

# 11<sup>th</sup> Public Report 2015



Public Interest Oversight Board

DRIVING  
BEHAVIOR

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Since 2010, the Public Interest Oversight Board has received financial support from the European Union (European Commission DG FISMA - Directorate - General for Financial Stability, Financial Services and Capital Markets Union)

In addition, since 2013 the PIOB has received financial support from the International Organization of Securities Commissions, the Bank for International Settlements, the World Bank, the U.K. Financial Reporting Council, and the Abu Dhabi Accountability Authority.

The content of this report is the sole responsibility of the PIOB and can under no circumstance be regarded as reflecting the views of the European Union or any of the above organizations.

# Message from the PIOB Chairman

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**EDDY WYMEERSCH**  
PIOB Chairman



In 2015, the Public Interest Oversight Board (PIOB) entered a new phase. A decade after its creation the PIOB has reached maturity, having established a firm role within the standard-setting system by serving the public interest, designing processes for carrying out effective oversight, and developing strong relationships with the Monitoring Group (MG) and other key stakeholders. The tenth anniversary seminar, held in Madrid in September, helped the PIOB to shape its vision for the future and provided valuable input for the PIOB 2017–2019 strategy.

Since the PIOB's founding, the financial landscape has changed dramatically, bringing new challenges and new structures. Although still a small organization, the PIOB has followed the main developments in the fields of auditing, assurance, ethics, and education standard setting for professional accountants and contributed its public interest perspectives to the process of setting the policies for future initiatives. Thanks to an active communication policy, its visibility has increased significantly, allowing it to speak with authority on public interest issues.

The process that began 10 years ago has yielded an impressive set of widely-accepted international standards for highly-skilled professionals. All those involved should be proud of the results. However, this positive list of accomplishments does not mean that the work is over. The PIOB remains attentive to ensuring that ongoing standard-setting work fully reflects the public interest.

To do so, a PIOB member observes, either in person or remotely, most meetings of the standard-setting boards and their Consultative Advisory Groups (CAGs). In addition to monitoring how the views expressed in comment letters are considered and disposed of, the PIOB makes comments directly into the ongoing debates and ensures that the public interest perspective is being considered during the debate itself.

The PIOB also makes recommendations on future work as part of its oversight of the strategies and work programs of the standard-setting boards

(SSBs), including revisions of existing standards. In the context of approving these strategies and work programs, the PIOB draws attention to gaps in the existing framework, to new topics that challenge the auditing practice, or more generally, to new methods of carrying out the accountancy function. Several passages in this report illustrate this process.

The PIOB is very sensitive to issues relating to the structure of standard-setting activities. The independence of the SSBs refers essentially to their independence from the profession or from any other influence. This independence is an essential safeguard that allows the standards to be considered authoritative, reflecting the interests of all stakeholders and serving the public interest. The extent to which this objective is achieved depends largely on the balanced composition of the boards, the independence of the chairpersons, the procedures for nominating members, the selection of candidates with sufficient commitment to public interest values, and the right incentives to attract highly-knowledgeable members. As is mentioned in this report, the PIOB is supporting further efforts to achieve strong independence of the boards.

The independence of the PIOB is also essential not only for its own credibility, but also for that of the standard-setting process as a whole. It critically depends on stable, independent funding that protects the overseer from the influence of the different sources of funding. Obtaining adequate and stable funding for the PIOB is a key element for the success of this ambitious process.

As members join, contribute, and leave the PIOB at the end of their term, the PIOB has become a solid organization, ensuring the continuity of its work in the public interest. This year, we welcome Aileen Pierce as a new member. At the same time, we thank departing member Nic van der Ende for his valuable contributions as a regular observer of the SSBs, the CAGs, and the Compliance Advisory Panel (CAP).

# Secretary General Report Driving Behavior



The financial crisis of 2008 brought into sharp focus the concerns of investors and others about the effectiveness of external audits and created high expectations regarding the quality and transparency of audits and the professional behavior of auditors. To meet these expectations, the SSBs have introduced changes to auditing and ethical standards. These changes have materialized, or will soon materialize, in four projects<sup>1</sup>: new standards for the auditor's report, changes to ISA 540 on auditing accounting estimates, the restructuring of the Code of Ethics, and non-compliance with laws and regulations (NOCLAR). In addition, the International Accounting Education Standards Board (IAESB) has demonstrated leadership in responding to the need for stronger educational standards for the profession to underpin improved reporting and audit performance.

In 2014, the new standards for the auditor's report were approved, to be effective on December 15, 2016. The most significant change is the requirement to report key audit matters (KAM) for audits of listed entities. KAM are the most significant matters in the audit and are selected from matters communicated with those charged with governance. The auditor's report will be required to describe why these matters are important and how they are addressed. This means that the auditor's report will have to include more and better information about the audit. Providing greater transparency about the audit—in particular, indicating where the auditor has focused significant attention—is essential for strengthening the credibility of the opinion and therefore the perceived integrity and veracity of the audited financial statement. All these aspects relate directly to the public interest function of the audit.

In 2012, the United Kingdom adopted a similar new standard on the extended auditor's report. The experience from its adoption offers a useful reference on what can be expected from adoption of the new International Auditing and Assurance Standards Board (IAASB) auditor's report. The results from a Financial Reporting Council (FRC) survey are

encouraging. Since adoption of this standard in the United Kingdom, the big four audit firms have taken different approaches to satisfying the new standard, and all of them have gone beyond the requirements<sup>2</sup>. This finding is very important and points to brand differentiation and competition. According to the FRC report, two of the largest audit firms, Deloitte and PricewaterhouseCoopers (PwC), include a section in their audit reports giving assurance on the appropriateness of the going concern assumption and on the absence of material uncertainty<sup>3</sup>. KPMG has reported detailed audit findings, with agreement from its clients (for example, Rolls Royce), and described how the scope of the audit responds to detected audit risks. All of the firms report materiality thresholds and largely avoid boiler-plate language.

Audit networks seem to be responding to market demands for transparent and higher-quality audit information. Many companies are reporting on global environmental and sustainability concerns, and more companies are reporting according to the integrated reporting framework<sup>4</sup>, despite the absence of any regulatory requirement or agreed specific international standard. It is reasonable to expect that, in the next few years, audit firms will apply more professional judgment to communicating relevant information, will go beyond the new standard to

<sup>1</sup> Other projects are being discussed by the boards, including the IAASB projects on quality control, group audits, and professional skepticism and the International Ethics Standards Board (IESBA) project on long association.

<sup>2</sup> See <https://frc.org.uk/Extended-auditors-reports.pdf>.

<sup>3</sup> Whereas International Accounting Standard (IAS) 1 requires management to make an assessment of the going concern basis of accounting, it does not require management to make a statement to that effect. The solution adopted in the revised ISAs is that, if the auditor concludes that a material uncertainty exists that affects going concern, the auditor's report has to draw attention to the disclosure by management in a separate section of the report, under the heading "material uncertainty related to going concern." This is reporting on going concern (GC) by exception.

<sup>4</sup> There are 146 examples in the Integrated Reporting Database.

establish transparency credentials for themselves and for their clients, will report less by exception, and will tend to differentiate themselves from other firms through innovations in reporting.

International Financial Reporting Standard (IFRS) 9—"Financial Instruments"—will become effective on January 1, 2018. This accounting standard sets a new classification of financial instruments (based on the business model and contractual terms of the instrument) and the corresponding valuation technique. Different classifications and different valuation techniques have different impacts on profit and loss and on equity. IFRS 9 also includes a new "Expected Credit Loss Model" for recognizing potential impairment losses on financial assets. International Standard on Auditing (ISA) 540—Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures—is therefore scheduled for revision. Auditing will require understanding complex financial instruments, skills to audit complex valuations (mark-to-model), and expertise on risk assessment.

The expectation is that audit firms will respond by continuing to enhance their expertise in understanding financial instruments and in risk assessment. Accounting estimates—in particular, more complex estimates—are likely to be reported in the auditor's report as KAM.

The restructuring of the Code of Ethics is a major undertaking. The project seeks to improve the visibility of the requirements and prohibitions in the Code, to clarify responsibilities, to simplify the language, and to improve the overall usability of the Code, thereby facilitating its adoption and effective implementation.

