts of interest.
- Most networks support having an independent chair of the Nominating Committee.

Investors support the need for reform (especially regarding representation in SSBs to end the perceived dominance of the profession), greater independence of the Nominating Committee, and remuneration of public members. The reason for reform is different for investors than for the audit profession, namely, investors can contribute meaningfully to standard setting only to the extent that they are able to influence the process.

From a regulatory perspective, the main argument for reform is that the current model—in which the boards' staff, infrastructure, and operations are managed by IFAC and rely heavily on volunteer resources, often sponsored either by an audit firm or by a professional body—is not the best way to instill user confidence. This argument favors improved



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stakeholder representation and some other changes. Two regulators support sharper oversight of SSB strategies and wider engagement with stakeholders by SSBs during the development of standards. These regulators also support having an independent chair of the Nominating Committee to SSBs or a separate Nominating Committee comprising only public members, who are remunerated. They also suggest reviewing the terms of reference of SSBs and task forces.

IFAC strongly supports a multi-stakeholder approach to standard setting (regulators, investor representatives, accountancy profession, representatives of those charged with governance) and does not oppose having an independent chair of the Nominating Committee.

## **PIOB STRATEGY**

Public interest oversight is an essential condition for credibility of the standards and confidence in the profession. The PIOB will develop a more structured methodology for identifying public interest issues and for communicating them in its interactions with the SSBs and the CAGs. To this end, the PIOB will undertake the following:

- Intensify its dialogue with the MG, CAG members, and other stakeholders, organizing public interest workshops on a more regular basis
- Increase its interaction with SSBs and stakeholders throughout the development of a standard
- Carry out sharper oversight of the strategies of SSBs, specifically through evaluation and approval of the strategies
- Attempt to identify public interest issues early in the development of standards and convey these to the SSBs. This objective is on a best-effort basis and does not preclude the PIOB's right to conclude on the final document
- Draw up a framework for analyzing the public interest in international standard setting.

The PIOB intends to continue working with the MG to support its efforts and to monitor the implementation of reforms agreed between the MG and IFAC.

The PIOB will wait for the outcome of the MG review before revising the terms of reference of all SSBs and the Nominating Committee, which were last reviewed in 2011.

Finally, the PIOB will develop a more structured process for overseeing nominations to SSBs, including the chairs, and to the Nominating Committee of IFAC to encourage a more balanced representation in SSBs.

## **2. STRENGTHENING PIOB OVERSIGHT**





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Some respondents have raised the issue of whether due process oversight is sufficient to guarantee outcomes in the public interest.

Since its Seventh Public Report, issued in May 2012, the PIOB has maintained that, after 10 years of experience in overseeing standard setting under the current system, respect for due process does not guarantee outcomes in the public interest.

The PIOB is mandated<sup>1</sup> to oversee respect for due process only as a tool to achieve the ultimate objective of ensuring that international standards are responsive to the public interest. The PIOB mandate does not preclude using other tools to achieve its objective, such as applying a substantive review of outcomes from a public interest perspective. There are important reasons for this review in the current standard-setting model. First, consultation processes may fail to elicit the views of all relevant stakeholders, such as investors or the public at-large, who may not be sufficiently organized to articulate comments, and consultation processes may turn out to be biased by the active and relatively vocal participation of the profession. Second, the composition of the SSBs, with a dominant presence of accountants and auditors, may not favor a balanced disposition of all comments received. Within the present structure, due process oversight is a means to ensure the public interest responsiveness of the standards, an objective that requires understanding their substance and their impact on the public interest.

One audit network thinks that the PIOB has become more vocal about the issues it considers to be in the public interest and has sought to influence the boards' deliberations on them. It questions whether this influence will have the desired outcome in the longer term. In its view, the more oversight intervenes or overrides due process, the more it risks undermining confidence in the standard-setting boards and the outcome of due process: the standards.

An important issue that comes out of the consultation is whether the current international standard-setting system is fit for purpose in today's world. Today, stakeholders voice their views from all corners of the globe. Often there are conflicting views. Stakeholders offer a wealth of input, as do the CAGs and SSBs' members, which often have the backing of extensive organizations or networks to produce views, suggestions, and proposals. Are the SSBs equipped to deal with such magnitude and variety of input and to ensure that standards respond adequately to the concerns and expectations of the global pool of stakeholders?

As requested by some of the audit networks, the following are some examples of the limitation of due process.

In December 2014, the PIOB agreed that the suite of auditor's reporting standards was approved by the IAASB in accordance with due process, but expressed disappointment about the outcome regarding "going concern," which, in the PIOB's view, did not fully

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<sup>1</sup> The 2003 IFAC Reform Agreements define the objective of the PIOB as being 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" (p. 9).



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meet the public interest. The PIOB's decision was based on the IAASB's removal of the requirement for auditors to include an explicit assurance on going concern at the end of the standard development process. In the PIOB's view, the removal of this assurance was not responsive to the legitimate expectations of investors and other stakeholders for "early warnings" in the auditor's report in relation to the going-concern status of an entity. The PIOB approved the standard on auditor reporting but requested that the IAASB reconsider the matter and submit a proposal on the issue within two years.

