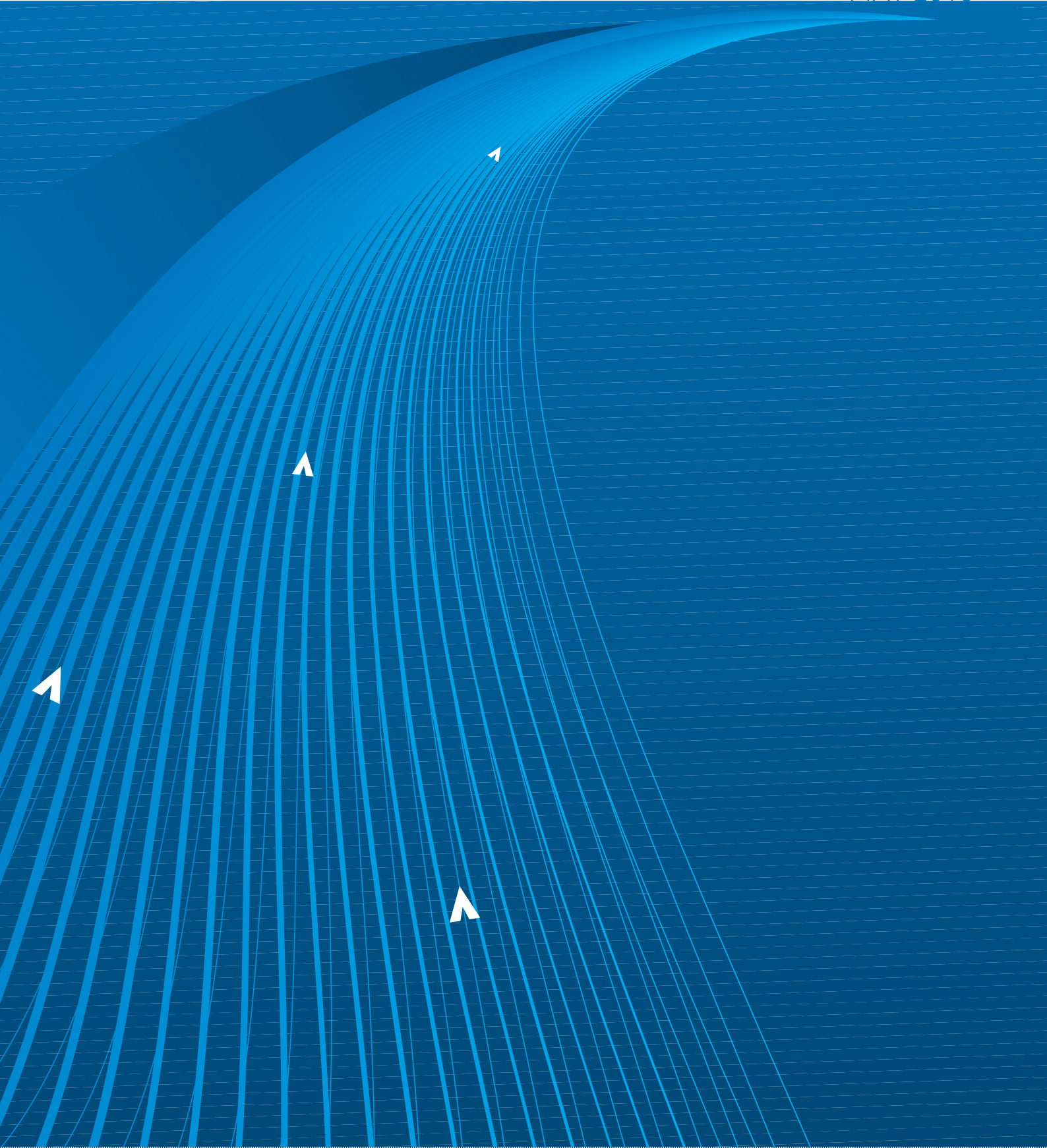




Public Interest Oversight Board

# FIFTH PUBLIC REPORT OF THE PIOB

MAY 2010



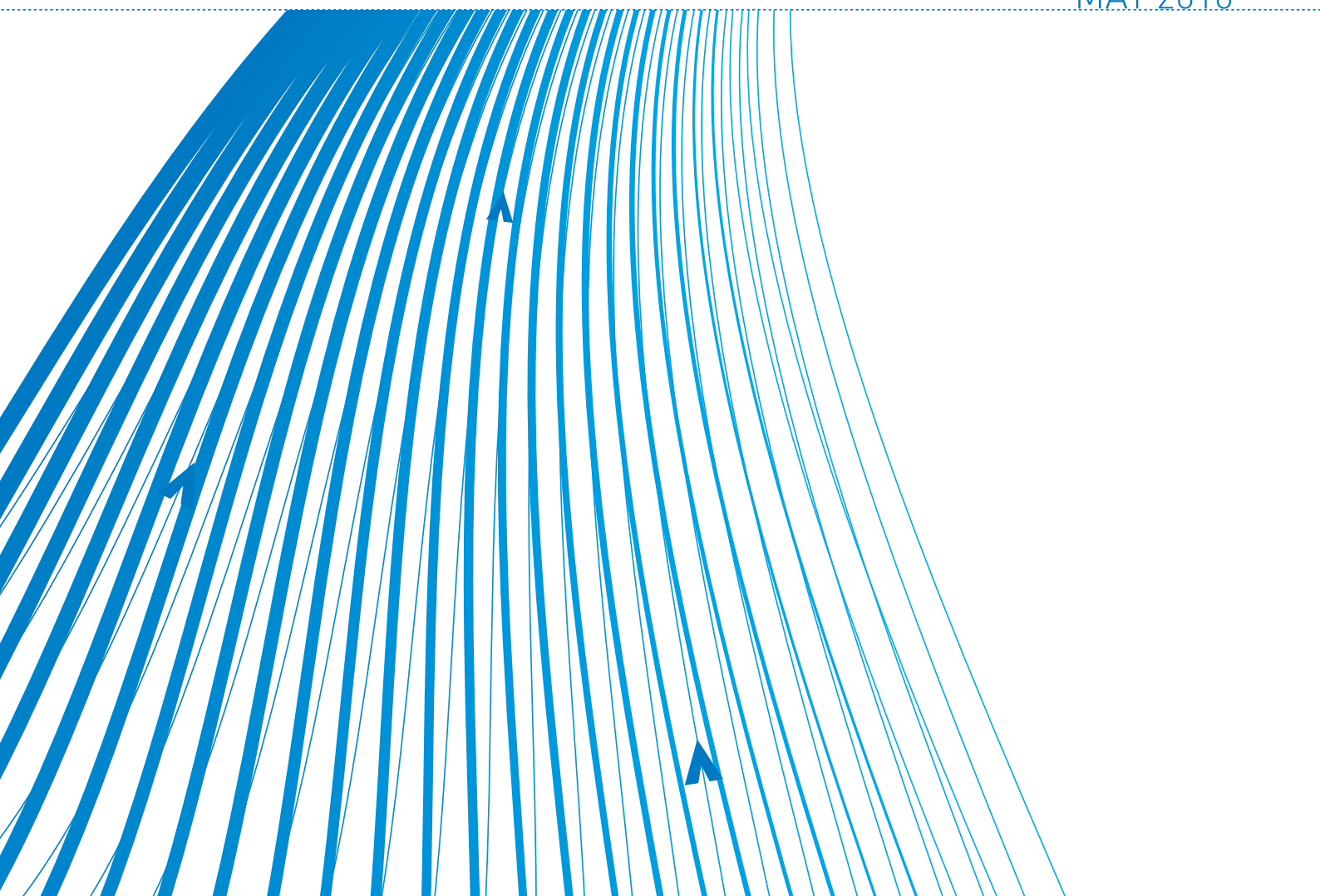




Public Interest Oversight Board

## FIFTH PUBLIC REPORT OF THE PIOB

MAY 2010



Public Interest Oversight Board  
overseeing international audit, ethics and education standards for the accounting profession



## Table of Contents

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	Page
<b>Message from the PIOB Chairman</b>	3
<b>I. The PIOB after Five Years</b>	4
<b>PIOB Oversight Model</b>	4
Processes of the PIACs and CAGs	5
Nominations	6
The Public Interest in Standards Development	7
<b>Improvements after Five Years of Independent Oversight</b>	8
The PIACs	9
The CAGs	10
Nominations	10
<b>II. PIOB Oversight Activities in 2009–2010</b>	11
<b>Introduction</b>	11
Comprehensive Observation	11
Extended Review Framework	13
Regular Communication with IFAC, PIAC, and CAG Leadership	13
<b>PIOB Approval Activities</b>	14
Due Process Completion of International Standards	14
Due Process of PIAC Strategy Plans	15
Due Process Assessments and Approvals of PIAC Nominations	15
CAG Chair and CAG Membership	16
Oversight of the CAP and the IFAC Compliance Program	16
The IFAC’s Triennial Review of PIAC Due Process	17
<b>III. PIOB Communications and External Relations Policy</b>	18
<b>Communications Policy</b>	18
<b>Communications Policy Looking Forward</b>	19
Addressing a Broader Audience	19
External Relations	20
<b>IV. Looking Forward</b>	22
<b>PIOB Funding</b>	22
<b>PIOB Future Directions</b>	22
A Collaborative Process: Contributions to Convergence and Stability	23
The Expanding Scope of Audits	23
Education Standards	24
<b>The Challenges of Adoption and Implementation</b>	24
<b>V. PIOB Foundation Summary Statement of Financial Performance</b>	26
<b>Appendix A. The PIOB</b>	27
<b>Appendix B. Glossary of Terms</b>	28



(From left to right)

**Back row:** Kai-Uwe Marten, Michael Hafeman, Fayezul Choudhury, Aulana Peters and Sir Bryan Nicholson.

**Front row:** Gonzalo Ramos (Secretary General), Antoine Bracchi, Stavros Thomadakis (Chairman), David Brown and Toshiharu Kitamura.