The NOCLAR project is especially important to drive professional behavior. The NOCLAR provisions, approved in 2016, set a new responsibility for the

professional accountants to respond to suspected or detected non-compliance with laws and regulations where the response by management or by those charged with governance is not deemed adequate, subject to the existence of a legal framework offering protection to the professional accountant. In these cases, the auditor shall disclose the matter to an appropriate authority "where required by law or regulation or where considered necessary in the public interest." Such disclosure will not be considered a breach of confidentiality by the Code of Ethics for accountants. In the absence of legal protection, the auditor has the option not to report the breach to the authorities, but to withdraw from the assignment.

Establishing a global reporting requirement through an international standard is challenging. Differences exist in the level of protection afforded to professional accountants by varying legal frameworks, the degree to which countries abide by the rule of law, the degree to which members of the International Federation of Accountants (IFAC) meet their commitments, and the compatibility of national laws with the international public interest. However, many jurisdictions require the audited entity to take appropriate measures to deal with such irregularities or else the audit firm is required to inform the authorities. The new standard could help to extend this practice internationally where practicable.

A final expectation is that this new ethical standard will enhance the role of audit firms in protecting the public interest. Public interest considerations may override the principle of confidentiality in jurisdictions where the legal system affords sufficient legal protection for the auditor. From the point of view of the international public interest, this will not be the case in countries where no such protection is offered. A new mind-set and attitude from auditors could also drive a change in behavior in management in line with changes in the new standard.

New skills are required from the accountancy profession, especially in information technology (IT), but also in risk assessment and valuation of financial instruments. Professional accountants will need to adapt to new data management technology. Heavy demands are being placed on the accounting profession to demonstrate professional skepticism and independence. These demands can only be met if the education curricula for aspiring accountants innovate appropriately and if the skills of existing accountants evolve as needed through continuing professional development. The IAESB, which is developing its future strategy, is particularly well-placed to play a leading role in helping the accountancy profession to meet future requirements for accountants and auditors.

In the next few years, auditors will need to be more transparent about how audits were conducted, about what risks were detected, and about how the scope

of the audit was adapted in response to the risks identified. Auditors will also have to apply more and better professional judgment, will tend to report less by exception, and may have to play a more active role in protecting the public interest. Standard-setting boards in audit and assurance, in ethics, and in education for accountants will need to react to these developments, anticipating trends and leading with appropriate standards. The PIOB looks forward to contributing to further progress in these areas of standard setting in the public interest.

Gonzalo Ramos  
PIOB Secretary General



**PIOB BOARD 2015**

Back row, from left to right: Nic van der Ende, Karel Van Hulle, Chandu Bhawe, Michael Holm, Chuck Hortsman, Jules Muis and Gonzalo Ramos (PIOB Secretary General)

Front row, from left to right: Aileen Pierce, Eddy Wymeersch (PIOB Chairman), Jane Diplock and Maria Helena Pettersson.

### Overview

The PIOB applies four Oversight Assurance Models<sup>5</sup> to each SSB, the CAP, and the Nominating Committee (NC). The determination of the applicable model is the result of a risk assessment process and is influenced by factors such as past experience, the work program of the particular board or committee, and the interaction with the CAGs, when applicable, as shown in Table 1.

**Table 1**

MODEL	INTENSITY OF OVERSIGHT	WHEN	FEATURES	ASSURANCE
1	Very high	No confidence in the SSB or committee	100% observations	High
2	High	Higher risks in standards development or lower confidence in the SSB or committee	100% observations	High
3	Medium	Lower risk in standards development or higher confidence in the SSB or committee	Medium level of observations	Medium
4	Low	Highest level of confidence in the SSB or committee	Minimal or no observations	Lower

**Table 2 - Standards, strategies, and terms of reference that the PIOB approved in 2015.**

PIOB BOARD MEETING	SSB/CAP	STANDARD, STRATEGY, OR TERMS OF REFERENCE
March	IAASB	ISA 720 (Revised), "The Auditor's Responsibilities Relating to Other Information" and Related Conforming Amendments
March	IESBA	"Changes to Certain Provisions Addressing Non-Assurance Services for Audit and Assurance Clients (NAS)—Code of Ethics"
June	IAASB	"Changes Made to the International Standards on Auditing Addressing Disclosures in the Audit of Financial Statements"
June	IAESB	"Changes Made to the Framework for International Education Standards for Professional Accountants and Aspiring Professional Accountants"
June	IAESB	"Change of Status of the Framework from an Authoritative to a Non-Authoritative Document"
August (written procedure)	CAP	CAP 2016–2018 strategy
December	IAASB	"ISA 800 (Revised), "Special Considerations—Financial Statements Prepared in Accordance with Special-Purpose Frameworks" ISA 805 (Revised), "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement" and Related Conforming Amendments"
December	CAP	Changes to the CAP terms of reference

<sup>5</sup>See <http://www.ipiob.org/index.php/piob-oversight/standard-setting-process/oversight-plans>.

**Table 3 - Number of observations conducted by the PIOB in 2015, for all SSBs, CAGs, CAP, and NC, compared to 2014.**

	TOTAL SSBs, CAGS, CAP, NOMCOM			
	2014 actual observations		2015 actual observations	
	Nr.	%	Nr	%
Meetings of which:	24		24	
DO	20	83%	20	83%
RO	4	17%	4	17%
TC	7		9	

DO: Direct observations / RO: Remote observations / TC: Teleconferences

## Monitoring of Comment Letters from MG Members

In 2014, the PIOB implemented a new procedure for documenting its monitoring of comment letters submitted by MG members and other regulators, such as members of the International Forum of Independent Audit Regulators (IFIAR) and the European Audit Inspection Group (EAIG). The new procedure includes the main comments submitted in a database and monitors their disposition by the SSBs. Comment letters are discussed with the respondents to ensure that the PIOB understands the issues raised. In 2015, the PIOB held three teleconferences with IFIAR and the EAIG for this purpose.

In 2015, PIOB staff prepared databases for IAASB and IESBA main projects. These have been published on the PIOB website: <http://www.ipiob.org/index.php/monitoring-of-comment-letters-to-ed>. Copies of the databases have also been distributed to the organizations submitting the letters and to the appropriate SSB and CAG chairs. Publication and distribution of databases will continue in 2016.

## The Nominating Committee in 2015

The NC issued the 2017 call for nominations and engaged with the PIOB on the following issues:

- Definition of public members (PMs) and revision of the definition of non-practitioners (NPs), which currently overlap
- Sourcing and funding of PMs
- Independence of the NC chair, as the NC is currently chaired by the IFAC president
- Geographic and gender representation on the SSBs and outreach.

**Table 4 - Nominations Proposed and Approved in 2015**

GROUP OR INDIVIDUAL	APPOINTMENTS		
	NEW	REAPPOINTED	TOTAL
<b>International Auditing &amp; Assurance Standards Board (IAASB)</b>			
IAASB deputy chair		1	1
IAASB members	3	2	5
<b>International Accounting Education Standards Board (IAESB)</b>			
IAESB deputy chair		1	1
IAESB members	1	6	7
<b>International Ethics Standards Board for Accountants (IESBA)</b>			
IESBA deputy chair	1		1
IESBA members	7		7

<b>Compliance Advisory Panel (CAP)</b>			
CAP chair	1		1
CAP deputy chair	1		1
CAP members	2	2	4
<b>Nominating Committee (NC)</b>			
NC members	2	2	4

The PIOB applied an Oversight Assurance Model 3 (medium intensity) to oversee the Nominating Committee in 2015, with 75% direct observations of NC meetings and 100% of teleconferences held in the year.

**Table 5 - PIOB Observations of the Nominating Committee in 2015**

	NOMCOM			
	2015 oversight plan		2015 actual observations	
	Nr.	%	Nr	%
Meetings of which:	5		4	
DO	5	100%	3	75%
RO	0	0%	1	25%
TC	1	100%	1	100%

NOMINATING COMMITTEE		
30 - 31 March	New York, NY USA	Maria Helena Pettersson
23 - 24 April	New York, NY USA	Maria Helena Pettersson
24 - 26 June	Madrid	Maria Helena Pettersson
10 - 11 August	Buenos Aires	RO: Maria Helena Pettersson
19 October	Teleconference	Maria Helena Pettersson

**Recommendations Made to the Nominating Committee in 2015**

WHEN	PUBLIC INTEREST ISSUES RAISED	NC RESPONSE
March meeting and October teleconference, PIOB board meeting with IFAC leadership	<b>Definition of public member and non-practitioner</b> Continuing the discussion on the definition of PM is very important. Nominations from outside the profession need to be increased. The categories of PM and NP need to be clearly distinguished, as they currently overlap.	A change in the definition of PM was not addressed in the 2017 call for nominations, as there will be only one PM vacancy in 2017 and the composition of the SSBs is being considered in the discussions taking place between the MG and IFAC.
March	<b>Independence of the NC chair</b> It is in the public interest to consider the independence of the NC to recommend appointment of the chairs and members of the SSBs.	This issue is being considered in the discussions between the MG and IFAC.
April	<b>Cooling-off period of IFAC board members rotating to the NC</b> IFAC board members could be perceived as dominating the NC, as there is no cooling-off period for IFAC board members rotating to the NC.	The NC raised this issue in its deliberations. A change in the terms of reference to establish a cooling-off period is being discussed in the context of the overall discussions between the MG and IFAC.
June	<b>Evaluation of PMs</b> The same criteria are used to assess practitioners, non-practitioners, and public members. Since the call for nominations indicates that candidates for public members are preferably not accountants, criteria for them should be different.	There is no record of this issue being raised in the NC minutes.
October teleconference	<b>Travel Support Program</b> The Travel Support Program should be clarified, and awareness of the program should be raised among the public. Awareness of the program would help to attract candidates for PM positions.	The NC agreed to improve awareness of the Travel Support Program and to reinforce it in the 2017 call for nominations.

