



Public Interest Oversight Board

# EIGHTH PUBLIC REPORT



PIOB

EVOLUTION AND PROGRESS

2012

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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 can under no circumstance be regarded as reflecting the views of the European Union.

## MESSAGE FROM THE CHAIRMAN

The 2003 IFAC reform proposals were designed “to strengthen international assurance, audit, ethics, and education standards-setting processes, achieve convergence to international standards, and ensure that the international accounting profession is responsive to the public interest.” This agreement, which led to creation of the PIOB and constitutes the basis for its actions, defines the PIOB’s objective as to increase the confidence of investors and others that the public interest activities supported by the International Federation of Accountants (IFAC) subject to PIOB oversight, specially standard-setting, are properly responsive to the public interest.

With this objective as the guiding principle, the PIOB continued during the year under review to oversee the activities of the Public Interest Activity Committees (PIACs), as well as their respective Consultative Advisory Groups (CAGs), and the Nominating Committee of IFAC. In light of their public interest sensitivity, the PIOB has particularly focused on the work of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), which have been discussing some significant projects. It also observed the nomination processes for members of the PIACs and the independent chair of the IESBA. The PIOB appreciates the quality of the work undertaken in these boards and committees.

Apart from the technical work of the PIACs, a few projects deserve special mention, as they respond to various public interest concerns that have been voiced during the recent financial crisis.

The importance of responding adequately to the information needs of the wider constituency of users of financial statements such as institutional investors, lenders and creditors, regulators and others is the subject of an important proposal, developed in the IAASB, on “auditor reporting”. This proposal reflects the proposition that the auditor’s report can – and should – contain additional, and more pertinent, information that enhances its communicative value. Many significant communication proposals are being considered – including key matters that were of most

significance in the audit of the financial statements and the appropriateness of management’s use of the going-concern basis of accounting. The IAASB is also considering the auditor’s responsibilities with respect to information in documents containing or accompanying audited financial statements.

By making auditor reporting more responsive to these wider needs, the IAASB’s proposal should help contribute to public confidence in audited financial statements, and also may enhance audit quality and better highlight the essential value and relevance of the audit and its important societal role.

Also of significant importance is the ongoing work on suspected illegal acts, a proposal developed by the IESBA. The attention paid to this controversial subject testifies to the board’s awareness of its role as a standard setter in the public interest.

In both cases, the public interest has motivated the standard-setting process and is the object of special attention of the PIOB.

During 2012, considerable attention was paid to launching two consultations: one by the PIOB, mostly dealing with the oversight process; and one by the Monitoring Group, relating to the functioning of the overall system of standard setting and its oversight. These public consultations and the ensuing positions adopted by the bodies concerned will constitute clear beacons for future development of the overall standard-setting structure and processes. Although changes to improve effectiveness are always desirable, the overall structure is robust and provides an adequate balance between the objectives and interests involved.

In 2012, Aulana Peters retired from the PIOB board. Her seven years of relentless effort and dedication to the PIOB deserve a very special word of gratitude. I would also like to extend a warm welcome to Jane Diplock, who joined the board in March 2012.

**Eddy Wymeersch**  
PIOB Chairman

## CHAPTER I – ENHANCING PROTECTION OF THE PUBLIC INTEREST

The PIOB has made considerable progress regarding public interest protection and independent oversight.

In 2010, after five years of operations, the PIOB carried out a self-assessment<sup>1</sup> within the framework of the Monitoring Group (MG) review of the IFAC 2003 reform process, which reviewed the PIOB's evolving role and oversight methodology, the effectiveness and responsiveness of its oversight, the greater rigor gained throughout the standard-setting process, its funding, and its contributions to the international financial system<sup>2</sup>. The PIOB has developed and implemented several innovations directed at improving its oversight, its transparency, the perception and reality of its independence, its capacity to contribute to the public interest, and its own governance.

In 2011, we reviewed our process of oversight and introduced the Oversight Assurance Methodology (OAM) through which, every year, the PIOB determines the most appropriate oversight model for each PIAC<sup>3</sup> after an assessment of risks. New oversight techniques have been added to direct observation (DO), namely remote observation (RO) and monitoring and reporting (M&R). This methodology<sup>4</sup>, which was implemented in 2012, is still under trial. The PIOB recently increased its oversight capacity by reallocating its resources and hiring an additional oversight advisor. It also enhanced its communications policy with a view to improving its understanding of stakeholder concerns and explaining the PIOB's role more effectively.

The PIOB has increased its efforts to communicate and make transparent all of its activities: its website has been enhanced to communicate its activities more effectively, especially its role, mandate, accountability, responsibilities, self-assessment capacity and its perspectives on the protection of the public interest; since 2012, the PIOB has issued a quarterly update, which includes timely disclosure of meeting agendas, content of deliberations, and decisions taken, as well as past and future quarterly activities.

Together with the MG and IFAC, an initiative was launched to diversify the PIOB's funding sources by

contacting the main stakeholders and seeking their support. We believe that global auditing and assurance, ethics, and education standards are global public goods that deserve wider support from users, stakeholders, and international financial organizations and that the perception of independence of the PIOB will benefit from having a diversified source of funding. Despite the current difficult economic conditions, this initiative has produced promising results. In 2013, the PIOB expects that 47 percent of its budget will come from sources other than IFAC.

In contributing to the public interest, the PIOB has sought over the last few years to further the debate on the need for a better governance structure and independent oversight of the International Public Sector Accounting Standards Board (IPSASB), the only standard setter supported by IFAC not currently subject to any form of independent oversight. The international financial crisis has made it clear<sup>5</sup> that the current debt crisis could only have been alleviated if public accounts had been based on more appropriate, accrual-based accounting standards. International Public Sector Accounting Standards (IPSAS) are the only global public sector accounting standards based on accrual accounting that could, through wider adoption, improve global financial stability.

Following the debate held in 2012 regarding how best to improve the governance structure and public interest focus of the IPSASB through independent oversight, the MG held a roundtable in New York in February 2013 to discuss stakeholders' views and insights. After the roundtable discussion, the MG concluded that the composition of the MG and the PIOB was not well suited for IPSASB governance. Importantly, following the 2013 Moscow statement by the G-20 finance ministers, the International Monetary Fund (IMF) and the World Bank

(1) [www.ipiob.org/piob-assessment](http://www.ipiob.org/piob-assessment).

(2) See PIOB Fifth Public Report.

(3) Audit and Assurance, Ethics, Education, and IFAC's Compliance Advisory Panel.

(4) Fully explained in the PIOB Seventh Public Report.

(5) IMF, "Fiscal Transparency, Accountability, and Risk" (Washington: IMF, August 7, 2012).



were asked to update the G-20 on the transparency and comparability of public sector accounting, so progress is expected in this area.

As part of the efforts to strengthen its governance, in February 2012 the PIOB discussed and approved its internal Code of Conduct, which applies to both PIOB members and staff. The document sets and elaborates on the principles that board and staff members are required to apply so that they conduct themselves at all times in a manner coherent with their status as members of an international organization focused on protecting the public interest.

Progress has been made in the standard-setting activities of the PIACs and IFAC's Nominating Committee: in 2012, the first independent chair of the IESBA was appointed; the IAASB continued to improve its inclusiveness and transparency by encouraging stakeholders to actively provide input in its standard-setting activities in the public interest; the chairs of the International Accounting Education Standards Board (IAESB) and its CAG were appointed as the previous incumbents met their statutory time limits; and the Compliance Advisory Panel (CAP) reviewed and strengthened the Statements of Membership Obligations (SMOs) and its own terms of reference (ToR). Significant progress was also made in the nomination processes: first, IFAC reviewed the definition of non-practitioners in 2012; secondly, the 2014 call for nominations (CFN) clearly states that nominations are open to the general public, including self-nominations, not only for public members, but also for practitioners and non-practitioners. The Nominating Committee continues to discuss PIOB suggestions, which may lead to greater diversity in the sources of nominations and greater independence of the boards from IFAC member bodies.

The PIOB is reassured that the structures, processes and arrangements under its oversight have evolved into a system responsive to the public interest. The Chairs of the IAASB (since 2009) and the IESBA (since 2012) are independent from the accounting profession, the nominations to PIACs are increasingly and effectively open, and PIOB oversight processes are increasingly more refined. Increased PIOB transparency is partly the

result of this confidence. Notwithstanding the need for further improvement, past progress allows us to look at the future with confidence in the quality and public interest focus of the standard-setting model built around the MG, IFAC, standard-setting boards, CAGs, and the PIOB.

### CONSULTING STAKEHOLDERS

In 2012 the PIOB launched a consultation process on the PIOB Work Program 2012 and Beyond, which asked stakeholders questions about the nature of PIOB oversight and public interest protection, among others. This consultation took place in close coordination with that of the MG regarding the governance of the MG, the PIOB and the standard setting boards and CAP operating under the auspices of IFAC. After consideration of the input received, the MG concluded its own Statement of Governance on March 28, 2013.<sup>6</sup>

The 2007–2008 global financial crisis has forced the international financial community into an in-depth review of financial systems. In this context, the PIOB decided to carry out its own consultation process with a view to receiving input that could inspire further PIOB improvements. This was the first consultation carried out by the PIOB and part of the effort to increase its transparency and accountability to the public. A total of 21 comment letters was received, which allowed the PIOB to issue several conclusions on the nature and scope of its oversight and several recommendations to refine it.<sup>7</sup>

The three-tier governance structure of the PIACs reflects the need for independent standard setting, independent oversight, and accountability to a monitoring body of public authorities. Both global bodies operating in the field of oversight of accountancy standards—the

(6) [https://www.iosco.org/monitoring\\_group/pdf/Monitoring-Group-Publishes-Statement-on-Governance.pdf?v=1](https://www.iosco.org/monitoring_group/pdf/Monitoring-Group-Publishes-Statement-on-Governance.pdf?v=1).

