



Public Interest Oversight Board

# SIXTH PUBLIC REPORT OF THE PIOB



LOOKING FORWARD IN A CHANGING WORLD

MAYO 2011



LOOKING FORWARD IN A CHANGING WORLD  
MAYO 2011

## Table of Contents

	<b>Page</b>
<b>Message from the PIOB Chairman</b>	3
<b>I. The Public Interest and Accountancy</b>	4
The Contribution of the Accountancy Profession	5
The Contribution of the PIOB	6
<b>II. PIOB Oversight</b>	7
Comprehensive Observation	7
Independent Analysis	8
Regular Communication with IFAC, PIAC, and CAG Leadership	9
PIOB Approval Activities	9
PIOB Oversight of the Appointment of Members of the Nominating Committee	11
CAG Membership	11
Rotation of CAGs' Members	11
Oversight of the CAP and the IFAC Compliance Program	12
<b>III. External Relations</b>	13
External Relations in the Past Year	13
The World Congress of Accountants	15
<b>IV. Monitoring Group and Monitoring Group members</b>	16
The first five years of reform	17
<b>V. Looking Forward</b>	18
A Balanced Approach	18
The Way Ahead	18
The Expanding Scope of Audits	18
Ethics Standards	19
Education Standards	19
Adoption and Implementation	20
PIOB Oversight of Public Sector Accounting Standards	20
<b>VI. PIOB Foundation Summary Statement of Financial Performance</b>	21
Appendix A. The PIOB	22
Appendix B. Glossary of Terms	23



(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), Sylvie Mathérat, David Brown and Toshiharu Kitamura.

*Ultimately the task of oversight in the context of the IFAC reform is one of legitimization. Prospective adopters must be persuaded that the standards are admissible for public authorization and private use*



## Message from the Chairman

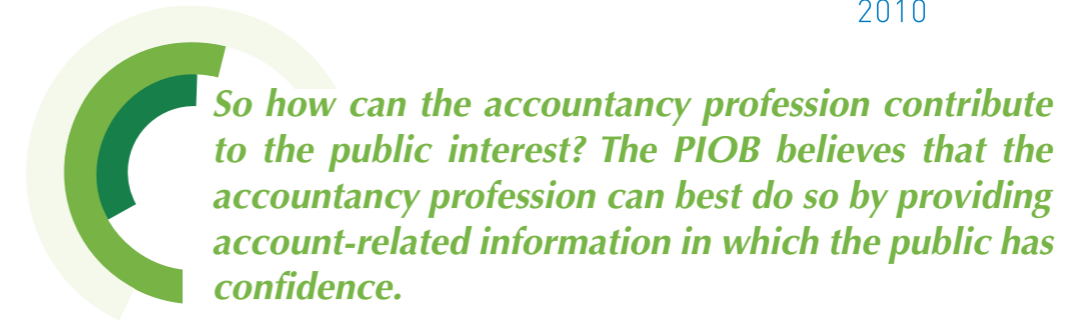
As departing chair of the PIOB I would like to share a few thoughts on the past and the future of oversight in the public interest. In five previous public reports my colleagues and I explained our activities and the development of the PIOB. Since 2005 a long road has been travelled. At the beginning many envisioned the PIOB as an inspector of sound due process that underpins the making of standards. This would have been a relatively simple administrative task if the bodies we oversaw were themselves publicly authorized entities.

The IFAC reform however created a hybrid: private standard setters with a mixed composition and strict guidelines were to be overseen by a body appointed by public interest entities. The PIOB had to ensure due process but also, more broadly, to safeguard all the conditions that underpinned sound due process and the public interest. It turned out that this was no simple administrative task. It proved to be a complex task at times. The members of the PIOB had to become familiar with the functioning of the bodies they were overseeing, they had to comprehend the scope and the implications of the standard-setting work, they had to understand strategic planning and evaluate evolving priorities. Every approval given by the PIOB has been decided on a whole matrix of considerations.

The world of stakeholders around international standard setting in audit, ethics and accounting education is polymorphous. The public interest must somehow be defined within the parameters of this world of stakeholders. International regulatory organizations can rightly claim primacy as carriers of public interest missions but on many issues they do not speak with one voice. The PIOB however has to have one voice on the public interest. This is a core ingredient of the oversight mission, as it will evolve in the future. In matters of content of the standards, the standard setters must act as independent decision-makers. Oversight must guard that independence as well as the quality and the effectiveness of dialogue with stakeholders. These are indispensable conditions for truly achieving public interest outcomes.

There is some risk that standard setting may tilt towards private objectives. Undoubtedly it is the job of oversight, and all the safeguards it maintains, to avert that risk. However, it is never sufficient to guard against the downside. One must nurture the upside: the production of standards which respond to widely articulated needs and which have credibility as tools for public interest activities. Ultimately the task of oversight in the context of the IFAC reform is one of legitimization. Prospective adopters must be persuaded that the standards are admissible for public authorization and private use. This implies a mission for the Oversight Board: make known its methodology, its priorities and its notions on the public interest. This is all the more important in a post-crisis world where policymakers, regulators and enforcers of standards have become more skeptical and risk-averse.

I warmly welcome the new chair, Eddy Wymeersch, and the new members to the PIOB. We bequeath to them a small operation capable to offer oversight of quality. The maintenance of quality in changing circumstances is paramount. The talents and the dedication of our small staff are a valuable resource in the quest for more meaningful and effective oversight in the future.



## Chapter I The Public Interest and Accountancy

In previous public reports, the PIOB has identified and reflected on several elements that it believes are essential to furthering the public interest in relation to accountancy. They include: a focus on the users of accountancy services; credible international standard setting; appropriate international standards; adoption and implementation of international standards; and monitoring and evaluation of the adoption and implementation of standards—and their application by professional accountants. However, these reflections have not dealt directly with the meaning of the “public interest”, which the PIOB was created to help protect. In this chapter of the report, the PIOB bridges this gap with a discussion of its views on what the public interest means in relation to the accountancy profession. The importance of clarifying this issue is underscored by the concurrent work being conducted by the International Federation of Accountants (IFAC), which is seeking comments on its draft formulation of “A Public Interest Framework for the Accountancy Profession”.<sup>1</sup>

The PIOB believes that accountancy services are in the public interest if they create net benefit for the public. This statement raises several questions:

- What are accountancy services?
- Who is “the public”?
- How do accountancy services benefit the public?