**Standard-Setting Boards and CAGs**

During the discussion of standard-setting projects, the SSBs and their CAGs raised and deliberated public interest issues and developed viewpoints. PIOB observers monitored the direction of these discussions, raised public interest issues not previously identified, and highlighted whether a matter or direction was important for the public interest.

**IAASB and the IAASB CAG**

The International Auditing and Assurance Standards Board finalized four revisions to standards during 2015:

- ISA 720, "The Auditor's Responsibilities Relating to Other Information and Related Conforming Amendments"
- Changes to the "International Standards on Auditing Addressing Disclosures in the Audit of Financial Statements—Revised ISAs and Related Conforming Amendments"
- ISA 800, "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special-Purpose Frameworks" and ISA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement"
- ISA 810, "Engagements to Report on Summary Financial Statements."

Except for the one on disclosures, these revisions related to finalizing the new standards for the auditor's report.

The IAASB also advanced work on new projects contemplated in its work plan for 2015–2016. These projects respond to calls from regulators, inspection bodies, investors, and other stakeholders to strengthen the work of auditors. The projects included the following:

- Publication of an "invitation to comment" document to seek views on projects to revise the quality control standards (ISQC 1 and ISA 220) and the group audits standard (ISA 600) and to determine future actions in relation to professional skepticism.

- Approval of a project proposal to revise ISA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures."
- Approval of the exposure draft of limited changes to ISA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" and other international standards. ISA 250 relates to the IESBA's NOCLAR project.
- Publication of the paper, "Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting," and work on a consultation paper on integrated reporting and other assurance reports.
- Continued exploratory work to consider the impact of data analytics (including big data) on the ISAs.
- Publication in August 2015 of the Staff Audit Practice Alert, "Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work is Performed."

During 2015, the CAG was instrumental in moving forward the IAASB's standard-setting agenda and providing input to the various projects on the IAASB's agenda.

The PIOB applied an Oversight Assurance Model 3 (medium intensity) to oversee both the IAASB and the IAASB CAG in 2015, with 100% direct observations of all board and CAG meetings and teleconferences held in the year.

During 2015, the PIOB observed all of the IAASB and IAASB CAG meetings, except for one teleconference, as detailed in Table 6.

**Table 6 - PIOB Observations of IAASB and IAASB CAG Meetings in 2015**

	IAASB					IAASB CAG			
	2015 oversight plan		2015 actual observations			2015 oversight plan		2015 actual observations	
	Nr.	%	Nr	%		Nr.	%	Nr	%
Meetings of which:	4		4		Meetings of which:	2		2	
DO	4	100%	4	100%	DO	2	100%	2	100%
RO	0	0%	0	0%	RO	0	0%	0	0%
TC	3	100%	2	67%	TC	2	100%	2	100%

DO: Direct observations / RO: Remote observations / TC: Teleconferences

IAASB		
22 January	Teleconference	Chandu Bhawe
16 - 20 March	Brussels	Nic van der Ende
29 April	Teleconference	Nic van der Ende
15 - 19 June	New York, NY, USA	Chuck Horstmann
21 - 25 September	New York, NY, USA	Karel Van Hulle
7 - 11 December	New York, NY, USA	Michael Holm

IAASB CAG		
9 - 10 March	New York, NY USA	Jules Muis
10 June	Teleconference	Nic van der Ende
15 - 16 September	New York, NY USA	Chuck Horstmann
2 December	Teleconference	Chuck Horstmann

The PIOB approved all of the IAASB standards submitted for approval, as detailed in Table 2.

**Recommendations Made to the IAASB and the IAASB CAG during 2015**

The public interest implications of the IAASB standards under development were high. The PIOB’s experience with the IAASB and its CAG during 2015 was positive. Discussions were robust and thorough. IAASB members and CAG representatives showed awareness of the public interest.

During the year, PIOB observers raised a number of public interest issues at IAASB meetings. In general, the IAASB responded positively to the observers’ recommendations:

WHEN	PUBLIC INTEREST ISSUES	IAASB / IAASB CAG DIRECTION
<b>Quality Control Project</b>		
IAASB and IAASB CAG March 2015 meetings	<b>Scope of the project on quality control</b> The scope of this project should be broad because quality control is closely related to audit quality. Root-cause analyses show that quality checks should be made during the course of an audit, not at the end, or even after the issuance of the auditor’s opinion.	The IAASB aims to consider expanding the focus on quality control systems, preventative versus detective controls, governance issues, transparency reports, and network, firm, partner, engagement team, and engagement quality control reviewer (EQCR) requirements and guidance.
<b>Revision of ISA 540 project (formerly Audits of Financial Institutions)</b>		
IAASB March 2015	<b>Relevant issues related to banks need to be addressed urgently</b> Special attention should be paid to going concern issues for banks and to auditing estimates and forward-looking information (revision of ISA 540). These elements should be translated into requirements for auditors. Auditors should be empowered to challenge management on items to be discussed with supervisors and disclosed accordingly. An IAPN could be appropriate for addressing the relationship between the auditor and the banking and insurance supervisors.  The banking regulatory community (BCBS) has signaled that an IAASB project covering these issues is somewhat late to play a role in the discussion about auditing expected credit losses.  It is important to align with banking regulators with regard to intended revisions to the ISAs, in particular to ISA 540.	The task force held discussions with the Basel Committee on Banking Supervision (BCBS) and other relevant stakeholders, including the Global Public Policy Committee (GPPC)/ IFIAR working group, Public Company Accounting Oversight Board (PCAOB), the International Accounting Standards Board (IASB), and the Financial Accounting Standards Board (FASB) and considered this input in the proposals for revising ISA 540.  The IAASB agreed that the audit implications of IFRS 9—Financial Instruments—are important, particularly the impact of the shift to an expected credit loss model. Guidance about the relationship between auditors and banking and insurance supervisors is important, but not urgent. The board plans to finalize the revision of ISA 540 by the end of 2017.
IAASB and IAASB CAG September 2015 meetings	<b>The scope for the project on ISA 540 (formerly “Financial Institutions”) should be broader than originally envisaged</b> The IAASB should examine the impact of a number of IFRS (not only IFRS 9, as requested by the BCBS) and broaden the scope of work to include a larger group of entities, in addition to financial institutions. It should also revise ISA 540 and not just develop an IAPN.	The board agreed on this, prepared—and approved in December—a separate proposal for a broader revision of ISA 540, beyond IFRS 9. The relationship between auditors and financial supervisors may be dealt with separately in an IAPN.
IAASB CAG September 2015 meeting	<b>Dialogue between IAASB task force and the BCBS</b> The PIOB observer urged the IAASB task force to continue working closely with the BCBS to enhance the relationship between auditors and financial institution regulators and to provide timely guidance to facilitate and encourage efforts required by many parties (preparers, regulators, auditors, and users of financial statements) to deal with the timely implementation of IFRS 9 (Financial Instruments).	The IAASB task force continued such dialogue as it worked on the ISA 540 project proposal. One representative from BCBS is part of the task force revising this ISA.