## ➤ Message from the Chairman



International standard setting in the areas of audit, auditor ethics, and education is entering a new phase. The completion of the Clarity project and the revision of the Code of Ethics, including the Independence project, signal the opening of new areas that need to be covered and new activities that need to be subjected to rigorous international standardization.

The mandate of the Public Interest Oversight Board (PIOB) includes two main objectives. The first is to oversee the development of new standards and the revision of existing ones; the renewal of the standard-setting boards; and the operation of the standard-setting architecture, including the work of the consultative advisory groups. The second is to increase the confidence of outside stakeholders that the standard-setting process is upholding the public interest. Over the past year we have devoted all of our efforts to the fulfillment of these objectives.

An important development of the past year has been the review undertaken by the Monitoring Group of the International Federation of Accountants (IFAC) reform and the PIOB. This effort has signaled a high level of engagement by Monitoring Group members and has spearheaded a constructive dialogue over reform and public oversight. In the context of the review, the PIOB has conducted a detailed self-assessment and has examined critically its own mandate, its composition, its mode of operation, and its wider impact. It has also assessed its relationship to the Monitoring Group and the prospect of forging closer and more strategic ties between itself and world regulators.

We have welcomed this review, and we will continue to contribute to its successful completion. We look forward to working with the Monitoring Group and the IFAC to implement the recommendations of the review. The exercise has been a great opportunity to engage in constructive and sincere dialogue with the Monitoring Group about the requirements of the public interest and about regulators' expectations given the new global conditions. I have confidence that the outcome of the review will offer a blueprint for change that will inform the task of public interest oversight with new directions and higher effectiveness.

**Stavros Thomadakis**

PIOB Chairman



## ➤ Chapter I

# The PIOB after Five Years

When the Public Interest Oversight Board was created in 2005 as part of the 2003 IFAC reform, major financial scandals had seriously eroded the public trust in the reliability of financial reports and in the usefulness of independent audit opinions. Regulators and other public policy entities called for measures that would effectively address concerns about the audit process and the conduct and competence of audit practitioners. In this context, the core objectives of the IFAC reform were not only to improve the quality of the standards governing these activities, but also to improve the process by which the standards are developed and to enhance the focus on ensuring that the public interest is being served. These objectives could best be achieved by instilling greater rigor, transparency, and accountability into the process by which international standards are formulated.

The structure emerging from that reform had two essential elements: first, the continued responsibility of the IFAC for supporting standard-setting boards that act independently in the setting of international standards for auditing, education, and ethics of accountancy professionals, conditioned on substantial reform of the governance, composition, and operations of these standard-setting boards; second, the creation of a new body (the PIOB), completely independent of the audit profession, to oversee the governance and activities of each standard-setting body.

This two-pronged approach enabled the international community to continue to benefit from the commitment of experienced audit professionals to the development of high-quality standards that are responsive to the challenges that they and their clients face in providing effective audit and assurance services. The perceived conflict of having the

profession participate in setting its own rules was offset by several measures, most importantly the creation of the PIOB, whose members were to be appointed by the Monitoring Group through its Nominating Committee. The PIOB's mandate was to oversee the standard-setting process to ensure that it is conducted in the public interest. Requiring approval by the PIOB before any standard becomes effective made the IFAC accountable to an independent body responsible for monitoring its commitment to promote the public interest in its standard-setting activities.

The sections that follow describe how the PIOB endeavors to ensure that the activities of the accountancy profession sponsored by the IFAC and subject to PIOB oversight continue to serve the public interest and that the views of all stakeholders with an interest in the quality of international standards, particularly those in the regulatory community, are taken into account. In doing so, we review the PIOB's evolving role and oversight model; the effectiveness and responsiveness of our oversight over the years; the greater rigor gained throughout the standard-setting process; PIOB funding; and PIOB contributions to the international financial system.

### **PIOB Oversight Model**

The PIOB was established to oversee the standard-setting processes sponsored by the IFAC in the areas of audit, education, and ethical standards for professional accountants, including independence and ethical requirements for auditors, quality control and assurance standards, and compliance.

The PIOB's oversight responsibility extends, specifically, to three of the independent



standard-setting bodies under the aegis of the IFAC and their respective consultative advisory groups (CAGs): 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 also oversees the Compliance Advisory Panel (CAP) of the IFAC, which evaluates the compliance of members with IFAC membership obligations, including each member's progress in promoting the adoption of private and public sector accounting (International Financial Reporting Standards and International Public Sector Accounting Standards), audit, ethics, and education standards. These independent standard-setting bodies and the CAP are collectively referred to as the public interest activity committees (PIACs).

The PIOB carries out its oversight responsibilities through a combination of procedures, including direct and comprehensive observations of the PIACs and CAGs; oversight of the process followed for nominating PIAC members; intensive interaction with IFAC leadership; reports from and dialogue with PIAC and CAG chairs; and independent staff reviews. The PIOB's goal is to examine each aspect of the standard-setting activities to ensure a rigorous focus on the public interest. It aims to achieve accountability, transparency, and responsiveness to stakeholders' needs throughout the process.

In order to ascertain whether the public interest is being served through its oversight, the PIOB answers three core questions: Are the PIACs' processes the right ones? Are the right people implementing these processes? Are the processes being implemented properly?

### ***Processes of the PIACs and CAGs***

The PIOB examines the quality, transparency, and public interest focus of two key processes: the strategic plans and priority setting of standard-setting boards and the standard-setting activities and interaction of the boards with the respective CAG. The PIOB considers it important to evaluate each of these processes to determine whether due process has been designed in a way that is responsive to the public interest.

In its second year of operation, the PIOB requested the development of a common framework for use in the PIACs' strategic planning. The framework was subsequently developed and applied by all three independent standard-setting boards in the development of their strategic plans. These plans were approved by the PIOB as satisfying due process requirements and being complete from a public interest perspective. Since then, this framework has been applied to every new strategic plan developed.

A similar role was played in the development of the PIACs' Terms of Reference as well as key policies and working procedures. For example, in its first year of operations, the PIOB encouraged a new IFAC statement of due process and working procedures, which it proceeded to review and approve. The due process approved by the PIOB had five main features: consistency and high quality across the three standard-setting boards; a high level of transparency; an explicit recognition of the PIOB's role; an open consultation process during the "exposure period" for new standards; and the requirement of satisfying the PIOB that the process applied to the development of a new standard fully complied with the approved process. Since then, this due

process and these working procedures have been applied consistently across the three standard-setting boards.

Further, earlier this year the PIOB reviewed a draft of the IFAC's first triennial review of these procedures and requested changes to clarify the role of the PIOB. The PIOB also provided additional observations, which were considered by the IFAC and reported back by the end of 2009.

### ***Nominations***

The PIOB closely oversees the process for populating the standard-setting boards with members, chairs, and deputy chairs, which includes the process for seeking nominations as well as the selection of nominees presented to the IFAC board. The PIOB closely monitors the nominations process through direct observation of all meetings of the IFAC Nominating Committee and regular consultations with IFAC leadership on issues concerning nominations. The PIOB also reviews and approves the appointments of new CAG member organizations to ensure that such appointments will maintain or, as appropriate, further the diversity of the CAGs' memberships and improve their contribution to the standard-setting process.

The governance structure and rotational policy of standard-setting boards have been formulated following recommendations by the PIOB to address several (sometimes competing) objectives, all of which are in the public interest, namely: to ensure that each group is composed of individuals with a broad variety of regional, professional, and other perspectives; to maintain an appropriate balance in all respects, in particular, the requirement for parity between practitioners

and non-practitioners; to balance the need to introduce fresh viewpoints and experience on a regular basis with the need to maintain essential continuity, especially at the leadership level; to require the appointment of public members and to enlarge the pool from which they are drawn; and to uphold the principle of the "best person for the job."

Additionally, in response to the PIOB's request, the Forum of Firms now proposes multiple nominations to fill each of the positions allocated to it in the standard-setting boards. This has significantly increased the transparency of the nomination process by shifting to the Nominating Committee the capacity to choose among various candidates to achieve diversity objectives.

The PIOB also oversees the nomination process of CAP members as well as the chair and deputy chair. These nominations follow the same process as the rest of the PIACs. The PIOB approves these nominations.

In reaching conclusions on appointments, the PIOB first considers the transparency, inclusiveness, public interest focus, and overall quality of the due process used in recruiting and selecting final candidates. It then considers the balance and impact that the proposed appointments would have on the composition of each PIAC and on its effectiveness in reaching its goals.

Since its inception, members of the PIOB have attended 28 meetings of the Nominating Committee, and the PIOB has followed the development of nomination slates, deliberated on them, and approved approximately 100 nominations to the PIACs. In addition, the PIOB has approved all new CAG member organizations and their initial representatives.

### ***The Public Interest in Standards Development***

Standard setters are given final authorization to publish each finished standard only after three conditions have been met: the PIOB has determined that all due process steps have been followed effectively and with proper regard for the public interest; the PIOB has obtained assurance from the CAG chair that issues raised in the CAG have been duly considered; and the PIOB has conducted its own, independent due process review.

In applying its oversight model, the PIOB closely supervises the ongoing process of deliberation, consultation, and finalization used throughout the development of each and every standard. Two years ago the PIOB requested that independent standard-setting boards provide quarterly reports on the status of the due process steps for each standard under development. Since then, each standard presented for PIOB approval prior to final publication must be accompanied by an individual evaluation of due process prepared by the IFAC's executive director for professional standards.

