



Public Interest Oversight Board

RESPONDING TO STAKEHOLDERS' EXPECTATIONS

ninth public report 2013

PUBLIC INTEREST OVERSIGHT BOARD

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The PIOB Board May'13

From left to right: Kai-Uwe Marten, Nic Van der Ende, Charles McDonough, Julie Galbo, Eddy Wymeersch (PIOB Chairman), Jane Diplock, Toshiharu Kitamura, Michael Hafeman, Chandrashekhar Bhawe, Robert Ward and Gonzalo Ramos (Secretary General)

The core mission of the Public Interest Oversight Board (PIOB) is to oversee most standard-setting activities of the boards supported by IFAC and to verify that they are properly responsive to the public interest. But—and this is sometimes misunderstood—its role is not to ensure that the audit firms effectively apply the standards, as this task is organized and exercised at the national level.

The standards that are developed by the standard-setting bodies supported by IFAC are international and thus developed in a manner that they could be applied in all jurisdictions around the world. In several cases, international standards are transmitted to the national legal order by government decision: for example, in the European Union (EU), on April 3rd, 2014, the European parliament adopted the amended Directive on Statutory Audit, which states that EU member states will apply the International Standards on Auditing (ISAs) and that the EC shall take into account the opinions of the Public Interest Oversight Board when considering any amendments within its powers. By referring to the role of the PIOB, the European legislator has recognized the value of the PIOB's oversight function in protecting the public interest.

International standards are adopted by a public standard-setting body in many jurisdictions, but in others this responsibility rests with the national professional accountancy organization, most of which are members of the IFAC. Efforts to ensure the adoption of the standards around the world are welcomed and deserve the attention of public authorities. Implementation of standards is essentially a professional matter, since it rests on professional bodies and audit firms, and allows different jurisdictions to take into account their specific situation and cultural diversity. Finally, national audit oversight and independent audit regulators play an increasing role in the enforcement of standards.

After the financial crisis, there is more need than ever to strengthen the confidence of investors and other stakeholders in published financial statements and other accounting documents. International public financial organizations are keenly aware of the crucial role of the credibility of the companies' financial statements in the confidence of financial markets. The PIOB is, therefore, being solicited to exercise its public interest oversight of standard setting with greater determination. As detailed in this report, during 2013, several high-impact initiatives were discussed in the standard-setting boards. These included the proposal on auditor reporting, which responds to a widely expressed need of the users of accounts for more informative audit reports, and the IAASB's new publication "A Framework for Audit Quality", which identifies the key elements that create an environment for audit quality. The PIOB will also closely oversee the pending proposals on responding to suspected illegal acts (now called non-compliance with laws or regulations) and on long association (partner rotation).

The activities of the PIOB are a work in progress: during the year under review, it further refined its oversight procedures, developed an oversight manual for its members, increased the transparency of its decision-making process, and prioritized its oversight actions through direct observations.

Three members of the board—Michael Hafeman, Toshiharu Kitamura, and Kai-Uwe Marten—have reached the end of their mandate: they have been associated with the PIOB's development and have delivered pioneering work in developing a form of oversight that was totally new at the time the PIOB was created. The board and I express our gratitude for the strong intellectual and practical support they gave in the early years of the PIOB's existence, without which the PIOB would not be the respected institution that it has become.

Two other members—Charles McDonough and Robert Ward—have resigned in order to take up new responsibilities. We thank them as well, for they have been strong supporters of the PIOB's role in overseeing standard setting and have contributed effectively to the quality of our oversight and decision making.

It is with the deepest regret that I dedicate my closing words to remember the untimely departure of Jorgen Holmquist in March 2014, who led the IESBA as the first independent Chair since 2012.

Eddy Wymeersch
PIOB Chairman



The global landscape of the audit industry and the role of international standards

Securities regulators establish the rules of conduct of capital market participants in their national jurisdiction, defining different market roles, establishing the conditions to operate, issuing licenses, investigating breaches, and imposing penalties. Issuers that need to raise capital, however, are not restricted by national boundaries. They can pick their market. Thus national securities regulators have a good reason to take actions to coordinate and harmonize their policies globally to minimize cross-border regulatory arbitrage. In order to support investor confidence in publicly traded securities, a generally accepted principle is that the financial statements of listed companies need to be audited by professional accountants, acting on the basis of a well-established set of rules. The statutory audit is therefore a regulated activity in national jurisdictions.

Audit standards that can be recognized and applied simultaneously in different jurisdictions -international audit standards- support the comparability of financial statements and establish a level playing field between competing markets. The application of international audit standards inspires investor confidence and allows companies to gain access to the international investor community. Most national jurisdictions have therefore a strong interest in adopting audit standards that are globally recognized, but only to the extent that these are fully compatible with their policy focus on investor protection.

The audit industry also has a clear incentive to support a set of global standards that can be widely adopted by national jurisdictions. The audit industry is dominated by a small number of network firms¹ that operate in highly concentrated capital markets, and they have an incentive in sharing common standards irrespective of the jurisdiction: more than 37% of the world’s total stock market capitalization is concentrated in one market and almost 75% is concentrated in only nine markets (see table 1).

Table 1 – World Equity Market Capitalization (December 2013)

Market	US\$ (trillion)	%
United States	24,033	37.44
Japan	4,543	7.08
United Kingdom	4,429	6.90
NYSE Euronext ^a	3,584	5.58
Hong Kong	3,100	4.83
China	2,497	3.89
Canada	2,114	3.29
Germany	1,936	3.02
Australia	1,366	2.13
Subtotal	47,302	74.15
Grand total	64,195	100.00

Source: *World Federation of Exchanges, December 2013; BIS, table 11A.*

Note: This table includes only stock markets. It does not include outstanding debt instruments.

^a New York Stock Exchange (NYSE) Euronext includes France, Holland, Belgium, and Portugal.

Although many audit firm networks operate on a worldwide basis, the audit profession is organized around national professional bodies. These come together in IFAC, which includes 179 member organizations and associate bodies in 130 countries and jurisdictions. A very large number of smaller audit firms also need to guide their work for non-listed and small and medium enterprises through the application of audit standards. The challenge for the current international standard setting system in the field of audit, ethics and education is thus to develop a set of global standards that can be adopted by all jurisdictions around the globe and can be applied by global and local audit firms to all issuers, listed and unlisted, large, small, or medium size companies, and even some public sector entities.

(1) In the United States, more than 98% of Fortune 500 companies are audited by one of the “big four” audit firms.

As a global organization of the accountancy profession, IFAC has supported and continues to support the standard-setting boards (SSBs) that develop global standards. These standards—International Standards on Auditing (ISAs), International Education Standards (IESs), and the Code of Ethics for Professional Accountants (the Code)—are issued under independent oversight with the intention to be recognized by as many jurisdictions as possible and thus become global benchmarks. Many national jurisdictions, including advanced, emerging, and developing countries, have adopted, or are in the process of adopting, these standards, sometimes with local adaptations and additions. Over 100 jurisdictions have adopted, or committed to adopt, Clarified ISAs². The notable exception is the United States, which, in the case of publicly listed entities, uses standards set by the U. S. Public Company Accounting Oversight Board.³

Against this background, the global regulatory landscape is made up of various international organizations that develop international principles which their members can consider in discerning national policy decisions: the members of the Monitoring Group (MG) have a strong interest in attaining the highest standards in audit, as in the case of the International Organization of Securities Commissions (IOSCO). Other MG members are also interested in audit from the point of view of their own specific mandate: the Financial Stability Board (FSB) from the standpoint of overall financial stability, the Basel Committee on Banking Supervision (BCBS) regarding bank audits, the International Association of Insurance Supervisors (IAIS) regarding insurance company audits, and the World Bank, which supports improvements in financial reporting in developing countries. Since 2006, national audit regulatory bodies have come together in the International Forum of Independent Audit Regulators (IFIAR). All 46 IFIAR members have the authority to carry out inspections in their own jurisdiction, thereby enforcing the implementation of audit standards.

The European Union (EU) also has interest in a European-wide adoption of a single set of audit standards, a possibility that has been delegated to the European Commission (EC). This interest is part of its policy to support the stability and integration of financial markets and the financing of companies and, ultimately, to ensure that the data published by these companies inspire investor confidence.

European legislators have supported the development of a single set of high-quality global standards in the field of audit under the PIOB's independent oversight: standards can only be endorsed by the authorities to the extent that they have been developed with full respect for the public interest—that is, after consulting stakeholders, including regulators, and responding to their views.

Role of the PIOB

Within the present structure of standard setting, high-quality global standards for accountants can only be developed under a credible system of independent oversight. Thus the core task of the PIOB is to conduct independent oversight of the standard setting processes of the SSBs and related work of other committees under its mandate⁴ to try to ensure that audit, ethics and education standards are of the highest possible quality, taking their global nature into account and, at the same time, remaining fully responsive to the public interest.

The PIOB is based on an agreement between the IFAC and the MG, which is made up of international organizations with an interest in these standards: IOSCO, EC, World Bank, BCBS, IAIS, FSB, and, more recently, IFIAR. This agreement sets out the means to achieve this objective, including oversight of due process and public interest responsiveness in standard setting.⁵

The global financial crisis and changes in stakeholders' expectations

The global financial crisis uncovered considerable weaknesses in the behavior of financial market participants as well as within their financial statements. Audited financial statements are a main instrument for enabling investors and other stakeholders to monitor an entity's financial situation, its ability to continue as

(2)<http://www.ifac.org/auditing-assurance/clarity-center/support-and-guidance>

(3)AICPA ASB has adopted the clarified ISAs for non listed entities in the US.

(4)The PIOB also oversees nominations to SSBs recommended by the Nominating Committee of IFAC, nominations to Consultative Advisory Groups for members and their first representatives, and nominations to IFAC's Compliance Advisory Panel.

(5)In addition, the PIOB oversees the Compliance Advisory Panel and Nominating Committee of IFAC.

a going concern, and more generally its activities, value, and economic and financial health.

The PIOB is part of an international framework that was created in response to the corporate scandals of the early 2000s in an effort to restore financial stability in world stock markets by protecting investors' interests and, more generally, the overall public interest. Overseeing three international standard-setting boards—the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standard Board for Accountants (IESBA), and the International Accounting Education Standard Board (IAESB)—as well as their Consultative Advisory Groups (CAGs) and IFAC's Compliance Advisory Panel (CAP) is a task that carries considerable responsibilities: the PIOB has to certify, through its approval, that international auditing, review, other assurance, related services, quality control, ethics, and education standards have been set following a process that is inclusive of the public interest. At the same time, the ensuing standards should be of the highest possible quality and implementable by users in various jurisdictions worldwide.

In this role, the PIOB is the focal point of expectations for a wide range of stakeholders. These include investors, the accountancy profession, members of the Monitoring Group, audit firms, national regulators, oversight bodies, and, ultimately, the public at large. The need to manage expectations and potential disagreements is ultimately part of the mandate to protect the public interest, which relies on the PIOB to ensure that the particular interest of the various stakeholders does not prevail over that of investors and the public at large.

