



Public Interest Oversight Board

CONTINUITY AND CHANGE

SEVENTH PUBLIC REPORT OF THE PIOB
MAY 2012

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



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Since 2010, the Public Interest Oversight Board has received financial support from the European Union—DG Internal Market and Services. The content of this report is the sole responsibility of the PIOB and should under no circumstance be regarded as reflecting the views of the European Union.

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The Board



(From left to right)

Robert Ward, Michael Hafeman, Sir Bryan Nicholson, Chandrashekhar Bhave, Sylvie Mathérat, Charles McDonough, Eddy Wymeersch (Chairman), Aulana Peters*, Toshiharu Kitamura, Kai Uwe Marten and Gonzalo Ramos (Secretary General).

*(substituted by Jane Diplock in March 2012)

Message from the Chairman

2011 was a year of both continuity and change.



Continuity was maintained in the oversight activities of the Public Interest Activity Committees (PIACs). As in previous years, PIOB members oversaw most of the meetings of the PIACs and of the Consultative Advisory Groups (CAGs). They also attended meetings of the IFAC Board, the IFAC Council, and the Nominating Committee. This breadth of attendance gives the PIOB an in-depth view of the standard-setting work taking place and enables it to influence topics that raise public interest issues. The PIOB pays special attention to how the procedures and deliberations in the PIACs reflect the public interest, by ensuring that an open and free debate takes place, that all opinions are heard, and that the arguments put on the table in the consultations, especially in the CAGs, are taken into account. Apart from an overall check, these steps ensure that the standards as finally adopted reflect the public interest, embodied in the diversity of opinions as expressed in the standard-setting process.

From this point of view, the PIOB necessarily follows the pace of activities set by the PIACs and cannot determine the speed of their progress. Indeed, the standard-setting procedures require an elaborate itinerary realized through various boards and committees, where a wide variety of opinions are expressed and where technical drafting and amending of the standards take place. Due to the complexity of the issues and the worldwide character of these activities, the PIOB is aware that some of the initiatives may take a long time, although sometimes it feels obliged to draw attention to the expectations of the markets and the need for practitioners of the accounting profession to have readily available and reliable guidance.

Numerous changes also occurred. First, the board was renewed. In addition to the chair, four new members—out of 10—joined the PIOB, extending further the board's worldwide coverage: Chandrashekhar Bhave of India, Charles McDonough of the United States, Robert Ward of Australia and, since March 2012, Jane Diplock of New Zealand. To maintain high-quality oversight and the authority of the PIOB's approval, it is important to have the standards approved by experienced people who are sensitive to the issues confronting accountants worldwide in their practice.

Following up on some of the issues raised by the Monitoring Group, the board started to reflect on its oversight procedures, developing a new oversight methodology based on risk sensitivity that allows some PIACs to be subjected to more intense direct oversight than others. This change in methodology reflects the need to update the oversight methods now that the PIOB has built up unique expertise in this field over more than seven years and has gathered in-depth knowledge of the issues under discussion. Closer monitoring and remote observations by the Secretariat will

Message from the Chairman

enable a closer dialogue between the Secretariat and members in charge of monitoring and observation. In addition, oversight groups have been constituted within the board, allowing for more continuity and exchange of views and experience among the members overseeing a specific work stream.

Several other subjects call for the PIOB's attention. Implementation of the standards is a point of concern, especially as failed implementation is a cause of risk, sometimes even systemic risk. The world's financial authorities have to make additional efforts to encourage country stakeholders-- including legislators, regulators and professional accountancy organizations-- to ensure that standards are adopted and implemented in practice. The effects of the regulatory initiatives in both the European Union and the United States have to be followed closely to determine their likely effects on the standard-setting process and on the practice of global accounting firms.

On behalf of the PIOB, a special word of thanks is due to the PIOB's first chair, Stavros Thomadakis. Following agreement on the 2003 IFAC Reforms, he was appointed first chairman and presided over the setting up of the PIOB, a key element of the reforms. He fostered the strong, independent and well-respected organization that it is today. On behalf of the board, I would also like to express my gratitude to the other members who left the Board in March 2011 -Antoine Bracchi, David Brown, and Fayezul Choudhury- and in March 2012 -Aulana Peters. Thanks to their hard work and dedication, the PIOB has consistently offered high-quality oversight in the public interest.

Mr. Eddy Wymeersch,
PIOB Chairman

Chapter I

Evolving Oversight Methodology

“The PIOB developed a work program for 2012 and beyond that includes a review of its methodology.”

PIOB Mandate: Due process oversight

Since 2005, the PIOB has tried to ensure that the setting of standards under its oversight serves the public interest by focusing on due process oversight of standards development.

If due process in the development of standards is robust under PIOB oversight, if the Consultative Advisory Groups (CAGs) and the Public Interest Activity Committees (PIACs)¹ take the views of stakeholders into account, and if these bodies work effectively and give due weight to comments from public interest organizations in their discussions, then standards should be technically constructed in the public interest because interested stakeholders have thoroughly debated contentious technical issues. The content of the proposed standards will have been considered and possibly accepted by the majority of voices representing the public interest.

In this context, the nature of due process oversight is very important. At present, the PIOB prescribes a series of steps and activities that must be carried out by the standard-setting board to protect the public interest: (a) a due process checklist that IFAC, on behalf of the PIACs, submits to the PIOB, (b) a process for CAG chairs to report to the PIOB their opinions on whether issues raised in CAG discussions have been adequately considered, (c) since 2008, a process of internal technical

review by PIOB staff, and (d) a Basis for Conclusions document prepared by the PIAC that summarizes the reasoning of the standard-setting board in addressing the views expressed by CAGs and participants in the consultation process. If all of these steps have been carried out, it follows, in principle, that due process has been followed.

However, the PIOB seeks to attain a higher level of comfort. Respect for due process may not always guarantee protection of the public interest. The PIOB needs to understand the substance and implications of a new standard to determine whether the public interest was served in its development. To safeguard the public interest, PIOB oversight needs to convey a deep understanding of the purpose of its work. The PIOB has used and intends to continue to use various means to build this awareness. The first is to recruit high-quality PIOB members with ample experience, but other means also stand out: the experience of physically observing PIAC and CAG meetings and hearing first-hand the views of participants, engaging in ongoing dialogue with other stakeholders, and considering the input of the Monitoring Group (MG) regarding regulatory priorities. These three activities are of critical importance to inform PIOB oversight, to ensure its high quality, and to avoid a deterioration of oversight into a mechanical exercise.

(1) The Public Interest Activity Committees (PIACs) include the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), and the Compliance Advisory Panel (CAP). Only the first three are standard-setting boards.