Three substantive features of this process pertain directly to the achievement of public interest objectives and therefore require close attention. The first of these is the PIOB's assessment that CAG comments are being duly considered. Given the diversity of membership of the CAGs and the independence of member organizations from the profession, the PIOB considers the views expressed during CAG deliberations to be a key indicator of the public interest. The PIOB considers whether all significant issues confronting the standard-setting boards have been raised with the CAGs. At the PIOB's request, the independent standard-setting boards now have to report back to the CAGs on the dispositions of CAG

comments, and CAG chairs have to provide the PIOB with assurance that CAG comments have been appropriately considered by the PIAC.

The second substantive feature of this process is a determination that comments coming from stakeholders who represent a strong public interest perspective are considered in a comprehensive and responsive fashion.

Finally, the PIOB examines whether the independent standard-setting boards adequately describe how they have dealt with the comments received and, where a board has not adopted material changes recommended by respondents, whether the reasoning is explained adequately. This is addressed in the Basis for Conclusions, a public document identified by the PIOB as being a critical indicator of whether the public interest has been fully considered and dealt with in an appropriate manner. At the recommendation of the PIOB, this document has become more comprehensive and informative and is now prepared for each standard.

Since its inception, members of the PIOB have observed 118 meetings of the PIACs and their respective CAGs. In addition, the PIOB has determined that due process has been effectively followed and with proper regard for the public interest for 51 standards, including "closed-off" forms of standards; all of the Clarity project's International Standards of Audit (ISAs); one International Standard on Quality Control; one International Education Standard; three International Education Practice Statements; and the redrafted Code of Ethics for Professional Accountants, which included separate projects on revisions to sections 290 and 291, which deal with network firms and independence.

## Improvements after Five Years of Independent Oversight

The PIOB oversight model combines attributes that have been developed and refined over time.

At the forefront of this model are direct observations of PIAC and CAG activities, which enable the PIOB to understand the dynamics of standard-setting work and to evaluate the quality and effectiveness of their deliberations. A PIOB member personally observes all PIAC and CAG meetings, which allows him or her to form first-hand opinions on the overall level of professionalism, engagement, efficiency, transparency, inclusiveness, and public interest focus of each PIAC and CAG. These opinions, along with other inputs, contribute to the formulation of the PIOB's final view on the appropriateness of each stage of the process used to develop individual standards.

Direct and comprehensive monitoring of PIAC and CAG activities also enables timely PIOB intervention when public interest concerns arise and ensures that the final assessment of each completed standard will reflect and incorporate the observations and conclusions of PIOB members on transparency and fairness accumulated during development of the standard.

These first-hand observations are supplemented with reports from and dialogue with the PIAC and CAG chairs. The PIOB meets regularly with IFAC leadership on nominations and other public interest activities undertaken by the IFAC board. The PIOB Chairman normally attends IFAC board meetings. Discussions cover items brought to the PIOB by the IFAC for consideration as well as matters raised by PIOB members.

Its continuous presence at all IAASB and IESBA meetings during the final phases of the Clarity and the redrafted IFAC Code of Ethics projects enabled the PIOB to assess how well these groups maintained focus on the public interest while dealing with an extraordinarily large workload. Based on close observation, the PIOB provided specific input to the PIACs and CAGs and, in some cases, offered recommendations on matters of public interest.

In addition, regular exchanges with IFAC leadership provide the PIOB with valuable insights into key developments and initiatives having an impact on the public interest environment prevailing within the IFAC and on the progress of nominations and the development of related policies. Discussions with the PIAC and CAG chairs provide similar insights into specific standards and the overall conduct of their activities.

The work conducted by PIOB staff under the Extended Review Framework (ERF) Program provides additional independent assessments of the due process applied to the development of individual standards and the strategic plans of standard-setting boards. Through ERF procedures, the PIOB takes a closer look at the effectiveness of the various steps completed during the life cycle of the standards, especially the period between the commencement of the public consultation process and finalization of the standard. Full ERFs or, alternatively, focused ERFs are applied to all standards on the basis of public interest priorities. These reviews have identified generic due process and public interest-related issues that can be communicated to the IFAC for corrective action. The PIOB focuses on the quality of due process and does not comment on the technical substance of individual standards. Nevertheless, the PIOB intervenes on both counts whenever it believes the public interest is at risk.



The PIOB's oversight model focuses on achieving an appropriate balance among various perspectives, so that the views and concerns of all constituencies are heard and incorporated into final solutions where appropriate. When assessing the completeness of the due process applied, the PIOB focuses on the integrity of the processes used to aggregate, assess, and reflect public comments. This includes the quality and completeness of deliberations and the quality and transparency of public accountability reports to the CAGs and other interested external parties.

Finally, the PIOB maintains ongoing contact with international and national regulators and other entities with an interest in enhancing the quality of audits and increasing public confidence in financial reporting. These interactions with interested external parties are a source of continuing public interest perspectives and priorities that help to maintain a well-balanced and independent view. As such, they are a useful complement to other consultation processes and a valuable input to the oversight model.

The PIOB's efforts to define and make the term "public interest" operational are realized through the processes below.

### ***The PIACs***

After five years of reform, all three independent standard-setting boards overseen by the PIOB apply rigorous and consistent processes and operating procedures designed to serve the public interest. Both standards setting and strategic planning are conducted in a highly transparent and inclusive manner. Final board decisions are documented and explained through new or improved public accountability

documents. Further, each standard-setting board has achieved parity in the balance and diversity of perspectives between practitioners and non-practitioners and made measurable progress toward the attainment of other diversity goals. Furthermore, the inclusion of three permanent observers on the IAASB and the IESBA (representing the Public Company Accounting Oversight Board, the European Commission, and the Japanese Financial Services Agency), all with rights of the floor, has helped to broaden the scope of deliberations of each standard-setting board. Finally, the PIOB continuously monitors the due process of the PIACs.

Compliance by IFAC member bodies with their membership obligations has made significant progress under the vigorous leadership of the Compliance Advisory Panel. Membership obligations include, on a best-endeavors basis, adopting and supporting implementation of standards developed by the PIACs and the IASB. In addition, action plans designed to ensure and enhance compliance with membership obligations are being developed by IFAC member bodies under the guidance of the CAP and are progressing, or have progressed, to the stage of implementation. Many IFAC member bodies have already adopted and are executing their action plans. The PIOB believes that the compliance program has become, and will continue to be, an important platform for encouraging and facilitating convergence toward international standards. The rigor and focus of the CAP are already enhancing the quality of the profession, assisting member bodies to develop meaningful action plans for compliance with Statements of Membership Obligations (SMOs), and, through this activity, positioning prospective members for further assistance and funding.

### ***The CAGs***

After five years of reform, all CAGs are independently led and meet in public. The CAG chairs attend meetings of the respective standard-setting boards, where they regularly exercise their rights of the floor. Each CAG has developed effective mechanisms to measure the responsiveness of its board to the input of members. Finally, these groups are subject to continuous PIOB oversight.

The comments and views of CAG members constitute a critical and highly valued input to the standard-setting boards, and the CAGs' diverse membership—with some issues regarding the Education CAG referred to later in this report—ensures that an adequate number of varied and responsible stakeholders participate in CAG deliberations and thus influence the standards.

### ***Nominations***

After five years of reform, all board and committee candidates, not just those standing for appointment to the PIACs, are recruited and selected using significantly enhanced criteria and procedures that incorporate recommendations made by the PIOB. More comprehensive, targeted, and transparent

annual calls for nominations have dramatically increased the volume and diversity of well-qualified and talented candidates for practitioner, non-practitioner, and public member vacancies. The annual call for nominations now explicitly emphasizes the role of the public interest in the nominations process, and the commitment to the public interest has been specifically identified as a component in IFAC's Performance Evaluation Program, implemented two years ago. All due process aspects of the IFAC nominations are overseen by the PIOB, which gives final approval to all PIAC appointments.

The requirement for parity between practitioners and non-practitioners on the standard-setting boards, including designated public members, aims to balance the viewpoint of audit professionals with a broad spectrum of perspectives from other professionals, including academic and government experts. Furthermore, parity strengthens the boards' independence and enhances their external credibility; additional diversity in the form of better geographic balance has been achieved, and progress has been made on gender balance.

## ➤ Chapter II PIOB Oversight Activities in 2009-2010

### Introduction

PIOB oversight activities include comprehensive observation, an Extended Review Framework, and regular communication with the IFAC, PIAC, and CAG leadership.

Through its oversight activities the PIOB has found that all PIACs have remained attentive to considerations of the public interest in developing high-quality global standards and how their work influences public needs and expectations. Standard-setting boards have become increasingly aware of the special needs and characteristics of small and medium-size enterprises and small and medium-size practitioners. In addition, the PIACs have given due consideration to the specific needs of developing nations.

The three CAGs have supported the development of international auditing, education, and ethical standards. They have provided technical advice, underlined important aspects of the public interest, articulated specific needs of a large variety of stakeholders, and contributed a wide array of perspectives to the standard-setting process.

### ***Comprehensive Observation***

This year the PIOB continued its policy of comprehensive direct observations of all meetings of the PIACs, the CAGs, and the IFAC Nominating Committee. This allowed the

PIOB to assess directly the work of these bodies and to provide comments and recommendations on matters of public interest and due process. Direct observations enabled the PIOB to interact with the chairs and deputy chairs, members, their technical advisors, representatives from IFAC membership, occasional guest speakers, and other attendees. They also allowed the PIOB to assess the transparency and thoroughness of these groups in setting standards (PIACs), in providing technical advice and perspectives (CAGs), and in evaluating progress in the implementation of standards and in compliance with IFAC membership obligations (CAP).

Based on this year's observations, the PIOB has conducted its individual assessments and collective deliberations to determine how well the public interest has been safeguarded and whether due process has been followed in the setting of individual standards, PIAC strategies, and new projects in different stages of development. After completing the assessments, the PIOB was able to decide whether to grant approval. The independence of mind and the objective stance of the PIOB gave it the authority to be firm, critical, or supportive according to the circumstances.