Another instance was the extension of the IESBA strategy in November 2013, the approval of which had to be postponed because of concerns related to due process, mainly the failure to solicit stakeholder input on the substantial changes to the revised strategy. Also in relation to the provisions on non-assurance services (NAS) approved by IESBA in 2015, the PIOB noted the limited scope of the project and urged the board to revisit issues on auditors' independence from a broader perspective, such as prohibited NAS, related-fee issues, and the role of those charged with governance in approving NAS.

Regarding the project on Long Association of Auditors, comments raised by stakeholders and the PIOB were not, in the PIOB's view, adequately dealt with initially. In the PIOB's view, the initial outcome did not meet the objective that the IESBA had set for itself, which was to mitigate the familiarity risk that arises from long association of an auditor with his or her client. Moreover, the standard was overly complex. The PIOB offered guidance about the public interest issues that needed to be addressed to facilitate approval by the PIOB, despite the project having undergone formal due process.

These examples show that limiting the PIOB's role to due process oversight would not necessarily have ensured a public-interest outcome of the standard-setting process.

Some regulators identify similar failures in due process, as do some other respondents, that is, cases when standards development have not responded adequately to public interest concerns. These respondents recommend that the PIOB consider its mandate as extending more explicitly to cover outcomes and not just process. In addition, the fact that the PIOB mandate includes ensuring the public interest responsiveness of the standards needs to be made explicit, accepted by all stakeholders, and explained clearly. This does not mean that PIOB oversight needs to deal with the technical content of the standard; rather it needs to deal with the wider impact on stakeholders.

Some respondents think that PIOB oversight should only assess due process. One professional accountancy organization thinks that, in two instances, undue pressure from regulators resulted in standards that are not in the public interest. Another professional organization objects to what it sees as the PIOB trying to influence the content of the standards, saying that, in its own jurisdiction, the public interest is best served by the current legislative procedures.

The majority of respondents do not support PIOB oversight of task forces. Audit networks argue that the perception that the profession is unduly influencing the standard-setting process can only be addressed through bold and fundamental changes to the standard-setting model itself and that oversight should not directly influence the process or override the outcome. If the boards' composition, operating model, and due process are right, the





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standard-setting system will produce standards that are in the public interest and that the PIOB's role should be restricted to overseeing the governance and oversight structure in the standard-setting process. Once reform takes place, this argument can be verified. Oversight of task forces would, however, facilitate early detection of public interest issues, a request of the standard-setting boards.

A few regulators and all investor associations recommend sharper oversight and monitoring of the composition and operations of the task forces to ensure that project proposals are designed from conception with consideration of user's views. Regulators who do not support oversight of task forces argue that the PIOB's independent role may be compromised and that the PIOB should not be involved in the technical content of the standard. At a minimum, both groups suggest that the PIOB should oversee the constitution of task forces.

Both groups share the concern that timeliness in standards development is an important public interest consideration. Other respondents are aware that standard setting takes a long time and that timeliness should be improved, although not at the expense of quality and appropriate consultation with stakeholders. Audit networks also support efficiencies in this respect, for example, by using modern telecommunications and limiting additional consultation to the points modified in the proposed standard.

## **PIOB STRATEGY**

In line with the comments received, the PIOB will undertake the following:

- Explain to stakeholders that the effective delivery of its mandate requires ensuring that the substance of the standard is in the public interest, that all stakeholder input has been adequately considered, and that public expectations and concerns have been met and that public interest oversight entails more than simply checking for formal conformity with due process
- Oversee the constitution and operations of task forces to ensure the balanced participation of stakeholders
- Consider, together with the SSBs, possible time efficiencies in due process, with a special focus on the sufficiency of staff resources required to deal appropriately with the demands of international standard setting
- Ask SSBs to state in their standards that they have been endorsed by the PIOB, which confirms that due process has been followed to ensure the public interest responsiveness of the standards.

## **3. SUPPORTING ACCOUNTING EDUCATION**



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The consultation has offered suggestions regarding what the curricula of accountants should contemplate and how the PIOB can better support the IAESB. There is general support for the PIOB continuing to observe IAESB meetings and providing input to this board.

In February 2017, the PIOB approved the IAESB 2017–2021 strategy and work program, after the IAESB reviewed the first draft submitted to the PIOB in December 2016 in light of comments received from the PIOB.

Most audit networks, with one exception, acknowledge that the skills required from auditors have evolved rapidly alongside changes in the business environment. Complex fair value estimates in financial reporting, forward risk assessment requirements, innovations in technology, sophisticated data analytics, enhanced auditor reporting, demands for better insight into the overall financial standing of a company, and need for sharper business knowledge all turn the task of preparing tomorrow's auditors into a formidable challenge. If they are to challenge management and apply professional skepticism, auditors need to understand the client's business models. Ethics and auditors' behavioral skills also require attention in education programs. Investor expectations of what constitutes relevant financial information also continue to evolve.