PIOB Oversight

The PIOB conducts its oversight through a range of procedures to ensure that due process is followed and the public interest is safeguarded in development of the international standards for auditing, education, and ethics as well as in IFAC's compliance program.

Until 2011 the PIOB carried out a policy of 100% direct observation (DO) of meetings, supported by staff briefings and due process analysis (limited reviews and extended reviews). A PIOB member was present at each meeting to determine whether due process was followed effectively and with proper regard for the public interest and to provide comments or recommendations. The knowledge that the PIOB had observed each meeting gave assurance to stakeholders that the public interest was being protected.

In its 2010 review of the IFAC reforms, the MG recommended that the PIOB adopt a risk-based model for the post-reform era of standard setting. In response, in 2011 the PIOB introduced a new model aimed at providing quality oversight in the public interest without relying on 100% direct observations.

Oversight Methodology and Assurance Model

In 2011, the PIOB developed a work program for 2012 and beyond that includes a review of the oversight methodology. Developed in consultation with IFAC and the MG, the program is designed to build sufficient evidence that the public interest is being served, even if some meetings are not observed directly.

This new methodology entails seven steps, as follows:

1) Assign Team Leaders for Oversight Activities

Starting in 2012, the PIOB assigned PIOB members to lead the oversight activities of

specific PIACs during the calendar year. These team leaders direct the risk assessment applied to each PIAC and establish, together with staff, the combination of oversight techniques appropriate to the PIAC. Close cooperation in a scenario of less than 100% direct observation is crucial to ensure the continuity of oversight processes. These assignments are for one year only to reduce the risk of regulatory capture. The team leader, with the support of other team members, works with the PIOB Secretariat to develop the oversight plan for that year.

2) Develop Oversight Assurance Models

As part of the development of its oversight plan, the PIOB team leader proposes to the board an oversight assurance (OA) model to guide the nature and scope of its work for that year (see table 1). Based on its experience, the PIOB has formalized four OA models, each one offering a different level of assurance. The level chosen for each plan should be of sufficient intensity to enable the PIOB to conclude whether the activities of the PIACs and the CAGs follow due process and properly safeguard the public interest.

The oversight model adopted for each PIAC and its CAG can vary from year to year based on factors such as past experience, the PIOB's confidence in PIAC and CAG members, their performance, and the content of their strategy and work plan.

3) Determine Oversight Techniques

The oversight assurance model proposed by each team leader and chosen by the board will determine the oversight procedures to be followed throughout the year. Two new oversight techniques were introduced and tried in 2011: remote observation (RO) and monitoring and reporting (M&R). These techniques enable the PIOB to oversee

the outcomes and processes of those PIAC and CAG meetings that will not be subject to direct observation. In contrast to direct

observation, which is carried out mainly by board members, RO and M&R are carried out by the PIOB staff (see table 2).

Table 1: Oversight Assurance Model

Oversight assurance model	When utilized	Oversight techniques	Level of oversight assurance
OA 1	High systemic impact of failure Low confidence in PIAC	100% direct observation of PIAC meetings Independent third party verification	High but at very high cost
OA 2	High systemic impact of failure Insufficient experience levels in PIAC oversight Significant change in external environment	100% direct observation of PIAC meetings	High
OA 3	High or medium systemic impact of failure Good experience levels in PIAC oversight High confidence in PIAC Steady-state external environment	Medium levels of PIAC meeting observations	Moderate
OA 4	Low systemic impact of failure Good experience levels in PIAC oversight High experience in PIAC	Minimal or no PIAC meeting observation	Lower

Table 2: Summary of Oversight Procedures and Oversight Responsibilities

Entity	2005–10		2011–12			
PIOB Board	100% direct observations		Less than 100% direct observations		Assignment of team leaders	
PIOB staff	Limited reviews	Extended reviews	Limited reviews	Extended reviews	Remote observations	Monitoring and reporting

Remote observation calls for staff to attend by phone or video conference part or all of a PIAC or CAG meeting. Monitoring and reporting consist of in-depth monitoring by PIOB staff of documents pertaining to the agenda as well as the minutes of the meeting. In both cases, staff members write an observation memo analyzing due process of the meeting they have observed or monitored. The impact of both techniques on effectiveness, costs, and resources will be evaluated in 2012, after the first “pilot” year.

These new techniques are designed to enable team leaders and ultimately the PIOB to determine whether the public interest has been served.

At the end of 2011, the PIOB decided which oversight approach would be applied to each board in 2012 (see table 3):

1. In normal circumstances, given their high-level performance, the IAASB and its CAG would warrant a lower level of oversight intensity. In view of the nature of the work the IAASB will be pursuing during 2012 and the ensuing work of its CAG, the appointment of new IAASB members starting their terms in 2012, and the fact that the PIOB will continue partially renewing its membership during 2012, the PIOB adopted Oversight Model 3 (medium intensity) for IAASB activities in 2012.
2. The PIOB also has assigned Oversight Model 3 (medium intensity) to the IAESB and its CAG for 2012, primarily because of

the importance and extension of the current agenda for revising the eight International Education Standards (IESs) and the change in leadership of the IAESB and its CAG at this important moment. In addition, in 2012, the discussion of the strategic plan will set the agenda for the board’s work in the coming years.

3. The 2011 observations of IESBA meetings have shown that the balance between the views of practitioners and non-practitioners can be improved and that the board’s awareness of ethical matters related to the public interest can be enhanced. Given the nature and complexity of the work the IESBA is pursuing in 2012, the ensuing CAG work, the sensitivity of the items included on the board’s agenda, and the appointment of a new IESBA chair late in 2012 to become Chair in 2013, the PIOB has decided to adopt Oversight Model 2 (high intensity) in 2012, resulting in 100% direct observations.

4. Finally, the CAP plays a central role in promoting the adoption and implementation of international standards, one of the most important challenges facing IFAC. Because of the importance that the PIOB gives to adoption and implementation, it has assigned Oversight Model 3 (medium intensity) to the CAP for 2012.

Table 3: Oversight Methodology for 2012

PIAC	Team leader	Additional member	Oversight assurance model	Oversight technique
IAASB and IAASB CAG	Robert Ward	Charles McDonough	AO 3 (medium intensity)	90% DO 10% RO
IAESB and IAESB CAG	Kai-Uwe Marten	Charles McDonough	AO 3 (medium intensity)	90% DO 10% RO
IESBA and IESBA CAG	Eddy Wymeersch	Chandrashekhar Bhawe	AO 2 (high intensity)	100% DO
CAP	Michael Hafeman		AO 3 (medium intensity)	60% DO 40% RO

AO: assurance model
DO: direct observation
RO: remote observation

4) Have Oversight Plan Approved by the PIOB Board

5) Execute Oversight Plan

In the application of its oversight assurance models, the PIOB seeks to verify that the PIACs

- Are composed of highly qualified performing members who are an appropriate mix of practitioners, non-practitioners, and public members and have adequate stakeholder representation.
- Are chaired by independent or otherwise public interest-driven high-caliber persons.
- Are following work programs (agendas) that are relevant to the public interest, focusing on the highest-priority projects.
- Conduct their meetings in an independent, transparent, and robust manner, following substantive consultation with stakeholder groups and the public at large.
- Supervise the drafting of the standards by highly competent technical staff.
- Have adequate resources to fulfill their mandates.
- Follow a robust due process in the development of standards that includes interaction with their respective CAGs, the public exposure of standards prior to their approval, and appropriate handling of all comments received in order to ensure the public interest.