Each of these questions will be considered in turn, followed by brief summaries of how the elements mentioned above help to maximize this contribution and how the PIOB acts to ensure that these objectives are met.

Both natural and legal persons engage in a wide range of activities. In doing so, they use financial and other types of resources and often produce goods or services for other persons. They might take on obligations that must be met in the future and accrue resources that can be used to meet such obligations or support future activities. An account is a reckoning of the results of a person’s activities. Accounts include statements of comprehensive income, which measure the inputs and outputs during a specified period of time. They also include statements of financial position, which measure the resources and obligations at a particular point in time. Traditionally, accounts were limited to quantitative financial information, but they have evolved to provide insights into such information. The evolution of accounts is continuing with, for example, reporting on sustainability providing a reckoning related to nonfinancial inputs and outputs.

Accountancy services include, in one way or another, the preparation of financial accounts—including providing assurance on their quality. The IFAC currently is focused on defining the complex scope of the role of the “professional accountant”. For example, accountancy services include:

- Developing systems and procedures that facilitate the preparation of accounts;
- Measuring and recording inputs, outputs, resources, and obligations;
- Designing accounts that will meet the needs of specific users;
- Preparing accounts by using the relevant information and applying a financial reporting framework;

- Providing assurance that accounts can be relied on, through audits and other assurance services; and
- Assisting others in the interpretation and use of accounts.

Although accountancy services often encompass all of these components of financial reporting, they may also be more narrowly focused on individual elements such as taxes.

The public refers to the people as a whole. It is not limited to those who have retained an accountant or are making use of a set of accounts. However, rarely will a particular accountancy service affect all members of the public in the same manner. Some accountancy services might impact a large segment of the public, such as the preparation of accounts for or the audit of a multinational business or government entity. Others might have a more limited effect. With respect to a particular accountancy service, it is perhaps useful to focus on the segment of the public that is directly or indirectly affected by such a service—in other words, the stakeholders. Even with such focus, the range of stakeholders might be very broad. For example, the accounts of a multinational producer of household products could be relevant to investors in securities issued by the corporation, consumers, legislators, government administrators, retired employees, suppliers of raw materials, distributors, wholesalers and others.

### **How do accountancy services benefit the public?**

The concept of benefit to the public generally involves a measure of public welfare that is multidimensional and includes aspects such as financial, political, social, and environmental welfare. However, accountancy services have

the most direct effect on financial welfare, because accounts usually focus on financial information. For example, the services might enable users to increase their net income or wealth or to protect themselves from financial difficulty. However, accountancy services can also affect other aspects of public welfare. Consumers might use information on greenhouse gas emissions as input to their purchasing decisions, choosing to support companies that better control their emissions. Government policy-makers will use it formulating policies and determining the breadth and scope of regulation.

### **The Contribution of the Accountancy Profession**

So how can the accountancy profession contribute to the public interest? The PIOB believes that the accountancy profession can best do so by providing account-related information in which the public has confidence. This information will be most helpful if it is relevant to the users and is trusted by them as a faithful representation of the performance of the reported activities. Audits and other assurance services play an important role in meeting these criteria, by providing an objective and professional view in which users may have confidence.

The essential elements of the public interest, which have been described in the PIOB’s previous public reports, reinforce the ability of the profession to make such a contribution, as follows:

**A focus on the users of accountancy services** helps to ensure that information is relevant and that necessary conditions for trust are in place;

**Appropriate international standards** for audit and assurance practice, quality control, education and ethics help to ensure that

(1) IFAC Policy Position Paper #4, November 2010, comments requested by March 25, 2011.

information is relevant and will be prepared by accountants who can be trusted, because they meet these requirements.

**Credible international standard setting** helps to ensure that the standards are appropriate and furthers their adoption and implementation;

**Adoption and implementation of international standards** contributes to trust that work is to be done in a professional manner; and

**Monitoring and evaluation of the adoption and implementation of standards**—and their application by professional accountants—contributes to trust that work is actually being done in a professional manner.

**The Contribution of the PIOB**

As discussed in previous public reports, many stakeholders—both within and outside the accountancy profession—have important roles to play to ensure that the essential elements mentioned above are achieved. The PIOB contributes to this in various ways through the following:

**Oversight of the strategies and work programs of the standard-setting boards** (International Auditing and Assurance Standards Board (IAASB), International Accounting Education Standards Board (IAESB), and the International Ethics Standards Board for Accountants (IESBA)) helps to ensure that their work is focused on the needs of users of accountancy services;

**Oversight of the nominations process** helps to ensure that the persons involved in each of IFAC’s public interest activities (the standard-setting boards and the Compliance Advisory

Panel (CAP)), collectively bring sufficient technical competence and breadth of perspectives to develop appropriate standards and ensure compliance with IFAC membership obligations;

**Oversight of the standard-setting process**, including the selection and operation of the Consultative Advisory Groups (CAGs), helps to ensure that international standards are set in a transparent manner with sufficient attention to stakeholder input, which in turn helps to ensure that they are appropriate and credible;

**Oversight of the Compliance Advisory Panel and communication with IFAC leadership** help to ensure that appropriate steps are being taken to encourage and monitor the progress of the adoption and support for implementation of international standards;

**Relations with the Monitoring Group** ensures that input from regulatory and other international public policy entities is taken into account in PIOB’s oversight activities.

**External relations that communicates both the overall framework and the various roles of the PIOB** contributes to greater awareness of the present framework of international standard setting, thus informing objective decisions over the adoption of international standards.

The next two chapters of this public report look back on the oversight and external relations activities of the PIOB during the past year. The final chapter discusses the challenges ahead, which the PIOB will continue striving to meet in a manner that maximizes its contribution to the public interest.

## Chapter II PIOB Oversight

As in previous years, PIOB oversight activities in the April 2010 to March 2011 period included comprehensive direct observations of IAASB, IAESB, and IESBA meetings, as well as their respective CAGs and the CAP. In addition, PIOB oversight was complemented and supported by staff-conducted Extended Review Framework (ERF) analysis and reviews, staff memos to PIOB board members, and regular communication with the leadership of IFAC, Public Interest Activity Committees (PIACs), and CAGs.

Overall, the PIOB believes that all bodies under PIOB oversight were attentive to considerations of the public interest in their deliberations to develop projects or new global standards and were focused on how their work responds to public needs and expectations and is subject to public scrutiny.

### Comprehensive Observation

In the period, the PIOB continued its policy of comprehensive direct observations of all meetings held by PIACs, CAGs, the CAP, and the IFAC Nominating Committee. These observations were conducted mainly by PIOB members.