In this task, the PIOB's policies and decisions focus on the public interest, safeguarded by a transparent due process characterized by (a) thorough discussions by the SSBs of the projects under development in meetings that are open to the public, (b) advice provided by the CAGs to the SSBs on the projects under development at meetings that are also open to the public, and (c) public consultation regarding the proposed standards via exposure drafts. The PIOB performs its oversight of these processes to determine whether a standard has been developed with full regard for the public interest.

Because the PIOB prioritizes the public interest above any other specific interest, some stakeholders may perceive that it is not responding to their remarks. However, the

PIOB is independent of special interests and pursues its mandate on the basis of its own judgment regarding whether the SSBs have given proper consideration to the public interest and whether stakeholders' expectations are aligned with it.

Since the global financial crisis, national regulators and international public interest organizations have sought to improve audit practice: supported by recommendations from MG members, the PIOB has expanded its public interest analysis to include the content and coherence of the standards, taking into account their global applicability. The PIOB also follows up on the specific recommendations of MG members that are formulated within the consultation process of standard-setting projects.⁶

Improvements in the quality of audit practice

High-quality global standards help to lay the foundation for the quality of audit practice, but this will only occur if the standards are ultimately implemented by audit firms. These two aspects—the development of high-quality standards and the implementation of these standards—should not be confused. The PIOB's mandate covers mainly the oversight of standards development; adoption and implementation are primarily the responsibility of audit firms, professional bodies, and national regulators.

Under PIOB oversight, the IAASB's Clarity project produced a set of fully clarified ISAs in 2005–09 that were ready to be used as global standards by 2010. The positive impact that the new set of clarified ISAs may have in helping to improve audit quality should not be underestimated. The adoption of ISAs by EU member states through the new EU directive on Statutory Audits adds further recognition to the public interest responsiveness of these standards.

This is not to say that the development of standards in audit and ethics does not have room for improvement: chapter II of this report suggests some improvements, notably in relation to the IESBA Code of Ethics. The current system of standard-setting operating under

(6)For PIOB recommendations in response to its consultation on the PIOB Work Program 2012 and beyond, March 2013, see <http://www.ipiob.org/index.php/news?nn=3&ns=3&id=137>

independent PIOB oversight has gone through a deep transformation since 2003, and this transformation has produced a set of global audit standards (the International Standards on Auditing) developed with regard for the public interest. As a result of this successful process, improving audit quality today rests more on addressing adoption and implementation issues.

The main question to address in this context is whether audit quality has improved since IFAC reforms took place in 2003 or whether it is progressing too slowly. Our conclusion, laid out in Box 1, is that the facts are still not known, and that there is no clear answer to this question.

Box 1 - Audit Quality

Assessing audit quality is difficult because audit firms do not make their internal assessments of audit quality public. Audit inspections by national bodies, currently the main way to monitor audit quality, are a recent development. They started after passage of the 2002 Sarbanes-Oxley Act with the setting up of the Public Company Accounting Oversight Board (PCAOB) in the United States. Over the last decade, inspections have been conducted and reports have been issued. Established in 2006, IFIAR published its first survey of inspection findings in 2012. A second survey has been recently published (April 2014) and indicates the “persistence of deficiencies in important aspects of audits and that there is a basis for ongoing concerns with audit quality”. The PIOB has analyzed reports concerning inspections of audit quality conducted by the 46 IFIAR members, resulting in the following conclusions:

1. 25 IFIAR members do not make their inspection findings publicly available. In addition to IFIAR members, our research also included China and India, for which no report on inspections was available.

2. 21 IFIAR members make their reports available. Either a report on audit inspections is available or the information about audit quality reviews and findings is available in other documents, typically the annual report or activity report of the member. Some reports are detailed, while some are narrative and do not provide the number of occurrences or an aggregate view of the audit findings.

3. Following a PIOB review of the published reports, the weaknesses that seem to be recurring across jurisdictions are:

- Professional skepticism in relation to key audit judgments.
- Sufficiency and appropriateness of audit evidence.
- Group audit considerations (e. g. ;increasing the threshold of materiality, which lessens the significance of the tests performed by auditors).
- Auditor independence and ethical issues (e. g., rotation, threats to perceived independence, lack of non-audit services to audited entities).
- Extent of reliance on the work of other auditors and experts.
- Pressure regarding audit fees.

4. Overall conclusions on audit quality are different for different jurisdictions. For instance, the U. K. Financial Reporting Council and the Canadian Public Accountability Board have seen improvements, whereas the Australian Securities and Investments Commission have seen no improvements in audit quality.⁸ The PCAOB in the US, with regard to firms that audit less than 100 issuers (subject to inspection every three years), has seen a decline in significant audit deficiencies, but still considers the identification of significant deficiencies to be of concern.⁹

5. To be easily comparable, the reports should be consistent in both the timeframe and the population covered. This is not the case. In some instances, there is no adequate basis for evaluation (that is, only one or two reports have been issued) and no detailed information on the number of occurrences or the significance of the individual findings. Therefore, the actual trends in audit quality are not clear.

(8)From the UK FRC’s “Annual Report 2013”, the CPAB’s “2013 Public Report” and the ASIC’s “Audit Inspection program Report for 2011-2012”.

(9)From the PCAOB “Report on 2007-2010 Inspections of Domestic Firms that audit 100 or fewer Public Companies”. http://pcaobus.org/Inspections/Documents/02252013_Release_2013_001.pdf

PIOB's response to stakeholder expectations

During 2013, the PIOB Chair and the Secretary General initiated a series of bilateral meetings with members of the MG. In June, they visited the new MG Chair, Mr. Howard Wetston, in Toronto. During the months of October and November, they held meetings or teleconferences with Ms. Nathalie Berger of the EC, together with IFAC in Brussels; Mr. Svein Andresen and Mr. Richard Thorpe of the FSB; Ms. Janine Van Diggelen, vice Chair of IFIAR, in Amsterdam; and Mr. Lewis Ferguson, IFIAR Chair. These meetings allowed them to hear first-hand the individual concerns of most MG members, to articulate appropriate responses, and to discuss the need to agree on a new medium-term funding framework for the PIOB.

Self-assessment

In 2013, the PIOB concurred on the need to carry out regular self-assessments with the objective of gauging its effectiveness and identifying aspects for improvement. This assessment occurred at two levels: semi-annually (every other PIOB quarterly meeting), with respect to the effectiveness of the PIOB board meetings, and annually, with respect to the overall performance of the PIOB during the year.

The semi-annual self-assessment was structured as a questionnaire, containing a set of 15 questions covering several areas, such as organization of the meetings, quality and timing of the documentation, role of the chair in allowing effective participation and a balanced discussion, level of initiative and participation demonstrated by PIOB board members, and interaction among board members and staff. The annual assessment focuses on areas such as the extent to which the PIOB fulfills its mandate, the involvement of the board, and the effectiveness of activities conducted during the year.

The exercise was energetic, and the results obtained with the two semi-annual assessments (February and September 2013) were encouraging and positive. The level of satisfaction was high in all areas evaluated, although some aspects could be improved. Results were discussed by the board and have proved very helpful for improving the areas identified (that is, the allocation of time to agenda items and inclusion of strategic issues in the agenda).

The results of the annual assessment were positive and showed a high level of satisfaction on the overall performance of the PIOB. In the light of changing expectations on the activity of the PIOB, additional efforts are required in the following areas: (a) visibility and effectiveness of communications, (b) appropriateness of resources (funding); and (c) value added and effectiveness.

Nature of oversight and monitoring of MG members' comments to the standard setters

There is general agreement that oversight of due process, while necessary, may not be sufficient to guarantee the public interest responsiveness of the final standard. The consultation process conducted by the PIOB in 2012 broadly supported this view. In its last two annual reports, the PIOB has stressed the need to intervene when process oversight alone does not seem sufficient to ensure the responsiveness of a standard or pronouncement to the public interest.

In 2013, MG members continued to show concern over the disposition by SSBs of some of their comments offered in comment letters. The 2013 MG statement on governance asked the PIOB "to establish procedures to ensure that it is aware of any issues conveyed by an MG member and other stakeholders that rely on the work of an auditor". International public interest organizations need to be assured that their input into standard setting is properly assessed by the SSBs and have asked the PIOB to undertake this task. Since the PIOB was set up, MG members have contributed over 100 comment letters to the IAASB and IESBA during the period January 2006-December 2013.

The PIOB has always monitored the way in which SSBs respond to comments from MG members and other stakeholders and will continue to do so. It is mindful of the new post-crisis demands regarding the public interest responsiveness of standards. The PIOB has agreed to document in a separate database the disposition of comments raised by MG members in comment letters. Main comments will be identified individually and tracked through the various SSB and CAG meetings until a final decision is made by the SSB. This database will update the current status of each comment - that is, whether it has been accepted, rejected, or is still under discussion, and the SSB argument supporting the disposition. This process will include PIOB confirmation

with the relevant MG member that the SSB has interpreted its comments correctly. This is an important feature since comments are sometimes difficult for SSBs to interpret.

In addition to the more general explanation in the basis for conclusions, the SSB Chairs will now also communicate with a particular MG member(s) when the SSB has not accepted an input provided by that member(s) in a comment letter and the reasons for doing so.

Enhancing the independence of oversight

Starting in 2014, the PIOB intends to receive dedicated reports focused on public interest issues directly from the Chairs of the three SSBs under its oversight and the CAP. Until now, the PIOB received a copy of the reports submitted to the IFAC board through IFAC. These reports tend to focus more on the completion of objectives. This is especially important since only two out of the four Chairs—those of the IAASB and the IESBA—are independent. In addition, the PIOB will also receive authoritative pronouncements directly from the Chairs of the three SSBs and the CAP and will communicate the outcome of its deliberations directly to them, without going through IFAC officers.

Medium-term funding model

A key element of the current financing system of the PIOB is IFAC's commitment to guarantee funding of the full PIOB budget, as approved by the MG and proposed by the PIOB, within the limits agreed in 2003. In 2007, IFAC renewed its guarantee to finance the full PIOB budget until March 2015 at the then current budget level, updated by annual domestic inflation. IFAC's funding contribution has allowed the PIOB to pursue its mission effectively. Since the current financing agreement had only one year left in 2013, it was necessary to start a discussion on the post-2014 PIOB funding structure with IFAC and the MG.

Since 2010, the PIOB has been gathering support for the idea of diversifying its funding sources with the objective of making it more financially independent from IFAC. The EC led the initiative with the allocation of a €1.2 million grant for the period 2010–13, approximately 23% of the PIOB budget. The PIOB launched a strong fund-raising effort in 2011 together with the MG and IFAC, and, by 2013, IFAC funding accounted

for only about 50% of the total budget, meeting the initial objective. In 2013, in addition to the EC, the following organizations contributed to PIOB funding: the Abu Dhabi Accountability Authority (ADAA), with €120,000; IOSCO, with €100,000; the FSB, IAIS, and BCBS with €100,000 through the Bank for International Settlements (BIS); the U.K. Financial Reporting Council (FRC), with €40,000; and the World Bank, with US \$50,000.