(7) (<http://www.ipiob.org/news/piob-recommendations-response-its-consultation-piob-work-program-2012-and-beyond>).

International Financial Reporting Standards (IFRS) Foundation and the PIOB—operate within a similar three-tier system—because this structure of governance is well suited to protecting the public interest.

The PIOB oversees PIACs that are supported by IFAC<sup>8</sup>. The independence of the PIACs remains a continuing concern, despite the various measures in place with the full support of IFAC. IFAC could consider additional measures to strengthen the independence of the PIACs, such as opening nominations to the CAP to all stakeholders<sup>9</sup>, making self-nominated non-practitioners without the backing of an organization eligible to receive support for travel costs<sup>10</sup>, establishing clearer differences between the desired qualifications of practitioners and non-practitioners in the annual call for nominations, and reviewing the current definition of non-practitioners in respect of IFAC member body staff.

All respondents to the PIOB consultation indicated strong support for the current mandate to protect the public interest through independent oversight of the PIACs. However, views differed regarding the nature and extent of this oversight: audit firms and IFAC member bodies said that they would have serious concerns if the PIOB were to go beyond due-process oversight into substantive technical issues, arguing that this would duplicate the role of the PIACs and CAGs. On the opposite side, some regulators<sup>11</sup> argued that the PIOB should increase its capacity to carry out technical assessments of standards and, if necessary to protect the public interest, challenge PIACs' decisions.

The debate about the scope of public interest oversight is understandably difficult. Due-process oversight is a means for the PIOB to fulfill its mandate but may not always be sufficient. This is acknowledged in the PIOB Seventh Public Report, which states, "Protection of due process may not always guarantee the public interest."

However, in the current structure, the responsibility for independent standard setting belongs fully with the PIACs, supported by the CAGs, and this must not be compromised. Therefore, the PIOB has to find the right balance between continuing to respect the role of the

PIACs and CAGs, while, in some circumstances where the public interest may be compromised despite due process having been followed, contributing to the PIAC's debate on matters of substance.

Practically all respondents to the consultation supported the PIOB's concept of informed oversight<sup>12</sup> and the need for the PIOB to engage stakeholders through a more active communications policy. Respondents consider understanding the implications of standards and strategies as essential to effective oversight, which has clear implications for how the PIOB engages with stakeholders. The PIOB will continue to inform its own opinion on the public interest by seeking input from all stakeholders.

The consultation process also produced several suggestions on oversight that the PIOB intends to implement in 2013: to consult with the chairs of the standard-setting boards on how they can expand the content and use of feedback statements<sup>13</sup> in order to enhance the transparency of due process; to observe selected PIAC task force meetings; to consult IFAC and the CAP on ways to encourage wider adoption of International Standards of Accounting (ISAs), International Education Standards (IESs), and the IESBA Code of Ethics; and to work with IFAC to explore better ways to explain the nomination process.

(8) In this independent role, the PIOB approves the work plans and agendas of PIACs and has the right to ask for elements to be included; observes PIAC meetings; exercises oversight over PIAC and CAG interaction and processes; oversees nominations to PIACs and CAGs; and, finally, confirms that due process has been followed with due regard for the public interest, before standards can be issued.

(9) Currently restricted to IFAC member bodies.

(10) In the absence of a nominating organization, individual non-practitioners and individual members in CAGs may have no access to financing for travel expenses related to attendance at meetings. This may limit the ability of valuable candidates to come forward.

(11) European Securities and Markets Authority (ESMA) and, more forcefully, the Independent Regulatory Board for Accountants (IRBA)

(12) See PIOB Work Program 2012 and Beyond at [www.ipiob.org](http://www.ipiob.org)  
(13) Reports summarizing comments received to consultation papers.

A large number of audit firms and IFAC member bodies also expressed their preference for the PIOB DO of all meetings of the PIACs, CAGs, and Nominating Committee. The lack of continuity in observations of a PIAC or failure to observe meetings in full are risks of the OAM. To mitigate these risks, the PIOB will continue to implement the OAM with caution.

Some respondents<sup>14</sup> also recommended clarifying the roles of the MG and the PIOB in the current structure to ensure effective public interest oversight. Indeed, some of the conditions under which this structure functions deserve to be mentioned:

- a) The independence of PIACs, which is necessary within the present structure, can be strengthened as indicated above.
- b) The independence of the PIOB is considered crucial to its functions. One means of ensuring this is for the PIOB to continue to be composed of high-standing members of senior expertise and authority, acting on the basis of informed judgment.
- c) The roles of the MG should be limited to nominating PIOB members, approving its strategy, monitoring its effectiveness, and approving its budget. These functions are exercised in order to ensure that the PIOB is effectively pursuing its public interest mission. That said, the PIOB then carries out its oversight responsibilities independently.

Practically all respondents backed a more active communications policy. The PIOB is aware that its core responsibility is oversight and that its communications policy serves to support this responsibility. PIOB communications policy aims at engaging stakeholders, to explain what the PIOB is doing, and to gain an understanding of what they expect from independent PIOB oversight.

The consultation also elicited important suggestions regarding improving transparency: to disclose meeting agendas and to continue to provide summaries of PIOB meetings, with a better description of the discussions held and the decisions taken, in a timely manner after each meeting. The PIOB started to disseminate this

information more effectively in 2012 through electronic circulation of a quarterly update. In addition to its annual public report, the PIOB will publish on its website additional information including the annual oversight plans for each PIAC.

Finally, all respondents agreed on the importance of diversifying PIOB funding. There is widespread agreement that the present funding scheme is not optimal and that efforts should be pursued to improve the perception of the PIOB's independence. Funding diversification will be difficult in the current economic circumstances, but, in the absence of clear alternatives, it is important to stress the solid safeguards that ensure the PIOB's independence: IFAC has guaranteed PIOB funding until 2015, and it is the MG, not IFAC, that approves the PIOB budget.

#### REFINING OVERSIGHT

The adaptation and refinement of PIOB oversight over time is very important as nomination processes evolve, the composition of PIACs and CAGs change, stakeholders' sensibilities vary, and suggested reforms in standard-setting processes are discussed and implemented by IFAC.

Following the trial implementation of the OAM, the PIOB has paid particular attention to its oversight function, especially to the nature of direct observations, and has carried out a review of its oversight of due process.

#### Direct observations

DO of meetings is a key element of the PIOB's oversight, analogous to the on-site inspections performed by financial sector supervisors. A PIOB member observes in person most meetings of the PIACs, CAGs, and Nominating Committee, although implementation of the OAM has added alternative methods of observation,

<sup>(14)</sup>European Federation of Accountants (FEE) and the Belgian Institute.

specifically the use of PIOB staff and teleconferencing (TC). As we implement OAM on a trial basis, we recognize the risks of not observing all meetings and the shortcomings of alternative oversight techniques. At the same time, observing a meeting unnecessarily is neither efficient nor cost-effective.

In preparing to observe a meeting, a PIOB member reviews not only the documents published in advance for meeting participants, but also a briefing note from PIOB staff. The briefing note draws attention to important issues, including those previously identified by PIOB observers as needing follow-up.

What do PIOB observers look for when observing a meeting? The level of participation of those attending the meeting is one important factor. Active but balanced participation by the board or committee members or CAG representatives is essential: it is of little use to manage the composition of the various bodies if the persons intended to bring different perspectives to the discussion remain silent. PIOB observers also consider the nature of the comments made by participants, particularly whether they demonstrate sensitivity to the public interest or concern with the self-interest of a specific constituency. They take note of whether input—from those present at the meeting and other stakeholders—is given sufficient consideration and whether the resulting decisions seem appropriate. Although the mandate of the PIOB does not extend to assessing the technical content of the standards, observers express concern if they believe that a decision does not protect the public interest. The decisions made by the standard-setting boards should be properly captured in the standards, so observers might also comment on situations where the approach being considered could result in a poorly structured or unclearly worded standard.

PIOB observers sometimes communicate their views in the course of a meeting, if the situation warrants an immediate intervention. However, in all cases, the PIOB observer provides feedback at the end of the meeting; for the standard-setting boards and CAGs, such comments are offered during the public session and are reflected in the minutes. The PIOB observer also prepares an observation report, which informs PIOB members and

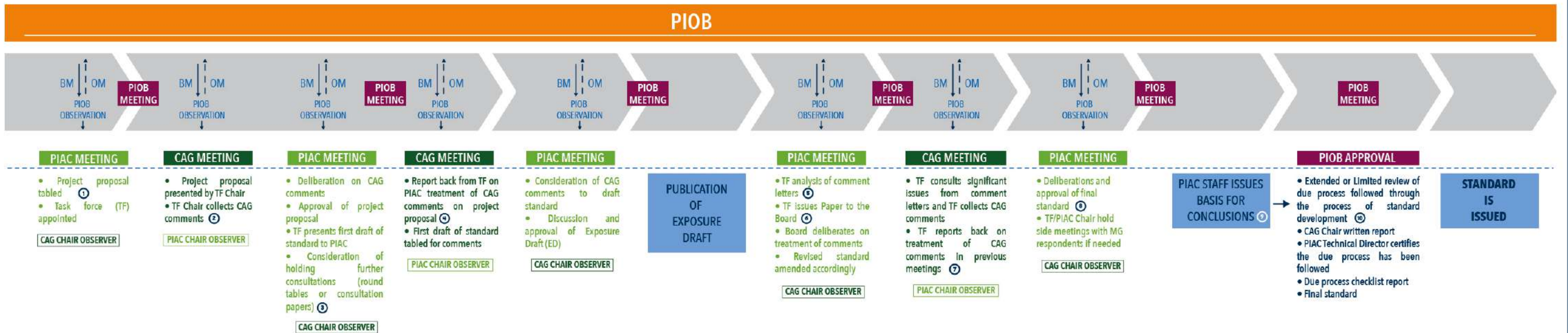
staff about the most significant aspects of the meeting and helps to direct future oversight activities. PIOB observers meet as PIOB members every quarter. During those meetings, members discuss any issues that may require follow-up by the board. Observation reports and board meetings link one observation to the next, ensuring coherent oversight throughout the process of standard setting.