Table 1 provides comparative information on the scope of the PIOB's observation activities during its first five years of operation:



**Table 1. Observation Activities, 2006–2010**

Meeting Date Entity	4/2006-3/2007		4/2007-3/2008		4/2008-3/2009		4/2008-3/2010	
	Held	Observed	Held	Observed	Held	Observed	Held	Observed
IAASB	6	6	5	5	4	4	4	4
IAASB CAG	2	2	4	4	2	2	2	2
IESBA*	4	3	4	4	5	5	3	3
IESBA CAG	2	2	4	3	3	2	2	2
IAESB	3	3	3	3	4	4	3	3
IAESB CAG	2	2	2	2	2	2	2	2
CAP (from April 2007)	0	0	5	5	5	4	4	4
IFAC Nominating Committee	8	8	8	7	8	8	8**	8**
<b>Total</b>	<b>27</b>	<b>26</b>	<b>35</b>	<b>33</b>	<b>33</b>	<b>31</b>	<b>28**</b>	<b>28**</b>

\* In the April IESBA meeting held in New York, Mr. Richard George (IESBA chair) noted that if the IESBA met its target of approving Drafting Conventions at that meeting, the meeting scheduled for June 2009 would likely be canceled.

\*\* Two teleconferences.

The overall volume of observations in 2009 appears similar to previous years. Individual agendas for each PIAC and CAG show that they faced new and, in some respects, more complex challenges this year, as they began to develop clear and distinct priorities for the short- and mid-term future. A brief review of this year’s PIAC agendas shows significant differences from prior years.

After completing its Clarity project, the IAASB began promoting the adoption and implementation of the clarified International Standards of Audit (ISAs) through a twofold approach: first, by providing support for the application of ISAs to those responsible for adoption, implementation, and training, as well as to auditors, in the form of video modules; second, by developing a procedure

for monitoring implementation of the clarified ISAs and analyzing the approaches to implementation, in order to determine whether refinements or revisions might be needed.

Responding largely to public demands, the IAASB embarked on new projects in 2009. These included audit standards (for example, revisions to ISA 610, Using the Work of Internal Auditors, and IAPS 1012, Auditing Derivative Financial Instruments). It also began work on projects that go beyond audit standards for financial reporting, such as assurance services standards in new areas like greenhouse gas emissions and XBRL (eXtensible Business Reporting Language). The IAASB has proved responsive to public demand for both greater accountability and reliability in these new areas.

This year, the IAESB concluded two major projects after several years of work: its revised Framework for International Education Standards and its Drafting Conventions. The IAESB also concluded its new Strategy and Work Program for the next three years. During this period, the board is expected to undertake and complete another critical project: the redrafting and revision of all current International Education Standards (IESs). This work is being supplemented by several new guidance projects and a more active communications strategy. The objective of the board is to enhance education by revising the IESs to increase the competency of the accountancy profession and strengthen the public trust in its work. This will place the accountancy profession in a better position to respond to public needs and expectations.

The IESBA completed the redrafting of the IFAC Code of Ethics for Professional Accountants and revised additional independence requirements in the code under the Independence II project. Some jurisdictions may find that this document needs further revision, given the complexities and challenges of global adoption.

The IESBA has also been working on its new strategy and work plan for the next three years. The plan contemplates the development of provisions dealing with complex matters such as conflicts of interest and fraud and illegal acts. These IESBA projects have been developed to respond to international public calls for greater accountability, transparency, and ethical values in the context of the current financial crisis.

In addition, the CAP and the Nominating Committee continued to meet frequently and carried a heavier workload than in previous years. The conclusions of the PIOB's observations of the CAP and the Nominating Committee are presented later in this chapter.

### ***Extended Review Framework***

The diversified agendas of the PIACs and CAGs this year entailed a heavy workload for the PIOB that included overseeing the standards finalized during the year as well as those in various stages of development. PIOB staff continued to conduct Extended Review Framework (ERF) reviews and focused reviews. It also continued monitoring the activities of the PIACs and CAGs. The ERF's role within PIOB oversight was discussed in the fourth public report. The thoroughness of these independent internal reviews has helped the PIOB to fulfill its oversight responsibilities. The PIOB has been able to identify and communicate specific findings to relevant parties and to request timely actions when required by the public interest and due process. PIOB oversight procedures, approvals, recommendations, and discussions at an early stage of the work of each PIAC have enabled the PIACs to advance their 2009 agendas without interruptions or delays.

Overall, PIOB staff conducted five ERFs and one focused review, as detailed later in this chapter.

### ***Regular Communication with IFAC, PIAC, and CAG Leadership***

In addition to direct observations, independent reviews, and other monitoring activities, the PIOB continued to interact regularly with the IFAC leadership, the chairs of PIACs and CAGs, and relevant senior members of IFAC staff. Interaction with these parties takes place at each PIOB quarterly meeting. The frequency of these meetings provides the IFAC, PIAC, and CAG leadership with the opportunity to discuss matters of common interest with all PIOB members. They also provide the PIOB with specific input for consideration in its deliberations and with an opportunity to convey its recommendations.

The PIOB also continued to benefit from the useful presentations made by the PIAC and CAG chairs on the work of their respective bodies. These updates provide the PIOB with valuable insights. The PIOB looks forward to continuing this interaction during the coming years.

In July 2009 the IFAC hosted a G-20 Accountancy Summit, which brought together in a single forum the collective perspectives and opinions of the accountancy profession from the G-20 countries on how accountants and auditors can best contribute to the stability of the global financial system. The PIOB was invited to participate as an observer in this summit. It actively engaged in the discussions and offered opinions on the summit conclusions. The PIOB believes that this summit constituted a commendable IFAC initiative from a public interest perspective. The conclusions reached at the meeting, and reported to the G-20 authorities, proved that a stronger accountancy profession can play a relevant role in assisting the recovery of the international economy.

### PIOB Approval Activities

This year, the PIOB agenda of approvals was dominated by standards finalized by the IESBA and the IAESB and by one assurance standard issued by the IAASB. The PIOB agenda also included other activities related to its oversight mandate.

### *Due Process Completion of International Standards*

A core responsibility of the PIOB is to conclude whether due process has been followed effectively and with proper regard for the public interest in the finalization of each standard and other pronouncement. Only standards approved by the PIOB can be published by the respective standard-setting body.

Table 2 lists the standards that were approved this year at PIOB quarterly meetings. It also describes the specific type of independent review (full-scope ERF or focused review) performed in each case. The PIOB concluded that due process had been followed effectively and with proper regard for the public interest in all of them.

**Table 2. Approvals**

PIOB meeting	Standard	Name	PIOB review
July 2009	Code of Ethics	Independence 2	Full ERF
		Drafting Conventions	Full ERF
December 2009	ISAE 3402	Assurance Reports on Controls at a Service Organization	Focused review
		Framework for International Education Standards for Professional Accountants	Full ERF
		Appendix 1, Framework for International Education Standards for Professional Accountants IAESB Drafting Conventions	Full ERF
March 2010		IAESB 2010–2012 Strategy and Work Plan	Full ERF

### ***Due Process of PIAC Strategy Plans***

The IAESB finalized its 2010–2012 strategy and work plan, which the PIOB approved in March 2010, and is expected to complete its project to redraft and revise all of its current IESs during this three-year period. The IESBA has been making progress toward developing its own 2010–2012 Strategy and Work Program, which it expects to finalize later in 2010.

The PIOB has been overseeing the development of these two documents. When the IESBA submits its strategy for PIOB's approval, two

aspects will be considered: the due process followed in developing and finalizing these two strategies and the completeness of these documents from a public interest perspective.

### ***Due Process Assessments and Approvals of PIAC Nominations***

In 2009 the PIOB oversaw the process to fill vacancies in the PIACs and to appoint three deputy chairs and a new IESBA chair.

Table 3 lists the nominations approved at the September 2009 meeting.

**Table 3. Nominations Approved at the September 2009 Meeting**

Group or individual	Appointments		Total
	New	Renewed	
<b>International Auditing and Assurance Standards Board</b>			<b>6</b>
IAASB deputy chair	1		1
IAASB members	2	3	5
<b>IAASB Consultative Advisory Group</b>			<b>4</b>
IAASB CAG chair	1		1
IAASB CAG members	3		3
<b>International Ethics Standards Board for Accountants</b>			<b>10</b>
IESBA chair	1		1
IESBA deputy chair	1		1
IESBA members	8		8
<b>IESBA Consultative Advisory Group</b>			<b>3</b>
IESBA CAG members	3		3
<b>International Auditing Education Standards Board</b>			<b>7</b>
IAESB deputy chair	1		1
IAESB members	1	5	6
<b>IAESB Consultative Advisory Group</b>			<b>2</b>
IAESB CAG members	2		2
<b>Compliance Advisory Panel</b>			<b>5</b>
CAP chair	1		1
CAP deputy chair	1		1
CAP members	3		3

On all PIAC appointments (including some reappointments), the PIOB considered the transparency, inclusiveness, public interest focus, and overall quality of the due process followed in the call for nominations and in the assessment of individual candidates. The PIOB also considered the impact that new appointments would have on the composition of the PIAC and its ability to achieve its goals and fulfill its duties.

Following the retirement of Chairman Richard George, who served as IESBA chair for five years, the PIOB approved the appointment of Mr. Kenneth Dakdduk as the new IESBA chair. The PIOB looks forward to Mr. Dakdduk's strong leadership on this board.

Following the retirement of Mr. Robert Mednick, the PIOB approved the appointment of Mr. Manuel Sánchez y Madrid as the new CAP chair. Prior to this appointment, Mr. Sánchez y Madrid was the CAP deputy chair, so he is familiar with the work of this group. The PIOB acknowledges the importance of the CAP, particularly for the adoption and implementation of international standards, and looks forward to the new CAP chair's continued leadership.