WHEN	PUBLIC INTEREST ISSUES	IAASB / IAASB CAG DIRECTION
<b>Revision of ISA 250/NOCLAR</b>		
IAASB March 2015 meeting and IAASB CAG June 2015 conference call	<b>It is important that the IAASB and the IESBA work jointly</b> Gatherings such as presentations made by the IESBA to the IAASB on the NOCLAR project are important. Cooperation between the two SSBs is very important to allow (a) consistency between their exposure drafts and (b) a holistic approach to identifying projects and issues, and assessing consequences for the standards.	The IAASB produced an exposure draft with limited changes to ISA 250 so that the IESBA's exposure draft for NOCLAR and the IAASB's exposure draft for ISA 250 could be sent out for comments at the same time.  The IAASB continued receiving updates from the IESBA's NOCLAR task force during 2015.
<b>"Invitation to comment" document for the quality control, group audits, and professional skepticism projects</b>		
IAASB April 29 teleconference	<b>Communication with stakeholders should be at the early stages of a project</b> The public interest requires the IAASB to raise the bar in the standards. Communicating with stakeholders at an early stage is essential.	The IAASB chair acknowledged this and noted that this issue was discussed with the PIOB at its March meeting. The invitation to comment sets out the IAASB's views as to the most important public interest issues in relation to its efforts regarding quality control, group audits, and professional skepticism—as well as some possible actions that could be taken to respond to the issues noted. This consultation is expected to inform the IAASB better as it develops formal standard-setting proposals in 2016.

## IESBA and IESBA CAG

The International Ethics Standards Board for Accountants finalized two projects in 2015:

- "Changes to the Code of Ethics for Professional Accountants Related to Certain Provisions Addressing Non-Assurance Services for Audit and Assurance Clients," which the PIOB agreed were approved in accordance with due process and with proper regard for the public interest. However, noting the limited scope of the project, the PIOB urged the board to revisit issues on auditor's independence from a broader perspective, such as prohibited non-assurance services (NAS), related-fee issues, and the role of those charged with governance in approving NAS.
- "Review of Part C of the Code"—Phase I—Sections 300, 320, and 370 (and Conforming Changes in Extant Sections 310, 330 and 340) under the current structure and drafting conventions.

The IESBA also advanced work on other projects:

- Approved the re-exposure draft of "Responding to Non-Compliance with Laws and Regulation (NOCLAR)" and discussed the comment letters submitted by respondents
- Discussed and approved the exposure drafts of the "Structure of the Code" and "Safeguards" projects
- Discussed the comment letters submitted by respondents to the "Long Association of Senior Personnel (including Partner Rotation) with an Audit Client," reviewed the provisions, and decided to re-expose the text to gather public input on the major changes versus the exposure draft
- Agreed on the publication of a staff paper on "Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure."

During 2015, the CAG contributed to advance the IESBA projects by providing its input.

In 2016, the IESBA CAG chair will end his term and a new chair will be either reappointed or elected.

The observations conducted during the year are shown in Table 7.

Due to the public interest implications of the IESBA projects, the PIOB applied an Oversight Assurance Model 2 (high intensity) to oversee the IESBA and its CAG in 2015, with 100% direct observations of all board meetings and teleconferences held in the year.

**Table 7. PIOB Observations of IESBA and IESBA CAG Meetings in 2015**

	IESBA				IESBA CAG			
	2015 oversight plan		2015 actual observations		2015 oversight plan		2015 actual observations	
	Nr.	%	Nr	%	Nr.	%	Nr	%
<b>Meetings of which:</b>	4		5		2		2	
<b>DO</b>	<b>4</b>	<b>100%</b>	<b>5</b>	<b>100%</b>	<b>2</b>	<b>100%</b>	<b>2</b>	<b>100%</b>
RO	0	0%	0	0%	0	0%	0	0%
TC	2	100%	2	100%	0	n.a.	0	n.a.

**DO:** Direct observations / **RO:** Remote observations / **TC:** Teleconferences

IESBA		
12 - 14 January	London, UK	Eddy Wymeersch
13 - 15 April	New York, NY, USA	Jane Diplock
29 June - 1 July	New York, NY, USA	Eddy Wymeersch
15 - 16 September	New York, NY, USA	Chandu Bhave
14 October	Teleconference	Eddy Wymeersch
21 October	Teleconference	Michael Holm
30 Nov - 4 Dec	New York, NY, USA	Chandu Bhave

IESBA CAG		
10 - 11 March	New York, NY USA	Jules Muis
14 September	New York, NY USA	Chuck Horstmann

During the year, the PIOB approved the IESBA projects listed in Table 2.

## Recommendations Made to the IESBA and IESBA CAG during 2015

The public interest implications of the standards under development were high. The PIOB's experience with the IESBA and its CAG during 2015 was positive. Discussions were robust and thorough. Board members and CAG representatives were engaged in the debates and showed awareness of public interest issues.

During the year, PIOB observers raised a number of public interest issues and offered recommendations, to which the board and the CAG responded positively.

WHEN	PUBLIC INTEREST ISSUES	IESBA / IESBA CAG DIRECTION
<b>Non-assurance services (NAS)</b>		
IESBA January meeting	<p><b>Limited provisions of NAS</b></p> <p>The NAS provisions do not contain clear-cut prohibitions or a quantitative limit on audit fees.</p>	<p>NAS provisions were approved by the IESBA, acknowledging that the scope of the project was limited to addressing certain specific issues only.</p> <p>The PIOB approved NAS and, noting the limited scope, urged the board to revisit issues on auditor's independence from a broader perspective, such as prohibited NAS, related-fee issues, and the role of those charged with governance in approving NAS.</p> <p>The matter of whether the Code should include new prohibitions is being considered under the Safeguards project. The matter of whether quantitative limits should be placed on fees is being considered under the new fees initiative.</p>
IESBA January and June meetings	<p><b>Relation between audit and non-audit services</b></p> <p>Given the current audit firm business model, NAS may imply a risk to the audit sector. The increasing importance of non-audit services may generate lower audit fees, poorer-quality staff, and lower remuneration, ultimately weakening the audit function. This evolution should be considered when determining the standards applicable to non-audit services.</p> <p>The Safeguards project should address the matter.</p>	<p>NAS provisions were approved by the IESBA.</p> <p>The PIOB approved NAS and urged the board to revisit issues on auditor's independence from a broader perspective, such as prohibited NAS, related-fee issues, and the role of those charged with governance in approving NAS.</p> <p>The scope of the Safeguards project includes the focus on NAS provisions.</p>
<b>Responding to non-compliance with laws and regulations (NOCLAR)</b>		
IESBA January meeting	<p><b>Elements considered by the auditor in determining whether to report NOCLAR and documentation</b></p> <p>The reasons guiding the auditor's judgment on whether to report a NOCLAR should be strengthened. The elements taken into account in the decision-making process should be detailed in the documentation.</p>	<p>The disclosure will depend on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees, or the general public.</p> <p>The final provisions of NOCLAR, approved in April 2016, include additional examples to guide the professional accountant to determine whether to report.</p> <p>The IESBA agreed to add a new documentation requirement for the auditor (in addition to the documentation requirement in ISAs).</p>

WHEN	PUBLIC INTEREST ISSUES	IESBA / IESBA CAG DIRECTION
IESBA April meeting	<p><b>Drafted provisions do not encourage reporting of NOCLAR</b></p> <p>Some of the examples in the draft may be unhelpful to the decision making expected of the professional accountant. They could be read as deterring rather than encouraging reporting.</p> <p>The final draft may not ensure that professional accountants make the decision in the public interest.</p>	<p>The final provisions of NOCLAR include additional examples to guide the professional accountant in the decision making process.</p>
<b>Long association (LA)</b>		
IESBA January meeting	<p><b>Scope does not include audit firm rotation</b></p> <p>No reference is made to firm rotation. At least some mention should be made, allowing for firm rotation in jurisdictions where this is mandatory or accepted practice.</p>	<p>The LA project scoped out audit firm rotation and only deals with partner rotation.</p> <p>Audit firm rotation has been added in the most recent provisions (which are being re-exposed) as a jurisdictional element to be considered when determining the cooling-off period of engagement partners (EPs) and EQCRs.</p>
IESBA June meeting	<p><b>Cooling-off period of EPs and EQCRs in LA provisions should be aligned</b></p> <p>The regime has now been strengthened for EPs (five-year cooling-off period). Rotation of the other leading auditors should not be more lax as that may be detrimental to audit quality.</p>	<p>Cooling-off period of EQCRs was strengthened, with EQCRs on audits of listed entities required to cool off for five years, and EQCRs on audits of public interest entities (PIEs) other than listed entities required to cool off for three years.</p> <p>The changes in the EQCR cooling-off period are being re-exposed.</p>
IESBA June meeting	<p><b>Weakness of LA provisions</b></p> <p>The overall weakness of the new regime may affect audit quality and influence the structure of the profession and its attitude toward effective oversight of companies' accounting systems. The regime should be extended to a wider range of PIEs, including (in addition to listed companies) financial institutions and large companies such as government-owned entities, where the need for reliable accounting is significant. Also, the consultancy activity of the EP in the cooling-off period should be described more clearly and limited to specific services for which few or no alternatives are available on the market. Therefore, the IAASB also needs to strengthen the PIE regime.</p>	<p>The LA provisions have been strengthened in some aspects (more stringent cooling-off period for EQCRs), and the main changes are being re-exposed.</p> <p>The IESBA has brought to the IAASB's attention the need to consider whether the scope of the EQCR requirement in ISQCI should be broadened to cover a wider range of PIEs in addition to listed entities. This issue was raised in the IAASB's December 2015 invitation to comment (ITC), "Enhancing Audit Quality in the Public Interest."</p>
IESBA October teleconference and CAG September meeting	<p><b>Complexity of LA provisions</b></p> <p>The proposal is quite complex and difficult to analyze.</p> <p>The added level of complexity to the code risks taking the focus off of the key independence principles and making understanding, acceptance, application, compliance, and convergence more difficult.</p>	<p>LA provisions are being re-exposed with limited questions on the main changes occurred vs. the original exposure draft.</p> <p>The IESBA concluded that stronger LA provisions are in the public interest and appropriate and that the benefits to increasing public trust in auditor independence outweigh the added complexity.</p> <p>Acknowledging that the revised proposals have added some complexity, the IESBA released a draft staff question and answer publication to facilitate understanding and application of the revised provisions. The publication will be issued with the final pronouncement.</p>