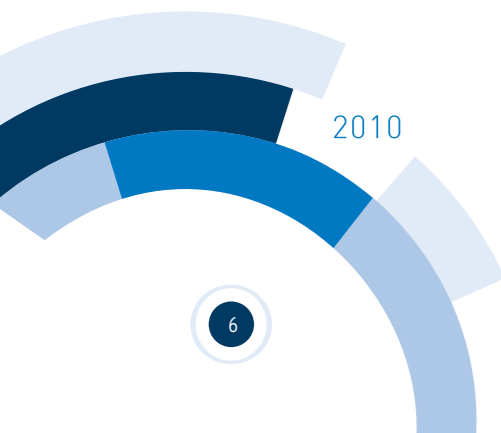
Based on this oversight methodology, the PIOB was able to determine whether the public interest had been safeguarded and due process had been followed in developing individual standards, PIAC strategies, and new projects.

Table 1 provides comparative information on the scope of our observation activities during the last five years of operation.

TABLE 1 – PIOB Direct Observations

Meeting Date Entity	4/2006-3/2007		4/2007-3/2008		4/2008-3/2009		4/2008-3/2010		4/2008-3/2010	
	Held	Observed	Held	Observed	Held	Observed	Held	Observed	Held	Observed
IAASB	6	6	5	5	4	4	4	4	4	4
IAASB CAG	2	2	4	4	2	2	2	2	1	1
IESBA	4	3	4	4	5	5	3	3	3	3
IESBA CAG	2	2	4	3	3	2	2	2	1	1
IAESB	3	3	3	3	4	4	3	3	2	2
IAESB CAG	2	2	2	2	2	2	2	2	2	2
CAP (from April 2007)	0	0	5	5	5	4	4	4	4	4
IFAC Nominating Committee	8	8	8	7	8	8	8*	8*	7*	7*
<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>	<b>24*</b>	<b>24*</b>

\*Two teleconferences in 4/2009 – 3/2010; three teleconferences in 4/2010 – 3/2011.



The number of meetings held during the year was a little smaller than in previous years, but the individual PIAC and CAG meeting agendas remained substantial. A brief review of this year's PIAC agendas shows the continuation of standard-setting activities from previous years as well as the addition of new projects, as explained below.

As part of its oversight work, the PIOB last year monitored and oversaw the progress of the IAASB during the consultation process for its 2012–14 Strategy and Work Plan, which is expected to be approved by this board in late 2011. It also monitored closely the process followed by the IAASB in the revision of several relevant standards, such as ISA 610, "Using the Work of Internal Auditors"; IAPS 1000, "Special Considerations in Auditing Complex Financial Instruments" (which is currently under exposure and replaces IAPS 1012 "Auditing Derivative Financial Instruments"); ISRE 2400, "Engagements to Review Historical Financial Information," ISRS 4410, "Engagements to Compile Historical Financial Information"; ISAE 3000, "Assurance Engagements Other Than Audits or Reviews of Financial Statements"; and ISA 720, "The Auditor's Responsibilities Relating to Other Information Containing Audited Financial Statements."

The PIOB continued to oversee the IAASB's work on projects in areas that go beyond what is strictly understood as a financial audit. This year the PIOB oversaw the process to develop standards for assurance services on greenhouse gas emissions, pro forma financial information, and consideration on what might be the auditor's role in connection with eXtensible Business Reporting Language (XBRL), as well as a project regarding the auditor's responsibilities and practices on "disclosures" in financial statements and another on "audit quality."

In the area of ethics standards, the PIOB followed the IESBA's work in finalizing its 2011–12 Strategy and Work Plan by February 2011. This strategy includes two new projects that will revise sections of the Code of Ethics for Professional Accountants: "Conflicts of Interest" and "Responding to Suspected Fraud and Illegal Acts", both very relevant from a public interest perspective. This new strategy will be submitted for PIOB approval in 2011. The IESBA also started a third new project on "Inadvertent Violations", which will consider revising some provisions in the Code containing guidance on the consequences of inadvertent violations of the Code's independence provisions by a professional accountant. The PIOB has been overseeing closely these new IESBA projects given their complexity and bearing on the public interest.

Finally the PIOB oversaw the process followed in the development of the IAESB's most important project: the revision of its entire suite of eight International Education Standards (IESs). This project is expected to continue throughout 2011. It aims both to clarify the education standards and to ensure their consistency with concepts included in the Framework for International Education Standards for Professional Accountants approved by the PIOB last year.

#### Independent Analysis

In the year, PIOB staff continued to apply ERF analysis to a selection of standards under revision and prepared technical memos to support every PIAC and CAG observation conducted by PIOB members. As a result of this oversight, the PIOB board has concluded that due process was followed by standard-setting boards as standards were being revised or new standards were being developed, including such due-process steps as the publication of exposure



*The PIOB continued to oversee the IAASB's work on projects in areas that go beyond what is strictly understood as a financial audit.*

drafts, compilation of public responses received, and efforts to deal with technical and other issues raised, if any. The PIOB placed considerable emphasis on the response of standard-setting boards to comments of CAG members and other stakeholders through comment letters. PIOB members have speaking rights at PIAC and CAG meetings and occasionally direct their attention to matters of public interest.

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

As in previous years, the PIOB invited the leadership of the IFAC, PIACs, and CAGs, as well as relevant senior members of the IFAC staff, to attend at least one PIOB meeting during the year and make presentations on the status of existing projects and plans for future ones. These meetings provided the opportunity to discuss matters of common interest with PIOB members; they also provided the PIOB with updates and specific input for consideration during its own deliberations.

#### PIOB Approval Activities

During the past year the approvals agenda was less active than in previous years, as no standard was finalized and submitted for PIOB approval. However, the approvals agenda included several other items related to its oversight mandate, detailed below.

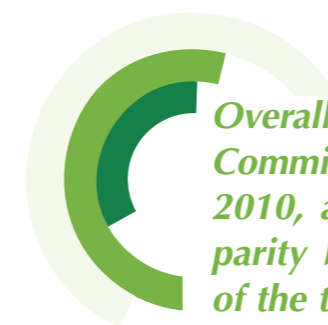
In March 2010 the PIOB agreed that the IFAC had duly considered the PIOB's comments and recommendations on the PIAC and CAG Terms of Reference, amended in 2009 under the IFAC's first triennial review of the effectiveness of the PIAC due process. The PIOB approved all the amendments. In that same meeting, the PIOB also approved two amendments to the IAESB Terms of Reference. These amendments, which were in section 2 (on objective) and in section 3 (on pronouncements) of the Terms of Reference, aim to clarify the work of the IAESB by specifying its activities and the types of publications issued by this board. Finally, as in previous years, the PIOB oversaw the nomination process to fill vacancies on the PIACs.