In this context, the PIOB pursued bilateral contacts with the MG, MG members, and IFAC, with the intention of setting up a working group to agree on this framework (EC, IOSCO, FSB, BCBS, IAIS, and the World Bank). The PIOB developed and presented a medium-term funding framework based on the following principles: diversification of the budget away from IFAC, simplicity, global representativeness, and stability. As a result of these discussions, the PIOB and IFAC agreed to continue the current system for one more year by extending IFAC's guarantee until March 2016. This will allow discussions to take place in 2014 between the MG, IFAC, the PIOB and other potential donors to establish a new funding framework for 2016 and thereafter.

Regarding contributions to funding the PIOB in 2014, the EC continues to be the largest and most regular non-IFAC contributor, providing budgetary and institutional stability to the PIOB. Abu Dhabi Accountability Authority (ADAA) (with €120,000), IOSCO (with €100,000), the BIS (with €55,000), and the World Bank (with US\$50,000) also supported the funding diversification effort. As a consequence, the budget diversification ratio—the share of non-IFAC contributions in the PIOB's total budget—will consolidate at 44% in 2014 in relation to 2013 (47%).

Table 2 –List of contributors to the PIOB funding diversification effort in Euros (2013 and 2014)

Contributors	2014		2013	
	%	Amount	%	Amount
EC	20.0	€300,000	20.4	€293,858
U. K. FRC	2.7	€40,000	2.7	€40,000
ADAA, United Arab Emirates	8.0	€120,000	8.1	€120,000
IOSCO	6.7	€100,000	6.8	€100,000
BIS	3.7	€55,000	6.8	€100,000
World Bank	2.5	€38,462	2.6	€38,462
IFAC	56.2	€845,388	52.8	€778,226
Interest income	0.2	€4,000	0.2	€2,838
Total	100	€1,502,850	100	€1,473,384

* Request through FSB, BCBS, and IAIS in 2013.

In 2014 the entire contribution came from BIS

Overview

This chapter reviews the application of the PIOB oversight model, the oversight activities conducted by the PIOB during 2013, and the ensuing recommendations.

During 2013, the PIOB continued to refine its Oversight Assurance Model (OAM)¹⁰. Oversight plans were developed for each SSB and CAG and for the CAP, as shown in table 3.

Table 3 - Oversight model for 2013

SSBs, CAGs, and CAP	Oversight model
IAASB and IAASB CAG	OA3 (Medium intensity)
IESBA and IESBA CAG	OA2 (High intensity)
IAESB and IAESB CAG	OA3 (Medium intensity)
CAP	OA3 (Medium intensity)

The plans included direct observations (DOs) of SSBs, CAGs, and CAP meetings and remote observations (ROs) of selected meetings. As in previous years, the plans were published on the PIOB's webpage (<http://www.ipiob.org/index.php/piob-oversight/standard-setting-process/oversight-plans>).

Oversight activities during 2013 followed the previously adopted oversight plans. The OAM planned for each SSB or CAG and the CAP was appropriate in each case. Actual DOs and ROs of meetings were almost the same as what had been planned. Table 4 provides details of oversight activities planned and performed in 2013 and compares them with the oversight activities carried out in 2012.

PIOB staff conducted extended review (ER) or limited review (LR)¹¹ due-process analyses for each standard finalized and submitted for approval in 2013 and provided written briefing memos to support the work of PIOB observers at SSB, CAG, and CAP meetings. During 2013, only a few standards were finalized, but projects were significantly furthered by the IAASB, the IESBA, and the IAESB.

Including teleconferences, the total number of SSB and CAG meetings was slightly lower in 2013 than in 2012. DOs in 2013 increased to 81% of the total number of meetings, against 82% contemplated in the oversight plans. The number of ROs conducted in 2013 was higher than in the previous year, mainly due to the greater use of RO for CAP meetings. The agendas and other meeting documentation were made public through the SSB's web pages.

(10)The methodology of the OAM was explained in the PIOB Seventh Annual Report.

(11)Independent analysis on due process and public interest responsiveness carried out by PIOB staff.

Table 4 - 2013 actual versus planned oversight activities and comparison with 2012 actual activities

	IAASB						IAASB CAG						IESBA						IESBA CAG					
	2013 oversight plan		2013 actual observations		2012 actual observations		2013 oversight plan		2013 actual observations		2012 actual observations		2013 oversight plan		2013 actual observations		2012 actual observations		2013 oversight plan		2013 actual observations		2012 actual observations	
	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%
Meetings	5		5		4		2		2		2		4		3		3		2		2		2	
of which:																								
DO	5	100	5	100	4	100	2	100	2	100	2	100	4	100	4	100	3	100	2	100	2	100	2	100
RO	0	0	0	0	0	0	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
		100		100		100		100		100		100		100		100		100		100		100		100
TC	0	n. a.	0	n. a.	3	100	0	n. a.	0	n. a.	0	n. a.	0	n. a.	1	100	2	100	0	n. a.	2	100	0	n. a.

	IAESB						IAESB CAG						CAP						Total all PIACs and CAGs					
	2013 oversight plan		2013 actual observations		2012 actual observations		2013 oversight plan		2013 actual observations		2012 actual observations		2013 oversight plan		2013 actual observations		2012 actual observations		2013 oversight plan		2013 actual observations		2012 actual observations	
	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%	Nr	%
Meetings	3		2		3		2		2		2		4		4		4		22		21		20	
of which:																								
DO	2	67	2	100	3	100	1	50	1	50	2	100	2	50	1	25	2	50	18	82	17	81	18	90
RO	1	33	0	0	0	0	1	50	1	50	0	0	2	50	3	75	1	25	4	18	4	19	1	5
M&R	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	25	0	0	0	0	1	5
		100		100		100		100		100		100		100		100		100		100		100		100
TC	0	n. a.	0	n. a.	1	100	0	n. a.	1	100	1	100	1	100	1	100	1	100	1	100	5	100	8	100

*DO: Direct Observation / RO: Remote Observation / M&R: Monitoring and Reporting / TC: Teleconference
The IAESB meeting in March, planned to be a RO, could not be observed due to technical issues with the telephone lines.*

Direct observation continues to be the preferred oversight technique because it allows direct interaction, creating opportunities to stir the discussion in a timely fashion and minimizing the chance that a standard will not be approved at the end of an extensive development process. In terms of effectiveness, the board considers this method to be superior to an ex-post review on the basis of documentary evidence alone.

Oversight procedures performed by staff relied on the aggregate of direct and remote observations of meetings; reports by the SSB, CAG, and CAP Chairs; analysis and scrutiny of meeting documents and minutes, exposure drafts, comment letters to exposure and re-exposure drafts, task force documents, and basis-for-conclusions documents; and, whenever necessary, meetings or teleconferences with SSB and CAG chairs or technical staff. The combination of these procedures and sources

of information allowed the PIOB to exercise meaningful and timely oversight and to grant approval to the standards only when the public interest was safeguarded in the due process that was followed.

PIOB representatives directly intervened during SSB and CAG meetings to draw attention to particular aspects relevant to the public interest or due process, express concern for proposals that were not in the public interest, or provide specific recommendations. The PIOB did not approve one strategy and work plan and postponed the approval of one standard until the respective SSBs had performed certain steps. These points are developed in the next section.

Oversight of Standard-Setting Boards, Consultative Advisory Groups, and the Compliance Advisory Panel

International Auditing and Assurance Standards Board (IAASB) and the IAASB CAG¹²

The IAASB and its associated CAG continued with the high-quality performance observed in previous years. The PIOB found discussions held by the two bodies to be thorough, respectful of due process, and fully responsive to the public interest. During 2013, the PIOB observed all meetings and teleconferences held by the IAASB and the IAASB CAG because of the importance of the projects being developed by this board.

The IAASB finalized ISA 610 (Revised 2013), “Using the Work of Internal Auditors”¹³, and ISAE 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.” Both were approved by the PIOB. The IAASB made progress toward finalizing ISA 720 (Revised), “The Auditor’s Responsibilities Relating to Other Information,” and unanimously approved its new publication “A Framework For Audit Quality: Key Elements That Create an Environment for Audit Quality”¹⁴ (Framework for Audit Quality), a non-authoritative IAASB pronouncement that did not require PIOB approval.

The most recent IAASB statistics show that 16 of the G-20 countries have already adopted or have committed to adopt ISAs in the near future.¹⁵

Audit quality is an area of focus by the IAASB and others. The PIOB carefully followed the IAASB’s discussions on the topic - discussions informed by many sources, including contributions from representatives of the regulatory community and the IESBA and IAESB, input from the IAASB CAG, outreach, and public consultation.

As a result of those discussions, the PIOB was pleased to see that the IAASB approved its new *Framework for Audit Quality*¹⁶. The framework describes the various elements that create the environment for audit quality at the engagement, firm, and national levels as well as relevant interactions and contextual factors. Through this framework, the IAASB aims to raise awareness of the key elements of audit quality, encourage key stakeholders to explore ways to improve audit quality, and facilitate greater dialogue between key stakeholders on the topic.

While the framework does not establish requirements for the performance of audit engagements, the IAASB expects that it will generate discussion and positive actions to continue improving audit quality. Some areas—for example, striving for greater international harmonization of the role of audit committees with regard to evaluating the quality of the external audit—are beyond the scope of the IAASB, and addressing them will require coordinated efforts by numerous stakeholders. The IAASB intends to promote further dialogue on audit quality. The PIOB supports such dialogue and encourages all stakeholders to consider the framework and reflect on how they may influence improvements in audit quality.

In 2013 the IAASB advanced work on its top-priority project on auditor reporting, by finalizing and issuing a set of exposure drafts that include the proposed ISA 700 (Revised), “Forming an Opinion and Reporting on Financial Statements,” and the proposed new ISA 701, “Communicating Key Audit Matters in the Independent Auditor’s Report,” in addition to proposed revisions to other related standards¹⁷. Comments made on the exposure drafts will be discussed starting in early 2014.

The revision of the standard “auditor report” would have a substantial impact on the content of the report and would respond to calls by various stakeholders and users who are not satisfied with the current model for the auditor’s report. These stakeholders see the auditor’s report as the primary vehicle for conveying assurance

(12) See <http://www.ifac.org/auditing-assurance>

(13) ISA 610 introduces new requirements that address the auditor’s responsibilities if using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor for purposes of the audit (“direct assistance”).

(14) Published in February 2014.

(15) They include France, Italy, Turkey, United Kingdom, Argentina, Brazil, Canada, Mexico, United States (for non-listed companies), Australia, China, India, Indonesia, Japan, South Korea and South Africa.