The PIOB also seeks to verify that the CAGs

- Are composed of the right stakeholder groups with appropriate representation.
- Interact effectively with the standard-setting boards in the development of standards.
- Provide stakeholder input into the development of standards.

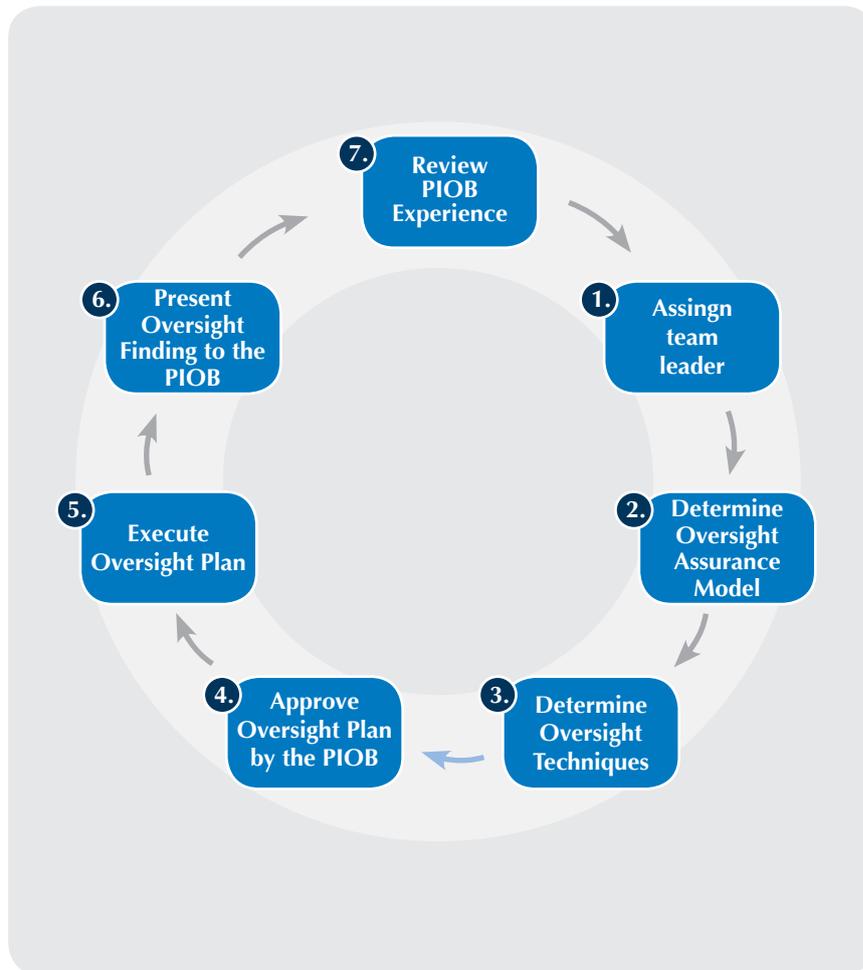
6) Present Oversight Findings to Board

At the conclusion of the calendar year, each team leader will present the findings of the year's work to the PIOB along with the recommended conclusion. These findings will be published in the year's public report.

7) Review PIOB Experience

The board will review the experience of the year to lay the groundwork for the next year's oversight methodology and assurance cycle (see figure 1).

Figure 1: Oversight Methodology and Assurance Cycle



Chapter II

PIOB Oversight Activities: 1 March 2011 to 29 February 2012

“Remote observations and monitoring and reporting were used to oversee meetings that were not observed directly.”

Introduction

As in previous years, PIOB oversight activities for the March 2011 to February 2012 period included direct observations of IAASB, IAESB, and IESBA meetings as well as of their respective CAGs and the CAP. Remote observations and monitoring and reporting were used to oversee meetings that were not observed directly. In addition, the staff conducted extended review (ER) and limited review (LR) due process analysis and provided briefing memos to observers. The board communicated regularly with the leadership of IFAC, the PIACs, and CAGs.

Oversight Overview

Following its evolved oversight methodology, the PIOB members and the secretary general

directly observed 81% of the meetings held by the PIACs, CAGs, and IFAC Nominating Committee, during the period. The remaining 19% of meetings were observed by PIOB staff through remote observations. Although different from comprehensive direct observations, the initial results of remote observations were positive, and this methodology enabled the PIOB to gain an important degree of assurance over the due process followed and the discussions held in the selected meetings.

Table 4 provides comparative information on the scope of our observation activities during the last six years of operation. The statistics for 2011 include separate statistics for DO and RO.

Table 4: PIOB Observations

Meeting date Entity	2006 – 07 Held/Obs.		2007 – 08 Held/Obs.		2008 – 09 Held/Obs.		2009 – 10 Held/Obs.		2010 – 11 Held/Obs.		3/2011– 3/2012 Held/Observed	
IAASB	6	6	5	5	4	4	4	4	4	4	6	5 DO* 1 RO
IAASB CAG	2	2	4	4	2	2	2	2	1	1	2	2
IAESB	3	3	3	3	4	4	3	3	2	2	3	2 DO 1 RO
IAESB CAG	2	2	2	2	2	2	2	2	2	2	3	2 DO 1 RO
IESBA	4	3	4	4	5	5	3	3	3	3	3	3
IESBA CAG	2	2	4	3	3	2	2	2	1	1	2	2
CAP (from April 2007)	n.a.n.a.		5	5	5	4	4	4	4	4	5	3 DO 2 RO
IFAC Nominating Committee	8	8	8	7	8	8	8	8	7	7	8	7 DO** 1 RO
Total	27	26	35	33	33	31	28	28	24	24	32	32(26DO,6RO)

* Two of six IAASB meetings were teleconferences.

** Three of eight meetings of the Nominating Committee were teleconferences.

RO: remote observation

DO: direct observation

n.a.: not applicable.