Overall the PIOB believes that the IFAC Nominating Committee made progress during 2009. It faced up to its challenges, including maintaining the required parity between practitioner and non-practitioner members of the standard-setting boards and maintaining clear criteria for the appointment of public members to those boards.

### ***CAG Chair and CAG membership***

In December 2009 the PIOB approved the appointment of Ms. Linda De Beer as the new IAASB CAG chair. Ms. De Beer will succeed Mr. David Damant when his second and final term ends in September 2010.

Further, this year, the PIOB approved the new membership of three organizations in the IESBA CAG and three in the IAASB CAG. It also approved the appointments of the representatives of these organizations.

### ***Oversight of the CAP and the IFAC Compliance Program***

PIOB members believe that the Compliance Advisory Panel is an important element in the IFAC's public interest activities. It continues to be a high priority for the PIOB.

The CAP has made important progress over the years in enhancing the level of compliance with the IFAC membership obligations. About half of IFAC member bodies and associates have published their action plans to date (usually the first step in the process of achieving or maintaining convergence with international standards and practices), and many other member bodies have submitted partial or complete drafts for CAP review. This year the PIOB observed the CAP deliberations during which various action plans were approved for publication. The CAP has pledged to finalize the remaining action plans by 2010, providing the circumstances of individual members so allow.



Further, the CAP requires members to report periodically on their progress. This reporting has helped the CAP to communicate regularly with the accountancy bodies and to discuss their efforts to achieve international convergence. The CAP performs extensive outreach activities that have included contacts with regional organizations and acknowledged accountancy groupings.

The CAP also has processed and recommended several new IFAC members this year and has continued to work with professional bodies that have expressed an interest in becoming IFAC members.

This year the CAP has continued to work on its project to revise the seven Statements of Membership Obligations during the 2010–2012 period and the possible development of new statements covering areas such as the corporate governance of member bodies. These two projects will be among the most important on the CAP's agenda over the next few years. The PIOB will monitor these projects given the public interest inherent in each of the SMOs and the benefits that would derive from the global adoption and implementation of the international standards covered by the SMOs.

#### ***The IFAC's Triennial Review of PIAC Due Process***

In 2009 the IFAC conducted its first triennial review of the effectiveness of PIAC due process, covering the PIAC Due Process and Working Procedures and the PIAC Terms of

Reference documents. The objective of the review was to update the existing due process model, taking into account the experience gained during the last few years in which the model has been applied.

This review did not include the CAG's Terms of Reference, as they were considered relatively new documents that required the additional test of time and experience before undergoing a thorough revision.

As discussed in last year's public report, the PIOB monitored this review exercise from the beginning. It discussed the proposed updates and changes to be introduced into the Due Process and Working Procedures and Terms of Reference documents during several PIOB quarterly meetings. The PIOB approved the due process followed by the IFAC during the review, on the condition that the specific changes proposed were introduced to clarify the PIOB's role and related activities. The PIOB asked that further consideration be given to other recommendations that could clarify the due process and working procedures of the PIACs.

The PIACs and CAGs were informed of the PIOB's requests and comments, which they discussed at several meetings during 2009. The PIOB—as it had requested—received a report on the final disposition of its recommendations shortly before its December 2009 meeting, which it accepted at its March 2010 meeting.

## ➤ Chapter III PIOB Communications and External Relations Policy

### Communications Policy

In late 2009, the PIOB strengthened its communications policy to help fulfill the mandate it received under the IFAC Reform Agreement.

The IFAC reform document states, “The objective of the PIOB 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.” This objective can be well served by an active communications policy: confidence can be strengthened if stakeholders and ultimately investors are made aware of how the processes of standard setting and independent oversight of the PIACs contribute to higher quality standards and greater professional integrity of the audit profession.

Since the creation of the PIOB in 2005, new rigor has been introduced in the process of standards setting in the areas it has overseen. Now the public interest is imbedded in the processes of standard development under its oversight. Markets must be made more aware that the international standards in the areas of audit and assurance, ethics, and education developed by the PIACs, especially the International Standards of Audit that have been fully rewritten under the Clarity project, have been developed with full independent oversight by the PIOB and in compliance with the requirements to incorporate the public interest. A revised Code of Ethics to guide the accountancy and audit profession has been developed under identical guidelines. PIOB oversight and its focus on the public interest provide needed assurance to investors, regulators, and other stakeholders at a time of economic crisis and uncertainty.

The PIOB believes that the improvements achieved in its public interest focus and independent oversight in the standard-setting process need to be better communicated to a broad range of stakeholders, including regulators, public policy makers, other international standard setters, market authorities, and the investing public. The PIOB communications policy should aim to improve stakeholders’ confidence by increasing their understanding of the processes of standard setting, the PIOB’s focus on the public interest, and its independence from the accountancy profession. Meeting this objective requires explaining the PIOB’s role in overseeing the process of nominating members to standard-setting bodies and consultative groups and the standard development processes and compliance; communicating the architecture of continuous process improvement in the setting of audit, ethics, and education standards; highlighting the PIOB’s recommendations to the IFAC; and publishing, when appropriate, its discussions with key stakeholders.

After five years of oversight experience, the PIOB is now in a position to devote additional efforts to communicating how these reformed processes have contributed to the public interest and to becoming a significant factor in the development of standards. The story of the IFAC reform process, especially the workings of independent oversight undertaken in the public interest, needs to be told.

Effective communication of standard-setting processes and their independent oversight should be a collaborative effort with the IFAC and the Monitoring Group. The PIOB, the Monitoring Group, and the IFAC all share the objective of IFAC reform: to increase confidence that IFAC activities are responsive



to the public interest. In this sense, PIOB communications tend to support the legitimacy of the standard-setting process and its oversight, as these operate under IFAC reform.

In November 2009, a new Web page was launched ([www.ipiob.org](http://www.ipiob.org)), and a new communications director joined the PIOB.

### **Communications Policy Looking Forward**

Looking forward, an active communications policy goes beyond telling the story of standard-setting reform and independent oversight in the areas of audit, ethics, and education.

One of the main challenges facing the world of audit is how to encourage the voluntary adoption and implementation of standards. The PIOB faces a similar challenge: upholding the public interest requires the effective adoption and implementation of standards, not just their development. The PIOB will continue to work to ensure that this is the case: oversight of the CAP in its responsibility to encourage the adoption and implementation of international standards, coordination with others involved in the joint effort of standards implementation, and the PIOB's own contribution in this complex, joint effort are related and important challenges ahead.

The audit standards in place after completion of the Clarity project provide a first step on the path to international convergence. Developed on a collaborative basis with a focus on the public interest, these global standards are a prerequisite for adoption by national jurisdictions and, therefore, for their global adoption and implementation. As a precondition, national jurisdictions and national regulators should be informed and assured that due process has been followed in the development of standards; about

the fact that they incorporate the public interest; and about the scope of their international adoption. As the independent oversight body, the PIOB can facilitate this process by explaining more widely the nature and public interest focus of the standards.

In the process toward international adoption, important jurisdictions, including the G-20 countries, large emerging economies, and significant regional groupings, play a leading role. For that reason, the PIOB aims to consider all of them within its communications policy.

Adoption and implementation of an agreed set of credible international standards will provide a basis for the development of consistent and comparable audited financial statements and thus support the stability of the international financial system.

### ***Addressing a Broader Audience***

The focus of the PIOB's communications policy must be broader than immediate stakeholders, encompassing professional and regulatory communities, preparers and users of accounts, and academics. The policy targets specialized publications as vehicles for reaching professionals, regulators, academics, investors, and the media.

A second pillar consists of improving the efficiency and effectiveness of communications through the use of communications tools. The PIOB overhauled its information technology facilities during 2009. Further development of the new Web page will enhance its value as a communications tool and assist board members in their activities through the use of Intranet facilities. Equally, a new database is being developed to facilitate the distribution of

material such as this fifth public report in an effective, wide, and cost-effective manner.

**External Relations**

The main priority for external relations is to ensure that the relation between the PIOB and the Monitoring Group grows closer and more issues based and that strategic contacts with it and its member organizations (the International Organization of Securities Commissions, the Basel Committee on Banking Supervision, the European Commission, the International Association of Insurance Supervisors, the World Bank, and the Financial Stability Board) are developed. A broader challenge is to ensure that the potential of the improved architecture of audit, education, and ethics standards setting is maximized through an active external relations program that helps to create new or closer relationships.

A program of external relations can go a long way toward communicating what earlier sections of this chapter have tried to convey and helping to develop these new connections or deepen existing ones. External relations are part of the communications policy, and, as such,

they stand as the third pillar of the PIOB’s new strategy. The PIOB intends to anticipate, identify, and select external engagements more effectively.

In 2009 the PIOB participated in several such activities. Chairman Stavros Thomadakis delivered a speech in September to a joint conference of the IFAC and the Estonian Auditing Board in Tallinn on the public interest and the accountancy profession. Since his appointment as secretary general in July 2009, Gonzalo Ramos has delivered a presentation on audit and the public interest in the V EARNet Symposium in Valencia, a presentation on international convergence in the Spanish Annual Audit Congress in Seville, Spain, and a presentation to the World Federation of Exchanges board in Madrid.

These presentations explained to a wide audience how the PIOB strives to serve the public interest, thus helping to bolster stakeholder confidence.

In addition to these presentations, the PIOB participated in meetings with numerous regulators and representatives of the accountancy profession, as detailed in table 4.