Table 2 lists the nominations approved during 2010.

TABLE 2 – Nominations

Group or individual	Appointments		
	New	Renewed	Total
<b>International Auditing and Assurance Standards Board</b>			<b>7</b>
IAASB chair		1	1
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



Overall the PIOB believes that the IFAC Nominating Committee continued to make good progress during 2010, as it succeeded in maintaining the required parity between practitioners and non-practitioners of the three standard-setting boards

In June 2010 the PIOB approved the reappointment of Professor Arnold Schilder as chair of the IAASB for a new three-year term, commencing on 1 January 2012. It also approved the reappointment of the three PIAC deputy chairs for 2011: Diana Hillier at the IAASB, Michael Niehues at the IESBA, and Karen Pincus at the IAESB.

The PIOB also concluded favorably on the other appointments of the PIACs (including several reappointments) after considering the transparency, inclusiveness, public interest consideration, and overall quality of the due process followed in the call for nominations. The PIOB also considered the impact that the new appointments would have on the composition of the respective PIAC, on the diversity and competence of memberships, and on the PIAC's ability to achieve its goals and fulfill its duties.

In addition, the PIOB was briefed on the results obtained by the IFAC Performance Program, established in 2009 to define clearly the performance expected of the chairs and members of all three standard-setting boards and to review annually their performance. This program continued during 2010, and its results were used by the Nominating Committee in considering recommendations for reappointments to the boards as well as in addressing the succession of leadership.

Overall the PIOB believes that the IFAC Nominating Committee continued to make good progress during 2010, as it succeeded in maintaining the required parity between practitioners and non-practitioners of the three standard-setting boards; in maintaining clear and robust criteria for the appointment of public members to those boards; and in securing that vacancies were filled by a qualified candidate for each position.

**PIOB Oversight of the Appointment of Members of the Nominating Committee**

During its November 2010 meeting at Kuala Lumpur, the PIOB approved the proposal to include the approval of the appointment of non-ex-officio members of the Nominating Committee, as well as the committee's Terms of Reference, as part of its oversight of nominations processes.

**CAG Membership**

This year, the PIOB received nine requests for membership to the IAASB, IESBA, and IAESB CAGs and approved the appointment of eight new organizations and their first representatives in their respective CAGs.

The PIOB believes that the expanded CAG membership will provide the CAGs with an additional breadth of views and perspectives that, ultimately, will further their role in providing technical advice and other relevant input to the standard-setting boards.

**Rotation of CAG Members**

Also during its November 2010 meeting, the PIOB agreed that representatives of CAG member organizations (as well as individuals directly appointed as CAG members) should serve a maximum of three-year terms renewable twice, for a maximum of nine years. All representatives in CAGs must therefore rotate every nine years. The PIOB believes that the periodic replacement of representatives of member organizations (and individuals directly appointed as CAG members) will ensure that fresh perspectives are continually brought to the CAG deliberations.

Recommendations for renewal are made by the CAG chair and brought to the PIOB for approval.



The maximum term of nine years includes past membership of current CAG members. In order to facilitate the staggering of CAG membership, the PIOB agreed to extend to the end of 2011 the term of current members reaching this limit. Effectively, therefore, this system will come into effect on 1 January 2012. In exceptional circumstances the PIOB will consider an additional extension of up to a year.

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

In September 2010 the IFAC board approved a major CAP project for 2011 and the next few years: the revision and eventual update of all seven Statements of Membership Obligations (SMOs) and the possible development of new statements covering areas such as the corporate governance of member bodies. This project will incorporate some of the elements of due process currently followed by the standard-setting boards overseen by the PIOB.

The SMOs are widely recognized as the international benchmarks for professional accountancy organizations. The World Bank Report on the Observance of Standards and Codes (ROSC) on accounting and auditing refers to the SMOs as part of their policy

recommendations to governments and professional accountancy organizations.

The CAP made important progress over 2010: by January 2011, some 117 IFAC members (out of 164) had published their action plans (usually the first step in the process of achieving or maintaining convergence with international standards and practices); 24 others had submitted draft or partial action plans, which are currently under CAP review; and 22 were still working on their action plans. In contrast, by January 2010, some 76 IFAC members (out of a total of 159) had published their action plans; 39 others had submitted draft or partial action plans; and 40 were still working on their action plans. The CAP expects all remaining action plans to be published during 2011.

In the April-to-March period, the CAP continued receiving regular reports from IFAC member organizations explaining their progress in drafting their action plans or regarding their commitments in published action plans. The CAP also received several applications for IFAC membership this year and assessed and recommended for admission a number of them, either as new IFAC member bodies or as associates.

## Chapter III External Relations

Over the year, the PIOB strengthened its External Relations Program, through which it communicates its work, its achievements, and its goals in the public interest. The PIOB increases public confidence by effective oversight that contributes to improved standards and audit quality, thereby improving the process and ultimately the product. The PIOB contribution needs to be known if it is to increase public confidence, so it requires communicating the benefits of independent oversight and of the reform process to stakeholders and other interested parties.

Upholding the public interest is an ongoing process. By establishing selective relationships, the PIOB is able to gain insight into the public interest issues facing its stakeholders: investors, the profession, users, regulators, and organizations concerned with financial stability. The past year has shown clearly how fruitful these links can be to furthering the public interest.

In the year, the PIOB laid down three objectives for its External Relations Program:

- Institutionalize and deepen relationships with stakeholders
- Gain a better understanding of stakeholder concerns
- Create opportunities to explain how the PIOB oversight model works.

These objectives seek to enhance the transparency of the PIOB to its stakeholders, to provide it with fresh perspectives on audit, and to give stakeholders a better understanding of the workings of independent oversight, helping

to increase public confidence in standard setting and ultimately in the quality of audit and financial reporting.

#### External Relations in the Past Year

As a first step, the PIOB selected organizations representing a variety of stakeholders in different geographic areas and made contact with each one.