#### Review of due-process oversight

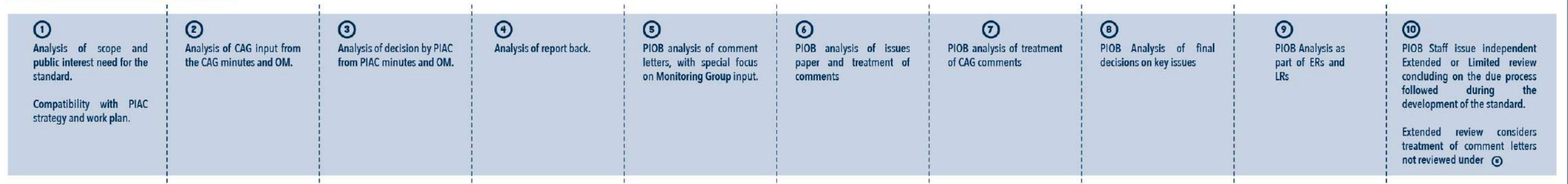
PIOB approval is required of the proposed strategies and work programs of the PIACs, as well as the authoritative pronouncements developed by the standard-setting boards. Before reaching a decision about whether or not to grant approval, the PIOB prescribes a series of steps and activities that must be carried out by the standard-setting board: (i) a due-process report, including a detailed checklist, approved by the senior Board staff member who supports the PIAC; (ii) a report in which the CAG chair submits to the PIOB his or her opinion on whether issues raised in CAG discussions were adequately considered; (iii) since 2008, a process of internal due-process review by PIOB staff; and (iv) a basis-for-conclusions document that summarizes the reasoning of the standard-setting board in dealing with the views expressed by the CAGs and participants in the consultation process. The PIOB approves a proposed standard or other authoritative pronouncement only if satisfied that it was developed in accordance with due process and adequate consideration of the public interest. Box 1 describes the chart on pages 12 and 13. The chart shows how oversight is applied to the process of standard setting—that is, the application of PIOB direct observations and due-process oversight to the PIACs, CAGs and their interaction to help ensure their responsiveness to the public interest. Team leaders help to ensure continuity, consistency, and cohesiveness of PIOB's oversight between meetings. The box identifies critical due-process assessment points that the PIOB considers. These assessment points focus on ensuring that the PIACs adequately consider stakeholder input during the standard-setting process, which typically runs for a period of at least two years.



PROTECTION OF PUBLIC INTEREST THROUGH OVERSIGHT OF STANDARD SETTING PROCESSES



PIOB DUE PROCESS ASSESSMENT POINTS



PIOB MEETING

- \* Quarterly meeting
- \* PIAC and CAG Chairs report to PIOB on ongoing projects
- \* PIOB conveys messages to PIAC and CAG Chairs on ongoing projects
- \* PIOB collegiate deliberations on observers concerns on ongoing and finalized projects
- \* IFAC Leadership presents reports to PIOB
- \* Oversight applied throughout development process

KEY

- BRIEFING MEMO (BM) - Internal document developed by PIOB staff
- OBSERVATION MEMO (OM) - Developed by PIOB Observer
- PIOB OBSERVATION: Either Direct Observation (DO), Remote Observation (RO) and/or Monitoring and Reporting (MR).
- Extended Review (ER)
- Limited Review (LR)



**Box 1 - PIOB oversight of the Standard - setting Process**

**Assessment point 1**

The standard-setting board approves a project proposal. A task force (or several task forces in the case of larger projects), made up of board members and others, is set up to develop the project.

**Assessment point 2**

The task force consults with the board's CAG to receive comments on the project proposal, which are conveyed to the board. The task force reports the results of the board's deliberations back to the CAG. If it is agreed that the project will proceed, the task force writes the first draft.

**Assessment point 3**

The board considers whether a consultation paper or the holding of roundtables is necessary to develop the project further.

**Assessment point 4**

If this is the case, comments received are shared with the CAG.  
  
The board approves and issues for public comment an exposure draft on the proposed standard together with an explanatory memorandum. The minimum exposure period is usually 90 days.

**Assessment point 5**

Comment letters are received from respondents. The staff and task force analyze these comments and prepare an issues paper for the board. This analysis includes an outline of the proposed disposition of comments and, as appropriate, the reasons to accept or not to accept changes recommended by respondents. The board deliberates and amends the draft standard accordingly.

**Assessment point 6**

The task force consults with its CAG on significant issues raised in comment letters to the exposure draft, and the CAG provides input on them. The CAG may offer comments verbally, which are included in the minutes.

**Assessment point 7**

The task force reports back to the CAG on how CAG comments have been dealt with by the board.

**Assessment point 8**

The board agrees on a final draft and considers whether changes introduced merit re-exposure. The board approves the final draft of the proposed standard by a required majority of members present at the meeting and, separately, considers and votes on re-exposure.

**Assessment point 9**

Senior board staff confirm that the board has followed due process in regard to the proposed standard. Board staff complete a basis-for-conclusions document, which summarizes the main comments received on public exposure of the proposed standard and explains how the board dealt with them.  
  
The CAG chair provides the PIOB with a written report providing her/his opinion on the due process followed by the PIAC in responding to CAG input.

**Assessment point 10**

The standard is submitted to the PIOB for approval that due process has been followed with due regard for the public interest.

**The standard is issued.**

**REVIEW OF IMPLEMENTATION OF THE OAM**

In 2012, the PIOB continued to apply the OAM developed in 2011.<sup>15</sup> Oversight plans for each PIAC were developed following a risk assessment process under the leadership of a PIOB member, supported by other team member(s) and PIOB staff. Based on the results of such assessments, each PIAC was assigned an oversight level under the OAM (see table 1).

**Table 1 – Oversight levels for 2012**

PIAC and CAG	Oversight level
IAASB and IAASB CAG	OA3 (Medium intensity)
IAESB and IAESB CAG	OA3 (Medium intensity)
IESBA and IESBA CAG	OA2 (High intensity)
CAP	OA3 (Medium intensity)

Oversight plans were developed considering a combination of activities that would maintain the current level of oversight comfort while ensuring the best possible use of the limited resources at the PIOB's disposal, including DO of PIACs and CAGs, remote observations, and monitoring and reporting. The plans contemplated a move away from 100 percent direct physical observation of PIAC and CAG meetings to 81 percent direct observations of meetings. The plans can be consulted at <http://www.ipiob.org/news/piob-publishes-2013-oversight-plans>.

PIOB oversight activities during 2012 largely followed the respective oversight plan, even though board members and staff were aware that the plans would have to adapt as the year progressed and circumstances changed. Table 2 provides details of oversight activities planned and performed in 2012 and compares the oversight activities carried out in 2011 and 2012. Statistics include separate disclosures for DO, RO, M&R, and TC.<sup>16</sup>

A review of actual observations versus those contemplated in the oversight plans shows that actual observations were close to plans, except for the following: (i) IAASB and IESBA teleconferences were added during the year, which the PIOB observed in full, and (ii) additional DOs were considered necessary in view of the evolution of projects. The PIOB was cautious in applying the OAM

approach and scaled up DOs any time the circumstances –especially the subjects discussed– called for doing so to protect the public interest.

In addition, depending on the nature of the proposals in terms of public interest, staff conducted extended review (ER) or limited review (LR) due-process analyses for each standard finalized and approved in 2012 and provided written briefing memos to support the work of PIOB observers.

Including TC, more PIAC and CAG meetings were held in 2012 than in 2011. Actual DOs in 2012 constituted 90 percent of the total number of meetings held, a higher figure than contemplated in the 2012 oversight plans (81 percent), and higher also than the actual percentage of total meetings held in 2011 (77 percent). The agendas of meetings were substantial and increasingly complex.

Overall, the work performed in 2012 allowed the PIOB to conclude that the level of oversight identified for each PIAC/CAG was appropriate. All aspects considered during the planning process proved relevant, and any required changes were adopted in a timely manner. The results from the independent PIOB staff analyses (ERs and LRs) performed for the standards finalized in 2012 confirmed that the choices of OAM were appropriate and that the work plans had anticipated the risks and issues requiring attention. Oversight by staff relied on the aggregate of observations of meetings, reports of the PIAC and CAG chairs, meeting documents and minutes, basis-for-conclusions documents, exposure drafts, comment letters to exposure drafts, task force documents, and, whenever necessary, meetings with PIAC and CAG chairs or staff. The combination of these different oversight methodologies allowed the PIOB to have a good insight into the standards and the standard setting process, and to ensure that its objectives in terms of due process and public interest were appropriately met.