**Table 4. External Relations**

Date	Event	Location	Representative(s) & guest(s)
April 09	IFIAR spring meeting	Basel, Switzerland	Antoine Bracchi
July 09	Monitoring Group meeting	Amsterdam, the Netherlands	PIOB Chairman, PIOB Secretary General, and PIOB Secretary General Elect*
	IFAC G-20 summit	London, United Kingdom	PIOB Secretary General Elect*

Date	Event	Location	Representative(s) & gue
<b>September 09</b>	IFIAR fall meeting	Singapore, Singapore	Michael Hafeman
	IFAC seminar	Tallinn, Estonia	PIOB Chairman
<b>October 09</b>	Monitoring Group meeting	Madrid, Spain	PIOB Chairman and PIOB Secretary General
	IAIS annual conference	Rio de Janeiro, Brazil	Michael Hafeman
	V European Auditing Research Network Symposium	Valencia, Spain	PIOB Secretary General
<b>November 09</b>	IFAC Council	Washington, DC, United States	PIOB Chairman
	XVIII National Audit Congress	Seville, Spain	PIOB Secretary General
<b>February 10</b>	Meeting with the Monitoring Group Task Force on the IFAC Reform Effectiveness Review	Brussels, Belgium	David Brown, Bryan Nicholson PIOB Secretary General
	World Federation of Exchanges	Madrid, Spain	PIOB Secretary General
<b>March 10</b>	IFIAR spring meeting	Abu Dhabi, United Arab Emirates	Aulana Peters

\*Gonzalo Ramos took over from Donna Bovolaneas as Secretary General of the PIOB on July 25, 2009.

As part of its External Relations Program, the PIOB is drawing up a calendar of external events for 2010 and 2011. This year's program began in February with a presentation of the PIOB to the board of the World Federation of Exchanges and will culminate in November with the World Congress of Accountants in Kuala Lumpur, where several PIOB board

members are scheduled to deliver speeches and participate in roundtables. In between, staff and board members will attend meetings of related organizations, such as the International Forum of Independent Audit Regulators.

The PIOB is celebrating its fifth anniversary in 2010.

## ➤ Chapter IV Looking Forward

It is customary for the PIOB's yearly public report to include a section outlining the main challenges it sees going forward.

As mentioned in the chairman's message, in 2009 the Monitoring Group launched an assessment of the IFAC 2003 reform process. At the request of the Monitoring Group, the PIOB and the IFAC produced full self-assessment reports setting out their views of the effectiveness of the reform process in achieving the stated objectives as well as recommending changes in the reform architecture that might be advisable, including with respect to the role of the Monitoring Group. The Monitoring Group intends to make public its report toward the end of 2010.

In the meantime, the following sections concentrate on a few issues of particular relevance.

### PIOB Funding

The IFAC has given an unconditional commitment to the Monitoring Group to provide guaranteed funding for the bulk of the operation of the PIOB, initially for five years, and has renewed its commitment for a further period ending in 2015. The absence of conditionality on this funding eliminates the risk of a conflict of interest. Second, the Monitoring Group has been responsible for sourcing the PIOB's funding and approves its annual budget. This means that the PIOB is completely removed from discussions regarding its funding with IFAC. In addition, the PIOB receives considerable annual funding in kind from the Spanish Government, the Basel Committee, and the World Bank. Finally, the European Commission has agreed to contribute a significant proportion of the PIOB's funding.

The PIOB supports the efforts of the Monitoring Group to diversify the sources of PIOB funding, as greater diversification will further strengthen the PIOB's independence.

### PIOB Future Directions

The PIOB intends to continue focusing on the primary tasks laid out in its mandate and on the objective of high-quality standard setting for international use. In its work to date, the core public interest focus has been placed on standards setting and due process. Although the pace of standard setting will diminish somewhat after completion of the Clarity project and publication of the redrafted and revised Code of Ethics, the work plans of all three standard-setting boards include proposals to review and revise existing standards. In particular, the strategic plan developed by the IAESB describes an ambitious cycle of comprehensive revision and redrafting of the eight education standards, and the IAASB has begun developing some new standards. With respect to these activities, the PIOB expects to continue applying its oversight model.

As the IFAC, the standard-setting boards, and the CAP formulate their short-term and medium-term strategies and work plans, broader issues relating to the public interest have become more apparent. For example, mechanisms are being developed for reviewing the effectiveness of standards and for making urgent additions to authoritative pronouncements. In addition, processes are being considered to enable rapid responses to urgent issues, and the CAP is considering whether the Statements of Membership Obligations should be supplemented with new ones.

This section highlights three areas where the PIOB anticipates future challenges and

identifies how the PIOB could contribute to fulfilling several new objectives.

### ***A Collaborative Process: Contributions to Convergence and Stability***

A key element in the PIOB's approach to its mandate has been maintaining a dialogue with other important actors in the international financial system. The PIOB engages in dialogue with members of the Monitoring Group, the IFAC, its member bodies, and regional accountancy professional bodies, as well as with national audit regulators and the International Forum of Independent Audit Regulators (IFIAR).

This ongoing communication has enabled the PIOB to remain informed about existing activities designed to deliver improved financial reporting, as well as evolving public interest priorities and concerns. For instance, constructive discussions with the European Commission and members of the European Parliament were conducted in the context of the possible adoption of ISAs in the European Union. By these activities, the PIOB has facilitated dialogue and communication between the bodies that the PIOB oversees and relevant organizations outside the IFAC. Notable examples are communications between the IAASB and the CAP with the IFIAR, which followed an explicit recommendation by the PIOB, and the ongoing development of links between the IAASB and the IASB. These links can lead to improvements for both accounting and audit standards and could be extended to the ethics and education standard-setting boards.

The PIOB believes that its system of independent oversight and monitoring has contributed to the existence of a more collaborative and comprehensive international

process for determining how accountants and auditors can best contribute to the integrity of the international financial system, while also attending public interest needs. The PIOB will continue to work in this direction.

High-quality global standards developed on a collaborative basis and with a clear focus on the public interest are a prerequisite for adoption by national jurisdictions and for international convergence. In this context, the PIOB's oversight of the processes by which standards have been formulated provides a valuable contribution to the credibility of the standard-setting process.

Convergence to an agreed set of credible international standards will contribute to the development of consistent and comparable audited financial statements and thus support the stability of the international financial system.

### ***The Expanding Scope of Audits***

The scope of assurance services is expanding, and so too is the scope of areas covered by standards setting. Several of the projects on which the IAASB has embarked respond to requirements beyond what is strictly understood today as a financial audit. For example, the IAASB's project to create a framework for reporting on greenhouse gas emissions breaks new ground for the accountancy profession. Decisions made in the development of this framework will undoubtedly create precedents for the profession's response to demands for assurance services in other areas such as sustainability, corporate social responsibility, and environmental consciousness. The frameworks to be developed will affect not only the future economics of the profession and the business models of the firms of professional accountants, but also the public's need and



desire for accountability and reliability in all forms of corporate reporting.

The IAASB has also undertaken projects to refine the standards for review and compilation engagements. These efforts, and others, may, among other things, assist small and medium-size preparers to provide a level of assurance beneficial to the users of their financial statements without incurring the cost of a full audit.

These developments have widened the range of stakeholders affected, challenging the traditional “user, preparer, regulator” approach to representing the public interest. As these new projects proceed, the PIOB, in consultation with the IFAC, the PIACs, and the Monitoring Group, will need to be satisfied that representation of the public interest has been sufficiently inclusive to engage those who have a stake in the outcome.

### ***Education Standards***

The setting of education standards is substantially different from the setting of auditing standards, at least in three respects. First, it is less prescriptive in nature; the objective is to ensure that proper education practices are followed for aspiring and established accountants. Second, the stakeholders in education standards go beyond IFAC members to include universities and other experts involved in the education of professional accountants. Third, the implementation of education standards is more sensitive to the level of development achieved in the country or region in which the standards are to be applied.

These differences raise several questions that may be unique to the setting of education standards. For example, would the objectives of ensuring that proper education practices are followed be best achieved through principles, standards, or guidelines? Who should be considered as stakeholders? Should the current approach of the IFAC to developing countries be modified, and if so how? The PIOB will continue to work with the IAESB and its CAG in addressing these issues and their implications for the public interest.

The IAESB strategic plan includes an ambitious cycle of revision of the eight education standards. Given the scope of this plan and the importance of the issues referred to above, the PIOB has expressed concern that the Education CAG may be too small to provide the necessary advice and support. We have recommended that the CAG consider adding organizations and individuals to its membership, which would ensure relevant diversity, expertise, and perspective.

### **The Challenges of Adoption and Implementation**

The adoption of international standards in the areas of audit practice, assurance services, ethics, and education for professional accountants in many jurisdictions around the world will bring adoption and implementation challenges to—and increase the workload of—international standards setters. This will include requests for interpretation, practice guidance, revision of existing standards, and, potentially, the creation of new ones. With five years of experience in monitoring and overseeing the IFAC’s responses to the challenges it faces, the PIOB is well placed to

ensure that a proper public interest perspective is maintained in these important new areas.

The proper implementation of standards is a joint responsibility of audit practitioners, other accountancy professionals, accounting bodies, and national audit regulators who are charged with ensuring compliance. Implementation involves numerous activities and actors to set the stage for successful compliance. Some of these tasks and processes include the translation of standards, the adoption of standards by national jurisdictions, the development of implementation methodologies by all sizes of audit practices, the education and training of practitioners, the development of professional bodies in emerging markets or regions, and the creation of mechanisms and channels of communication to promote the achievement of uniform implementation around the world. While these are largely national activities, the creation of necessary conditions to support compliance is an area of implementation support that requires international coordination subject to common due process disciplines. Implementation and compliance must be effective if they are to serve the public interest, so public interest oversight has a role to play.

Implementation is a large area in which various activities are already being carried out. For example, the International Forum of Independent Audit Regulators is playing an important and growing role in identifying the processes used by audit firms to implement international standards and evaluating how these standards are being applied in practice. The PIOB has established a strong dialogue with the IFIAR.