By expanding its network, the PIOB last year was able to double the number of external engagements from the year before. Some of the organizations it contacted had never before interacted with the PIOB. Others had maintained relationships with individual PIOB members but had never established an institutional link that could result in useful synergies. Some were located in geographic areas where the PIOB had rarely ventured. The global scope of international audit standards makes this wider outreach necessary for the PIOB to keep fully abreast of global public interest concerns.

Almost all of the new contacts were interested in engaging the PIOB, to exchange opinions, to explain their activities, and to gain a better idea of the workings of independent public oversight. Engagements with the Institute of Chartered Accountants in England and Wales, the European financial think tank Eurofi, the World Federation of Exchanges, and various Spanish regulators gave the PIOB insight into how professional groups, investors, regulators, and users evaluate the role of the audit profession in the current economic and financial crisis.

TABLE 4 – External Relations

Date	Event	Location	Representative(s) & guest(s)
April 2010	Transatlantic Committee	London	Stavros Thomadakis
	Eurofi – seminar	Madrid	PIOB staff
	International Organization of Securities Commissions (IOSCO) Standing Committee 1	Madrid	Gonzalo Ramos
May 2010	Expansión press interview	Madrid	Gonzalo Ramos
	Monitoring Group	Brussels	Stavros Thomadakis and Gonzalo Ramos
	Instituto de Censores Jurados de Cuentas de España (ICJCE), Autonomous University	Madrid	Gonzalo Ramos and PIOB staff
June 2010	International Standards Valuation Board	London	Sir Bryan Nicholson
September 2010	Institute of Chartered Accountants in England and Wales (ICAEW)	London	Gonzalo Ramos
	IFIAR – fall meeting	Madrid	Aulana Peters
	National Association of Boards of State Accounting (NASBA) international forum	Madrid	Gonzalo Ramos and PIOB staff
October 2010	XIX National Audit Congress	Madrid	Gonzalo Ramos
November 2010	IFAC Council	Kuala Lumpur	PIOB board
	Confederation of Asian and Pacific Accountants (CAPA) board meeting	Kuala Lumpur	PIOB board
	World Congress of Accountants (WCOA)	Kuala Lumpur	PIOB board
December 2010	The Prince's Accounting for Sustainability Forum	London	Gonzalo Ramos
January 2010	Autonomous University talk to students	Madrid	Gonzalo Ramos
February 2010	EC conference on the Green Paper	Brussels	Stavros Thomadakis and Gonzalo Ramos

\*Informal meetings: Autonomous University; teleconferences: ICAEW and the Institute of International Finance (IIF); NASBA preparation for International Forum and Spanish regulators, el Instituto de Contabilidad y Auditoria de Cuentas.



*For the PIOB, engaging with stakeholders from different regions, such as Latin America, Africa, or Asia has become a priority. Hearing the opinions of users, professional groups, regulators, IFAC member organizations, and others gives the PIOB a broad understanding of stakeholder concerns.*

To celebrate its fifth anniversary, the PIOB hosted a reception in June at its Madrid headquarters. The event brought together the PIOB board and staff, the IFAC leadership, the chairs of the standard-setting boards and their CAGs, and an array of Spanish stakeholders, many of whom were instrumental in bringing the PIOB to Spain and facilitating its operations.

#### *The World Congress of Accountants*

The World Congress of Accountants held in Kuala Lumpur from 8 to 11 November provided the PIOB with an international platform for meeting and engaging a variety of professional groups and other stakeholders whom it might not have met otherwise.

The participation of PIOB members in several of the concurrent sessions at the WCOA was important. The chairman joined IFAC President Göran Tidström and MG Chair Hans Hoogervorst to present and discuss the final report on the MG review of the 2003 IFAC reforms, which included input from the PIOB's own self-assessment review.

PIOB member Kai-Uwe Marten chaired the session entitled Oversight Boards: The Global Experience and Learning. Also participating in the session was Chairman Thomadakis, who highlighted the importance of collaboration among stakeholders of the standard-setting and oversight processes. Finally, PIOB member David Brown chaired a session entitled The Essence of Audit Quality.

Following the positive experience in Kuala Lumpur, the PIOB has arranged to hold its June

2011 meeting in Buenos Aires, to coincide with the annual meeting of the regional organization Accounting and Accountability for Regional Economic Growth (CReCER).

For the PIOB, engaging with stakeholders from different regions, such as Latin America, Africa, or Asia has become a priority. Hearing the opinions of users, professional groups, regulators, IFAC member organizations, and others gives the PIOB a broad understanding of stakeholder concerns. Such engagements offer the PIOB an opportunity to enhance transparency over its own activities to stakeholders, by explaining how the model of independent oversight works. The processes of adoption and implementation in different +national jurisdictions can be facilitated by a clear understanding of the oversight processes that underlie the development of standards under PIOB oversight.

Finally, these events serve as a platform from which to promote the participation of regional organizations in the standard-setting process. These organizations could play a role in encouraging the nomination of qualified candidates, including practitioners, non-practitioners, and public members. This would be a welcome contribution that would help to achieve greater representation, competence, and diversity among members. Regional organizations can also work with IFAC member bodies to fulfill their membership obligations, helping to clear the way for the adoption and implementation of international standards and ultimately for global convergence.

## Chapter IV Looking Forward

In the last year, the PIOB contributed actively to the Monitoring Group (MG) assessment of the 2003 IFAC reform process. The PIOB submitted a self-assessment report to the MG in February 2010 and a comment letter on the MG exposure draft of its report in September. Both documents, as well as the MG report, can be downloaded from [www.ipiob.org](http://www.ipiob.org). ([www.ipiob.org/news/piob-self-assessment-report-and-comment-letter-mg-review-2003-ifac-reform](http://www.ipiob.org/news/piob-self-assessment-report-and-comment-letter-mg-review-2003-ifac-reform))

In this context, the MG and the PIOB met with greater frequency than in previous years, and its contributions to the report allowed PIOB board members to engage the MG in an intense and strategic dialogue.

The PIOB and the European Union (EU) also have intensified relations with the signing of the grant agreement with the EU Commission, effective 29 June 2010, whereby the EU will make available to the PIOB €1.2 million over the period 2010–14.

The annual meeting of the International Forum of Independent Audit Regulators (IFIAR), held in Madrid in September 2010, was attended by a PIOB member and the PIOB secretary general. A presentation was made by the PIOB, detailing its oversight activities since March 2010 as well as its contribution to the MG Review of the 2003 IFAC Reforms.