(15) This methodology is explained in the PIOB Seventh Annual Report. [http://www.ipiob.org/sites/default/files/public\\_reports/Financial\\_Statement\\_web2011.pdf](http://www.ipiob.org/sites/default/files/public_reports/Financial_Statement_web2011.pdf)

(16) The chart distinguishes between meetings and teleconferences and only offers the percentage of oversight techniques applied to meetings (excluding teleconferences). The reason is that, if teleconferences were counted as meetings, they would distort the actual share of direct observation of meetings in total oversight, since 100 percent of teleconferences are observed.



**Table 2 –2012 Actuals versus planned oversight activities (PIACs) and comparison with 2011 actuals**

	IAASB						IAASB CAG						IESBA						IESBA CAG					
	2012 oversight plan		2012 actual observations		2011 actual observations		2012 oversight plan		2012 actual observations		2011 actual observations		2012 oversight plan		2012 actual observations		2011 actual observations		2012 oversight plan		2012 actual observations		2011 actual observations	
	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%
Meetings	4		4		4		2		2		2		4		3		3		2		2		2	
of which:																								
DO	3	75	4	100	3	75	2	100	2	100	2	100	4	100	3	100	3	100	2	100	2	100	2	100
RO	1	25	0	0	1	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
M&R	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>
<b>TC</b>	1	100	3	100	2	100	0	n.a.	0	n.a.	0	n.a.	0	n.a.	2	100	0	n.a.	0	n.a.	0	n.a.	0	n.a.

	IAESB						IAESB CAG						CAP						Total all PIACs and CAGs					
	2012 oversight plan		2012 actual observations		2011 actual observations		2012 oversight plan		2012 actual observations		2011 actual observations		2012 oversight plan		2012 actual observations		2011 actual observations		2012 oversight plan		2012 actual observations		2011 actual observations	
	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%
Meetings	3		3		3		2		2		3		4		4		5		21		20		22	
of which:																								
DO	2	67	3	100	2	67	2	100	2	100	2	67	2	50	2	50	3	60	17	81	18	90	17	77
RO	1	33	0	0	1	33	0	0	0	0	1	33	2	50	1	25	2	40	4	19	1	5	5	23
M&R	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	25	0	0	0	0	1	5	0	0
		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>		<b>100</b>
<b>TC</b>	0	n.a.	1	100	0	n.a.	0	n.a.	1	100	0	n.a.	1	100	1	100	0	n.a.	2	100	8	100	2	100

**OVERVIEW OF OVERSIGHT**

**PIACs and CAGs**

During 2012, several relevant standards were finalized, and others were advanced by the IAASB, the IESBA, the IAESB, and the CAP.

The IAASB concluded its 2012–14 Strategy and Work Program in March 2012. The intervention of a PIOB observer at an IAASB meeting to discuss this strategy helped to prioritize the auditor reporting project as the

most relevant IAASB project. The PIOB approved the strategy document in May 2012.

In addition to its new strategy, the IAASB finalized the following standards: the portion of ISA 610 (Revised), “Using the Work of Internal Auditors,” that now addresses the circumstances where internal auditors provide direct assistance to external auditors; ISRS 4410 (Revised), “Compilation Engagements”; and ISRE 2400 (Revised), “Engagements to Review Historical Financial Statements,” which provides for reviews by a practitioner who is not the external auditor of the entity.

ISAE 3410, “Assurance Engagements on Greenhouse Gas Statements,” merits separate mention because it represented a first IAASB step in the field of assurance on sustainability.

In addition to the above, the IAASB advanced work on several projects and standards.

It embarked on a priority review of the auditor reporting project. This is the most important project on the IAASB’s agenda and will continue to be so until 2014, when the board expects to complete it. The revision should have a substantial impact on the content of auditor report and respond to calls by users of audited financial statements<sup>17</sup> for more pertinent information and for further insights into audit and the audited entity.

The IAASB further advanced projects to revise two other standards: proposed ISA 720 (Revised), “The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon,” and proposed ISAE 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.” It also continued developing an international framework on audit quality and on disclosures in audited financial statements, including the publication of consultation and discussion papers.

The IESBA finalized two of its top-priority projects during 2012: “Breaches of a Requirement in the Code” and “Conflicts of Interest,” which it submitted for the PIOB’s approval in 2013. Its third major project, “Responding to a Suspected Illegal Act,” will be pursued during 2013.

The IESBA is aware of the challenges involved in efforts to enhance the credibility of the international Code of Ethics as a benchmark for professional ethics for global adoption. During 2012, the IESBA continued its dialogue with various regulators and national standard setters to obtain input on the types of improvements they believe should be made for the Code to gain acceptance and recognition in their jurisdictions.

PIOB observers at IESBA meetings challenged the board with several concerns on different projects regarding how some issues were addressed by the Board in preparing exposure drafts. These concerns were expressed at the relevant IESBA meetings and discussed with the IESBA and IESBA CAG chairs at PIOB quarterly meetings. They related to lack of differentiation between grave and less grave suspected illegal acts; the need to require a suspected illegal act to be reported to the parent entity; the need to require that a serious breach of a requirement in the code be reported to an external authority or regulator, including the content of such report and the recommendation to place documentation in a safe place; and the importance of internal processes for dealing with suspected illegal acts.

The issues raised by the PIOB contributed to the debate. The inputs provided to the IESBA by its CAG, including several issues raised by a member of the MG, were subject to specific monitoring by the PIOB.

In 2012, the IESBA almost finalized its review of the definition of “engagement team” in the Code to make it consistent with the related IAASB’s revision of ISA 610 regarding the use by external auditors of direct assistance provided by internal auditors. The IAASB’s project was pending final approval until the IESBA finalized its engagement team project. Comments on the exposure draft of the proposed change to the definition reflected concerns on the part of various stakeholders with direct assistance. These concerns extended the debate at both the IESBA and the IAASB, as the task forces had to consider and decide how to address them in their final standards. The debate allowed to dispel the idea that direct assistance would be allowed when it is not compatible with national legislation.

The IESBA also started work on a few additional work streams during 2012, namely (i) changing the definition of “those charged with governance” to align the definition in the code with that in ISA 260, “Communicating with Those Charged with Governance”; (ii) considering whether a restructuring of the Code would make it more

(17) Including investors, regulators, preparers, and others.

understandable and better adapted to the day-to-day needs of practitioners; and (iii) reviewing part C of the Code (Professional Accountants in Business) to include ethical consequences when accountants in business encounter accounting irregularities or are subject to pressures from superiors to prepare or present financial information that is not fair or to violate laws or ethical standards. The board also started discussing a project to consider whether further restrictions on the provision of non-assurance services by auditors are needed in the Code and a project to address concerns regarding long association of senior audit personnel (usually referred to as “partner rotation”) with an audit client.

In May 2012, the IESBA published its first annual report, becoming the second PIAC (after the IAASB) to produce this type of document. The IESBA intends to make this a regular feature.

The IAESB submitted the redrafted IES7, “Continuing Professional Development (Redrafted),” for the PIOB’s approval in May 2012<sup>18</sup>. This was the first IES to be finished by the IAESB as part of the broader project to revise all eight IESs, the IAESB’s most important project in the last few years. A PIOB observer raised concerns about targeting IESs at IFAC member bodies only, which would limit their relevance to universities and others that are not IFAC member bodies. The IAESB responded by adding a second paragraph indicating that the standard would also benefit other bodies, such as universities, although the focus continues to be on IFAC members only.

In addition to IES 7, in 2012 the IAESB finalized IES 1, “Entry Requirements to Professional Accounting Education Programs,” and IES 6, “Initial Professional Development—Assessment of Professional Competence”; both were approved by the PIOB. IES 5, “Initial Professional Development—Professional Practice,” was approved by the IAESB in December 2012 and submitted for the PIOB’s approval early in 2013. A minor amendment to IES 1 was unanimously approved by the PIOB by written procedure in December 2012. The IAESB also made significant progress toward revising the remaining IESs: IES 4, “Initial Professional

Development—Professional Values, Ethics, and Attitudes,” was re-exposed for comments after significant changes were made to the exposure draft version; IES 2, “Initial Professional Development—Technical Competence,” IES 3, “Initial Professional Development—Professional Skills,” and IES 8, “Professional Development for Engagement Partners Responsible for Audits of Financial Statements,” were exposed for public comments and are expected to be finalized in 2013. Finally, the IAESB started work on its 2014–16 Strategy and Work Plan, including publication of an online survey to elicit public comments in July 2012.

The PIOB noted that the IAESB has limited resources available, which makes its work challenging for members, technical advisors, and staff. It also reiterated its concern over the high turnover on both the IAESB and its CAG, which may be too small to provide the board with sufficient input. Efforts are being made to populate the IAESB CAG with a wider, more diverse range of organizations able to support the IAESB with additional ideas, perspectives, and expertise.

The CAP submitted its revised ToR in 2012, which provides for a more formalized consultative role for the PIOB. The terms were approved and are now better aligned with those of the standard-setting boards.

The CAP also finished revising all seven SMOs, a project started in 2011. The PIOB was consulted before the revised SMOs had been approved by the CAP or the IFAC Board, and accepted the revision conditional on no subsequent relevant changes. The IFAC Board approved the revised SMOs in September 2012 without changes. Comments to the exposure draft supported the continued use of the “best endeavors” principle. The PIOB noted that adoption could be accelerated by restricting the “best endeavors” principle to those cases in which IFAC member bodies have no responsibility for

(18) The content of IES 7 was approved by the IAESB in October 2011, but the standard was withheld by the IAESB until it advanced work on IES 4 and IES 6, to ensure consistency across the three standards.

an SMO area and by requiring “full adoption” in those cases in which IFAC member bodies have the capacity to adopt standards. The final revised SMOs apply the “best endeavors” principle in a manner consistent with the PIOB’s recommendation.