WHEN	PUBLIC INTEREST ISSUES	IESBA / IESBA CAG DIRECTION
<b>Fee-related issues</b>		
IESBA June meeting	<b>Fee-related issues</b> A multiparty research group, composed of independent academics, should be set up to analyze different aspects of the subject, such as the ratio of audit fees to non-audit fees, the historical developments, the cost of auditing, and the parameters for setting fees. Credibility of this research is essential.	The IESBA has begun initial fact-finding work on fee-related issues and issued a staff publication, "Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure." Further study is anticipated in 2016. Consideration of the nature of and approach to the IESBA's future work will be deliberated in due course.
<b>Review of Part C of the Code</b>		
IESBA October teleconference	<b>Part C of the Code</b> The board should not remove the cross-references to NOCLAR.	Part C of the code includes reference to NOCLAR provisions.

In 2015, the IAESB CAG played a key role in providing advice on possible areas for future IESs and guidance, which were included in the exposed 2017–2021 strategy. The CAG also provided advice to improve the clarity among the suite of standards and to improve the applicability of materials supporting implementation of a learning outcomes approach, IES 1 and IES 8. The CAG contributed to public interest issues through suggestions such as the need to clarify the definition of professional accountant. This year, the CAG added two new member organizations: the Common Content Project and the Latin American Association of Business and Accounting Colleges and Universities, making a total of 15 members and expanding the breath of perspectives reflected in the advice provided.

The PIOB applied an Oversight Assurance Model 3 (medium intensity) to oversee the IAESB and the IAESB CAG in 2015, with a mix of direct observations and remote observations of the board and CAG meetings and teleconferences held in the year.

The observations made by the PIOB during 2015 are shown in Table 8.

## IAESB and the IAESB CAG

The International Accounting Education Standards Board finalized the revision of its "Framework for International Education Standards [IESs] for Professional Accountants and Aspiring Professional Accountants" during 2015. This process involved the following:

- Approved changes in terminology to its "Framework for International Education Standards for Professional Accountants and Aspiring Professional Accountants" to align it with the revised IES
- Changed the status of the Framework from an authoritative to a non-authoritative document
- Approved a new definition of "professional accountant" in the context of the IESs and added that definition to the framework.

These revisions followed the finalization of the revision of the entire suite of IESs in 2014.

The IAESB also continued to work on guidance to support the revised IESs. This guidance, which is expected to be finalized during 2016, covers the following:

- The learning outcomes approach in the revised IESs
- The implementation of revised IES 1, "Entry Requirements to Professional Accounting Education Programs"

- The implementation of revised IES 8, "Competence Requirements for Engagement Partners."

The IAESB also worked on an IESs maintenance project, which proposes to make limited changes to the suite of IESs to improve consistency and which may be applied in the future to introduce minor changes across the IESs.

The most important IAESB activity during 2015 was the drafting and publication of the exposure draft for its upcoming 2017–2021 Strategy and Work Program. In this exposure draft, the IAESB included possible proposals for new IESs or guidance relating to professional skepticism and IT competences (for example, data analytics, cloud-based accounting), in addition to enhancements of current IESs (for example, IES 7, "Continuing Professional Development"). The PIOB suggested other areas for possible inclusion in the new strategy: learning and development required for professional accountants working on audits of financial institutions and financial instruments, and for integrated reporting. The IAESB acknowledged the suggestions, but did not include them in the exposed strategy.

The PIOB believes that the IAESB will play an important role in the next few years, in light of rising demands for stronger and more specialized professional education (and post-qualification education) for auditors.

**Table 8 - PIOB Observations of IAESB and IAESB CAG in 2015**

	IAESB				IAESB CAG			
	2015 oversight plan		2015 actual observations		2015 oversight plan		2015 actual observations	
	Nr.	%	Nr	%	Nr.	%	Nr	%
<b>Meetings of which:</b>	2		2		2		2	
<b>DO</b>	1	50%	2	100%	1	50%	1	50%
<b>RO</b>	1	50%	0	0%	1	50%	1	50%
<b>TC</b>	0	0	0	0	1	100%	1	100%

**DO:** Direct observations / **RO:** Remote observations / **TC:** Teleconferences

IAESB			IAESB CAG		
20 - 22 April	New York, NY, USA	Maria Helena Pettersson	12 - 13 February	London, UK	RO: Susana Novoa
4 - 6 November	New York, NY, USA	Jules Muis	12 May	Teleconference	Aileen Pierce
			28 - 29 September	New York, NY, USA	Aileen Pierce

The PIOB approved all of the revisions that the IAESB submitted for approval, as detailed in Table 2.

## Recommendations made to the IAESB and IAESB CAG during 2015

The public interest implications of the strategy were important. The PIOB's experience with the IAESB and its CAG during 2015 was positive. Discussions at board and CAG meetings were robust and thorough. Board members and CAG representatives showed awareness for the public interest. While some of the board's work related to non-authoritative documents that do not require the PIOB's approval, PIOB observers provided comments on those documents.

WHEN	PUBLIC INTEREST ISSUES	IAESB / IAESB CAG DIRECTION
<b>Implementation guidance for IESs</b>		
IAESB April 2015 meeting	<p><b>Differences in the level of development of accountants are important when developing education guidance and assessing implementation of the IESs</b></p> <p>The level of development of professional accountants is uneven, and professionals in some parts of the world may be certified, but not adequately prepared to execute their tasks in accordance with high-quality demands. The IAESB should consider regional differences when developing guidance and assessing implementation of the standards.</p>	<p>The IAESB acknowledged the comment. The IAESB published support materials that assist in implementation of the IESs. This included frequently asked questions, information papers, and other papers that addressed the needs of member organizations from both developing and developed countries.</p>
<b>Revision of the "Framework for International Education Standards for Professional Accountants and Aspiring Professional Accountants"</b>		
IAESB April 2015 meeting	<p><b>Uniform use of the new definition of "professional accountant" across SSBs</b></p> <p>Having all of the SSBs use a single definition of "professional accountant" would be ideal. It is difficult to understand why this definition does not apply consistently to all the SSBs.</p>	<p>The IAESB was sensitive to this comment. It was agreed that the basis for conclusion document accompanying the final framework would explain the rationale for enhancing the definition of professional accountant from an educational perspective and for the IAESB's own use and that this effort may also make a timely contribution to a broader debate.</p>
<b>Guidance on learning outcomes</b>		
IAESB April 2015 meeting	<p><b>Examples of implementation of a learning outcomes approach should be from around the world</b></p> <p>To help member bodies to implement the outcomes approach provided in the revised IESs, it would be useful to obtain examples from different parts of the world, not just from Europe and the United States.</p>	<p>The task force confirmed that, given the diversity of practices, providing examples from different parts of the world is an important objective. In November, the IAESB approved a set of examples showing diverse practices including examples from Australia, Germany, Kenya, and, Sri Lanka.</p>
<b>Implementation guidance for IES 8, "Competence Requirements for Engagement Partners"</b>		
IAESB April 2015 meeting	<p><b>Uneven level of professional development and size of the firms</b></p> <p>The uneven level of development of the profession in different parts of the world and the lack of resources of smaller firms compared with larger firms are important matters. Larger firms usually have fully dedicated professionals to develop content and training programs for various levels of staff and partners on a regular and continuous basis.</p>	<p>The task force took note of this suggestion. The IAESB consulted with stakeholders from the small and medium practices sector and incorporated their advice in support materials for applying IES 8. The final guidance was released in December 2015.</p>