(16) <https://www.ifac.org/publications-resources/framework-audit-quality-key-elements-create-environment-audit-quality>

(17) Including ISA 570, “Going Concern”; ISA 260, “Communication with Those Charged with Governance”; ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report”; and ISA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”.

on the information of the audited entity, its ability to continue as a going concern, and the audit process itself. The IAASB also worked on two other relevant projects: the proposed new IAASB 2015–2019 Strategy and 2015–2016 Work Program (SWP), and work related to disclosures in audited financial statements, which will address the auditor’s responsibilities with respect to disclosures. Progress made in 2013 included the unanimous approval of the proposed SWP for public exposure.

International Ethics Standards Board for Accountants (IESBA) and the IESBA CAG¹⁸

The IESBA faced many challenges in 2013, largely related to (1) the nature and complexity of the projects being discussed by the board—for example, breaches of a requirement in the code, conflicts of interest, and responding to non-compliance with laws and regulations (NOCLAR)¹⁹, (2) the divergent views and expectations of different stakeholder groups, and (3) the number of negative responses received to the exposure draft of NOCLAR.

During 2013, the PIOB observed all meetings and teleconferences held by the IESBA and its CAG. PIOB observers at IESBA meetings challenged the board to deal effectively with stakeholders’ concerns regarding the way issues were addressed and whether the public interest was being considered.

In 2013, the IESBA finalized two of its three top-priority revisions to the Code of Ethics: breaches of a requirement in the code and conflicts of interest. It also approved changes to the definition of “engagement team” and to the definition of “those charged with governance” (TCWG), this last to align the definition in the Code of Ethics with that in ISA 260, “Communication with Those Charged with Governance”. All of these standards were approved by the PIOB.

In addition, the IESBA made progress with the remaining top-priority project, NOCLAR, and four work streams started in 2012 (namely, restructuring of the code, review of part C of the code, long association²⁰, and non-assurance services). The board also approved the exposure draft of its upcoming 2014–2018 Strategy and Work Plan.

In November 2013, the IESBA requested the PIOB’s approval for an extension of its 2011–2012 SWP through the end of 2014. The PIOB concluded that due process with proper regard for the public interest had not been followed given that substantial changes (the addition of the four new work streams described above) had not been exposed for public comment and that the revised SWP was neither formally discussed nor voted on by the IESBA.

The PIOB recommended that the IESBA hold one consultation process for a single SWP, by renaming the 2015–2018 SWP to cover the 2014–2018 period and enlarging its scope. Emphasis was placed on the need to include the estimated time for completion of projects: from the stakeholders’ point of view, important aspects of a board’s strategy relate to which projects the board will work on and when they are expected to be finalized. This is particularly relevant given the very long time lags initially estimated for some projects like restructuring the Code of Ethics.

The IESBA took the PIOB’s suggestions into account and renamed the SWP, which now covers the period 2014–2018 and extends its scope to include the four work streams initiated in 2012. The exposure draft of the 2014–2018 SWP, published in December 2013, explains that the four work streams were initiated in 2012 with the PIOB’s knowledge and support and includes expected completion dates of the projects.

The PIOB is aware that some stakeholders are concerned about the challenges involved in several of the projects that the IESBA is currently developing. The NOCLAR project, in particular, should respond to the expectations created in the public interest. Key issues that have arisen during the Board’s deliberations and which need to be resolved during the upcoming roundtables and deliberation are: the scope of the project, the principle that the auditor has a duty to report fraud, and the circumstances under which this duty can be waived or substituted by an alternative procedure. The PIOB understands the importance of this project for the profession and the auditor-client relationship, but expectations from the general public and from regulators

(18)<http://www.ifac.org/ethics>

(19)Formerly called “responding to suspected illegal acts”

(20)Usually referred to as “partner rotation”

that the profession has to act in the public interest if fraud or non-compliance is detected cannot be minimized or disregarded.

These concerns are echoed by other relevant parties, such as some regulators. The PIOB will continue to observe all of the IESBA and IESBA CAG meetings to be held in 2014. The IESBA continues to face the considerable challenge of making the international Code of Ethics into the global benchmark for professional ethics. IFAC member bodies need to promote recognition and adoption of the Code of Ethics across jurisdictions. According to IESBA statistics, only 10 out of the G-20 group of countries have adopted or have committed to adopt the IESBA Code of Ethics in the near future (Turkey, United Kingdom, Brazil, Mexico, Australia, India, Japan, Russian Federation, South Korea and South Africa)²¹.

The PIOB notes that the IESBA has limited staff compared to the IAASB. In light of the challenging 2014–2018 Strategy, the IESBA will need to show leadership in developing projects on issues such as mandatory rotation of audit firms and audit partners, the provision of non-assurance services by an audit firm, and NOCLAR.

In addition, it seems advisable for the IESBA to review its own composition, tilted in favor of audit professionals enrolled as either “practitioner” or “non-practitioner” members, the majority of whom belong to the accountancy profession²². In the difficult realm of professional ethics, it seems advisable to continue strengthening the IESBA’s focus on the public interest. At the PIOB’s and the IESBA Chair’s suggestion, IFAC is evaluating this issue.

International Accounting Education Standards Board (IAESB) and the IAESB CAG²³

The experience with the IAESB was positive in 2013. The Board and the CAG continued to work briskly but thoroughly with the revision of the International Education Standards (IESs).

During 2013, the PIOB observed 2 out of 3 meetings held by the IAESB and the 2 IAESB CAG meetings held in the year, in which PIOB observers provided a number of comments.

The IAESB finished four IESs in 2013: IES 5, “Initial Professional Development - Practical Experience”; IES 4, “Initial Professional Development - Professional Values, Ethics and Attitudes”; IESs 2, “Initial Professional Development- Technical Competence”; and IES 3, “Initial Professional Development - Professional Skills”. In addition, the Board advanced the revision of IES 8, “Professional Competence for Engagement Partners Responsible for Audits of Financial Statements”; finalized and published the exposure draft of its 2014–2016 Strategy and Work Program; and reached an agreement on the definition of “professional accountant”, which will be discussed with other boards and committees so that they can consider its suitability for their own use, where necessary. The PIOB welcomed IAESB leadership to review the current definition of “professional accountant”, a project which IFAC had decided to discontinue until the PIOB requested reconsideration of such decision.

These accomplishments are commendable considering that the IAESB has the smallest staff compared to the IAASB and the IESBA, which makes its work challenging for members, technical advisers, and staff.

The PIOB approved all four IESs in 2013, but approval of the public interest responsiveness of IES 2 was postponed until the basis for conclusions included a better explanation of the assignment of levels of proficiency and the CAG comments provided by the CAG Chair. The Board provided a new and improved basis for conclusions, and IES 2 was formally approved by written procedure in December 2013.

During 2013, the PIOB paid close attention to the arguments presented in a comment letter by the Global Accounting Alliance (GAA) and the IFAC regarding

(21)According to IESBA, of the remaining G-20 countries that have not adopted the IESBA Code of Ethics, four countries base their code on the IESBA code (Italy, China, Saudi Arabia, and South Africa), four are in the process of convergence (Germany, Canada, Indonesia, and, for unlisted entities, the United States), and three use their own national code (France, Argentina, and, for listed entities, the United States). Countries such as South Africa and the United States have more than one professional body, each of which may take a different approach; for this reason, the country appears in more than one category.

(22)Some non-practitioners never worked as audit professionals.

(23) See <http://www.ifac.org/education>.

the functions and activities of the IAESB. The PIOB oversaw the discussions of the IAESB at its 30th October – 1st November meeting, listened to the views of the IAESB and IAESB CAG Chairs, and concluded that the arguments that led IFAC to consider a significant reduction in the role of the IAESB were not convincing. This proposal would involve a substantive change in the terms of reference of the IAESB and a reduction in resources which would not go in the direction of protecting the public interest. Discussions on the role of the IAESB are currently ongoing.

The 2014-2016 IAESB Strategy is focused on implementation, in line with the activities carried out by other SSBs. The PIOB suggested that the IAESB new work program or future activity could also respond to additional needs such as the need to undertake continuous professional development, to develop guidance on the new outcome-based IESs, and to anticipate additional requirements on bank audits by the FSB and the BCBS or integrated reporting. In any case, the PIOB asked to be informed prior to any decision being taken and recommended that any proposed decision of such importance should be preceded by a wide public consultation, paying special attention to the current and evolving needs of developing countries.

Compliance Advisory Panel (CAP)²⁴

The activities of the CAP during 2013 focused on monitoring the action plan progress reports received from IFAC member bodies, regional organizations, and accountancy groups; dealing with a large number of applications for membership with IFAC; improving the template used by member bodies to report on the progress made with the implementation of Statements of Membership Obligations (SMOs); starting to consider the new strategy; and addressing enforcement issues. In addition, the CAP engaged with the IFAC working group responsible for IFAC's constitutional review and followed the progress made by this group, as the review could affect the CAP's strategy.

The assessment of the CAP in 2013 is mixed. The PIOB values the efforts of the CAP to encourage IFAC member bodies to adopt the standards and continues to believe that the capacity of the CAP to encourage adoption and implementation would benefit from contributions from outside the profession. The PIOB looks forward to

receiving the response of the Nominating Committee to its recommendation to open nominations to the CAP beyond IFAC member bodies, especially since the CAP Chair is not independent. The fact that the 2015 notice of a call for nominations continues to limit nominations to IFAC member bodies and imposes additional requirements on applicants is a matter of concern for the PIOB.

It would be very useful if the CAP regularly keeps its own set of statistics related to the adoption and implementation of ISAs, the Code of Ethics, and the IESs at the country level, which would be a primary indicator of the CAP's and the board's effectiveness.

The experience with remote observations of CAP meetings was satisfactory. Unlike with SSBs, remote observations of CAP meetings were efficient and effective given that the application used (webinars) allowed for high-quality communication and straightforward oversight of the meetings. The PIOB will continue to monitor the CAP's progress in 2014.

Public Interest Oversight Board (PIOB)

PIOB meetings

As in previous years, in 2013 the PIOB held four quarterly meetings (see tables 5 and 6):

Table 5 – PIOB 2013 quarterly meetings

Date	Location
27–28 February	New York
30 June–1 July	Madrid
12–13 September	Madrid
22–23 November	Madrid

(24) See <http://www.ifac.org/about-ifac/membership/compliance-program/compliance-advisory-panel>.

Table 6 – Attendance at PIOB board meetings in 2012 and 2013 (number of days)

Board member	2012	2013
Eddy Wymeersch	8	8
Chandrashekhar Bhawe	6	8
Jane Diplock	6 ^a	8
Julie Galbo	n. a.	5 ^b
Michael Hafeman	8	8
Toshiharu Kitamura	7	8
Kai-Uwe Marten	4	5
Charles McDonough	4	8
Bryan Nicholson	8	2 ^c
Nic van der Ende	n. a.	6 ^d
Robert Ward	8	8

Note: PIOB meetings last two days. n. a. = not applicable.