The number of meetings held in 2011–12 was higher than the number held in the same period the year before, as it included several teleconferences. The agendas of individual PIAC and CAG meetings were substantial and increasingly challenging. A brief review of 2011–12 PIAC agendas shows the continuation of standard-setting activities from previous years, the approval of the IESBA Strategy and Work Plan, the extension for one year of the IAESB strategy, and further work related to projects that are still at early stages of development, as explained below.

As part of its oversight work in the period, the PIOB monitored and oversaw the discussions on the drafting of the IAASB's forthcoming 2012–14 Strategy and Work Plan, which is expected to be submitted to the PIOB for approval in May 2012. The PIOB also closely monitored the process followed by the IAASB in the revision of several relevant standards, such as ISA 610, "Using the Work of Internal Auditors," and ISRS 4410, "Engagements to Compile Historical Financial Information," both finalized by the IAASB in December 2011; ISRE 2400, "Engagements to Review 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".

In addition to the above, the PIOB oversaw the IAASB's work on new projects covering areas that have gained greater importance in the last few years. This is the case of the projects to develop an international framework on audit quality, to determine changes to the auditor's report, and to craft a statement on disclosures of financial information. In the three cases, the IAASB intends to expose the documents to

public consultation, in order to gather public views on relevant subject matter and to adhere to the standard-setting due process. The IAASB also made progress on work that goes beyond what is strictly understood as a financial audit, such as the standard for assurance services on greenhouse gas emissions.

The PIOB also oversaw the process followed in the development of the IAESB's most important project in the last few years: the revision of its entire suite of eight International Education Standards, which was started in 2010. The IAESB approved the revised IES 7, "Continuing Professional Development," during its October 2011 meeting and plans to submit it to the PIOB for approval in May 2012. IES 4, "Professional Values, Ethics, and Attitudes," and IES 6, "Assessment of Professional Competence," are still under revision.

This IAESB's revision project is expected to continue to mid-2013. 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.

Finally, in the area of ethics standards, the PIOB followed the IESBA's work in finalizing its 2011–12 Strategy and Work Plan. The IESBA long-term objective is the convergence of international and national ethical standards, including independence requirements for auditors, through the development of an internationally appropriate Code of Ethics. To fulfill this objective, the IESBA has initiated a discussion with various regulators and national standard setters to obtain input on the types of improvements that should be made to the code to gain acceptance and recognition in their jurisdictions. The PIOB intends to oversee

closely the execution of the IESBA 2011–12 Work Plan, the development of the IESBA new post-2012 strategy, and the process to appoint an independent chair in 2012.

Independent Analysis

PIOB staff continued to apply extended review and limited review analysis to all standards and strategies submitted for PIOB approval: an ER analysis was performed of the IESBA 2011–12 Strategy and Work Plan and IAPN 1000, “Special Considerations in Auditing Financial Instruments”; LRs were conducted of the revised preface and ISAE 3420, “Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus.” PIOB staff also prepared technical memos to support every PIAC and CAG observation conducted by PIOB members and the secretary general, and factored into the ERs and LRs the information, conclusions, and recommendations provided in the observation memos produced by PIOB members physically attending the meetings. PIOB staff placed considerable emphasis on the response of standard-setting boards to the input and views provided both by CAG members and by other stakeholders through comment letters.

Regular Communication with IFAC, PIAC, and CAG Leadership

As in previous years, the leadership of IFAC, PIACs, and CAGs, as well as relevant senior members of IFAC staff, attended several PIOB meetings during 2011 and made presentations on the status of existing projects and plans for future ones, including the call for nominations to fill leadership and membership vacancies at PIACs and CAGs. A special presentation was made for the new PIOB chair and members.

In the period, the PIOB held quarterly meetings, detailed in table 5, that were attended by PIOB

members, IFAC leadership, and PIAC and CAG chairs, following a rotating schedule. The Buenos Aires meeting was motivated by the PIOB’s participation in the CreCer conference and its engagement with local standard setters and regulators.

The PIOB appreciated the valuable input and updates received at its quarterly meetings, which it considered during deliberations, as well as the presentations made by IFAC leadership. It also valued having the opportunity to discuss matters of common interest.

Table 5: PIOB 2011 Quarterly Meetings

Date	Location
25–26 February 2011	Madrid
27–28 June 2011	Buenos Aires
26–27 September 2011	Madrid
1–2 December 2011	Madrid

PIOB Approval Activities

Standard-Setting Boards

In 2011, the IESBA finished its 2011–12 Strategy and Work Plan. The PIOB is paying particular attention to this board, closely observing its composition and the dynamics of its meetings, in view of the public interest features of professional ethics in auditing. The PIOB considers the worldwide adoption of the Code of Ethics for Professional Accountants to be the benchmark against which to gauge the performance of this board.

The PIOB first considered the new strategy in June 2011, when it concluded that further assurances were needed regarding comprehensiveness of the projects included in the strategy and requested additional explanations from the IESBA. After receiving additional assurances and the requested

responses, the PIOB deliberated again on the strategy in September 2011 and approved the document. The PIOB provided the IESBA with a number of suggestions related to projects that could be considered in the future.

The new IESBA strategy includes three top-priority projects to revise sections of the Code of Ethics: “Conflicts of Interest,” “Responding to Suspected Illegal Acts,” and “Breaches of an Independence Requirement.” All three are highly relevant from a public interest perspective. The PIOB is aware of the importance of strengthening oversight of the content of the standard setters’ strategic plans, which set their work agendas for the next two to three years and largely condition those of their respective CAGs.

The IAASB finalized and approved three important documents during 2011: IAPN 1000, “Special Considerations in Auditing Financial Instruments”; a revision of the “Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements”; and ISAE 3420, “Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus.”

Regarding the first two documents, the revised Preface includes a new category of IAASB non-authoritative pronouncements: the

International Auditing Practice Notes (IAPNs), which replace the previous International Auditing Practice Statements (IAPSS). Despite the non authoritative nature of IAPN 1000, which would exclude these documents from PIOB approval, in December 2011 the IAASB decided to seek PIOB acceptance that IAPN 1000 and the revised Preface had been duly approved by the IAASB in accordance with due process. The PIOB approved these documents only after receiving IAASB assurance regarding the process of updating ISAs with those elements from the withdrawn IAPSS that should retain an authoritative nature. ISAE 3420 was also approved in December 2011.

In June 2011, the PIOB approved the extension of the current IAESB 2010-2012 work plan to the end of 2013, after the IAESB decided to defer work on developing its next Strategy and Work Plan by one year in order to complete its revision projects. The deferral was aimed at ensuring that appropriate resources and expertise would be allocated to implementation guidance projects relating to Competence of Audit Professionals (IES 8), the development and uses of competence frameworks, measurable implementation of the IESs, and the development of quality control measures for education providers. (See table 6 for PIOB approvals during the year).