WHEN	PUBLIC INTEREST ISSUES	IAESB / IAESB CAG DIRECTION
<b>Implementation guidance for IES 1, "Entry Requirements to Professional Accounting Education Programs"</b>		
IAESB April 2015 meeting	<p><b>Ethics and professional values as part of the implementation guidance on IES 1</b></p> <p>It is important to have specific guidance related to ethics and professional attitude, as these elements will not change and will remain the basis of high-quality services.</p>	<p>This guidance is still under development.</p>
<b>IAESB 2017–2021 strategy</b>		
IAESB November 2015 meeting	<p><b>Additional areas of work for the IAESB's new strategy</b></p> <p>Two areas that could be added to the proposed IAESB strategy are enhancing skills in finance and integrated reporting.</p> <p>The notion of "systemic risk" should be included in the draft IAESB 2017–2021 strategy to acknowledge the importance of the profession in contributing to financial stability.</p> <p>Monitoring the implementation of IESs should have a more prominent place in the draft strategy.</p>	<p>The strategy exposure draft includes a discussion of significant changes or trends in the environment in which professional accountants operate and acknowledges the growing range of accounting specializations and accelerating development of new forms of corporate reporting, including integrated reporting. The IAESB has not precluded work in developing skills in finance or integrated reporting. Rather, as possible specializations, the Strategy and Work Program acknowledges the possible need to enhance existing or develop new IESs.</p> <p>The IAESB included "systemic risk" in the exposed strategy.</p> <p>While not in a prominent place, the monitoring of implementation was addressed in the exposed strategy.</p>

## The Compliance Advisory Panel in 2015

The Compliance Advisory Panel finalized its new 2016–2018 strategy, following a public consultation.

The new strategy places greater emphasis on monitoring and reporting. This shift will allow it to produce qualitative and quantitative analyses regarding the status of adoption of international standards and compliance with the Statements of Membership Obligations (SMOs). This shift is aligned with PIOB past recommendations that the CAP should be more active regarding the adoption of the standards by member bodies and the generation of statistics showing the adoption of ISAs, the Code of Ethics, and the IESs across the globe.

Another element in the new strategy is the review of the current enforcement framework for IFAC member bodies. The existing framework needs to shift from focusing on IFAC member bodies' compliance with

requirements to focus on the qualitative progress made by members in implementing their SMO action plans.

The CAP also worked on a new design for its Dashboard Reports (DBRs) and an internal DBRs database, which will be based on the information provided by IFAC member bodies in their action plans and will include conclusions regarding the adoption of international standards. The CAP intends to publish all DBRs on its website.

In 2015, the PIOB applied an Oversight Assurance Model 3 (medium intensity) to oversee the CAP.

As shown on Table 9, the PIOB observations of CAP meetings in 2015 combined a lower intensity of direct observations, given the absence of risks, and a higher level of remote observations.

**Table 9. PIOB Observations of CAP Meetings in 2015**

	CAP			
	2015 oversight plan		2015 actual observations	
	Nr.	%	Nr	%
Meetings of which:	4		3	
DO	1	25%	1	33%
RO	3	75%	2	67%
TC	1	100%	1	100%

CAP		
11 - 12 February	Jordan	RO: Claudia Deodati
20 - 21 April	New York, NY, USA	NOT OBSERVED
13 - 14 July	New York, NY, USA	Jules Muis (13 only)
6 August	Teleconference	Susana Novoa
15 - 16 October	New York, NY, USA	RO: Susana Novoa

**DO:** Direct observations / **RO:** Remote observations  
**TC:** Teleconferences

The PIOB approved all CAP submissions for approval, as detailed in Table 2.

**Recommendations Made to the CAP**

The CAP’s performance was satisfactory in 2015. The PIOB acknowledges that adoption and implementation are the joint responsibility of a number of stakeholders—professional bodies, audit firms, national regulators, and inspection bodies. The CAP plays a critical role in this context. The PIOB recognizes the need to have the ISAs, the Code of Ethics, and the IESs adopted globally and implemented properly, and is committed to supporting their adoption and implementation.

In this context, the PIOB made a number of recommendations to the CAP.

**PIOB Recommendations to the CAP in 2015**

WHEN	PUBLIC INTEREST ISSUES	CAP DIRECTION
<b>Implementation guidance for IESs</b>		
CAP July 2015 meeting	<b>Validation of information provided by member bodies in their action plans</b> One IFAC member body in Europe reported compliance on ISAs, but such compliance was not very clear. The PIOB observer urged the CAP to check that this was not a general case and that no structural issue needed to be addressed.	The CAP agreed with the observer’s suggestion. The issue is being researched by CAP staff. A formal reply will be submitted to the PIOB.
Since 2012	<b>Opening CAP membership to third parties</b> The PIOB’s suggestion that CAP membership should be open to all stakeholders, not only to IFAC member bodies, has not been addressed. The presence of third-party members would make a valuable contribution to the CAP. One option is to have a member from a global development institution.	This was discussed by the IFAC leadership and Nominating Committee in 2013 and 2014. It was concluded at that time that no change was needed as current CAP composition with PIOB oversight provides adequate public interest input. After this matter was brought up again in 2015, The CAP forwarded this recommendation to the IFAC Board’s Governance Committee. The Governance Committee had not had the opportunity to discuss this matter as of the date of this report. Accordingly, the 2017 call for nominations continues to limit CAP nominations to IFAC member organizations.

**PIOB OUTREACH IN 2015**

2015 was an important year for the PIOB, marking its consolidation as a recognized institution that serves the public interest and celebrating the road traveled since 2005 in its tenth anniversary report.

The PIOB’s oversight mandate requires being fully aware of stakeholders’ concerns. In 2015, the PIOB continued to communicate effectively with stakeholders. It also made its own communications more diverse and more effective. The quarterly updates released after each board meeting sought to offer full transparency by relaying the agenda, discussion, and decisions adopted.

Throughout 2015, the PIOB continued to engage actively with stakeholders to share knowledge and exchange views on public interest issues, standard setting, and oversight. This year, 26 outreach activities were conducted:

- Meetings with MG and MG members (23%)
- Conferences and events attended (24%)
- One-on-one meetings (19%)
- PIOB presentations and updates (27%)
- PIOB-organized events (7%)

**Table 10 - PIOB Outreach Activities in 2015**

DATE	LOCATION	EVENT	OBSERVER
<b>JANUARY</b>			
20	Brussels	European Commission—Nathalie Berger	Eddy Wymeersch
20	Brussels	Belgian Institute of Registered Auditors (IBR) General Meeting	Eddy Wymeersch
26	Washington	Center for Audit Quality	Gonzalo Ramos
<b>FEBRUARY</b>			
4	Madrid	International Organization of Securities Commissions (IOSCO) CI	Gonzalo Ramos, Susana Novoa, Claudia Deodati
<b>MARCH</b>			
3–4	Madrid	International Corporate Governance Network (ICGN)	Gonzalo Ramos, Rocío Goudie
5	Paris	MG	Eddy Wymeersch, Gonzalo Ramos
23	Abu Dhabi	Public Interest International Forum	ALL
<b>APRIL</b>			
21–23	Taipei	IFIAR Plenary Meeting	Nic van der Ende