The PIOB noted several areas for improvement by the CAP, including (i) adoption of ISAs in G-20 countries; (ii) development of the compliance process methodology and tracking of action plans, such as by systematically identifying and sharing good practices or assessing more substantively the extent of adoption and implementation—that is, the outputs of the action plans as opposed to the current focus on inputs; and (iii) the possibility of opening nominations to the CAP to all stakeholders, not just IFAC member bodies.

Other CAP activity during 2012 included monitoring the progress on action plans and reports from regional organizations and accountancy groups; enforcing and considering new applications for membership in IFAC; and sharing information and knowledge with relevant stakeholders. The 2012 CAP statistics showed a positive trend during the year compared to 2011: some 164 IFAC member bodies (out of 173, that is, 95 percent of membership) had published their action plans by January 2013; 3 others had submitted draft or partial action plans, which were under CAP review; and another 6 were still working on their action plans. This compares favorably to January 2012, when 152 IFAC members (out of a total of 167, that is, 91 percent of membership) had published their action plans, 9 had submitted draft or partial action plans, and 2 were still working on their action plans.

**Regular communication with IFAC, PIAC, and CAG leadership**

During the year, the PIOB held the quarterly meetings detailed in table 3, which were attended by PIOB members, IFAC leadership, and PIAC and CAG chairs. As in previous years, IFAC leadership and chairs of the PIACs and CAGs attended the quarterly PIOB meetings (the chairs on a rotating basis) and made presentations on the status of existing projects. In

particular, IFAC leadership reported on the 2014 CFN and the outcome of the performance reviews of Nominating Committee and PIAC members, submitted the nominations for membership in PIACs and for non-ex-officio membership on the Nominating Committee, and discussed issues such as oversight of the IPSASB, the consultation paper published by the MG, and the diversification of PIOB funding.

Meeting with IFAC leadership allowed the PIOB to discuss IFAC’s preliminary decision to discontinue the project to revise the current definition of “professional accountant.” The PIOB expressed concern with this decision because the project aimed to reach a definition that could be used throughout IFAC’s independent standard-setting boards and the CAP. A common definition would facilitate greater understanding of the term by the general public, the accountancy profession, and others. The “professional accountant” is the primary audience for the IAASB, IESBA, and IAESB standards and the IESBA Code of Ethics, as well as a basic term for most IFAC committees, insofar as it defines the scope of their work and outreach activities. IFAC reconsidered its decision and will continue with the project.

**Table 3 –PIOB 2012 quarterly meetings**

Date	Location
29 February–2 March	New York
28–29 May	Madrid
13–14 September	Madrid
16–18 November	Cape Town



**Table 4– Attendance at PIOB board meetings in 2011 and 2012 – number of days**

Board Member	2011	2012
Eddy Wymeersch	8	8
ChandrashekarBhave	8	6
Jane Diplock	n/a <sup>19</sup>	6
Michael Hafeman	8	8
Toshiharu Kitamura	8	7
Kai-Uwe Marten	4	4
Sylvie Math�rat	6	1
Charles McDonough	6	4
Bryan Nicholson	6	8
Aulana Peters	8	2 <sup>20</sup>
Robert Ward	8	8

**Independent oversight analysis**

PIOB staff continued to apply ER or LR analyses to all standards and strategic plans submitted for PIOB approval in 2012. In all cases these analyses supported the PIOB’s conclusions that due process was followed effectively and with proper regard for the public interest. PIOB staff also prepared technical memos to support every PIAC and CAG DOs. The recommendations provided in the subsequent observation memos were factored into the ERs and LRs. PIOB staff paid special attention to the consideration and disposition by standard-setting boards of the input and views provided both by CAG members and by comment letters to exposure drafts.

Table 5 summarizes PIOB approvals of due process in 2012.

(19) Ms. Jane Diplock was appointed as PIOB Board member on 1st March 2012.

(20) Ms. Peters’ term as PIOB Board member ended on 28th February 2012.

**Table 5 – PIOB approvals of due process in 2012**

Standard/pronouncement	Date of approval	PIAC
ISRS 4410 (Revised), Compilation Engagements	February 2012	IAASB
ISA 610 (Revised), Using the Work of Internal Auditors*		IAASB
ToR of the independent ethics chair		IESBA
CAP terms of reference		CAP
IAASB Strategy and Work Program, 2012–14	May 2012	IAASB
ISAE 3410, Assurance Engagements on Greenhouse Gas Statements		IAASB
IES 7, Continuing Professional Development		IAESB
ISRE 2400 (Revised), Engagements to Review Historical Financial Statements	September 2012	IAASB
IES 1, Entry Requirements for Professional Accounting Education Programs (Revised)		IAESB
IES 6, Initial Professional Development—Assessment of Professional Competence (Revised)		IAESB
IES 1, Entry Requirements for Professional Accounting Education Programs (approval of an amendment by written procedure)	December 2012	IAESB

\* Only the portion related to using the work of the internal audit function.

**PIOB RECOMMENDATIONS**

During 2012, the PIOB intervened several times to protect the public interest or spoke up about findings resulting from its oversight work. These instances were communicated to the PIACs, CAGs, and Nominating Committees during their meetings. They were also transmitted to IFAC leadership during the PIOB quarterly meetings.

**Table 6– PIOB recommendations in 2012**

MEETING	PIOB RECOMMENDATION	PIAC REACTION
	<b>Assessment Point # 4</b>	
<b>IESBA, February 2012 meeting</b>	<p><b>1. Suspected Illegal Acts (SIA)</b></p> <p>The PIOB observer recommended a solid process for dealing with the “exceptional circumstances” under which the professional accountant would not be required to disclose a SIA. This process should require that these situations be extensively documented, stating the reasons for nondisclosure. Otherwise “exceptional circumstances” could be invoked too easily, which might weaken the relevance of the standard.</p> <p>Other issues were raised with the IESBA: (i) grave SIAs should be distinguished from less serious SIAs, as the failure to differentiate between them could make it difficult to control the reporting system; (ii) in the case of group audits, SIAs should be reported at the parent level; (iii) all SIAs should be reported to an external authority; and (iv) the actions taken to address SIAs should be documented, including when “exceptional circumstances” are invoked.</p>	<p>The IESBA is still working on this project. The “exceptional circumstances” have been discussed extensively, including in March 2013. Many respondents to the exposure draft thought that the circumstances as described lacked clarity or were too limited.</p> <p>No decision has been arrived at yet.</p>



MEETING	PIOB RECOMMENDATION	PIAC REACTION
IAASB, September 2012 meeting	<p><b>2. ISA 720, “The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon”</b></p> <p>At the meeting, the PIOB observer expressed concern about excluding from consideration by the auditor documents that are released after the initial release of the auditor report but not “released pursuant to law or regulation or established custom or practice,” for example, the first time an integrated report is prepared. The PIOB observer suggested a more explicit requirement: the auditor should discuss with the entity its plans for publishing the financial statements and should document the results of this discussion; if some additional method of publication is subsequently decided, it would not be within the scope of the auditor’s responsibilities.</p>	<p>This issue was dealt with explicitly in the next draft prepared by the task force.</p>
	<b>Assessment Point # 5</b>	
IAASB, December 2011 meeting	<p><b>3. IAASB 2012–14 Strategy</b></p> <p>In line with the opinion of others, including the CAG and Board Chairs, the PIOB observer stressed the importance of the auditor reporting project (not explicitly ranked as an IAASB high-priority project at that time).</p>	<p>The IAASB reconsidered the auditor reporting project in December 2011 and decided to reprioritize it and to set up an expanded task force structure in January 2012.</p>
Interaction of CAP with PIOB Secretariat	<p><b>4. CAP SMOs</b></p> <p>The PIOB intervened at an early stage on the proposed changes to SMOs. It recommended that adoption could be accelerated by restricting the “best endeavors” principle to those cases in which IFAC member bodies have no responsibility for an SMO and by requiring “full adoption” in those cases in which IFAC member bodies have the capacity to adopt standards</p>	<p>The revised SMOs apply the “best endeavors” principle in a manner consistent with the PIOB’s recommendation.</p>
IAASB, September and December 2012 meetings; IAASB CAG, September 2012 meeting	<p><b>5. ISAE 3000, “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”</b></p> <p>PIOB observers recommended that the board provide more clarity—not only to practitioners but also to other stakeholders—about relevant concepts included in ISAE 3000, such as “reasonable assurance” versus “limited assurance.”</p>	<p>The IAASB is still working with ISAE 3000 and introducing improvements to the standard. The IAASB chair agreed with the recommendation and requested that the task force address the challenge. At the IAASB February 2013 meeting, an education session was held on “direct engagements” in ISAE 3000, and issues such as independence, definitions, criteria, and relationship to the Code of Ethics were discussed.</p> <p>At its April 2013 meeting the IAASB decided to remove the requirements and application material addressing direct engagements from ISAE 3000, so that 3000 (Revised) will only indirectly address direct engagements.</p>
	<p>The PIOB observer at the IAASB December 2012 meeting questioned whether the IAASB is equipped to issue a standard that will include “direct engagements” given the limited experience within the Board.</p>	