- a. Ms. Jane Diplock was appointed as PIOB board member in March 2012.
- b. Ms. Julie Galbo was appointed as PIOB board member in March 2013.
- c. Sir Bryan Nicholson fulfilled his mandate in February 2013.
- d. Mr. Nic van der Ende was appointed as PIOB board member in March 2013.

Regular communication with stakeholders (MG, IFAC leadership, and SSB and CAG Chairs)

PIOB quarterly meetings were attended by IFAC leadership and two SSB and CAG Chairs at a time, on average. This allowed them to report to the PIOB on their activities and allowed the PIOB to enquire about relevant issues and convey comments. IFAC leadership reported on the 2014 call for nominations, oversight of the International Public Sector Accounting Standards Board (IPSASB), IFAC board issues, the composition of the IESBA, the future of the IAESB, and the IFAC constitution review. It also submitted the nominations for membership in SSBs and for non-ex-officio membership on the Nominating Committee for approval and addressed the post-2015 funding of the PIOB.

In addition, PIOB observers attended several IFAC board meetings: Toshiharu Kitamura attended two IFAC board meetings, in New York and Seoul, and the IFAC council meeting in Seoul, Chandrashekhar Bhawe attended an IFAC board meeting in New York, and the secretary general took part in two additional IFAC board webinars.

The February and September meetings brought together the Monitoring Group and the PIOB. The February meeting dealt mainly with IPSASB oversight and with the proposal for a new PIOB funding framework, as reported in our previous annual report. During the September meeting, the PIOB updated the MG on its oversight activities, submitted the 2014 budget, and discussed audit priorities and funding issues. The meeting was then extended to include IFAC leadership. During 2013 the PIOB chair and the secretary general also held a series of bilateral meetings with members of the MG—Mr. Howard Wetston, MG chair; Ms. Nathalie Berger, of the EC in Brussels; Mr. Svein Andresen and Mr. Richard Thorpe, of the FSB; and Mr. Lewis Ferguson and Ms. Janine Van Diggelen, IFIAR chair and vice chair, respectively—to listen to their concerns and to discuss the need to agree on a new funding framework for the PIOB.

In November 2013, the PIOB held the first all-CAG chairs meeting in Madrid. The objective of the meeting was to assess the extent to which CAG processes are effectively influencing the standard-setting process. Issues discussed were the quality of SSB disposition of CAG comments through report-backs prepared by the task forces, CAG composition, recruitment of members, performance and resources of CAGs, and independence from IFAC.

There was general agreement that SSBs address the disposition of comments to the full satisfaction of CAG Chairs. One important issue brought out by the Chairs was the timeliness with which CAGs receive documentation for their meetings. Often documentation is distributed too late for CAG representatives to obtain the views of the member organizations they represent. Other issues were the need to establish a transparent recruiting process for new members and the geographic imbalance in favor of U.S. residents. This imbalance may have occurred as a result of the rotation of representatives, largely because all CAG meetings are now taking place in New York.

The PIOB and the CAGs also discussed issues related to rotation, terms, and cooling-off periods for CAG Chairs and CAG representatives, following previous consultation with the three CAG Chairs. The Chairs agreed with the following proposals: **(1)** There will be no fixed term in the case of non-permanent CAG member organizations. The current three-year term will be replaced by a periodic review, for example, every five years, to determine which organizations should be on the CAG, subject to PIOB approval; **(2)** A CAG representative who rotates off the CAG will be eligible for reappointment at that same CAG after three years (cooling-off period), instead of the current six years. There will be no cooling-off period for CAG representatives applying to vacancies at SSBs. These rules will also apply to CAG observers. **(3)** CAG Chairs will be elected for a three-year term, renewable once to serve a maximum of two consecutive terms as chair. Chairs will be elected for full terms only. Since the maximum term for a CAG member representative is nine years (three mandates of three years), the maximum number of combined years for a CAG representative serving as a CAG representative and as CAG Chair will be 12 full years. This maximum will continue to apply when a person moves from representing one organization to representing another. CAG Chairs will not be subject to a cooling-off period to be eligible for nomination to an SSB, providing this takes place after her or his chairmanship is over.

IFAC agreed to these proposals. The PIOB expects that the ensuing changes to the CAG terms of reference will take place during 2014.

PIOB decisions

Table 7 summarizes PIOB approvals in 2013, and table 8 summarizes non-approvals.

Table 7 – PIOB approvals in 2013

Standard or pronouncement	Date of approval	SSB
Breaches of a requirement in the code	February	IESBA
Conflicts of interest		IESBA
Change to the definition of engagement team		IESBA
ISA 610 (Revised 2013), Using the Work of Internal Auditors ^a , and related conforming amendments		IAASB
IES 5 (revised), Initial Professional Development: Practical Experience	September	IAESB
Alignment of the definition of those charged with governance (TCWG) in the Code of Ethics with ISA 620		IESBA
ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, and related conforming amendments		IAASB
IES 3 (revised), Initial Professional Development: Professional Skills		
IES 4 (revised), Initial Professional Development: Professional Values, Ethics, and Attitudes	November	IAESB
IES 2 (revised), Initial Professional Development: Technical Competence ^b		IAESB

- a. This revision addressed only the matter of the external auditor's use of direct assistance from internal auditors.
- b. Approval of IES 2 was deferred, subject to improvement of the basis for conclusions, which was promptly taken care of by the IAESB.

Table 8 – PIOB’s non-approvals in 2013

Standard or pronouncement	Date of rejection of approval	SSB
Extension of the 2011–2012 Strategy and Work Plan	November	IESBA

PIOB staff continued to apply ER or LR analyses to all standards submitted for PIOB approval in 2013 and prepared technical briefing memos to support every SSB and CAG direct observation, highlighting the concerns raised in comment letters, due process and public interest issues, and concerns raised by previous PIOB observers. Special attention was paid to the consideration and disposition by standard-setting boards of the input and views provided both by CAG representatives and in comment letters to exposure drafts.

PIOB Recommendations

During 2013, the PIOB offered recommendations to protect the public interest. These recommendations were communicated to the SSBs, CAGs, CAP, and the Nominating Committee during their meetings. They were also transmitted to IFAC leadership during the PIOB quarterly meetings.

Table 9 – PIOB recommendations in 2013

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
<p>IAASB <i>February 2013: Auditor Reporting</i></p> <p>PIOB recommendation:</p> <p>The public interest requires focusing on the user. The observer noted the potential tensions between public interest and the interests of the profession, particularly where there may be liability issues or stakeholders ask for greater transparency.</p> <p>During the IAASB’s debate on naming the engagement partner in the auditor’s report, the observer highlighted the tensions between global implementability and national constraints and noted that the IAASB should consider whether a global requirement is in the public interest, even if some jurisdictions are unable to comply at the present time; some global standards will be aspirational for some jurisdictions.</p> <p>IAASB reaction</p> <p>The IAASB concluded that a requirement to disclose the name of the engagement partner in the audit report of listed entities should be included in the Auditor Reporting exposure draft. In addition, the exposure draft provides a “harm’s way exemption”; that is, disclosure will not be required in rare circumstances when there is a reasonable expectation that it would lead to a significant security threat to the individual.</p>	

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
<i>April 2013: Auditor Reporting</i>	
PIOB recommendation: point 1	During the IAASB’s debate on the scope of application of the new ISA, the observer noted that obtaining the approval of those charged with governance (TCWG) to include key audit matters in the auditor’s report of non-listed entities is unfair to both the auditor and the users of financial statements and risks widening the expectations gap. Auditors would be put under unfair pressure, particularly by TCWG of problematic entities, and users would never know whether the auditor’s report did not include key audit matters because the auditor chose not to do so or was pressured by TCWG, who did not agree to the inclusion. The observer supported including key audit matters in all auditors’ reports, rather than only for audit reports of listed entities.
IAASB reaction to point 1	The IAASB concluded that no approval by TCWG would be required and, accordingly, the terms of engagement should make clear that the auditor of a non-listed entity has the ability to communicate KAM in the auditor’s report. The exposure draft of the auditor’s report also proposed that auditors of non-listed entities may voluntarily report key audit matters; if they do so, they should apply new ISA 701, “Communicating Key Audit Matters in the Independent Auditor Report,” and note their intentions in the audit engagement letter.
PIOB recommendation: point 2	The observer noted that auditor reporting is a significant reconsideration of the topic and affects other ISAs. Accordingly, this would be a good opportunity to raise the bar for TCWG, if ISA 260, “Communication with TCWG,” is enhanced.
	The IAASB agreed limited changes to ISA 260, such as expanding the requirements to include communicating to TCWG about the significant risks identified by the auditor and including other communication requirements to align with the factors the auditor considers in determining key audit matters.
PIOB recommendation: point 3	The observer noted that the public interest should drive the decision about disclosing the name of the engagement partner in the auditor’s report. The observer urged the IAASB to consider whether such disclosure would create more relevant information or enhance the ability of users to trust this information. The observer reminded members of their responsibility to act in the public interest.
IAASB reaction to point 3	The IAASB agreed to require disclosure of the name of the audit partner in the auditor’s report of listed entities (see the February 2013 recommendation and reaction above).

ENTITY AND TIME PERIOD

RECOMMENDATION / REACTION

April 2013: ISAE 3000 (Revised)

PIOB recommendation:

During the Board’s discussion of options for progressing the revision of ISAE 3000, the PIOB observer noted that the options considered were reasonable, but entailed trade-offs that affected the public interest. In reviewing its options, the board should consider the public interest. In assessing whether international standards are in the public interest, consideration should be given to whether they are comprehensive, high quality, and practical. Standards could be considered to be high quality if they are based on clear principles, are technically sound, and are clearly written.

IAASB reaction

The IAASB debated the various options and concluded to continue with the revision of ISAE 3000, as this would be in the public interest. Definitions and other provisions in the ISAE were further clarified, and additional application material was provided to support them. ISAE 3000 (Revised) was approved by the IAASB at the September 2013 meeting and by the PIOB at its November 2013 meeting.

September 2013: General

PIOB recommendation:

The board should consider the utility of having such detailed standards. It is not clear what purpose is served by having such voluminous documents. It is rare for an auditor to violate some sub-clause buried deep in the standard. The wrongdoing generally happens as a breach of fairly straightforward principles.

*December 2013 Proposed
2015–19 Strategy
and 2015-16 Work Program*

PIOB recommendation:

The PIOB observer noted that the approach of splitting the proposed Strategy and Work Program was useful. However, the Work Program would benefit from having more information on prioritization, starting and completion dates, and the estimated resources required for the various projects. Without such information, it is difficult to judge whether the Work Program is sufficiently complete.

IAASB reaction

The IAASB incorporated changes reflecting these comments.