DATE	LOCATION	EVENT	OBSERVER
<b>MAY</b>			
7	Madrid	Spanish Accounting and Management Association (AECA)	Gonzalo Ramos
14	Madrid—PIOB	University of Madrid, master's program for accountants (MACAM)	Gonzalo Ramos
<b>JUNE</b>			
5	London	Meeting with investors	Eddy Wymeersch, Gonzalo Ramos
12	Brussels	European Union (Alain Deckers)	Eddy Wymeersch, Gonzalo Ramos
22	London	IASB, ICGN, and U.K. FRC	Eddy Wymeersch, Gonzalo Ramos
22	London	IASB (Hans Hoogervorst)	Eddy Wymeersch, Gonzalo Ramos
22	London	U.K. FRC (Stephen Haddrill)	Eddy Wymeersch, Gonzalo Ramos
22	London	European Federation of Accountants and Auditors for SMEs (EFAA)	Eddy Wymeersch, Gonzalo Ramos
22–23	Brussels	Federation of European Accountants (FEE) audit conference	Karel Van Hulle
25	Lisbon	EFFA	Jules Muis
28	Basel	Bank for International Settlements (BIS) annual conference	Nic van der Ende (Basel)
<b>SEPTEMBER</b>			
30	Madrid	Tenth anniversary seminar	ALL
<b>OCTOBER</b>			
14	Brussels	European Commission (Alain Deckers)	Karel Van Hulle
21	Toronto	MG	Gonzalo Ramos
<b>NOVEMBER</b>			
4–6	Geneva	United Nations Conference on Trade and Development (UNCTAD)—International Standards of Accounting and Reporting (ISAR)	Karel Van Hulle
11–12	Singapore	IFAC Council	Eddy Wymeersch (video)
12	Madrid	Instituto de Censores Jurados de Cuentas de España (ICJCE)—audit research	Gonzalo Ramos

DATE	LOCATION	EVENT	OBSERVER
18	Brussels	Consultative Committee of Accountancy Bodies (CCAB) accountants for growth conference	Eddy Wymeersch
25–26	Beirut	Lebanese Association of Certified Public Accountants (LACPA) twentieth international congress	Gonzalo Ramos
<b>DECEMBER</b>			
2–4	Washington	PCAOB, International Institute on Audit Regulation	Claudia Deodati
9	London	Prince's Accounting for Sustainability	Gonzalo Ramos
17	Brussels	Institute of Chartered Accountants in England and Wales (ICAEW)—insolvency	Eddy Wymeersch

Apart from attending conferences and holding meetings with stakeholders, the PIOB organized two events following the positive outcome of the public interest workshop held in September 2014, in New York.

- For its quarterly meeting abroad, the PIOB traveled to Abu Dhabi, where it co-hosted with the Abu Dhabi Accountability Authority (ADAA) a public interest international forum aimed at the profession in the Gulf area. There were 100 participants from audit firms, consultancies, regulators, and professional bodies, among others. The chairs of the standard-setting boards (IAASB, IESBA, and IAESB) and their CAGs, IFAC leadership, the full PIOB, and ADAA executives were also present.

- On September 30, the PIOB celebrated its tenth anniversary with a full-day seminar in Madrid dedicated to analyzing the Future Challenges in Audit Oversight with guests representing the accountancy profession, regulators, and other stakeholders. There were 80 participants, including 16 panelists, PIOB board, and PIOB staff. The seminar was structured in four panels that addressed (a) standard setting in the public interest, (b) regulatory challenges in standard setting, (c) responses to the global financial crisis, and (d) audit quality and standard implementation. A reception took place immediately afterward.

The PIOB also published two important documents in 2015 (which are available on the website):

- 1) A summary document, "Standard Setting in the Public Interest: A Description of the Model," which explains the governance functions supporting audit-related standard setting developed in collaboration with the MG, IFAC, and the SSBs
- 2) A commemorative tenth anniversary publication, "Ten Years of Public Interest Oversight," which reviews the history of the PIOB and includes contributions from the main actors in international standard setting in the fields of audit, ethics, and education.

The PIOB communications policy has come a long way in the past years. Table 11 identifies PIOB stakeholders engaged since then and the number of meetings held with each.

**PIOB Stakeholders, 2012–15. Table 11**

STAKEHOLDER	2012	2013	2014	2015
Monitoring Group	3 (1 full PIOB board + MG, 1 PIOB secretary general, 1 PIOB chair and secretary general)	3 (2 full PIOB board + MG, 1 MG chair, and 1 PIOB chair, secretary general + member)	2 (1 MG chair and PIOB chair, secretary general + 1 full PIOB board + MG)	2 meetings between MG chair and PIOB chair, secretary general
IFAC leadership	4	4	4	4 (1 by video conference)
IAIS	1	1	Annual meeting	1 (IAIS Accounting and Auditing Working Group meeting)
IFAC Council	1		2	Message from the PIOB chair by video
European Commission	2	1		1
IFAC board	3	4	3	
Standard-setting boards		IPSAS roundtable; IAASB roundtable	IESBA round table	
IFAC	Sovereign debt crises seminar			
IFIAR	2	3 (1 meeting with IFIAR chair, 1 with IFIAR vice chair)	1	Plenary meeting
ICAEW	4 (2 conferences + 2 meetings)	Public sector finances; democratic accountability and fiscal sustainability	Twentieth anniversary seminar	
PCAOB	1		International Institute on Audit Regulation	International Institute on Audit Regulation
IOSCO		Meeting with IOSCO and MG chair; Committee 1, issuer accounting, audit, and disclosure	Annual conference	Committee 1, issuer accounting, audit, and disclosure

STAKEHOLDER	2012	2013	2014	2015
EAIG			3	
ICGN			Annual meeting	2
BIS	Annual meeting		Annual meeting	Annual meeting
UNCTAD–ISAR			1	1
IFRS Foundation	1	1	1	
IASB	1			Meeting with the chair
International Monetary Fund (IMF)		1		
LACPA			Nineteenth international congress	Twentieth international congress
Prince’s Accounting for Sustainability	1	1	1	1
FEE		FEE Audit Committee roundtable	FEE public sector roundtable	Audit conference
Financial Stability Board (FSB)	1	1		
U.K. FRC	1			Meeting with the chair
Center for Audit Quality				1
EFFA				1
IMF and World Bank new fiscal transparency code		Seminar	1	
World Congress of Accountants (WCOA)			1	
European Parliament		1		
Eurostat		European Public Sector Accounting Standards (EPSAS) conference		

# PIOB's Funding and Summary of Financial Statements in 2015

STAKEHOLDER	2012	2013	2014	2015
U.S. Securities and Exchange Commission	1			
PwC	Accounting and financial regulation conference			
Malaysian Institute of Accountants	Conference			
Masters in Accounting, Auditing and Capital Markets (MACAM)	Annual student conference	Annual student conference	Annual student conference, Universidad del País Vasco	Annual student conference
Spanish Association of Accountants (AECA)	Spanish national audit congress	Workshop on business ethics		Spanish Accounting and Management Association
Spanish Institute of Certifies Accountants (ICJCE)		ICJCE ethics roundtable	Association for Accounting Training	ICJCE audit roundtable

In 2016 the PIOB will continue to meet with stakeholders in different forums and will host the second public interest workshop. It will also focus on increasing the transparency and reach of its work by enhancing the PIOB website.

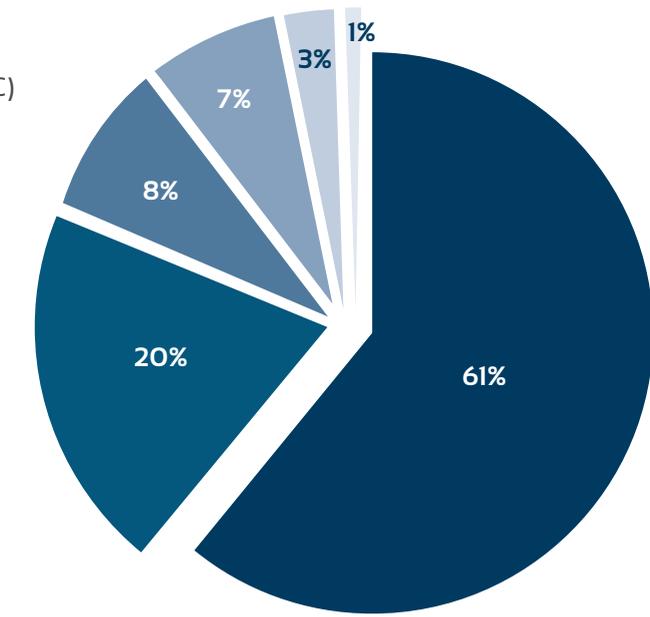
## PIOB Budget Diversification

In 2012, the PIOB conducted a fundraising exercise in close coordination with the MG and IFAC. As a consequence, in 2013, 2014, and 2015, the PIOB achieved a more diversified funding base that includes sources other than IFAC. In 2015, the PIOB received contributions that amounted to 1,532,907 euros from the following contributors:

- International Federation of Accountants: 930,154 euros
- European Commission: 312,000 euros
- Abu Dhabi Accountability Authority: 120,000 euros
- International Organization of Securities Commissions: 100,000 euros
- Financial Reporting Council: 40,000 euros
- Bank for International Settlements: 23,000 euros
- Interest income: 7,753 euros

## 2015 Contributions

- International Federation of Accountants (IFAC)
- European Commission (EC)
- Abu Dhabi Accountability Authority (ADDA)
- International Organization of Securities Commissions (IOSCO)
- Financial Reporting Council
- Bank for International Settlements (BIS)



# Summary of Financial Statements

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

	2015	2014
TOTAL REVENUE (3)	1,532,907	1,502,850
<b>EXPENSES</b>		
<b>Board related operating costs</b>		
Oversight Program	842,800	821,025
External Relations Program	131,584	143,109
Monitoring Group and Monitoring Group members	134,027	145,328
Foundation Board Meetings	134,441	132,030
Other ongoing operating costs	221,396	224,474
<b>TOTAL EXPENSES</b>	<b>1,464,248</b>	<b>1,465,966</b>
<b>Surplus</b>	<b>68,659</b>	<b>36,884</b>

(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.