*The final report, which found that virtually all of the changes called for by the reforms had been implemented, was forward-looking, seeking to identify possible areas where the existing system could be further improved and better equipped to meet future challenges.*

### The First Five Years of Reform

In 2010, the Monitoring Group completed the first five-year review of the progress of reform as contemplated by the original reform agreement. This was an intensive process involving self-assessments by the principal players, consultation and analysis. A preliminary report was published by the MG seeking further comment, and a final report was issued during the World Congress of Accountants in Kuala Lumpur in early November. The final report, which found that virtually all of the changes called for by the reforms had been implemented, was forward-looking, seeking to identify possible areas where the existing system could be further improved and better equipped to meet future challenges. The report identified several areas for possible improvement through further dialogue and analysis.

The PIOB agrees with the finding that the system has worked successfully to facilitate and implement the reform process. As the PIOB stated in its self-assessment prepared for the Monitoring Group, it believes that the reforms implemented since 2005 have produced substantial improvements in the governance of the IFAC and its standard-setting

bodies and in the process by which standards are set and implemented. The public interest is taken into account in all stages of standards development. The PIOB also believes that these improvements have been achieved through the development and refinement of two of the essential elements of reform: continuation of the IFAC’s responsibility for assembling teams of highly qualified professionals to develop auditing, education, and ethics standards, and management of the potential conflict between professional and public interests through the oversight of the PIOB.

The PIOB also agrees with the Monitoring Group that the process of improvement is a continuing one. In particular, the PIOB needs to continue to evolve its system of oversight in an environment that is constantly developing and to adapt its approach to the particular circumstances of each of the entities that it oversees. The roles of the IFAC entities that the PIOB oversees are also evolving, but not necessarily uniformly. As the process goes forward, it will be important for the PIOB to understand these transitions, the stakeholders affected, and the implications for the public interest.

TABLE 3 – PIOB–MG Meetings\*

Date	Event	Location	Representative(s) & guest(s)
May 2010	Monitoring Group effectiveness review task force	Brussels	Stavros Thomadakis, Sir Bryan Nicholson, and David Brown, Gonzalo Ramos.
June 2010	Monitoring Group	Amsterdam	Stavros Thomadakis, Toshiharu Kitamura, Aulana L. Peters, Sir Bryan Nicholson, and Gonzalo Ramos
August 2010	Monitoring Group effectiveness review task force	London	Aulana Peters, Sir Bryan Nicholson, and Gonzalo Ramos
September 2010	Monitoring Group effectiveness review task force	Paris	Stavros Thomadakis, Sylvie Mathérat, Antoine Bracchi, David Brown, Fayez Choudhury, and Gonzalo Ramos
November 2010	Monitoring Group	Kuala Lumpur	PIOB board
February 2011	Monitoring Group	Madrid	Stavros Thomadakis, Sylvie Mathérat, Michael Hafeman, Aulana Peters, Kai Uwe Marten, Toshiharu Kitamura, G. Ramos

\* A scheduled PIOB-MG meeting in October was substituted by a phone call from the MG Chair.

## Chapter V Looking Forward

The architects of IFAC reform sought to increase the quality of the standards governing the audit process and the competence of audit practitioners. They recognized that to achieve these objectives there needed to be improvements in the process by which standards were formulated and an increased focus on serving the public interest. The existing structure was born out of the need for reform.

### A Balanced Approach

The PIOB will continue to evaluate and improve the oversight model, while ensuring that the elements that have been essential to the success of the reforms to date are preserved. At the same time, the PIOB will continue to adapt its approach to the dynamic environment in which the standard-setting boards, their CAGs, and the CAP are operating. Success in these endeavors will require continued cooperation and collaboration with regulatory groups and other stakeholders with vested interests in the outcomes; their engagement with the issues will enable them to provide valuable direction on the way forward. As the PIOB engages in this next phase of its own evolution, it will be mindful of the fourth objective of IFAC reform highlighted in the Monitoring Group's request for self-assessments:

*"a more collaborative and comprehensive international process for determining how accountants and auditors can best contribute to the integrity of the international financial system."*

### The Way Ahead

With the completion of the Clarity project and the publication of the Code of Ethics for Professional Accountants, the IAASB and the IESBA have each embarked on initiatives that will engage the public interest in new and different ways and will involve a broader range

of stakeholders. The education standards board (IAESB) is engaged in an ambitious effort to revise the eight extant education standards. The Compliance Advisory Panel has begun to review the Statements of Membership Obligations. Set out below are some thoughts on how the PIOB can ensure that the public interest remains paramount as these initiatives progress.

### The Expanding Scope of Audits

The scope of audits is expanding, and so too is the scope of areas covered by standard setting. Several of the projects in which the IAASB is engaged respond to requirements beyond what is strictly understood today as a financial audit. IFAC has recently reported that it supports initiatives in the international community, led by the International Integrated Reporting Committee (IIRC), to create a globally accepted framework for integrated reporting that will bring together financial, environmental, social, and governance information in a clear, concise, consistent, and comparable format. Created in August 2010 by the Prince of Wales's Accounting for Sustainability Project and the Global Reporting Initiative, the IIRC is composed of representatives from civil society and the corporate, accounting, securities, regulatory and standard-setting sectors. For example, the IAASB's project to create a framework for reporting on greenhouse gas emissions breaks new ground for the profession and will tend to create precedents for the profession's ability to provide assurance services in other areas such as sustainability, corporate social responsibility, and environmental consciousness. The frameworks 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, some of which will have implications for financial



*The PIOB will continue to evaluate and improve the oversight model, while ensuring that the elements that have been essential to the success of the reforms to date are preserved*

reporting. The IAASB is also refining the standards for review and compilation engagements. These efforts and others will 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.

With the growing adoption and implementation of the clarified International Standards on Auditing, audit regulators, securities regulators, banking supervisors and the profession are able to observe how they are working in practice. Collaboration among these stakeholders and others to identify areas for future clarification or revision will be essential.

As all of these initiatives proceed, the PIOB will need to be satisfied that the necessary collaboration has been effective and that public interest representation has been sufficiently inclusive to engage those who have a stake in the outcome.

### Ethics Standards

The IESBA's long-term objective is the convergence of the Code's independence standards with the requirements of regulators and national standard setters. To fulfill this objective, the IESBA has opened a dialogue with various regulators and national standard setters to obtain input on the types of improvements that they believe should be made to the Code to gain acceptance and recognition in their jurisdictions. Acting on input it had already received, the IESBA recently began a project to reconsider the Code's provisions on inadvertent violations. It also began comparing key provisions in the Code with the requirements of select jurisdictions to understand where the differences are and determine whether it should take action to reduce those differences. As an interim step toward convergence, the IESBA will be exploring with regulators and national

standard setters how the Code could be accepted for use in a group audit situation by foreign auditors of foreign subsidiaries.