MEETING	PIOB RECOMMENDATION	PIAC REACTION
<b>Assessment Point # 4 and # 5</b>		
PIOB, September 2011; IESBA, October 2011 and February 2012 meetings	<p><b>6. Breaches of a requirement in the Code of Ethics other than independence</b></p> <p>The PIOB asked the IESBA to consider breaches of provisions in the Code of Ethics other than those related to independence.</p> <p>The PIOB observer advised on the need to rebalance the provisions in the Code and clarify that a breach may also relate to provisions other than independence. He also expressed concern that serious violations of the code could violate the public interest. He recommended that significant breaches should be reported to a regulator or to a body external to the entity.</p>	<p>The IESBA agreed that a separate provision would deal with breaches of the Code other than relating to independence, which was added to paragraph 100.10 in the Code. Provisions in the Code remain focused on breaches of independence.</p> <p>IESBA did not agree to include the requirement to report significant breaches (independence related or not) to a regulator, as it considered that this requirement should be established by each jurisdiction, not by a Code of Ethics directed at multiple jurisdictions.</p>
	<b>Assessment Point # 8</b>	
Several IAASB meetings	<p><b>7. Comments focused on the public-interest</b></p> <p>PIOB observers made public-interest inspired comments, e.g.: on auditor reporting by keeping the discussion focused on users, which sometimes threatened to become overshadowed by technical concerns; or encouraging the IAASB to put integrated reporting earlier on its agenda.</p>	<p>Comments had an impact on the course of the discussion</p>
CAP, July 2012 meeting	<p><b>8. Comment letter to the CAP exposure draft for revised SMOs</b></p> <p>The PIOB observer, noting that one comment letter from an MG member was received after the due date for comments to the exposure draft and after preliminary consideration of the SMOs by the PIOB, asked the CAP to review the letter, in spite of its lateness. Doing so is common practice in other PIACs with respect to late submissions.</p>	<p>The CAP agreed and discussed the letter at the meeting. One change was introduced to the SMOs as a result of the comments in the letter.</p>
	<b>Assessment Point # 8</b>	

MEETING	PIOB RECOMMENDATION	PIAC REACTION
<b>OTHER</b>		
<b>PIOB, December 2011 and March 2012 meetings</b>	<b>9. Independence of the IESBA chair</b> The PIOB stressed the importance of an “independence” requirement in the IESBA ToR applicable to the IESBA chair, especially in view of the upcoming selection of the new IESBA chair.	IFAC agreed with the PIOB recommendation and added an independence requirement to the final ToR for the IESBA chair. The new IESBA chair was appointed in 2012 in accordance with this requirement and was approved by the PIOB.
<b>Several PIOB, IESBA, and IAASB meetings</b>	<b>10. Time path for developing standards</b> The PIOB expressed concern for the time taken by PIACs to develop or revise standards. PIOB observers at several PIAC meetings highlighted this issue and stressed the need for the PIACs to be time-efficient, handling drafting and editorial changes at the task force level, not the board level. This would contribute to more efficient discussions, timelier issuance of standards, and a focus on standard setting.	The IESBA considered this matter at its March 2013 meeting.
<b>IAESB CAG February 2012; IAESB, March 2012 meetings</b>	<b>11. IAESB and IAESB CAG</b> The PIOB noted that the IAESB has limited resources available, which makes its work challenging for members, technical advisors, and staff, and reiterated its concern over its CAG, which might be too small to provide the board with sufficient input.	Efforts are being made to provide the IAESB CAG with a wider, more diverse range of organizations able to support the IAESB with additional ideas, perspectives, and expertise.
<b>PIOB, December 2011 and February 2012 meetings; interactions between CAP staff and the PIOB Secretariat</b>	<b>12. CAP terms of reference</b> The PIOB did not approve the CAP ToR when they were submitted in December 2011 for approval, but postponed its decision pending changes regarding the CAP’s public interest focus and mission (in line with the ToR of other PIACs) and clearer language to highlight the PIOB’s oversight role over the CAP.	The CAP accepted the PIOB recommendations and introduced changes to the ToR, as recommended by the PIOB. It also aligned its ToR with those of other PIACs, as applicable.
<b>PIOB, November 2012 meeting</b>	<b>13. IESBA role</b> The PIOB highlighted the fact that the IESBA is the only global body to set ethics standards. The PIOB stressed the importance of the role of the IESBA chair and encouraged the chair to develop an ambitious agenda.  The PIOB also stressed that the current structure of the Code of Ethics is difficult to follow, that some of the issues are not clear, and that this ambiguity should be addressed.  Finally, the PIOB pointed to ethics as a core element of the credibility of the profession.	The IESBA chair concurred with the PIOB assessment and agreed that the IESBA should produce a strong Code of Ethics. The IESBA chair committed to focus on making the code more reader-friendly.  A project to reformat the Code is likely to be part of the new strategy.

MEETING	PIOB RECOMMENDATION	PIAC REACTION
<b>IAESB, March 2012; PIOB, May and November 2012 meetings</b>	<b>14. Definition of professional accountant</b>  Many consider the definition of professional accountant as “an individual who is a member of an IFAC member body” to be vague and circular. This prompted IFAC to start a project to review and improve the term, which was discontinued at the end of 2011 in view of practical differences regarding a new definition.  The PIOB observer at the IAESB March 2012 meeting raised the point that this decision was unfortunate given that such a definition is important to the work of the IAESB, as well as for other purposes. The PIOB concluded that having a common definition that could be used throughout IFAC’s independent standard-setting boards and the CAP would not only benefit PIACs and the profession, but also be in the public interest by facilitating greater understanding of the accountancy profession by the public at-large.	IFAC reactivated this project after the PIOB request. The definition is seen as important, mainly for the IAESB. The IAESB started work on this project at the end of 2012 and is expected to produce a revised definition during 2013.
<b>Nominating Committee, Oct 2012; PIOB, Nov 2012 and Feb 2013 meetings</b>	<b>15. Nominations to PIACs</b>  The PIOB observer raised the following issues at the Nominating Committee’s October 2012 meeting:  a. The 2014 nominations to PIACs, with the exception of the CAP, are open to all stakeholders and the general public. Opening nominations to the CAP beyond IFAC member bodies should also be considered. This could help the adoption of international standards by bringing in the perspectives and experience of individuals different from those of IFAC member body organizations.  b. The cost of attending PIAC and CAG meetings is borne by the nominating organization. The 2014 call for nominations indicates that self-nominated public members may receive support for their travel costs. This feature could also be extended to non-practitioners who lack a nominating organization.  c. The definition of “practitioners” and “non-practitioners” in the call for nominations is the same: the profile, experience, and skills requested are basically the same for both. They are two different categories and should, in principle, have different profiles.  d. The current definition of member body staff as a non-practitioner should be looked into to ensure that the individual person can be considered one.	The 2014 CFN was amended to take into account some of these recommendations, for example, clearer indication that applicants can be individuals without a nominating organization.  The Nominating Committee has agreed to discuss the rest of the recommendations, with a view to considering them for the 2015 CFN.



**Table 7 details the meetings observed by the PIOB observers in 2012.**

Month	Location	Entity	PIOB observer
January			
17	Teleconference	Nominating Committee	Eddy Wymeersch
25	Teleconference	IAASB	Rob Ward
26–27	Kigali	CAP	Not observed
February			
9–10	Dublin	IAESB CAG	Sir Bryan Nicholson
20–22	Dublin	IESBA	Eddy Wymeersch, Susana Novoa
March			
1–2	New York	IFAC Board	All members
5	Brussels	IESBA CAG	Bryan Nicholson
6–7	Brussels	IAASB CAG	Susana Novoa
7–9	Merida	IAESB	Michael Hafeman
12–16	Toronto	IAASB	Rob Ward
29–30	New York	Nominating Committee	Gonzalo Ramos
April			
17	Teleconference	IAASB	Gonzalo Ramos, Susana Novoa
18	Teleconference	IAESB CAG	Kai Uwe Marten
18–19	New York	Nominating Committee	Chandu Bhav
19	Teleconference	IESBA	Rob Ward
19–20	New York	CAP	Chandu Bhav
24	Teleconference	IAASB	Gonzalo Ramos, Susana Novoa
May			
25	Webinar	IFAC Board	Gonzalo Ramos
June			
11–12	Stockholm	Nominating Committee	Gonzalo Ramos
11–15	Edinburgh	IAASB	Jane Diplock
12–15	New York	IAESB	Kai Uwe Marten
14–15	Stockholm	IFAC Board	Not observed
18–20	New York	IESBA	Eddy Wymeersch
July			
12–13	Toronto	Nominating Committee	Michael Hafeman
16	Teleconference	IAESB	Kai Uwe Marten
19–20	New York	CAP	Michael Hafeman
August			
8	Teleconference	CAP	Michael Hafeman

September			
4	New York	Nominating Committee	Bryan Nicholson
6–7	New York	IFAC Board	Not observed
10	New York	Audit Quality Roundtable	Michael Hafeman
11	New York	IAASB CAG	Michael Hafeman
12	New York	IESBA CAG	Michael Hafeman
17–21	New York	IAASB	Michael Hafeman
20–21	New York	IAESB CAG	Chandu Bhav
October			
15–16	New York	CAP	M&R
15–16	Teleconference	IESBA	Chandu Bhav
19	Conference call (TC)	Nominating Committee	Gonzalo Ramos
24–26	London	IAESB	Kai Uwe Marten
November			
14–15	Cape Town	IFAC Council	Eddy Wymeersch
16	Cape Town	IFAC Board	Eddy Wymeersch
December			
10–14	New York	IAASB	Rob Ward
10–12	New York	IESBA	Chandu Bhav

**NOMINATIONS**

**Nominations to PIACs**

The quality and public interest mindedness of PIAC members are, ultimately, the most critical element ensuring the responsiveness of standard setting to the public interest. The PIOB follows very closely the process through which candidates are searched and selected for nominations, to the point of being present during candidates’ interviews. PIOB oversight activity on nominations to the PIACs follows the phases shown in table 8.