Table 6: PIOB Approvals

Date and standard/pronouncement discussed	Boards	Name	PIOB staff analysis review
June 2011	IAESB	Extension by one year of IAESB Strategy and Work Plan	n.a.
September 2011	IESBA	IESBA 2011–12 Strategy and Work Plan	ER
December 2011	IAASB	ISAE 3420: Assurance Engagements to Report on Pro Forma Financial Information Included in a Prospectus	LR
	IAASB	IAPN 1000 ² : Special Considerations in Auditing Financial Instruments	ER
	IAASB	Amendments to the Preface to the International Quality Control, Auditing, Review, and Other Assurance and Related Services Pronouncements- Status and Authority of IAPNs	LR
	IAASB	IAASB Terms of Reference	
	IAESB	IAESB Terms of Reference	

(2) At the request of the IAASB, and despite the non-authoritative nature of these documents which would exclude them from the need of PIOB approval, the PIOB approved the due process followed with IAPN 1000 and amendments made to the Preface.

Nominations

During the past year, the PIOB approvals agenda included several appointments and reappointments for membership positions at

the three standard-setting boards, the IAESB CAG, and the CAP, all of which the PIOB approved (table 7).

Table 7: Nominations Approved during 2011

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

In June 2011, the PIOB approved the appointment of Dr. Aileen Pierce as the new chair for the IAESB CAG for a three-year term, commencing 1 January 2012. In September 2011, the PIOB approved the appointment of Dr. Peter Wolnizer as the new IAESB chair, commencing on 1 January 2012. Also in September, it approved the appointments for 2012 of the deputy chairs for the IAASB, IAESB, and IESBA and the reappointment of the deputy chair for the CAP. Finally, in September it approved the 2012 slate of nominations for the PIACs, including public members.

The PIOB also approved the appointments of all non-officio members of the Nominating Committee.

Overall, the PIOB believes that the IFAC Nominating Committee continued making good progress during the year. The Nominating Committee succeeded at maintaining the required parity between practitioners and non-practitioners on the three standard-setting boards, striving to maintain regional and gender balance, to follow clear and robust selection criteria, and to ensure that each vacancy was filled by a qualified candidate.

PIAC Terms of Reference

The IFAC board conducted a detailed revision of IFAC's Constitution and By-laws. In September 2011, it approved limited amendments to the Constitution and By-laws that introduced changes recommended by the Monitoring Group in its 2010 review of the IFAC reforms: (a) the proposal to eliminate reserved seats for specific groups on the PIACs and (b) the proposal to eliminate proxy voting by PIAC members.

In December 2011, the PIOB approved the subsequent changes made to the Terms of Reference (ToR) of the IAASB and the IAESB. Approval of the ToR of the IESBA was subject to the inclusion of a statement on the independence of the chair. Before agreeing to approve the CAP's ToR, the PIOB asked the CAP to clarify its public interest mission and to elaborate on its objective to promote the adoption and implementation of international standards.

CAG Membership

During the period, the PIOB approved the United Nations Conference on Trade and Development (UNCTAD) as a new observer to the IAESB and its first representative, effective 1 January 2012. The PIOB believes that the new observer will provide the IAESB with additional views and other relevant inputs to its standard setting.

Given the scope of the project to revise all IESBs and the recent appointment of the new IAESB and IAESB CAG chairs, the PIOB intends to continue working with the board and its CAG in addressing the need to add organizations and individuals to the IAESB CAG membership, adding relevant diversity, expertise, and perspective.

Rotation of CAG Members

After substantial deliberations at several PIOB meetings in 2011, the PIOB reaffirmed its belief that rotation of CAG representatives

after a maximum of nine years constitutes best practice. This conclusion relates to deliberations started in 2010, when the PIOB agreed that all representatives in CAGs should rotate every nine years, as the periodic replacement of representatives of member organizations (or individuals directly appointed as CAG members) would ensure that fresh perspectives are continually brought into the CAG deliberations. Before that decision, representatives of CAG member organizations had no term limit. At that time, the PIOB also agreed that representatives would be subject to a performance assessment process outside the organization represented.

The PIOB encouraged the CAGs to apply these two principles, while it acknowledged that small organizations might encounter difficulty finding replacements for their representatives in the CAGs. The CAGs asked whether the PIOB would consider an exception if an organization found it was unable to identify a suitable replacement. It was agreed that an extension of up to one year would be allowed in such cases.

During the PIOB meeting in December 2011, the IAASB and the IESBA CAGs (no IAESB CAG representatives were up for rotation) updated the PIOB on the proposed rotations for 2012–13 and on two requests for an exception to the rotation principle. The PIOB deliberated on this matter and decided that exceptions were not warranted.

Selection of New IESBA Chair

IFAC started the search for a new IESBA chair in 2011. IFAC updated the PIOB on the status of this search during its December meeting, and a decision is expected within the first part of 2012. The new chair is expected to start her or his term in January 2013.

Oversight of the CAP and the IFAC Compliance Program

In 2010 the CAP embarked on a project that will continue through 2013: the revision of all seven Statements of Membership Obligations (SMOs). SMOs apply to professional accountancy organizations and set their obligations as members of IFAC, including those related to International Standards on Auditing (ISAs), IESBA's Code of Ethics, and International Education Standards (IESs).

Early in 2011, the PIOB recommended that the CAP strengthen the public interest dimension of its work by adopting certain principles and practices underlying the work of the standard-setting boards. The CAP developed due process for the revision of SMOs in line with PIOB recommendations. In June, the PIOB agreed on the broad direction of the CAP's due process, which was further discussed at the PIOB's September board meeting. The new CAP due process required making changes to the CAP's Terms of Reference.

At its September 2011 meeting, the PIOB considered the exposure draft of the proposed revised SMOs and had no objection to the document. The PIOB provided the CAP leadership with various inputs, including the recommendation to restrict the "best endeavors" principle to those cases where IFAC member bodies have partial capacity for adoption and to request full adoption of international standards in those instances where the member bodies have full capacity for adoption.

The CAP published the exposure draft of the revised SMOs in December 2011 and asked that public comments be submitted by 5 March 2012. The PIOB will closely oversee the due process followed by the CAP in revising its SMOs. It also will consider the various comments provided by respondents and how these comments are included within the final revised SMOs.

In 2011, the CAP received 11 public comments from IFAC member bodies and one from the Professional Accountancy Organization Development Committee on the consultation paper of the "Proposed IFAC Member Body Compliance Program Strategy 2011–2014." The CAP approved the strategy in October 2011, after consulting with the PIOB on whether the strategy had been developed with proper regard for the public interest.