Like the other two standard-setting boards, the IESBA comprises an equal number of practitioners and non-practitioners, including three members who are independent of the profession. In its report, the Monitoring Group questioned the adequacy of the current structure of the IESBA for balancing the public interest with the inherent conflicts of having the profession set standards for auditor ethics and independence that can significantly affect the business models of the auditing firms. The PIOB will oversee the IFAC Nominating Committee and the IESBA as these explore possible approaches to address the concerns of the MG.

### Education Standards

Setting standards for education is different from setting standards for auditing in at least five 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 academics and other experts involved in the education of professional accountants. Third, the implementation of education standards is more sensitive to the level of development in the country or region in which they are to be applied. However, other than the personal characteristics of individual professional accountants, their education is the most important factor in their ability to provide services in the interests of the public, and therefore the PIOB has an important role in ensuring that the public interest is appropriately considered when setting standards in this area. Fourth, education standards are geared toward capacity building while auditing standards are geared toward the quality of the provision of a

service. Finally, education standards apply to all accountants while auditing standards apply to only those accountants performing audits.

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 in the range of stakeholders? Should the current approach of the IFAC to developing countries be modified and, if so, how? The IAESB is currently engaged in an ambitious revision of the extant eight education standards and in this context is wrestling with these and related questions. Given the scope of this program and the important issues referred to above, the PIOB will continue to oversee the IAESB and its CAG to ensure that the public interest remains paramount.

**Adoption and Implementation**

The PIOB oversees the CAP and, through it, the IFAC's Member Body Compliance Program. Through this program, the IFAC encourages member bodies to promote and achieve adoption and effective implementation of the standards developed by its standard-setting boards. The PIOB believes that implementation and compliance must be effective to serve the public interest. Proper implementation of standards is the joint responsibility of the standard-setting boards, audit practitioners, other accounting professionals, accounting bodies, and national audit regulators. Implementation involves numerous activities and actors to set the stage for successful compliance. While these are largely national activities, creating the necessary conditions to ensure success is an area of implementation support that requires international cooperation subject to common due-process disciplines. Both the IAASB and the IESBA have initiatives to facilitate implementation. For example, the IAASB has identified as one of its

three strategic areas of priority "responding to implementation concerns and improving the consistency of the standards' implementation." The board believes that it is important to determine an appropriate balance between ensuring that the clarified International Standards of Auditing (ISAs) are successfully implemented and kept up to date while also supporting new and emerging assurance services and addressing the needs of small and medium entities and practices.

The advice and direction provided by the CAP is crucial to the success of these initiatives. Its constant interaction with member bodies continues to provide valuable insight into the unique implementation and compliance challenges faced by individual jurisdictions. The PIOB's oversight of the CAP will provide transparency to this process, identify gaps and overlaps, identify challenges, coordinate disparate efforts, and assess effectiveness.

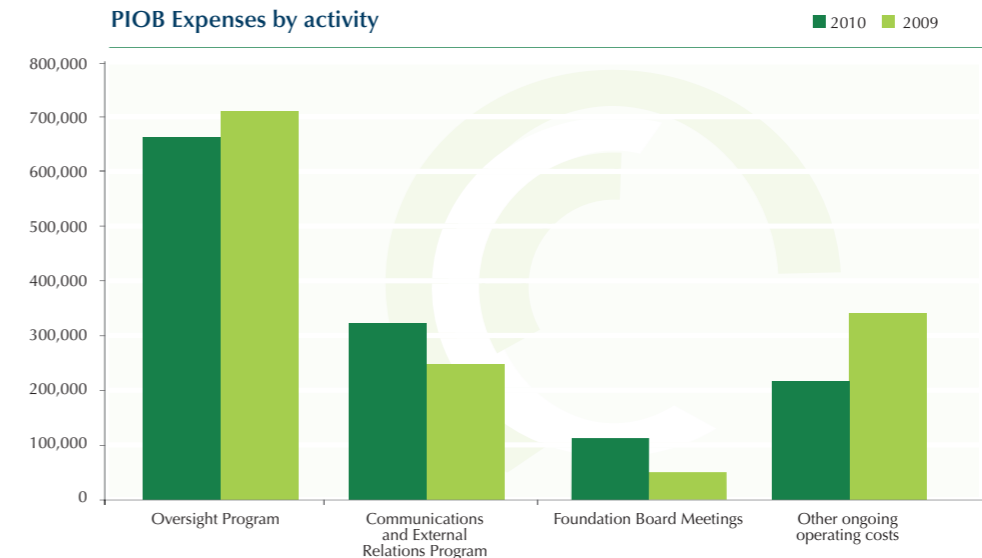
**PIOB Oversight of Public Sector Accounting Standards**

International Public Sector Accounting Standards (IPSASs) are produced by a body that functions under the auspices of IFAC but does not come under PIOB oversight. In this case, the standards development model is not analogous to that of the other IFAC bodies because the preparers and regulators are largely part of the same governmental organization. The IFAC has proposed that the PIOB's mandate be extended to cover IPSAS. Accounting standards for the public sector have acquired increasing importance in the post-crisis world economy given the fiscal expansion that has taken place and the consequent increases in levels of sovereign debt. The PIOB believes that the setting of public sector accounting standards would benefit from public interest oversight and that the PIOB could, in principle, be an option to conduct that oversight; it has suggested ways in which this could be accomplished.