The World Bank plays a broader and more macro role in determining whether countries are complying with adopted standards, through its Reports on the Observance of Standards and Codes (ROSC) initiative.

Finally, the work of the Compliance Advisory Panel is growing rapidly in importance. The work of the IFAC Compliance Program to test and promote improvements in the compliance of IFAC member bodies with their obligations relative to international standards constitutes an important platform for promoting the adoption and effective implementation of these standards. The advice and direction provided by the CAP are crucial to the success of these initiatives. The CAP is already subject to intense PIOB oversight. Going forward, it would be beneficial to evaluate whether the public interest dimension of the CAP's work would be strengthened by adopting certain principles and practices underlying the work of the standard-setting boards. An immediate step could be for the CAP to review its current Terms of Reference as well as to consider developing its own Due Process and Working Procedures documents.

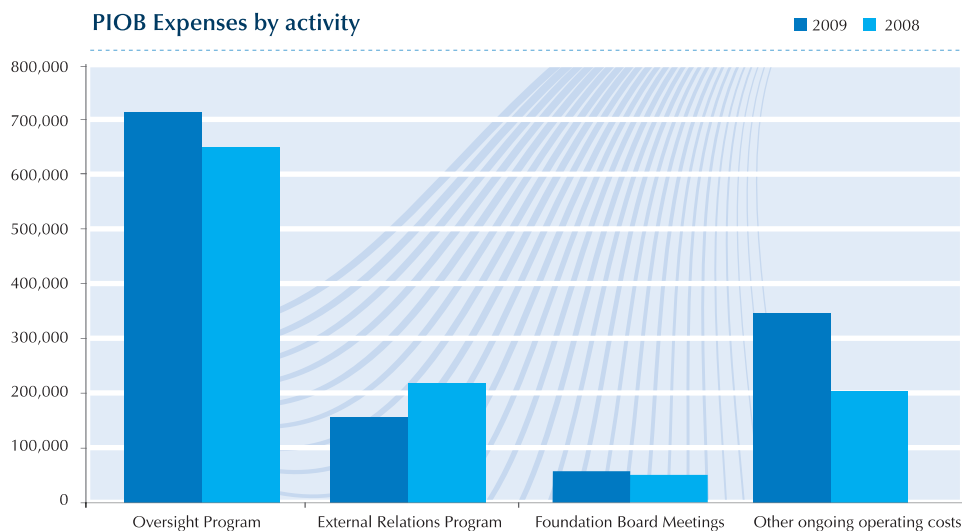


## Chapter V

# PIOB Foundation Summary Statement of Financial Performance <sup>(1)</sup>

PIOB Foundation <sup>(2, 3)</sup> Summary Statement of Financial Performance

(in Euros)	2009	2008
<b>TOTAL REVENUES <sup>(4)</sup></b>	<b>1,312,393</b>	<b>1,216,384</b>
<b>EXPENSES BY ACTIVITY</b>		
Board-related operating costs		
Oversight Program	709,500	644,711
External Relations Program	153,161	215,677
Foundation Board Meetings	54,507	48,462
Other operating costs	341,960	200,244
<b>TOTAL EXPENSES</b>	<b>1,259,128</b>	<b>1,109,094</b>
<b>SURPLUS</b>	<b>53,265</b>	<b>107,290</b>



(1) The PIOB Foundation's auditor, BDO Audiberia S.L., delivered an unqualified opinion on the complete financial statements of the foundation. The full version of these statements and the auditor's report are available separately on the PIOB Web site at [www.ipiob.org](http://www.ipiob.org).

(2) The PIOB operates as a Technical Committee of its Spanish not-for-profit foundation, La Fundación Consejo Internacional de Supervisión Público en Estándares de Auditoría, Ética Profesional y Materias Relacionadas (the foundation).

(3) The PIOB foundation is accountable to the Monitoring Group. This accountability includes an annual review and approval of the budget and the presentation of periodic operating reports.

(4) PIOB total revenues for 2009 were contributed by the International Federation of Accountants (IFAC) under a revised agreement to fund the operating expenses of the foundation to a limit of €1,361,000 per year, adjusted for inflation. Revenue is recognized on an accrual basis, and any revenue in excess of annual operating expenses is deferred and recognized as revenue of the following year. In 2009, the remainder of revenue over expenses of €53,265 was retained to strengthen the foundation's capital base for the near term.

The PIOB Foundation's auditor, BDO Audiberia S.L., delivered an unqualified opinion on the complete financial statements of the Foundation. The full version of these statements and the auditor's report are available separately on the PIOB web site at [www.ipiob.org](http://www.ipiob.org).

## ➤ Appendix A The PIOB



### **Dr. Stavros Thomadakis, Chairman**

Professor of Finance, University of Athens, Greece. Former Chairman of the Hellenic Capital Market Commission, the European Regional Committee of IOSCO, and the expert group on Market Abuse of the Committee of European Securities Regulators



### **Mr. Antoine Bracchi**

Former Président, Conseil National de la Comptabilité



### **Mr. David A. Brown, Q.C.**

Former Chair of the Ontario Securities Commission, Canada. Founding Chair of the Council of Governors of the Canadian Public Accountability Board. Member of the Council of Senior Advisors to the Auditor General of Canada



### **Mr. Fayezul Choudhury**

Controller and Vice-President, Strategy and Resource Management, The World Bank



### **Mr. Michael Hafeman**

Actuary and independent consultant on supervisory issues. Chairman, Insurance Advisory Board, Toronto Centre, Canada. Former Assistant Superintendent of Financial Institutions, Canada



### **Mr. Toshiharu Kitamura**

Professor of Financial Economics, Waseda University, Japan. Former Senior Executive Director, Development Bank of Japan



### **Prof. Dr. Kai-Uwe Marten**

Professor of Accounting and Auditing, University of Ulm, Germany. Deputy Chairman of the Auditor Oversight Commission, Federal Republic of Germany



### **Mme Sylvie Mathérat**

Director of Financial Stability, Banque de France, Member of the Basel Committee on Banking Supervision and current Chair of the Basel Committee's Accounting Task Force



### **Sir Bryan Nicholson, GBE**

Former Chairman of the UK Financial Reporting Council



### **The Hon. Aulana L. Peters**

Retired lawyer. Former Commissioner of the U.S. Securities and Exchange Commission. Former member of the Public Oversight Board of the American Institute of Certified Public Accountants. Member, Accountability Advisory Board to the U.S. Comptroller General



### **Mr. Gonzalo Ramos**

Secretary General. Former Executive Director, Chairman of the Financial and Operations Committee, European Bank for Reconstruction and Development. Former Director General of International Finance for the Spanish Ministry of Economy and Finance.

## ➤ Appendix B Glossary of Terms

**This glossary has been prepared to explain various terms used in preparation of this report. It is not intended to be used or cited as a source of authoritative definitions.**

**Accountancy:** the profession of accounting. Accounting comprises measurement, preparation, validation, disclosure, and auditing of financial information and provision of assurance and advisory services with regard to financial information.

**Acknowledged accountancy groupings:** six accountancy groupings that support the objectives and pronouncements of the IFAC and the advancement of the accountancy profession within their constituencies and that have been acknowledged by the IFAC as such. These groupings have to comply with specific obligations.

**Action plans:** the document that the Compliance Program requires members and associates to prepare, identifying the tools, resources, and regulatory changes needed to advance their best endeavors to promote and incorporate international standards issued by the IFAC and the IASB, quality assurance, and investigation and disciplinary programs.

**Basel Committee on Banking Supervision (BCBS):** the international body composed of central banks and banking supervisory authorities from certain key markets that formulates and encourages convergence toward broad supervisory standards, guidelines, and statements of best practice.

**Basis for Conclusions:** the final public accountability document prepared at the conclusion of a standard-setting or other approved PIAC project and published on the IFAC Web site. The Basis for Conclusions provides background information on the project, sets out the main comments received

in response to the public exposure draft, explains how the relevant standard-setting board has addressed these comments, and provides the rationale used to support the board's conclusions. This document is not part of the approved final pronouncement and is not authoritative.

**Call for nominations:** a document published early each year, designed to help the IFAC to find the best person for each vacancy on its boards and committees, while also achieving gender, regional, and professional balance. This publication also contains strategic and practical advice for nominating organizations, allowing them to make informed decisions in selecting their nominees and to understand what is expected of them.

**Clarity project:** a comprehensive IAASB program that enhanced the quality and consistency of global audit practice by applying a new drafting format to all existing and future International Standards of Audits. The drafting conventions adopted for this purpose involved a three-part structure—objectives, requirements, and application guidance—and simplified English to clarify intent, improve understandability, and facilitate translation. This project was completed in December 2008.

**Closed-off form of standards:** within the Clarity project, a standard that had been finalized with respect to technical content but that would be redrafted in the IAASB new format.

**Code of Ethics for Professional Accountants (redrafted):** an IESBA initiative that enhanced the clarity and understandability of the provisions of the IFAC Code of Ethics through the application of new drafting conventions. These conventions focused on clearer language and did not change the fundamental structure of the code.

**Compliance Advisory Panel (CAP):** the panel responsible for overseeing the implementation and operation of the IFAC Member Body Compliance Program. The objective of this program is to evaluate the quality of IFAC member and associate member bodies' endeavors to meet the requirements of IFAC membership. The PIOB oversees the work of the CAP.

**Consultative Advisory Group (CAG):** a group constituted to provide advice, including technical advice, to one of the IAASB, the IAESB, and the IESBA. Regular interaction between each CAG and its respective standard-setting board is part of the board's formal consultation processes. The PIOB oversees the work of each CAG.

**Due process completion:** the point at which the established and approved due process to be followed by the IAASB, the IAESB, and the IESBA in developing international pronouncements is determined to be complete. Prior to publication of an international pronouncement, the PIOB receives certification from the IFAC executive director for professional standards that all required due process steps have been completed. The PIOB's decision is based on evaluation of this certificate together with the results of its own oversight activities.