**Table 8 – PIOB oversight of nominations to PIACs**

Month	Phase	PIOB oversight activity
November	Review notice of CFN for next year, for IFAC Board approval	PIOB is consulted; no PIOB approval is required
January	IFAC publication of CFN (IFAC website and The Economist 2013)	None
January	Receive curriculum vitae from candidates; most candidates are nominated by nominating organizations	None
March	<u>Nominating Committee meeting</u> Discuss outcomes of the Nominating Committee meeting	PIOB direct observation
April	Review nominations received, select candidates for interviews, and agree on interview schedule	PIOB direct observation
April	Interviews carried out by Nominating Committee members	None
June	<u>Nominating Committee meeting</u> Receive report on interviews carried out during the April–June period Discuss outcome of interviews Conduct in-person interviews	PIOB direct observation
July	<u>Nominating Committee meeting</u> Finalize any remaining interviews and develop final list of recommendations to be approved by IFAC Board	PIOB direct observation
September	IFAC Board approval	None
November	PIOB approval	PIOB deliberation and decision

During 2012 the PIOB observed 100 percent of the IFAC Nominating Committee meetings and teleconferences, as shown in table 8. The committee plays a crucial role in the nominations process and the filling of vacancies. The aim is to select the best person for the job while maintaining parity between practitioners and non-practitioners (including public members) on the three standard-setting boards, to consider the regional and gender balance expected for the boards, and to follow clear and robust selection criteria to ensure that each vacancy is filled by the most qualified candidate.

**Table 9 – PIOB actual observations of Nominating Committee meetings in 2012 and 2011**

	2012 actual observations		2011 actual observations	
	Nr	%	Nr	%
Meetings	5		5	
of which:				
DO	5	100%	4	80%
RO	0	0%	1	20%
M&R	0	0%	0	0%
		<b>100%</b>		<b>100%</b>
TC	2	100%	3	100%

The PIOB is informed of the conditions setting out the framework within which nominations to PIACs take place every year. This framework, called Call for Nominations (CFN), does not require PIOB approval. The PIOB however may make suggestions for the Nominating Committee to consider (see point 15 in Table 6, for instance). When observing Nominating Committee meetings, PIOB observers pay particular attention to the breadth of nominations and nominating organizations, the selection process of candidates to be interviewed, the conduct of interviews and the decision process adopted by the Committee for every candidate. Final nominations to PIACs, once approved by the IFAC Board, are submitted to the PIOB Board for approval.

PIOB approvals in 2012 included the appointment of Mr. Jörgen Holmquist as the first independent IESBA



chair for the period from September 1 until October 2015, several appointments and reappointments for deputy chair, membership positions in the four PIACs, and non-ex-officio members of the Nominating Committee, all to start in 2013, and one appointment to fill a temporary three-month vacancy on the IESBA. The PIOB also approved a one-time extension of the term of the IESBA CAG chair, which expired in April 2012, to June 30, 2013, in order to avoid a simultaneous turnover of the IESBA and the IESBA CAG chairs.

**CAG observers and their representatives**

PIOB approvals of CAG observers are based on requests submitted by the CAG. These requests provide background information on the aspiring organization, explain the reasons why the CAG considers that it would be a positive addition for the CAG, and submit the name and CV of its first representative. This information is considered by the PIOB. The PIOB approves both the new organization and its first representative. Subsequent representatives do not require PIOB approval, though the PIOB is notified of each replacement. Approved observers are expected to possess the skills necessary to participate in CAG debates. They regularly attend CAG meetings to maintain an understanding of current issues and have the privilege of the floor.

During the year, the PIOB approved the IMF as a new observer to the IAASB CAG and its first representative.

In addition, the PIOB was notified of several new representatives of IAASB CAG member organizations.

Table 10 presents appointments, by entity.

**Table 10 – PIAC nominations and CAG membership organizations approved during 2012**

Group or individual	Appointments		
	New	Reappointed	Total
<b>International Auditing and Assurance Standards Board</b>			6
IAASB deputy chair		1	1
IAASB members	3	1	4
IAASB CAG	1		1
<b>International Accounting Education Standards Board</b>			7
IAESB deputy chair		1	1
IAESB members	5	1	6
<b>International Ethics Standards Board for Accountants</b>			11
IESBA chair	1		1
IESBA members	3	7	10
<b>Compliance Advisory Panel</b>			4
CAP chair	1		1
CAP deputy chair	1		1
CAP members	1	1	2
<b>Nominating Committee</b>			3
Nominating Committee members	1	1	3
<b>Total</b>	<b>18</b>	<b>13</b>	<b>31</b>

In its effort to communicate how the public interest is protected through due-process oversight, the PIOB continued developing its outreach program throughout 2012. In addition to attending meetings and conferences organized by stakeholders and public interest institutions, the PIOB also made an effort to improve its transparency by communicating its activity more often and publishing additional documents on its website.

**EXTERNAL RELATIONS**

In 2012, the PIOB had 29 external relations engagements. Three involved attending two IFAC Board meetings and one IFAC Council meeting, where the PIOB chair presented an update on PIOB activities.

In 2012, the MG and PIOB agreed that periodic meetings of the full MG and PIOB would take place to enhance their dialogue and level of engagement. The frequency of meetings among individuals at the PIOB and its secretariat with the MG decreased during 2012 given the different nature of the ongoing work.

The PIOB dealt with two main projects this year: diversification of PIOB funding and consultation papers on its 2012 Work Program and Beyond. A joint effort between IFAC, the MG, and the PIOB was launched in May 2012 to diversify the PIOB’s sources of funding.

IFAC has been the main source of funding for the PIOB since 2005, accompanied by the support of the Spanish Government, which has provided rent-free premises and, since 2010, by the European Commission, which has contributed €0.3million a year for the period 2010–2014. Main stakeholders were contacted in May by letter asking for financial support. The U.K. Financial Reporting Council has agreed to contribute €40,000 annually for a period of three years starting in 2013. The Abu Dhabi Accountability Authority has also agreed to contribute €120,000 in 2013. The International Organization of Securities Commissions (IOSCO) has agreed to contribute €100,000 to the PIOB budget starting 2013, the same amount as that jointly agreed by the Financial Services Board (FSB), the Basel Committee

on Banking Supervision (BCBS), and the International Association of Insurance Supervisors (IAIS). The World Bank has also committed US \$50,000 for 2013.

The PIOB continued to meet with MG members individually: Michael Hafeman took part in the IAIS annual meeting in Washington in October, the PIOB chair Eddy Wymeersch and the secretary general Gonzalo Ramos met with the FSB in Basel, and with the European Commission in Brussels, and Eddy Wymeersch and Toshiharu Kitamura attended the two annual meetings of the International Forum of Independent Audit Regulators (IFIAR).

Other engagements included a meeting with the IFRS Foundation Chair in London attended by Eddy Wymeersch, Kai Uwe Marten and Gonzalo Ramos; the Malaysian Institute of Accountants (MIA) conference in Kuala Lumpur attended by Toshiharu Kitamura; and the Institute of Chartered Accounts in England and Wales (ICAEW) policy summit in Brussels attended by Eddy Wymeersch, who also met with the Public Company Accounting Oversight Board (PCAOB) in Washington.

In addition to meeting with stakeholders in meetings and conferences around the world, the PIOB has also taken advantage of its board meetings to invite guest speakers. In September 2012, David Wright, secretary general of IOSCO, and Gerald Edwards, from the Financial Stability Board, made presentations on the current state of their institutions and ongoing projects.

During its last meeting of 2012 held in Cape Town, the PIOB invited Mervyn King and Bernard Agulhas from the Independent Regulatory Board for Accountants (IRBA) to meet the board and discuss the Integrated International Reporting Initiative and issues of common interest, respectively.

A clear message from the 2012 consultation process is that the PIOB needs to communicate better the present oversight architecture and remain fully aware of stakeholders’ concerns. In response to this message, the PIOB reallocated its internal resources in the second half of 2012 to carry out a more effective communications policy.

**Table 10 – External relations engagements in 2012**

Date	Location	Meeting	Attendee
<b>January</b>			
20	London	IASB	Eddy Wymeersch, Gonzalo Ramos, Kai Uwe Marten
<b>February</b>			
23	Madrid	MG meeting	Eddy Wymeersch, Gonzalo Ramos
<b>March</b>			
1–2	New York	IFAC Board	All members
8	Basel	FSB	Eddy Wymeersch, Gonzalo Ramos
9	Madrid	Universidad Autónoma, student presentation	Gonzalo Ramos
19–20	Vienna	IFAC sovereign debt crises seminar	Gonzalo Ramos
<b>April</b>			
16	Madrid	MG meeting	Gonzalo Ramos
16–18	Korea	IFIAR	Toshiharu Kitamura
26	Brussels	European Commission, Commissioner Barnier	Sir Bryan Nicholson, Kai Uwe Marten
<b>May</b>			
3	Paris	IFRS Foundation	Eddy Wymeersch, Gonzalo Ramos
18	London	ICAEW	Gonzalo Ramos
22	Madrid	U.K. Financial Reporting Council	Gonzalo Ramos
25	Webinar	IFAC Board	Gonzalo Ramos
<b>June</b>			
21	London	ICAEW	Gonzalo Ramos
21	Washington	PCAOB	Eddy Wymeersch
21	Washington	Staff of the U.S. Securities and Exchange Commission	Eddy Wymeersch
22	Brussels	European Commission meeting	Eddy Wymeersch, Gonzalo Ramos
23–24	Basel	Bank for International Settlements annual meeting	Gonzalo Ramos
<b>September</b>			
13	Madrid	MG meeting	All members
<b>October</b>			
1–3	London	IFIAR plenary meeting	Eddy Wymeersch
10	Brussels	ICAEW policy summit	Eddy Wymeersch
10–12	Washington	IAIS annual meeting	Michael Hafeman
<b>November</b>			
14–15	Cape Town	IFAC Council	Eddy Wymeersch
16	Cape Town	IFAC Board	Eddy Wymeersch
27–28	Kuala Lumpur	MIA conference	Toshiharu Kitamura
28–29	Zaragoza	Spanish National Audit Congress	Gonzalo Ramos, Susana Novoa
<b>December</b>			
10	London	ICAEW conference on fiscal transparency	Gonzalo Ramos
15	London	Accounting for sustainability meeting	Gonzalo Ramos
17–18	Brussels	Price Waterhouse Coopers conference on accounting and financial regulation	Gonzalo Ramos, Claudia Deodati

The PIOB is aware that its core responsibility is oversight and that its communication policy serves to support its core mission. The PIOB engages stakeholders with a view to understanding their concerns, which supports effective oversight, and to explaining the current system of standard setting oversight, which enhances their knowledge of and confidence in the present architecture.