Chapter VI  
PIOB Foundation Summary Statement  
of Financial Performance <sup>(1,2,3)</sup>

(in Euros)	2010	2009
<b>TOTAL REVENUES (4)</b>	<b>1,374,922</b>	<b>1,312,393</b>
<b>EXPENSES BY ACTIVITY</b>		
Board-related operating costs		
Oversight Program	666,408	709,500
Communication and External Relations Program	320,291	54,507
Foundation Board Meetings	210,027	341,960
Other operating costs	341,960	200,244
<b>TOTAL EXPENSES</b>	<b>1,304,423</b>	<b>1,259,128</b>
<b>SURPLUS</b>	<b>70,499</b>	<b>53,265</b>

PIOB Expenses by activity



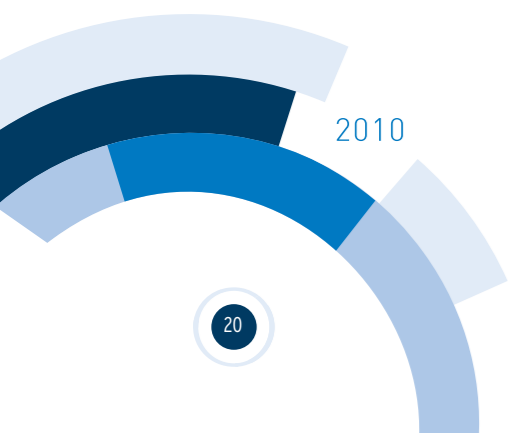
(1) The PIOB Foundation's auditor, BDO Audiberia S.L., delivered an unqualified opinion on the complete financial statements of the Foundation. The full version of these statements and the auditor's report are available separately on the PIOB website at [www.ipiob.org](http://www.ipiob.org)

(2) The PIOB operates as a Technical Committee of its Spanish non-for-profit foundation, Fundación Consejo Internacional de Supervisión Pública 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 2010 were contributed by the International Federation of Accountants (IFAC) in amount of ?1,074,922 and the European Commission (EC) in amount of ?300,000 Euros.

In 2010, the remainder of revenue over expenses of ?70,499 was retained to strengthen the Foundation's capital base.



## 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. Fayezul Choudhury

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



### Mr. Toshiharu Kitamura

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



### 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



### 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. 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. Michael Hafeman

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



### 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



### Sir Bryan Nicholson, GBE

Former Chairman of the UK Financial Reporting Council. Former Chairman of BUPA, Cookson Group PLC, The Post Office, Manpower Services Commission, Rank Xerox (UK), the Council of the Open University, the Council for National Academic Award, and the National Council for Vocational Qualifications; Former President of the Confederation of British Industry (CBI).



### 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 guide readers of this report by explaining various terms used in its preparation. 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, auditing of, and provision of assurance and advisory services on financial information.

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

**Action plan:** the document that the IFAC Member Body 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 IFAC and the IASB, quality assurance, and investigation and disciplinary programs.

**Basel Committee on Banking Supervision (BCBS):** the international body comprising 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 website. The Basis for Conclusions provides background information on the project, sets out the main comments received in response to the 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 by IFAC early each year, designed to help IFAC to find the best person for each vacancy on its boards and committees, while also achieving a 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 Auditing. The drafting conventions adopted for this purpose involved a new 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.

**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 for Professional Accountants through the application of new drafting conventions. These

conventions focused on clarifying the 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 the endeavors of IFAC members and associate members to meet the requirements of IFAC membership. The PIOB oversees the work of the CAP.

**Consultative Advisory Group (CAG):** the groups constituted to provide advice, including technical advice, to one of the IAASB, IAESB, and 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, IAESB, and 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 (EC):** the executive branch of the European Union (EU). The EC may make legislative proposals and is ultimately responsible for the 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):** The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The Financial Stability Forum was the predecessor to the FSB.

**Forum of Firms (FoF):** a forum that brings together firms performing transnational audits and involves them more closely with the activities of IFAC. The FoF is dedicated to promoting 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 IFAC membership obligations, as it deals with key educational concepts, the different types of IAESB pronouncements, and IFAC member bodies' obligations on education standards.

**Global Reporting Initiative (GRI):** an international network-based organization that created the world's most widely used sustainability reporting framework. Network participants are drawn from global business, civil society, labor, academic and professional institutions.

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

**International Accounting Education Standards Board (IAESB):** the independent standard-setting board that develops International Education Standards (IESs) 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:** IAESB's equivalent to the IAASB's Clarity project.

**International Association of Insurance Supervisors (IAIS):** a 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 of Auditing 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, IAESB, and IESBA are three of IFAC's independent standard-setting boards.

**IFAC Code of Ethics for Professional Accountants:** the document that establishes ethical requirements for professional accountants and provides a conceptual framework for them 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 member bodies' compliance 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 IFAC 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.

**International Financial Reporting Standards (IFRS):** 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 conduct 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 international standard setters for securities markets.

**International Public Sector Accounting Standards (IPSASs):** the global financial reporting standards for application by public sector entities other than government business enterprises, issued by IFAC's International Public Sector Accounting Standards Board.

**International Standards Valuation Board (ISVB):** the body that sets the standards for how to perform and report on valuations. In 2008, the ISVB replaced the former IVSC Standards Board.

**Japanese Financial Services Agency (FSA):** the 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 (MG):** the regulatory and international organization responsible for monitoring implementation of IFAC reform. The MG 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 MG 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 Stability Board; the International Federation of Independent Audit Regulators is an observer.

**National Association of State Boards of Accounting (NASBA)** - an umbrella group for the state boards that regulate the accountancy profession in the United States

**Non-practitioner member:** a member of the IAASB, IAESB, or IESBA who is not a member or employee of an audit practice. If previously a member or 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, IAESB, or IESBA who is also a member or employee of an audit practice.

**Public Company Accounting Oversight Board (PCAOB):** 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 website 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 another exposure.

**Public Interest Activity Committee (PIAC):** the groups established under the auspices of the IFAC consisting of three independent standard-setting boards—IAASB, IAESB, and 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):** an independent body that is nominated by the Monitoring Group and 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. PIOB public reports cover the operating period from 1 April to 31 March.

**Public member:** a member of the IAASB, IAESB, or 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.

**Reports on the Observance of Standards and Codes (ROSCs):** ROSCs summarize the extent to which countries observe certain internationally recognized standards and

codes. The International Monetary Fund has recognized 12 areas, including accounting and auditing, and associated standards as useful for the operational work of the International Monetary Fund and the World Bank.

**Statements of Membership Obligations<sup>[i]</sup> (SMOs):** the seven statements issued by the IFAC that establish requirements for IFAC members and associates to promote, incorporate, and assist in implementing international standards issued by IAASB, IAESB, 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 each of the IAASB, IAESB, IESBA, their respective CAGs, and the CAP. These documents are available on the IFAC website.

**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.

<sup>1</sup> 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.



The Public Interest Oversight Board receives, from 2010, financial support from the European Union - DG Internal Market and Services.

The contents of this report are the sole responsibility of the PIOB and can under no circumstance be regarded as reflecting the views of the European Union.



Public Interest Oversight Board

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

Oquendo, 12 28006 Madrid, Spain  
Telephone: +34 91 782 05 28 - [www.ipiob.org](http://www.ipiob.org)