Regarding IFAC's compliance program, some 152 IFAC member bodies (out of 167) had published their action plans by January 2012; nine others had submitted draft or partial action plans, which are currently under CAP review; and another two were still working on their action plans. That compares with January 2011, when 117 IFAC members (out of a total of 164) had published their action plans, 24 had submitted draft or partial action plans, and 22 were still working on their action plans.

In the March 2011 to February 2012 period, the CAP continued receiving regular reports from IFAC member organizations explaining the status of their action plans. The CAP also received several applications for IFAC membership this year and assessed and recommended some of them for admission, either as new IFAC member bodies or as associates.

Launched in 2004, the compliance program has provided member bodies with a clear understanding of the program's requirements. Monitoring ongoing member participation, as well as encouraging the timely submission of action plans, has been a regular feature of the CAP meetings, as observed by the PIOB.

The PIOB attaches great importance to implementation of the standards.

Chapter III

Monitoring Group and External Relations

“PIOB oversight needs to convey a deep understanding of the purpose of its work.”

At the request of the Monitoring Group, the PIOB scaled back its external relations program over the period and redeployed to oversight some resources that had been previously allocated to communications. Nonetheless, the PIOB continued to reach out to stakeholders in different geographic regions, on the premise that the PIOB mandate dictates an active communications policy. Confidence in the public interest activities of IFAC can only be strengthened if stakeholders are made aware of how the process of standard setting and independent oversight contribute to higher-quality standards and, ultimately, to the integrity of the audit profession.

Following the positive experience of its participation in the 2010 World Congress of Accountants in Kuala Lumpur—where it actively engaged the Confederation of Asian and Pacific Accountants—the PIOB met over the year with regional organizations and accountancy groupings in Africa and Latin America.

The engagements with regional organizations have served as a platform for the PIOB to explain the workings of its independent oversight model, while enabling it to gain insight into the challenges, concerns, and opinions of diverse stakeholders that could have a bearing on informed oversight. Communications policy and high-quality, informed oversight are two sides of the same coin.

Meeting with a variety of stakeholders also facilitated efforts by the PIOB to serve the public interest by promoting a diversity of opinions, professions, and experiences within

PIACs and CAGs. Since its creation in 2005, the PIOB has sought to promote greater diversity on the standard-setting boards it oversees. One of its first recommendations under the IFAC reform process was to encourage the IFAC Nominations Committee to work toward achieving parity between practitioners and non-practitioners and to strike a better balance of gender, geographic regions, and professional experience when nominating candidates. In Asia, Africa, and Latin America, the PIOB has encouraged regional organizations to nominate qualified candidates, both practitioners and non-practitioners, to PIACs.

According to the 2003 IFAC reform document, the PIOB’s mandate 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”. That confidence can best be strengthened if stakeholders, and ultimately investors, are informed of how the processes of standard setting and independent oversight seek to improve the quality of standards and the professional integrity of the audit profession.

A clear understanding by stakeholders of the standard-setting processes under PIOB oversight can facilitate the adoption and implementation of standards in different national jurisdictions, thereby contributing to economic development. This is particularly important for regions such as Africa, Asia, and Latin America, where many economies are proving more resilient to the current economic crisis than mature markets in the European Union and North America, making them targets for foreign investment.

External Relations in the Past Year

As part of the PIOB external relations program, PIOB member Aulana Peters in April delivered a speech in Gaborone, Botswana, to the Eastern, Central, and Southern African Federation of Accountants. Entitled the “Value of Public Oversight of International Standard Setting for Audits,” the talk detailed the genesis, objectives, and workings of PIOB oversight. Ms. Peters gave her speech only months before the launch of the Pan-African Federation of Accountants (PAFA), an organization entrusted with the job of reorganizing and strengthening the accounting profession in Africa, where more than half of the 53 countries have no professional organization or representation in IFAC.

In June, the PIOB held its board meeting in Buenos Aires to coincide with the annual meeting of the regional conference on Latin America, “Accounting and Accountability for Regional Economic Growth,” known as CReCER. PIOB Chairman Eddy Wymeersch spoke on the workings of the standard-setting process before an audience of regulators, economists, accountants, academics, and other stakeholders. PIOB member Michael Hafeman

later participated as a discussion leader in a seminar entitled “Regional Experiences and Challenges in IFRS and ISA Adoption and Implementation.”

Finally, Ms. Peters joined Messrs. Wymeersch and Hafeman in a PIOB panel that introduced the PIOB and described its independent oversight model in a public session of the CReCer conference. The texts are published on www.ipiob.org.

To help the PIOB to keep abreast of new issues affecting the world of accounting and audit, Secretary General Gonzalo Ramos in December attended the Accounting for Sustainability 2011 Forum in London. The conference explored the latest developments in the Integrated Reporting Initiative, which promotes a comprehensive corporate reporting framework integrating financial, environmental, social, and governance information.

In January a team of PIOB members met with the International Accounting Standards Board (IASB) in London to discuss matters of common interest (see table 8).

Table 8: External Relation Engagements

DATE	LOCATION	EVENT	REPRESENTATIVE
APRIL 11	Madrid	MG Meeting	PIOB Chair, PIOB Secretary General
	Berlin	IFIAR	Chandrashekhar Bhawe
	Botswana	ECSAFA	Aulana Peters
MAY 11	Madrid	MG Meeting	PIOB Chair, PIOB Secretary General
JUNE 11	Buenos Aires	CReCer	ALL
JULY 11	Madrid	MG meeting	PIOB Chair, PIOB Secretary General
AUGUST 11	Brussels	MG Meeting	PIOB Chair, PIOB Secretary General
SEPT-OCT 11	Seoul	IAIS-Annual Meeting	Michael Hafeman
OCTOBER 11	Madrid	MG Meeting	PIOB Chair, PIOB Secretary General, Chandrashekhar Bhawe
	Madrid	Conference: Auditor por un día	PIOB Secretary General
NOVEMBER 11	London	National Investment Bank	PIOB Secretary General
DECEMBER 11	London	Accounting for Sustainability Forum in support of the International Integrated Reporting Framework.	
	London	Prince of Wales Trust	PIOB Secretary General
JANUARY 12	London	IASB Meeting	PIOB Chair, Kai Uwe Marten, PIOB Secretary General and Chuck McDonough (by teleconference)
FEBRUARY 12	Madrid	MG Meeting	PIOB Chair and PIOB Secretary General

Monitoring Group and Monitoring Group Members

The PIOB attended seven meetings over the year with the Monitoring Group and its members, compared to nine last year. In addition to talks on the PIOB budget approval process, oversight methodology, and briefings to the PIOB on MG members' regulatory priorities, the PIOB and the MG coordinated their work on the PIOB Work Program, 2012 and Beyond, and on the MG Governance Review Paper.