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
<p><i>December 2013: Framework for Audit Quality</i></p>	<p>PIOB recommendation: During the Board’s discussion on future actions to raise awareness and promote the use of the AQ Framework, the observer noted that it will be important to identify responsibilities for taking action for promoting the AQ Framework, because merely publishing the Framework will probably not accomplish much.</p> <p>IAASB reaction The IAASB expects that the Framework will generate discussion and positive actions to improve audit quality. The board intends to promote further dialogue on audit quality and encourage organizations to use the Framework.</p>
<p><i>December 2013: ISA 720 (Revised), Other Information</i></p>	<p>PIOB recommendation: With respect to the proposed scope of ISA 720 (Revised), “The Auditor’s Responsibilities Relating to Other Information”, the PIOB observer commented that many jurisdictions have no national standard setter and adopt ISAs as is; accordingly, it would not be appropriate to expect them to provide more guidance on what would be considered an annual report in their jurisdiction.</p> <p>The IAASB should include whatever requirements it considers appropriate in the ISA, with the recognition that there is a risk that they will be overridden by national laws or regulations.</p> <p>With respect to reporting requirements, it would seem in the public interest to state clearly in the standard how auditors should handle the various situations that might be encountered in terms of other information and its timing. It would also be in the public interest for the auditor to report clearly what has been done and what conclusions were reached rather than to stay silent and make the user figure this out.</p> <p>IAASB reaction The IAASB will consider a revised draft of ISA 720 (Revised) in early 2014. The PIOB will follow up on how the IAASB has addressed the PIOB observer’s comments.</p>

ENTITY AND TIME PERIOD

RECOMMENDATION / REACTION

IAASB CAG

April 2013

**PIOB recommendation:
point 1**

Some of the advice provided by the CAG highlighted difficult issues, such as disclosure of the name of the engagement partner, disclosure of key audit matters for unlisted entities, and the auditor’s responsibilities regarding going concern. It is essential that the IAASB, in deciding how to deal with such issues in the ISAs, consider which approach would best protect the public interest.

IAASB CAG reaction

The CAG’s advice on disclosing the name of the engagement partner was passed to and considered by the board when finalizing the exposure draft.

**PIOB recommendation:
point 2**

The observer explained the role of the PIOB in assessing the completeness of PIACs’ strategies and work programs and the adequacy of the resources available to them. He reminded members that SSBs have been challenged by the PIOB to justify the completeness of their strategies and relative priorities and that concerns about resources have been raised with IFAC.

**PIOB recommendation:
point 3**

Each of the standard-setting boards has faced the need to identify clearly the audience for its standards (scope), which relates to the possible use of the standards by persons other than “professional accountants”. The extant IFAC definition of “professional accountant” is not useful in this context, so the current IAESB’s project to create such a definition is important.

IAESB action

The IAESB made significant progress in revising the definition of “professional accountant”. The final outcome could be used by other SSBs beyond the IAESB and by other IFAC committees.

September 2013

PIOB recommendation

The CAG Chair actively communicates the views of the CAG during board meetings, but cannot raise every point that comes up during these two-day meetings. The observer remarked that it is very important for CAG representatives to raise any concerns, preferably when the respective task force Chair is present, about cases where they do not believe that the report-back documents adequately explain why points raised by the CAG were not accepted.

IAASB CAG reaction

This recommendation has been made several times during this year, especially regarding the need for CAG representatives to raise any concern they may have at the respective CAG meeting and to include the feedback received from the task forces in the report-back documents. CAG chairs are also aware of this recommendation and remind CAG representatives of this matter.

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
IESBA	
<i>March 2013</i>	
PIOB recommendation: Definition of those charged with governance (TCWG)	When the IESBA was about to approve the definition of TCWG, the observer reminded members that this would have been procedurally wrong, given that the definition had not been subject to CAG comments yet.
IESBA reaction	The IESBA followed the PIOB observer's recommendation. Approval of the definition was postponed until after the CAG had discussed the proposed change to the definition.
PIOB recommendation: suspected illegal acts (NOCLAR)	The discussion of "suspected illegal acts" (SIA) was veering to the view that the Code of Ethics should only give auditors and professional accountants in business the right to override confidentiality provisions in case of a SIA and leave it to individual jurisdictions to prescribe requirements. The observer reminded the board that it is not in the public interest to have an ethics code that merely gives the "right" to members of the accounting profession to override confidentiality. An ethics code should spell out what is required or expected of them.
IESBA reaction:	The IESBA has not implemented the recommendation. The revised exposure draft presented in September 2013 established a presumption (rebuttable) to disclose noncompliance with laws and regulations, under certain circumstances (for example, when PIE which is an audit client, disclosing is in the public interest). However, the exposure draft straw man presented in December 2013 removed such a presumption and left the professional accountant with the decision to report (or not) a NOCLAR.
<i>June 2013</i>	
PIOB recommendation suspected illegal acts (NOCLAR)	The subject of suspected illegal acts is one of the most challenging projects undertaken by the board. The observer encouraged board members not to take a narrow view or let local laws instead of the code decide what activities should be disclosed. He pointed out that the world is increasingly unwilling to accept arguments of confidentiality when there is a suspicion of illegality. Money laundering legislation requires financial intermediaries to report on the activities of their clients if there is a suspicion of illegal transactions. Banks' confidentiality vis-à-vis their clients is increasingly being questioned if the clients are suspected of avoiding their tax obligations. In this context, IESBA needs to be proactive.
IESBA reaction	The IESBA has not implemented the recommendation. The straw man discussed in December 2013 made it clear that, when the professional accountant decides voluntarily to report a NOCLAR, this would not be a breach of the duty of confidentiality in the Code of Ethics.

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
<p><i>September 2013</i></p> <p>PIOB recommendation: Noncompliance with laws and regulations (NOCLAR, formerly SIA)</p> <p>IESBA reaction</p> <p>PIOB recommendation: Restructuring of the code</p> <p>IESBA reaction:</p>	<p>The reaction from audit firms and professional bodies to the exposure draft seemed to indicate that the requirements would be unduly onerous and not workable. In progressing toward a new exposure draft, the board would need to reconcile comments from all stakeholders and align their warranted and reasonable expectations of reporting with requirements of the code.</p> <p>The work is still in progress, as the new exposure draft has not been finalized yet.</p> <p>The target date (2019) did not reflect the importance of the project. The board should reconsider the target date and steps toward objectives and operate at a faster pace.</p> <p>The working group proposed speeding up the process. The final project proposal is expected by April 2014.</p>
<p><i>December 2013</i></p> <p>PIOB recommendation: Strategy and Work Plan</p> <p>IESBA reaction</p>	<p>The proposed agenda on the future strategy did not indicate the end dates for many projects.</p> <p>The IESBA integrated the SWP with the start and end dates for various projects.</p>

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
<p>IESBA CAG</p> <p><i>April 2013</i></p> <p>PIOB recommendation:</p>	<p>The advice provided by the CAG on suspected illegal acts was not as substantive as it should have been. To avoid this situation in the future, paying attention to several matters could be useful: earlier distribution of meeting papers; clearer elaboration of the issues on which the board is seeking advice; and a willingness of representatives to provide advice. CAG advice would be based on a combination of representatives' understanding of the views of the organizations they represent, together with their own knowledge and judgment. While it is impossible to expect member organizations to anticipate every issue that will arise in the course of a CAG meeting and agree on a position in advance of the meeting, if the views on an issue within a member organization are divided or are not yet fully developed, it would be useful for the representative to say so at the CAG meeting.</p> <p>The observer also suggested that all representatives should do their best to schedule their travel so that they can participate in the full meeting.</p>

IESBA CAG reaction	The IESBA CAG Chair highlighted the need to take a more structured approach to setting the deadlines for the documents in order for the CAG to be effective and to fulfill its role in due process. Early communication of deadlines is needed in order for the CAG member organizations to be able to consult internally. A structured approach will serve the public interest, as it will strengthen the input received from the CAG.
<i>October 2013 teleconference</i>	
PIOB recommendation:	This teleconference was held solely to discuss the project on long association (audit partner rotation). The observer expressed concern that representatives had said little regarding the role of TCWG or the length of the cooling-off period.
IESBA CAG reaction	This matter will be followed up at the next CAG meetings.

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
IAESB <i>June and September 2013</i>	
PIOB recommendation:	Observers noted that downgrading the proficiency level of financial accounting and reporting from “advanced” to “intermediate” in IES 2, “Initial Professional Development Technical Competence”, would send the wrong signal. Experience from audit inspections shows that problems of competence in the areas of financial reporting and audit lead to shortcomings in audit quality.
IAESB reaction	The IAESB did not agree. The IAESB approved IES 2 at the October-November 2013 meeting, assigning an “intermediate” proficiency level to the competence areas of financial accounting and reporting and audit and assurance on the basis that professional accountants will further develop their level of competence during their careers. The IAESB also recognized that Professional Accountancy Organizations could increase the level of proficiency to “advanced” or add additional learning outcomes if their jurisdictions required them to exceed to a higher standard for competence.
<i>October–November 2013</i>	
PIOB recommendation: IES 2, “IPD: Technical Competence”	The extant standards related to information technology competence seem to mix the ability to understand technology and its impact on organizations with the ability of an accountant to use technology in his or her day-to-day work. The observer suggested that more clarity would be useful.
IAESB reaction	The IAESB improved the wording at the same meeting.

PIOB recommendation: IES 8, “Professional Competence for Audit Engagement Partners”	The board discussed a diagram to be included in the IES. The observer commented that the IAASB had often considered and then rejected the use of graphics in its standards because of concerns that they might be incomplete and that some readers would simply rely on the graphics and not read the text and suggested that the IAESB might take such risks into consideration.
IAESB reaction	The IAESB kept the diagram in the standard, but revised it to improve its clarity.
PIOB recommendation: definition of “professional accountant”	The observer stated that the agreement of the board on a useful, concise, and straightforward definition of professional accountant was a significant accomplishment and expressed the hope that it would also meet the needs of the other standard-setting boards and committees.
IAESB reaction	At the same meeting, the IAESB approved a revised version of the new definition and is expected to promote the adoption of the revised definition by the other SSBs and committees.

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
IAESB CAG <i>September 2013</i>	
PIOB recommendation:	Regarding IES 3, the observer noted that it was very positive to see both “professional skepticism” and “professional judgment” included in the IES, although in her opinion an “advanced” (not an “intermediate”) level seemed better from a public interest perspective.
IAESB CAG reaction	The IAESB did not implement the recommendation. IES 3 was approved with “professional skepticism” and “professional judgment” at the intermediate level. Both the IAESB and the IAESB CAG agreed that this was the right level of competence.
CAP <i>April 2013</i>	
PIOB recommendation:	Discussions on the work of the Constitutional Review Working Group deserve the PIOB’s attention regarding the possible implications for the public interest, such as those of a possible new minimum threshold of SMO compliance. In addition, if the reallocation of voting rights among IFAC membership were biased in favor of over-representation of certain groups of members, the constitutional review could lose a diversity of perspectives.
CAP reaction	The CAP is aware of these PIOB concerns, but it has not yet discussed the implications of the constitutional review for the CAP’s work and SMOs. Consideration of these matters could take place in 2014.