**European Commission:** the executive branch of the European Union (EU). The European Commission may make legislative proposals and is ultimately responsible for implementation of EU legislation throughout member states.

**Extended Review Framework (ERF):** a risk-based framework that provides the PIOB with an additional measure of independent analysis and assessment of the due process applied in the development and finalization of a specific

standard, practice statement, other authoritative international pronouncement, or PIAC strategy and work plan.

**Financial Stability Board (FSB):** formerly the Financial Stability Forum, the forum that promotes international financial stability, improved functioning of markets, and reduced systemic risk through information exchange, cooperation in financial supervision and surveillance, and coordination of efforts. The FSB brings together representatives of national financial authorities responsible for financial stability in significant international financial centers, international financial institutions, international regulatory and supervisory groupings, and committees of central bank experts.

**Forum of Firms:** the forum that brings together firms performing transnational audits and involves them more closely with activities of the IFAC. The forum's objective is to promote consistent and high-quality standards of financial reporting and auditing practices worldwide.

**Framework for International Education Standards for Professional Accountants:** an IAESB document that introduces the IAESB's pronouncements and related obligations of IFAC members, as it deals with key educational concepts, different types of IAESB pronouncements, and obligations with regard to education standards.

**Independence II project:** an IESBA project that updated some independence requirements contained in the IFAC Code of Ethics.

**International Accounting Education Standards Board (IAESB):** the independent standard-setting board that develops international standards and other pronouncements for professional accountants. These



pronouncements deal with education, practical experience, tests of professional competence for accreditation, and the nature and extent of continuing professional education. The PIOB oversees the work of the IAESB.

**IAESB Drafting Conventions:** the IAESB's equivalent to the IAASB's Clarity project.

**International Association of Insurance Supervisors (IAIS):** the global organization that represents insurance regulators and supervisors, issues global insurance principles, standards, and guidance papers, provides training and support on related issues, and promotes effective insurance supervisory regimes.

**International Auditing and Assurance Standards Board (IAASB):** the independent standard-setting board that develops international standards and other pronouncements dealing with auditing, review, other assurance, quality control, and related services. The PIOB oversees the work of the IAASB.

**International Education Standards (IESs):** the IAESB's pronouncements that address the principles of learning and development for professional accountants. They prescribe good practice in learning and development for professional accountants and should be incorporated into the educational requirements of IFAC member bodies.

**International Ethics Standards Board for Accountants (IESBA):** the international standard-setting board that develops ethical standards and other pronouncements for use by professional accountants. The PIOB oversees the work of the IESBA.

**International Federation of Accountants (IFAC):** the global organization representing the accountancy profession. IFAC is committed to protecting the public interest by developing

high-quality international standards, promoting strong ethical values, encouraging quality practice, and supporting the development of all sectors of the profession around the world. The IAASB, the IAESB, and the IESBA are three of the IFAC's independent standard-setting boards.

**IFAC Code of Ethics:** the document that establishes ethical requirements for professional accountants and provides a conceptual framework to ensure compliance with the five fundamental principles of professional ethics: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Under this framework, all professional accountants are required to identify threats to these fundamental principles and, if there are threats, to apply safeguards to ensure that the principles are not compromised.

**IFAC Member Body Compliance Program:** the program to determine the compliance of member bodies with a series of Statements of Membership Obligations (SMOs) that require these bodies, on a best endeavors basis, to promote the adoption and assist in the implementation of international auditing, accounting, ethical, and educational standards, as well as quality assurance and enforcement mechanisms. In part 1 of this program, member bodies provide fundamental information about their structure and operations. In part 2, members undertake a self-assessment of their level of compliance with each of the seven SMOs. Based on IFAC evaluation of part 2 information and member body agreement on areas for improvement, part 3 requires member bodies to develop a proposed action plan for IFAC approval and to execute the approved plan.

**IFAC Nominating Committee:** the committee that recommends to the IFAC board the appointment of chairs, deputy chairs,

members, and public members for the IFAC's PIACs. The PIOB has the right to observe and speak at Nominating Committee meetings with respect to PIAC appointments.

**IFAC 2003 reform:** the introduction of processes for oversight and monitoring designed to strengthen IFAC international standard setting, achieve convergence to international standards, and ensure that the international accountancy profession is responsive to the public interest.

**IFAC Statement of Due Process and Working Procedures:** the document that details the steps that the PIACs have to follow throughout the development of an authoritative international pronouncement.

**International Financial Reporting Standards:** the set of international standards issued by the International Accounting Standards Board.

**International Forum of Independent Audit Regulators (IFIAR):** a forum of national audit regulators from several jurisdictions that conducts inspections of auditors and audit firms. Among its objectives are the sharing of knowledge and practical experience, promotion of collaboration and consistency in regulatory activity, and engagement with other organizations with an interest in audit quality.

**International Organization of Securities Commissions (IOSCO):** the cooperative forum for securities regulatory agencies and the international standard setter for securities markets.

**International pronouncements:** the standards, codes, interpretations, practice statements, and information papers issued by the IAASB, the IAESB, or the IESBA.

**International Public Sector Accounting Standards:** the global financial reporting

standards for application by public sector entities other than government business enterprises, issued by the IFAC's International Public Sector Accounting Standards Board.

**Japanese Financial Services Agency:** the Japanese agency responsible for ensuring the stability of Japan's financial system, including the establishment of business accounting standards and the supervision of certified public accountants and auditing firms.

**Monitoring Group:** the regulatory and international organizations responsible for monitoring implementation of the IFAC reform. The Monitoring Group nominates PIOB members and engages in dialogue with the international accountancy profession, receives operating and financial reports from the PIOB, and updates the PIOB regarding significant events in the regulatory environment. Members of the Monitoring Group are the Basel Committee on Banking Supervision, the European Commission, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the World Bank, and the Financial Services Board. The IFIAR is an observer.

**Non-practitioner member:** a member of the IAASB, the IAESB, or the IESBA who is not a member or an employee of an audit practice firm. If previously a member or an employee of an audit practice firm, the individual would normally be subject to a cooling-off period of three years.

**Practitioner member:** a member of the IAASB, the IAESB, or the IESBA who is also a member or an employee of an audit practice.

**Public accountability documents:** documents produced at various points during the execution of due process that explain the PIAC's disposition of input received during a

specific phase of public consultation. See also Basis for Conclusions.

**Public Company Accounting Oversight Board:**

a private sector, nonprofit corporation created by the Sarbanes-Oxley Act of 2002 in the United States to oversee the auditors of public companies in order to protect investors and the public interest by promoting informative, fair, and independent audit reports.

**Public consultation:** various types of public engagement between a standard-setting board and a broad spectrum of external interested parties. The standard-setting board may hold one or more public forums or roundtables or issue a consultation paper in order to solicit views on a matter under consideration. All draft international pronouncements are published as exposure drafts on the IFAC Web site for public comments, which constitutes the “exposure period.” In addition to comments made by respondents to an exposure draft, the standard-setting board seeks advice from its CAG and may also consider whether to conduct a field test of its proposals. After approving the revised content of an exposed international pronouncement, the standard-setting board assesses whether substantive changes have been made to the exposed document that may warrant its reexposure.

**Public interest activity committees (PIACs):**

the groups established under the auspices of the IFAC consisting of three independent standard-setting boards—the IAASB, the IAESB, and the IESBA—and the CAP. Each board is composed of practitioner, non-practitioner, and public members and is subject to PIOB oversight.

**Public Interest Oversight Board (PIOB):**

the independent body nominated by the Monitoring Group that is responsible for approving appointments and conducting ongoing oversight of IFAC public interest activities. The PIOB’s mandate requires it to

increase public confidence that those activities are properly responsive to the public interest. The PIOB public reports cover the operating period from 1 April to 31 March.

**Public member:** a member of the IAASB, the IAESB, or the IESBA who satisfies the requirements of a non-practitioner member, is capable of reflecting the wider public interest, and does not have a direct interest in the subject matter under development.

**Regional accountancy organizations:** the four independent bodies that, in many cases, share the IFAC’s membership and have objectives similar to those of the IFAC. These organizations support the development of the profession at the regional level and support IFAC members operating within the region.

**Statements of Membership Obligations (SMOs):**

the seven statements<sup>[1]</sup> issued by IFAC that establish requirements for IFAC members and associates to promote, incorporate, and assist in implementing international standards issued by the IAASB, the IAESB, the IESBA, and the International Accounting Standards Board. The SMOs also establish requirements for quality assurance and investigation and disciplinary activities.

**Task force:** a group of individuals (drawn from PIAC members, technical advisers, IFAC technical staff, and occasionally external experts) responsible for developing an international pronouncement for consideration and PIAC approval.

**Terms of Reference:** the document that sets out the objective, scope of activities, and membership for the IAASB, the IAESB, the IESBA, their respective CAGs, and the CAP. These documents are available on the IFAC Web site.

**Transnational Auditors Committee:** the executive arm of the Forum of Firms and the IFAC that provides an official link between the Forum of Firms and the IFAC.



**World Bank:** the international financial institution that provides financial and technical assistance to developing countries while furthering its mission to reduce global poverty and improve living standards.

**XBRL:** the eXtensible Business Reporting Language, a language being increasingly used around the world for the electronic communication of business and financial data that accompany financial statements.

1 The list and definitions of the SMOs can be consulted in [http://web.ifac.org/download/Statements\\_of\\_Membership\\_Obligations.pdf](http://web.ifac.org/download/Statements_of_Membership_Obligations.pdf).



PIOB Secretariat in Madrid.





Public Interest Oversight Board

Public Interest Oversight Board  
overseeing international audit, ethics and education standards for the accounting profession

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