**IMPROVING TRANSPARENCY**

The PIOB Public Report, released once a year, is the most important online communications tool for the PIOB. In the later part of 2012, the PIOB finalized a review of its website to improve its content and increase transparency. Keeping to its corporate image, the Home page was reorganized to make the contents more accessible for both experienced and newer audiences.

In addition to improving the website and enlarging its content, the PIOB also launched the PIOB quarterly updates, the first of which was released in October 2012. The PIOB has been issuing meeting summaries after each board meeting since December 2009, but the consultation process carried out in 2012 highlighted the need for greater transparency, more timely disclosure of agendas, and a fuller description of PIOB decisions. In response to this feedback, the PIOB changed the format of the meeting summaries to include a better description of board meetings and a periodic update of the oversight and external relations activities. The PIOB meeting agendas are also being disclosed as additional content, as are the oversight plans approved for each PIAC.

The PIOB quarterly updates and the additional information being disclosed will improve the PIOB's transparency in relation to its stakeholders.

The challenges in the oversight of standard setting in the fields under the PIOB mandate are expected to continue in the future, as is the PIOB's willingness to continue refining its oversight methodology and processes, performance, and transparency.

Regarding the PIACs, the PIOB is focusing on (i) overseeing the IESBA, under its new independent chair, as it works to improve the Code of Ethics as a global benchmark for adoption; (ii) overseeing the development of the IESBA's 2014–16 strategy, which is expected to be submitted for PIOB's approval in 2013; (iii) continuing to provide assurance to stakeholders on the public interest responsiveness of the pronouncements issued by the IAASB, with special focus on the auditor reporting project; (iv) overseeing the IAESB as it works to complete the set of revised IES; (v) encouraging the CAP to facilitate wider adoption and implementation of standards; and (vi) following up on suggestions to the Nominating Committee made in 2012.

In light of the comments received and its own experience, the PIOB will continue to keep the OAM under close review and consider any refinement that may be needed.

The PIOB is paying closer attention to the Integrated International Reporting Initiative. The public interest demands that sustainability concerns find their way into the standards governing the behavior of the accountancy profession and that professional accountants become increasingly aware of such concerns. Going beyond financial reporting to report on issues affecting corporate sustainability, including natural resource depletion and environmental concerns, could inspire further standard-setting work, especially in the fields of education and ethics.

We also intend to continue working with the MG and IFAC on further diversifying our sources of funding. Despite reaching a funding diversification ratio of 47 percent in 2013, the PIOB intends to define a clear funding strategy in 2013 and to continue working with the MG, IFAC, and its main stakeholders in this respect. The PIOB issued its reply to the consultation input on March 28, 2013, after considering all of the comments

received. We would like to thank all of those who contributed their input and assure them that their views were carefully considered. The conclusions reached have already started to be implemented.

In addition to approving its internal Code of Conduct in 2012, the PIOB expects to introduce a new system of regular self-assessment in 2013 to ensure that the performance of the PIOB and its members is always responsive to any area identified for self-improvement.

**PIOB Foundation (1, 2) Summary Statement of Financial Performance**

	2012	2011
<b>TOTAL REVENUE (3)</b>	1.446.496	1.402.402
<b>EXPENSES</b>		
<b>Board related operating costs</b>		
Oversight Program	794.058	671.374
External Relations Program	124.489	149.496
Monitoring Group and Monitoring Group members	129.970	157.428
Foundation Board Meetings	118.532	122.585
<b>Other start-up and ongoing operating costs</b>	238.958	216.052
<b>TOTAL EXPENSES</b>	<b>1.406.007</b>	<b>1.316.935</b>
<b>Surplus</b>	40.489	85.485

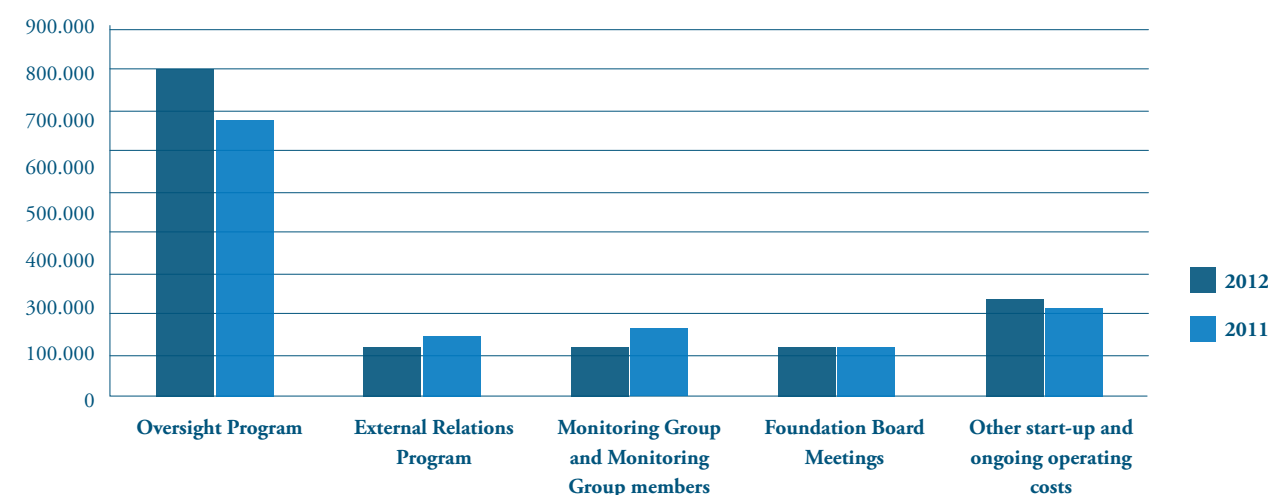
(1) The PIOB operates as a Technical Committee of its Spanish not-for-profit foundation, Fundación Public Interest Oversight Board ("PIOB Foundation")

(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 2012 were contributed by the International Federation of Accountants (IFAC) in amount of 1.139.577 Euros, the European Commission (EC) in amount of 300,000 Euros and others 6,919 Euros. In 2012, the remainder of revenue over expenses of € 40,489 was retained to strengthen the Foundation's capital base for the near term.

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

**PIOB Expenses by Activity**







**Mr. Eddy Wymeersch - PIOB 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 Supervisory Board of the Belgian Banking, Finance and Insurance Commission. Emeritus Professor of Commercial Law at University of Ghent, Belgium.



**Mr. Chandrashekhar Bhawe**

Former Chairman of the Securities and Exchange Board of India. Former Chairperson of the Asia-Pacific regional Committee. Former Chairman of the National Securities Depository Ltd.



**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.



**Mr. Charles McDonough**

Currently Vice President and Controller of the International Bank for Reconstruction and Development ("World Bank") and the Group's primary spokesperson on global financial reporting, accounting, and external auditing



**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. Robert Ward**

Former PwC worldwide audit leader, former Chairman Australia Public Policy Committee, former PwC national Managing Partner Public Policy and Regulatory Affairs and former President of The Institute of Chartered Accountants in Australia.



**Mr. Toshiharu Kitamura**

Professor of Financial Economics, Waseda University, Japan. Former Senior Executive Director, Development Bank of Japan. Former Deputy Director-General of International Finance, Ministry of Finance of Japan.



**Mr. Michael Hafeman**

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



**Mme Sylvie Mathérat**

Deputy Director General, 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.



**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. Member of the International Monetary Fund External Audit Committee. 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.

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

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

**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 International Accounting Standards Board (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.

**Code of Ethics:** an IESBA 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.

**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):** a group 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.

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

**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.

**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):** 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.

**Integrated International Reporting Initiative:** a project to promote a comprehensive corporate reporting framework that integrates financial, environmental, social, and governance information.

**International Accounting Education Standards Board (IAESB):** the independent standard-setting board that develops International Education Standards and other pronouncements for professional accountants. These pronouncements deal with education, practical experience, tests of professional competence for accreditation, and the nature and extent of continuing professional education. The PIOB oversees the work of the IAESB.

**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 independent standard-setting boards that are supported by IFAC.

**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 proposals:** 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):** 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.

**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, the Financial Stability Board and the International Forum of Independent Audit Regulators.

**Monitoring and reporting (M&R):** an oversight procedure by which PIOB staff monitor 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.

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

**Oversight Assurance Methodology (OAM):** a cohesive methodology that determines the application of one of 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.

**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.

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

**Statements of Membership Obligations (SMOs)<sup>20</sup>:** 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.

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

**Terms of reference (ToR):** 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:** 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.

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





PIOB Secretariat in Madrid

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