ENTITY AND TIME PERIOD	RECOMMENDATION / REACTION
<p>Nominating Committee <i>September 2013</i></p> <p>PIOB recommendation:</p>	<p>The observer asked for clarifications regarding the CAP’s composition, as there was inconsistency between the minutes of the Nominating Committee meeting in May and the documents distributed in September. Specifically, it appeared that, contrary to what was stated in May, the Nominating Committee recommended expanding the size of the CAP by one member on a temporary basis.</p> <p>The observer was concerned about inadequate information on the process and asked the committee to provide the PIOB with a memo describing the discussions between the Nominating Committee and the CAP and the arguments in favor of having a public member in the CAP.</p>
<p>Nominating Committee reaction</p> <p><i>October 2013 teleconference</i></p> <p>PIOB recommendation:</p>	<p>Subsequently the Nominating Committee provided information to the PIOB on the recommendation to expand the size of the CAP on a temporary basis.</p> <p>The observer suggested some changes to the draft call for nominations for 2015. Specifically, the reference to the common interest of the profession may be inconsistent with other parts of the document and may be incompatible with acting in the public interest.</p> <p>He also noticed that the draft call for nominations continues to restrict nominations to the CAP to IFAC member bodies and asked about the reasons. He also noted that the 2015 criteria effectively limit nominations to those within IFAC member bodies who are familiar with compliance or SMO matters, further restricting nominations to this committee.</p> <p>The observer reminded the Nominating Committee that the CAP should not focus just on compliance by member bodies, but should be more proactive in promoting the adoption and implementation of standards and work with SSBs and member bodies to this end. External membership with the right experience might offer valuable contributions to the CAP.</p>
<p>Nominating Committee reaction</p>	<p>The reference to the common interest of the profession was eliminated in the call for nominations issued in January 2014.</p> <p>CAP nominations continue to be restricted to IFAC member bodies and to persons who are familiar with compliance and SMO matters.</p>

Table 10 details the meetings observed by PIOB observers in 2013.

Table 10 – 2013 observations

Month	Location	Entity	PIOB observer
January			
21	Teleconference	IESBA CAG	Eddy Wymeersch
24-25	New York	CAP	RO: Susana Novoa, Claudia Deodati
31	Teleconference	CAP	ChanduBhave
February			
7-8	New York	IAESB CAG	RO: Susana Novoa, Claudia Deodati
12-14	Brussels	IAASB	Jane Diplock
28-1 March	New York	IFAC board meeting	Eddy Wymeersch
March			
11-13	New York	IESBA	ChanduBhave
20-22	New York	IAESB	RO scheduled, but not performed
April			
8-9	Bangkok	CAP	Toshiharu Kitamura
8-9	New York	IAASB CAG	Michael Hafeman
10	New York	IESBA CAG	Michael Hafeman
11-12	New York	Nominating Committee	Jane Diplock
15-19	New York	IAASB	Michael Hafeman, Claudia Deodati
24	Teleconference	IAESB CAG	Michael Hafeman
May			
13-14	New York	Nominating Committee	Charles McDonough
June			
10-11	New York	Nominating Committee	Charles McDonough
10-12	New York	IESBA	ChanduBhave
13-14	New York	IFAC board	ChanduBhave
17-19	New York	IAESB	Kai Uwe Marten
24-28	New York	IAASB	Robert Ward
July			
11-12	New York	Nominating Committee	Eddy Wymeersch
11-12	New York	CAP	RO: Susana Novoa, Claudia Deodati
August			
8	Teleconference	CAP	Julie Galbo
8	Webinar	IFAC board	Gonzalo Ramos

September			
3-4	New York	Nominating Committee	Toshiharu Kitamura
5-6	New York	IFAC board	Toshiharu Kitamura
9-10	New York	IAASB CAG	Michael Hafeman
10-11	New York	IESBA CAG	Michael Hafeman
16-18	Sydney	IESBA	Robert Ward
16-17	Madrid	IAESB CAG	Susana Novoa, Claudia Deodati
16-20	New York	IAASB	ChanduBhave
October			
9	Webinar	IFAC board	Gonzalo Ramos
10	Teleconference	IESBA CAG	Michael Hafeman
17	Teleconference	Nominating Committee	Gonzalo Ramos, Claudia Deodati
17-18	New York	CAP	RO: Susana Novoa
30-1 Nov	Toronto	IAESB	Michael Hafeman
November			
13-14	Seoul	IFAC council	Toshiharu Kitamura
15	Seoul	IFAC board	Toshiharu Kitamura
December			
4-6	New York	IESBA	ChanduBhave
9-13	New York	IAASB	Michael Hafeman

Nominating Committee

The Nominating Committee plays a crucial role in the nominations process and the filling of vacancies in SSBs under PIOB oversight. It aims to select the best person for the job while maintaining parity between practitioners and non-practitioners (including public members) as well as regional, professional and gender balance. The quality and public interest mind-set of SSB members are, ultimately, the most critical elements ensuring the responsiveness of standard setting to the public interest. This is why the PIOB follows very closely the process through which candidates are searched and selected for nominations.

Overall, in 2013 PIOB observers commended the Nominating Committee as being fair and balanced and the meetings conducted as being in the public interest. They did not raise concerns with the nomination process, candidates, or the committee itself. There were a significant number of high-quality candidates relative to the number of vacancies available.

In October 2013, the PIOB reviewed the draft 2015 call for nominations, which was published in early January 2014. The 2015 document is clearer and significantly improved over the 2014 document, especially regarding travel support, the skills required for nominations, the definition of practitioners and non-practitioners, and the criteria for classifying member body staff. The PIOB looks forward to the nominations process that will be conducted in 2014 (for vacancies that will become available in 2015) and to monitoring the extent to which the opening of nominations from outside IFAC member bodies, together with IFAC's travel cost support for self-nominations,²⁵ actually increases the number of nominations from outside IFAC.

Nominations to SSBs, CAP, and Nominating Committee

In 2013, the PIOB approved the reappointments of Arnold Schilder as IAASB chair for a three-year period (2015–2017).

Moreover, the PIOB approved several appointments and reappointments at the IAASB, the IESBA, and the IAESB, the appointments of the deputy chairs for 2014, two reappointments and one new appointment of Nominating Committee members, and one temporary additional member (for a two-year term) at the CAP.

The PIOB approved two reclassifications of non-practitioners in the IESBA and is currently reviewing the definition of public member with IFAC.

The approvals above were supported by the PIOB direct observation of 100% (five meetings) of the Nominating Committee meetings and teleconferences held during 2013, in a similar fashion to 2012. The PIOB followed the process through which candidates were searched and selected for nominations to the point of being present during candidates' interviews.

For 2014, and in response to IFAC's suggestion, the PIOB will, on a best-effort basis, try to assign one observer to follow the full nominations cycle.

Nominations to CAGs

The PIOB approved Ms. Linda de Beer as IAASB CAG Chair for an 18-month period (from October 1, 2013 to March 31, 2015) and the new IESBA CAG Chair, Mr. Kristian Koktvedgaard, for a three-year term commencing on July 1, 2013.

The PIOB did not approve new CAG member organizations this year, but was notified of new representatives for a few IAASB CAG, IESBA CAG and the IAESB CAG member organizations.

Table 11 depicts the nominations approved in 2013.

Table 11 – Nominations to SSBs, CAP, Nominating Committee, and new CAG member organizations approved during 2013

Group or individual	Appointments			Total
	New	Reap- pointed	Reclassi- fication	
International Auditing and Assurance Standards Board				9
IAASB chair		1		1
IAASB deputy chair		1		1
IAASB members	4	2		6
IAASB CAG chair		1		1
International Accounting Education Standards Board				9
IAESB deputy chair	1			1
IAESB members	4	4		8
International Ethics Standards Board for Accountants				7
IESBA deputy chair	1			1
IESBA members	3		2	5
IESBA CAG chair	1			1
Compliance Advisory Panel				3
CAP deputy chair	1			1
CAP members	2			2
Nominating Committee				4
Nominating Committee members	2	2		4
TOTAL	19	11	2	32

- a. Reclassification of IESBA members: one was reclassified from non-practitioner to public member and one was reclassified from non-practitioner to practitioner.

(25) Individuals who are not sponsored by any organization.

CHAPTER III – EXTERNAL RELATIONS AND COMMUNICATIONS

Throughout 2013, the PIOB continued to communicate the importance of high-quality global standards in audit, ethics, and education and its role in contributing to their development. In trying to explain the nature of its work better, the PIOB has made transparency the guiding principle of its communications policy.

In September 2013, a new website was launched (www.ipiob.org). The new site explains more clearly the independent oversight role of the PIOB within the standard-setting framework and includes additional documentation and graphs that support its mission. Some of the extended information that is now available on the website includes the PIOB's constitutional documents, the year's oversight plans, charts with oversight recommendations issued by the PIOB since 2012, and the calendar of events (oversight assignments and outreach activities). A new section on the webpage entitled "Public Interest Protection" helps to explain the full scope of PIOB oversight, including not only oversight of the standard-setting processes, but also that of the standard-setting boards' strategies and work plans, the nominations process for SSBs, and the compliance program carried out by the IFAC Compliance Advisory Panel. All of these documents are available on the new PIOB website as well as on the websites of the IFAC and the SSBs.

The quarterly updates introduced in 2012 have proved highly informative for stakeholders. These updates provide timely and detailed information on the agenda and decisions adopted after each PIOB meeting.

Outreach

The PIOB conducted 25 external relations engagements during 2013.

The PIOB and the Monitoring Group held their biannual meetings, one in New York and one in Madrid. The first meeting in New York dealt mainly with IPSASB oversight, during which both the PIOB and the MG contributed to advancing this very important issue. The second meeting in Madrid continued to evolve the MG-PIOB strategic dialogue and dealt with the PIOB medium-term funding model.

The PIOB Chair, PIOB member Michael Hafeman, and the secretary general held an additional meeting hosted by the incoming Chair of the MG, Mr. Howard Wetston of the Ontario Securities Commission and his team in Toronto in June 2013. This meeting allowed the PIOB to introduce itself and its priorities to the new MG Chair and to hear his views on the standard-setting model and its oversight.

Given that the current funding framework of the PIOB will expire in 2016, in 2013 the PIOB raised the need to agree on a new medium-term funding framework with IFAC and the MG (discussed in chapter I). With this objective in mind, the PIOB Chair and secretary general met bilaterally with the Chairs of most of the MG member organizations. The EC, IFAC, and the PIOB agreed to set up a working group to develop a new medium-term funding framework for the PIOB in 2014.

The PIOB has continued to be involved with the academic accounting community in Spain and has worked closely with the Spanish Institute of Chartered Accountants in promoting its work in relation to the standard-setting infrastructure.