In April, PIOB member Chandrashekhar Bhawe attended the meeting in Berlin of the International Forum of Independent Regulators; in September Michael Hafeman attended the annual meeting of the International Association of Insurance Supervisors (IAIS), where he met with key members of IAIS leadership and staff to discuss PIOB issues.

Challenges Ahead

Going forward, the PIOB intends to continue to maintain a balance between, on the

one hand, explaining the present system of independent oversight and, on the other, maintaining full objectivity over how the standards are developed, without giving any sense of advocacy for either IFAC or the international standards. Meeting this objective requires explaining the PIOB's oversight role in the nominating and standards development processes and the compliance program; communicating the process of continuous improvement in audit, ethics, and education standards setting; highlighting PIOB recommendations to IFAC; and publishing, when appropriate, its discussions with key stakeholders.

The improvements to these processes and the greater focus on the public interest need to be better communicated and explained to a broad range of stakeholders, including regulators, public policy makers, other international standard setters, market authorities, and the investing public. This could be done in coordination with the Monitoring Group, the IFAC, or both in order to have a greater impact.

Chapter IV Looking Forward

“For 2012, the PIOB priorities will be driven by the public interest and assessment of the risks that different standard-setting activities may pose for capital markets and other public interests.”

Public Consultation of the PIOB Strategy

In 2011, the PIOB developed a work program for 2012 and beyond that is being subjected to public consultation (<http://www.ipiob.org/news/public-consultation-public-interest-oversight-board-work-program-2102-and-beyond>). With this strategic plan, the PIOB aims to bring the dialogue with the Monitoring Group to a more strategic level.

Within the context of this strategy, the PIOB has determined a combination of activities that will maintain the current level of oversight comfort and further enhance the standard-setting process, while ensuring the best possible use of resources at its disposal. The PIOB has introduced new techniques to enhance its oversight of the standard-setting process. All of the changes to the PIOB oversight methodology are described in detail in the PIOB consultation paper on its work program.

PIOB Medium-Term Strategic Objectives

In its strategy for 2012 and beyond, the PIOB proposes the following medium-term strategic objectives:

- To continue to oversee how due process is followed by the PIACs under its oversight
- To continue to assess whether due process has been followed effectively and with proper regard for the public interest in the finalization of each standard and other PIAC pronouncements
- To continue to oversee IFAC's compliance program through the CAP
- To continue to seek a balanced composition of members in the standard-

setting boards and Nominating Committee under its oversight, while recommending improvements

- To continue to approve the nomination of candidates to the PIACs and of member organizations to the CAGs and to assess any conflicts of interest that may arise, in order to recommend remedial action as required
- To continue to engage Monitoring Group members and other stakeholders through an active two-way communications policy
- To continue to communicate its activities to the public in a transparent way.

For 2012, the PIOB priorities will be driven by the public interest and assessment of the risks that the different standard-setting activities may pose for capital markets and other public interests. For these reasons, the PIOB intends to follow particularly closely the work of the IESBA and the appointment of an independent chair, the progress of the CAP in helping to ensure the implementation of standards, and the important work of the IAESB in relation to education and professional standards.

Funding

IFAC has been financing most of the PIOB budget since PIOB's inception. IFAC funding has been provided in a manner that explicitly removes it from operational and expenditure decisions of the PIOB, which has been able to operate with full independence and without regard to the source of funding. The European Union will contribute to the PIOB budget a maximum total of about €1.2 million over the 2010–13 period, or a maximum of €300,000

a year, which represents around 22% of the total budget. In addition, the PIOB receives a generous in-kind contribution from the Spanish government as well as in-kind contributions from the World Bank and the PIOB member institution representing the Basel Committee on Banking Supervision.³ In the 2003 reform agreements, both IFAC and the MG recognized it “to be in the public interest that parties other than IFAC shall fund at least 50% of the cost of the PIOB.” The PIOB agrees with this principle and has asked the Monitoring Group for help in diversifying the PIOB budget further.

IPSASB Oversight

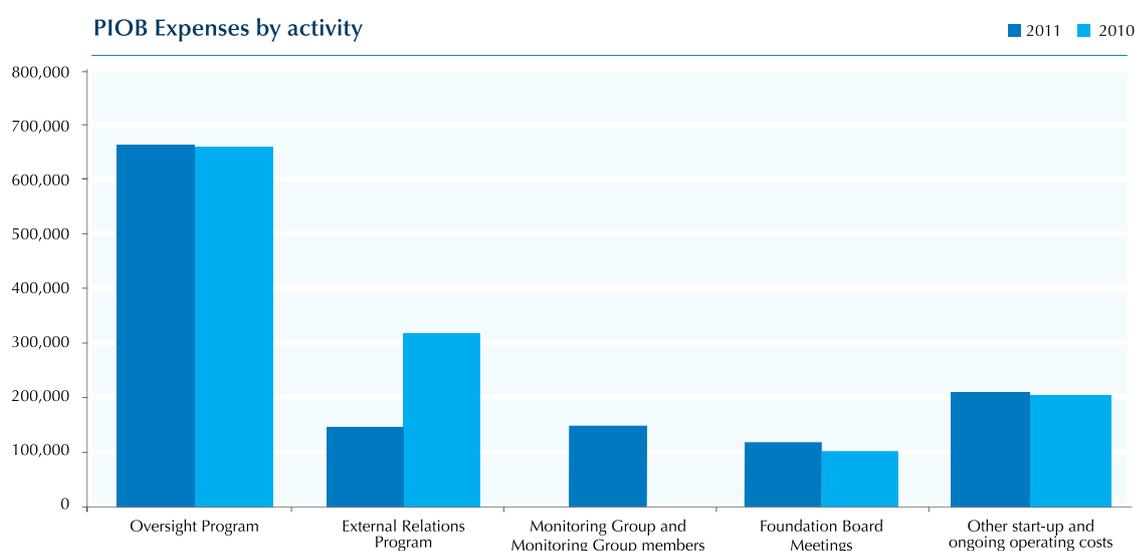
In 2011 and 2012, the PIOB considered the question of oversight of the International Public Sector Accounting Standards Board (IPSASB). The IPSASB is the only IFAC-related standard-setting board that does not fall under PIOB oversight and is not overseen. Independent oversight of IPSASB could be satisfied by expanding the oversight responsibilities of the PIOB. Nonetheless, other alternatives are possible, and discussions are ongoing. The PIOB decided in 2011 to stand ready to conduct IPSASB oversight if it receives sufficient support and certain conditions are met.