One network points out that the remit of the three standard-setting boards—auditing, ethics, and accounting education—differ, so a construct different than that for the IAASB and IESBA might make sense for education. Some respondents note that the composition of the IAESB should be reviewed because defining the skill-set of future accountants should be a collaborative effort among academia and various stakeholders—investors, regulators, audit committee members, preparers, and practicing auditors.

Several professional accountancy organizations note that the content of the education curricula is the responsibility of universities, schools, and national professional organizations, which are well positioned to determine professional competencies. IFAC is of the opinion that education curricula are not relevant to the PIOB's strategy, that the IAESB provides a global benchmark for accounting education, and that education curricula should be the responsibility of universities and professional accountancy organizations.

The PIOB believes that the IAESB 2017–2021 strategy should place the IAESB in a leading role to support introduction of the new skills required in the education of auditors and professional accountants.

## **PIOB STRATEGY**

The current International Education Standards (IESs) are broad and may not be specific enough to favor development of the skills needed to deliver an audit beyond the traditional audit of historical financial statements. This is especially important in developing and transition economies, for which more granularity is needed in the standards and additional implementation guidance is so important. To address comments related to this and other issues related to accounting education, the PIOB will undertake the following:



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- Suggest ways to develop existing IESs (for example, IES 2, IES 3, IES 4, IES 7, IES 8) or introduce new or sector-specific IESs, such as in the areas suggested by the PIOB to the IAESB for consideration in its strategy and its 2017–2018 work plan
- Continue to look into how the IAESB can better fulfill its role in the public interest
- Monitor closer coordination of the IAESB with the IAASB and IESBA
- Support the development of further implementation guidance and material.
- Monitor the adoption of IESs by IFAC members to understand the extent to which IESs are implemented and useful in practice
- Ask that adequate resources be provided to help the IAESB to address some of these challenges.

#### **4. ADOPTION AND IMPLEMENTATION**

Again, the consultation process yielded useful suggestions in the area of adoption and implementation.

One audit network notes that adoption of standards is contingent on confidence in the standard-setting bodies. The PIOB should play a key role in supporting changes that will enhance confidence in the standard-setting bodies and hold the SSBs accountable for developing high-quality standards.

Another respondent suggests that the way in which standards are adopted in each jurisdiction is not always consistent and that jurisdictions adopting standards issued by the SSBs should demonstrate that their standards do not in any respect fall below the requirements contained in standards issued by the SSBs. This comment is very much in line with the policy followed by the PIOB. The PIOB noted in its Eleventh Public Report and in discussions with IFAC that one IFAC member body requires its members to comply with a “General Conditions” document, which in practice limits the applicability of the International Standards on Auditing (ISAs). The PIOB has requested IFAC and the Compliance Advisory Panel (CAP) to consider the extent to which IFAC member bodies may apply “General Conditions” within their jurisdictions. Implementation of the standards should not be considered a “compliance” issue because it relates to the public at-large.

The IESBA notes that the adoption of the Code of Ethics is a complex issue, given that jurisdictions often apply different solutions to what they perceive as ethical issues. The code is considered an important international benchmark in many jurisdictions, even though it may not be effectively adopted. After the global financial crisis, ethics regulation in many jurisdictions has gone well beyond the requirements in the IESBA Code of Ethics, and the PIOB has encouraged IFAC and the IESBA to review the categories of adoption to ensure that they convey the reality of adoption in different jurisdictions.

#### **PIOB STRATEGY**

In line with the outcome of the consultation process, the PIOB will undertake the following:

- Continue to work with the MG to promote the necessary reforms to enhance confidence in the standard-setting model and facilitate the adoption of standards by national jurisdictions
- Work with IFAC and the CAP to monitor the effective application of international standards in the different jurisdictions of member bodies as issued by the SSBs
- Work with IFAC and the CAP to ensure that the categories of classification of adoption of the IESBA Code of Ethics reflect the complexity of adoption.

## 5. TRANSPARENCY AND COMMUNICATIONS

There is very wide support for PIOB transparency, and PIOB updates are widely acknowledged as useful.

Respondents generally support taking additional actions to ensure even greater transparency in the activities of the PIOB and to develop a communications framework that allows more fluid and clear relationships with existing and future stakeholders. There is widespread demand for the PIOB to communicate better exactly how it conducts its oversight. Respondents encourage the PIOB to explore other means of promoting transparency, including providing summaries of standard-setting board meetings at which a PIOB observer participates and providing more insight into the PIOB meetings to reveal more about the PIOB's oversight objectives.

### PIOB STRATEGY

In line with the comments received, the PIOB will undertake the following:

- Communicate more intensely with stakeholders the PIOB's methodology and governance structure
- Explain that it oversees not only respect for due process but also the public interest responsiveness of the SSB outcomes
- Continue to facilitate ways to express the public interest, such as organizing public interest workshops where stakeholders can interact among themselves, with the SSBs, and the PIOB
- Contribute to a more transparent and balanced nomination process for PIOB members by the MG
- Increase the transparency of its operations by making public a summary of the minutes of the PIOB meetings and the main public interest issues raised by observers
- Expand its outreach to new and existing stakeholders.