Table 12 – Outreach activities in 2013

Date	Location	Meeting	Attendee
January			
21	Brussels	Public sector finances –Challenges ahead ICAEW	Eddy Wymeersch
31	Brussels	Audit Committee roundtable –FEE	Eddy Wymeersch
February			
20	Madrid	ICJCE –Ethics roundtable	Gonzalo Ramos
27	New York	IPSASB roundtable – PCAOB	All
28	New York	MG meeting	All
March			
8	Madrid	MACAM – Student conference	Gonzalo Ramos
20	Brussels	European Parliament – Budget	Eddy Wymeersch
21	Sydney	IAASB roundtable	Robert Ward
April			
9	London	IFRS Foundation	Jane Diplock
15–17	Noordwijck	IFIAR	Gonzalo Ramos, Susana Novoa
May			
29–30	Brussels	Eurostat conference – Towards implementing EPSAS	Susana Novoa, Claudia Deodati
June			
5	Paris	IOSCO – Committee 1	Eddy Wymeersch
11	Toronto	MG chair (Howard Wetston) and staff	Eddy Wymeersch, Michael Hafeman, Gonzalo Ramos
September			
13	Madrid	MG meeting	All
15–19	Luxembourg	IOSCO annual meeting	Eddy Wymeersch
October			
8	Washington	International Monetary Fund and World Bank seminar	Michael Hafeman
11	Brussels	Meeting with the EC (Nathalie Berger, Jim Sylph, Alta Prinsloo)	Gonzalo Ramos
17–18	Taipei	IAIS annual conference and general meeting	Michael Hafeman
25	Teleconference	Meeting with FSB (Svein Andresen, Richard Thorpe)	Gonzalo Ramos
November			
11	Amsterdam	Meeting with IFIAR vice chair (Janine van Diggelen)	Eddy Wymeersch, Gonzalo Ramos, Nic van der Ende
12	Madrid	Meeting with IOSCO and MG chairs (Gregory Medcraft, Howard Wetston)	Eddy Wymeersch, Gonzalo Ramos
13	Brussels	ICAEW meeting on democratic accountability and fiscal sustainability	Eddy Wymeersch
15	Teleconference	Meeting with IFIAR (Lewis Ferguson)	Eddy Wymeersch, Gonzalo Ramos
28	Madrid	Second workshop on business ethics	Gonzalo Ramos
December			
12	London	The Prince's Accounting for Sustainability Project annual forum	Gonzalo Ramos

During 2014, the PIOB will continue listening to stakeholders and protecting the public interest in standard setting. The PIOB intends to continue holding bilateral meetings with its main stakeholders in 2014 so that it can be made aware of their individual concerns and prepare adequate responses.

The importance of the projects being developed or finalized by the SSBs during 2014, especially the IAASB and the IESBA, will continue to demand close oversight. The functions and activities of the IAESB will also be decided in 2014, following the development of its work program and given the input from stakeholders, referred to in chapter II. The PIOB has made its position clear and looks forward to further dialogue with IFAC and other interested stakeholders.

In 2014, the PIOB will see 5 of its 10 board members coming off the board. Michael Hafeman will have served three full mandates, and Kai Uwe Marten and Toshiharu Kitamura will have served two full mandates. In addition, Charles McDonough and Robert Ward will take on new responsibilities away from the PIOB. The challenge to renew 50% of board membership while continuing to ensure the global representativeness of the PIOB rests with the Nominating Committee of the Monitoring Group. The new membership will also pose significant challenges for the PIOB to ensure a seamless continuation of its oversight activities.

An induction session for new members will be organized in the first part of the year, supported by the PIOB Blue Book issued in 2013, to ensure that new members can quickly take on direct observations within established PIOB policy.

As shown in chapter II, some of the recommendations that the PIOB made regarding nominations and the CAP are pending reply. The PIOB anticipates their resolution in 2014.

It is imperative that in 2014 the PIOB, together with the MG and IFAC, agree on a new medium-term funding framework. This new framework is critical to ensure the continuation of PIOB oversight beyond 2016 and

should pave the way for non-IFAC contributors to offer more stable contributions to PIOB funding. The PIOB intends to diversify its sources of funding away from IFAC to the extent possible and within a stable funding framework covering the 2016–2020 period. To this end, the PIOB will contact selected users of standards in 2014 to ascertain their willingness to contribute to the oversight of standards development and add to the support of the EC, IOSCO, BIS, FRC, World Bank, and ADAA.

Finally, in 2014, new auditors will audit the PIOB financial statements following the board's decision to rotate the existing auditors in 2013 after seven years of continued service.

CHAPTER V – SUMMARY FINANCIAL STATEMENTS

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

	2013	2012
TOTAL REVENUE (3)	1. 473. 384	1. 446. 496
EXPENSES		
Board related operating costs		
Oversight Program	800. 969	794. 058
External Relations Program	124. 702	124. 489
Monitoring Group and Monitoring Group members	139. 078	129. 970
Foundation Board Meetings	121. 975	118. 532
Other start-up and ongoing operating costs	214. 778	238. 958
TOTAL EXPENSES	1. 401. 502	1. 406. 007
Surplus	71. 882	40. 489

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

(2)In addition to local regulatory responsibilities, the PIOB Foundation is operationally and financially accountable to the Monitoring Group.

This accountability includes the presentation of periodic operating reports, the PIOB’s annual Public Reports, the PIOB Foundation yearly audited financial statements, and an annual budget for the Monitoring Group’s review and approval.

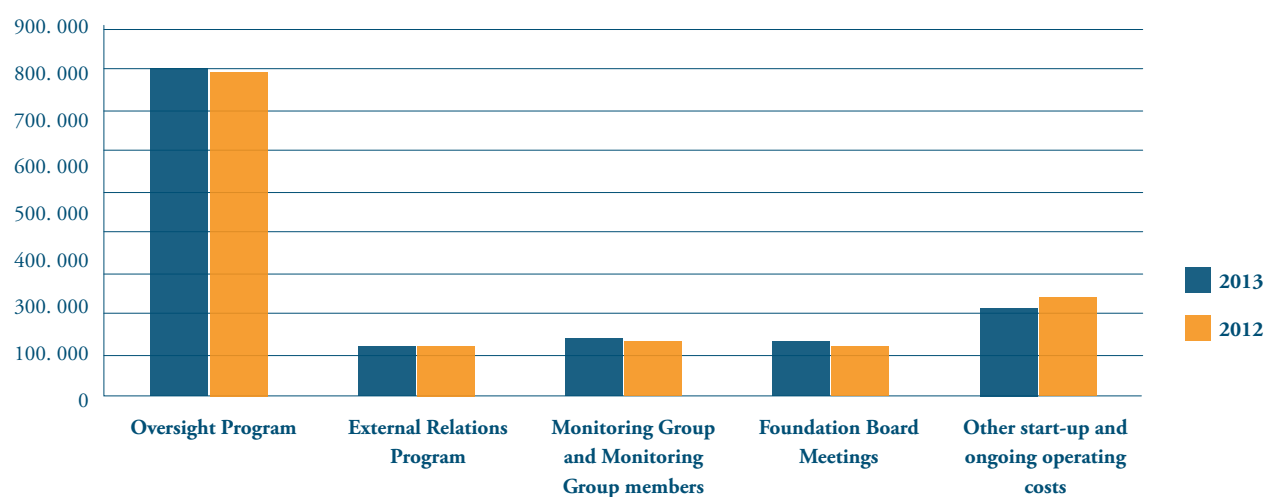
(3)PIOB total revenues for 2013 were contributed by the International Federation of Accountants (IFAC) in the amount of 778,611 Euros, the European Commission (EC) in the amount of 293,858 Euros, Abu Dhabi Accountability Authority (ADAA) in the amount of 120,000 Euros, International Organization of Securities Commissions (IOSCO) in the amount of 100,000 Euros, Bank for International Settlements (request through FSB, BCBS and IAIS) in the amount of 100,000 Euros, Financial Reporting Council (FRC) in the amount of 40,000 Euros, and the World Bank in the amount of 50,000 USD.

In 2013, the remainder of revenue over expenses of 71,882 Euros was retained to strengthen the Foundation’s capital base for the near term.

The PIOB Foundation’s auditor, Deloitte 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

PIOB Expenses by Activity





Mr. Eddy Wymeersch - IOB Chairman

A member of the board of Euroclear SA and of the Association for the Financial Markets in Europe (AFME). He has been Chairman of the Committee of European Securities Regulators (CESR) (February 2007-July 2010) and of the European Regional Committee of IOSCO, in that capacity also taking part in the Executive and the Technical committee (2006-2010). He was Chairman of the Belgian Commission Bancaire, Financière et des Assurances (CBFA) (chief executive 2001-2007 and chairman of the supervisory board [2007-2010]). He was also a member of Swiss Finma (2012).



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.



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.



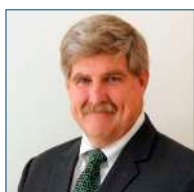
Prof. Dr. Kai-Uwe Marten

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



Mr. 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.



Mr. Charles McDonough

Former 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



Mr. Nic van der Ende RA

Certified Accountant and coordinating senior policy officer at De Nederlandsche Bank, The Netherlands. Member of the Basel Committee of Banking Supervisors' Accounting Expert Group and Audit Sub Group. Member of the European Banking Authority's Standing Committee on Accounting, Reporting and Auditing and its Audit Sub Group. Former coordinator of post academic course 'Accountant and Sustainability' at the Economic Faculty of the University of Amsterdam. Former public accountant at PwC, The Netherlands.



Ms. Jane Diplock, AO

Director of the Singapore Exchange Limited, Director of the Australian Financial Services Group Pty Limited, Director of the International Integrated Reporting Council Board, Member of the International Advisory Board Securities and Exchange Board of India and Member of the International Advisory Committee, China Securities Regulatory Commission.



Ms. Julie Galvo

Deputy Director General at the Danish Financial Supervisory Authority. Member of Management Board, Board of Supervisors, previously Chair of Corporate Reporting Standing Committee at ESMA.



Mr. Robert Ward, AM

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. 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.

APPENDIX 2 – GLOSSARY OF TERMS

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 Public Interest Activity Committee (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 that is 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 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 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 approves the annual PIOB budget, 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 monitors PIAC meetings after they have taken place. This includes analyzing PIAC meeting documents related to the development of standards and the minutes for the particular meeting.

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): groups established under the auspices of the IFAC consisting of three 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 whose members are 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.

Report-back: the document prepared by the task force assigned to a specific project, describing the response that the relevant SSB or the task force itself gave to each individual comment raised by CAG representatives during the CAG meetings. This tool helps to track the comments and provides the rationale for the decisions taken by the SSB or task force, explaining why the comments were accepted, were rejected, or are still under consideration by the board or task force.

Statements of Membership Obligations (SMOs): the seven statements issued by the IFAC that establish requirements for IFAC members and associates to promote, incorporate, and assist in implementing international standards issued by IAASB, IAESB, IESBA, and the International Accounting Standards Board. The SMOs also establish requirements for quality assurance and investigation and disciplinary activities.

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.

Those charged with governance (TCWG): a term generally used to refer to the Audit Committee, and, more generally (see ISA200 and the IESBA Code of Ethics), to “the person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager”.

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.