■ (3) Currently Banque de France

Chapter VI

Foundation Summary Statement of Financial Performance^(1,2)

(in Euros)	2011	2010
TOTAL REVENUE (3)	1.402.420	1.374.922
EXPENSES		
Board related operating costs		
Oversight Program	671.374	666.408
External Relations Program	149.496	320.291
Monitoring Group and Monitoring Group members	157.428	-
Foundation Board Meetings	122.585	107.697
Other start-up and ongoing operating costs	216.052	210.027
TOTAL EXPENSES	1.316.935	1.304.423
SURPLUS	85.485	70.499



(1) The PIOB operates as a Technical Committee of its Spanish non-for-profit foundation, La Fundación Public Interest Oversight Board ("the PIOB Foundation".)

(2) In addition to local regulatory responsibilities, the PIOB Foundation is operationally and financially accountable to the Monitoring Group. This accountability includes the presentation of periodic operating reports, the PIOB's annual Public Reports, the PIOB Foundation yearly audited financial statements, and an annual budget for the Monitoring Group's review and approval.

(3) PIOB total revenues for 2011 were contributed by the International Federation of Accountants (IFAC) in amount of 1,118,420 Euros and the European Commission (EC) in amount of 284,000 Euros. In 2011, the remainder of revenue over expenses of € 85,485 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.

Appendix A The IOB



Mr. Eddy Wymeersch, IOB Chairman

Chairman of the European Corporate Governance Institute. Former chairman of the Committee of European Securities Regulators (CESR) and of the European Regional Committee of the International Organization of Securities Commissions (IOSCO). Former chairman of the Belgian Banking, Finance, and Insurance Commission. Emeritus professor of commercial law at University of Ghent, Belgium.



Mr. Chandrashekar Bhawe

Former chairman of the Securities and Exchange Board of India. Former chairperson of the Asia-Pacific Regional Committee of IOSCO. Former chairman of the National Securities Depository Ltd.



Ms. Jane Diplock AO

Member of the International Advisory Committee CSRC (China Securities Regulatory Commission) and of the International Advisory Council, International Centre for Financial Research. Non Executive Director of Singapore Exchange Limited (SGX) and Ambassador for the International Integrated Committee (IIRC). Former chairman of IOSCO and of the New Zealand Securities Commission.



Mr. Michael Hafeman

Actuary and independent consultant on supervisory issues. Chairman of the Insurance and Pensions Advisory Board of the Toronto Centre, Canada. Former assistant superintendent of financial institutions, Canada.



Mr. Toshiharu Kitamura

Professor of financial economics at Waseda University, Japan. Former senior executive director of the Development Bank of Japan. Former deputy director-general of international finance of the Ministry of Finance of Japan.



Prof. Dr. Kai-Uwe Marten

Professor of accounting and auditing at the University of Ulm, Germany. Deputy chairman of the Auditor Oversight Commission, Federal Republic of Germany.



Mme Sylvie Mathérat

Deputy director general of the Directorate General Operations, Banque de France, Member of the Basel Committee on Banking Supervision and current chair of the Basel Committee's Accounting Task Force.



Mr. Charles McDonough

Current vice president and controller of the International Bank for Reconstruction and Development (World Bank) and the World Bank Group's primary spokesperson on global financial reporting, accounting, and external auditing.



Sir Bryan Nicholson, GBE

Former chairman of the U.K. 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).



The Hon. Aulana L. Peters

(PIOB member from February 2005 through February 2012) 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. Robert Ward

Former PwC worldwide audit leader, former chairman of the Australia Public Policy Committee. Former PwC national managing partner, Public Policy and Regulatory Affairs. Former president of the Institute of Chartered Accountants in Australia.



Mr. Gonzalo Ramos

Secretary general. Former executive director, chairman of the Financial and Operations Committee, vice chairman of the Audit 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.

Action plan: a 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): an 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: a 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 for 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): a 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): groups constituted to provide advice, including technical advice, to one of the following: 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.

Direct observation (DO): oversight procedure where a PIOB member physically attends a PIAC meeting and is able to make comments or recommendations instantly.

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 (ER): independent PIOB staff 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): a board 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, different types of IAESB pronouncements, and obligations of the IFAC member bodies on education standards.

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

Integrated reporting initiative: a project promoting a comprehensive corporate reporting framework that integrates financial, environmental, social, and governance information.

International Accounting Education Standards Board (IAESB): an 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): an 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): IAESB 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): an 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): a 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 high-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: a 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: a 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: a 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 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): a cooperative forum for securities regulatory agencies and international standard setters for securities markets.

International Public Sector Accounting Standards (IPSASs): 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.

Monitoring Group (MG): a 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, the Financial Stability Board and the International Forum of Independent Audit Regulators.

Monitoring Group's Review of the IFAC Reforms: the first five-year review of the progress of the 2003 reforms. Issued in November 2010, the review stated that virtually all of the changes called for by the IFAC reforms had been implemented. It also identified possible areas where the existing system could be further improved to meet future challenges. As part of the review process, the PIOB submitted a self-assessment report to the MG and a comment letter on the MG exposure draft.

Monitoring and reporting (M&R): oversight procedure by which PIOB staff monitors PIAC meetings after they have taken place. This includes analyzing PIAC meeting documents related to the development of standards and the minutes for the particular meeting.

Oversight assurance model: four models that guide the nature and scope of the PIOB's oversight work for the year. Each model offers a different level of assurance, and the level chosen for each PIAC should be of sufficient intensity to enable the PIOB to conclude whether the activities of PIACs and the CAGs follow due process and safeguard the public interest.

Oversight Plan for PIACs: an annual plan that describes the oversight assurance model and oversight procedures that will be applied by the PIOB in PIAC oversight. These plans are drawn up by the PIOB team leaders of each PIAC.

Observation memo: a document developed by either PIOB members or staff after carrying out an oversight assignment to assess the meeting observed or monitored.

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 document that may warrant another exposure.

Public Interest Activity Committee (PIAC): groups established under the auspices of 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.

Remote observation (RO): an oversight procedure by which PIOB staff join a PIAC meeting via teleconference.

Statements of Membership Obligations (SMOs):⁴ seven statements issued by the IFAC that establish requirements for IFAC members and associates to promote, incorporate, and assist in implementing international standards

(4) The list and definitions of the SMOs can be consulted in http://web.ifac.org/download/Statements_of_Membership_Obligations.pdf.

issued by the IAASB, IAESB, IESBA, and the International Accounting Standards Board. The SMOs also establish requirements for quality assurance and investigation and disciplinary activities.

Team leader: a PIOB member assigned to coordinate the oversight activity of a particular PIAC throughout a given year.

Terms of reference: a 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: an international financial institution that provides financial and technical assistance to developing countries, while furthering its mission to reduce global poverty and improve living standards.



PIOB Secretariat in Madrid



Public Interest Oversight Board

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overseeing international audit, ethics and education
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Oquendo, 12 28006 Madrid, Spain
Telephone: +34 91 782 05 28 - www.ipiob.org