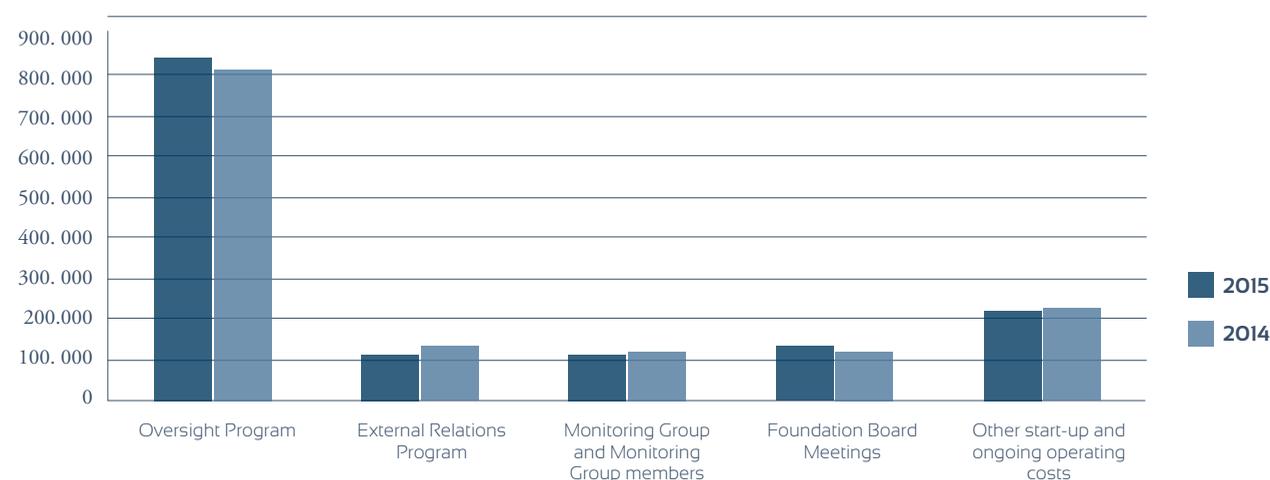
This accountability includes the presentation of periodic operating reports, the PIOB's annual Public Reports, the PIOB Foundation yearly audited financial statements, and an annual budget for the Monitoring Group's review and approval.

(3) PIOB total revenues for 2015 were contributed by the International Federation of Accountants (IFAC) in the amount of 930,154 Euros, the European Commission (EC) in the amount of 312,000 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 in the amount of 23,000 Euros and Financial Reporting Council (FRC) in the amount of 40,000 Euros. In 2015, the remainder of revenue over expenses of 68,659 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](http://www.ipiob.org).

## PIOB Expenses by Activity



■ 2015  
■ 2014

# Appendix I - The PIOB

6



### Mr. Eddy Wymeersch - PIOB Chairman

Member of the board of Euroclear SA and of the Association for the Financial Markets in Europe (AFME); former chairman of the Committee of European Securities Regulators (CESR) (2007–10) and of the European Regional Committee of IOSCO, in that capacity also taking part in the Executive and the Technical Committees (2006–10); former chairman of the Belgian Commission Bancaire, Financière et des Assurances (CBFA, chief executive in 2001–07 and chairman of the supervisory board in 2007–10); and 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; and former chairman of the National Securities Depository, Ltd.



### Ms. Jane Diplock, AO

Chair, Executive Committee, IOSCO (2004–11) and chairman, New Zealand Securities Commission; director of the Singapore Exchange Ltd.; director of the Australian Financial Services Group Party Ltd.; 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.



### Mr. Nic van der Ende RA

Certified accountant and coordinating senior policy officer at De Nederlandsche Bank, the Netherlands; member of the Basel Committee on Banking Supervision's 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; and former public accountant at PricewaterhouseCoopers, the Netherlands.



### Ms. Maria Helena Pettersson

Initially joined the auditing profession as a trainee auditor at Ernst and Whinney (1981–83); held an executive position at Preformed Line Products in São Paulo (1983–85); rejoined the auditing profession as a senior auditor at PwC Brazil (1985–88); audit manager at PwC Sweden (1989–91); audit partner at Ernst and Young Brazil (1991–2012); consultant and independent board member (2012–present); vice president of the Brazilian National Association of Accountants and Management Professionals (ANEFAC).

# Appendix II - Glossary



**Mr. Michael Holm**

Former director of the Reinsurance and General Insurance Division of Finanstilsynet, Danish Financial Supervisory Authority, becoming a bank inspector (1988), head of Market Risk Division (1990), director of Financial Conglomerates (1992), and director of Reinsurance and General Insurance (1998); former president of the Council Working Group on Financial Conglomerates during the Danish Presidency of the EU and negotiated the final details with the European Parliament (2002); former member of the IAIS Technical Committee and of the IAIS Reinsurance Subcommittee; and knighted by the Queen of Denmark in 1993.



**Mr. Chuck Horstmann**

With a 40-year career in public accounting and more than 20 years of experience in global management roles dealing with professional and regulatory matters, served as IFAC’s deputy president, working closely with the MG in 2002–04 on the IFAC reforms that led to the formation of the IOB and its oversight roles; involved in monitoring standard-setting developments and providing comment letters to the Monitoring Group, the IOB, and various standard-setting organizations.



**Mr. Jules Muis**

Former director general and chief internal auditor of the European Commission (2001–04) and vice president and controller of the World Bank (1995–2000); prior to 1995, held senior client- and practice-management positions at Ernst and Young, serving as executive partner of its European operations (1992–94); former president of NIVRA, the Dutch Institute of Registered Accountants (1991).



**Mr. Karel Van Hulle**

Associate professor at the Business and Economics Faculty of the KU Leuven, honorary professor at the Economics Faculty of the Goethe University in Frankfurt and chairman of the Insurance and Reinsurance Stakeholder Group of the European Insurance and Occupational Pensions Authority (EIOPA); former head of unit at the European Commission until March 2013, with subsequent responsibilities for accounting, auditing, company law, insurance, and pensions.

## PIOB Secretary General



**Mr. Gonzalo Ramos**

PIOB secretary general; former chairman of the International Monetary Fund External Audit Committee; former executive director, chairman of the Financial and Operations Committee, and 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.

## PIOB Staff

- Susana Novoa** – Director of Oversight
- Rocio Goudie** – Communications and External relations Advisor
- Claudia Deodati** – Oversight Advisor
- Heather Erickson** – Executive Assistant
- Renzo Lari** – Financial Controller

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. For a fuller version of the Glossary please visit [www-iiob.org/glossary](http://www-iiob.org/glossary)

**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

**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 IOB 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 IOB oversees each CAG.

**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.

**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 IOB 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 on Auditing and other pronouncements dealing with auditing, review, other assurance, quality control, and related services. The IOB 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 IOB oversees the work of the IESBA.

**International Federation of Accountants (IFAC):** the global organization representing the accountancy profession. IFAC is committed to protecting the public interest by developing high-quality international standards, promoting strong ethical values, encouraging quality practice, and supporting the development of all sectors of the profession around the world. The IAASB, IAESB, and IESBA are three independent standard-setting boards that are supported by IFAC.

**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 the international standard setter for securities markets.

**International Standards on Auditing (ISAs):** IAASB pronouncements to be applied in the audit of historical financial information.

**Monitoring Group (MG):** the regulatory and international organization responsible for monitoring implementation of the IFAC 2003 reforms. The MG nominates PIOB members and engages in dialogue with the international accountancy profession, receives operating and financial reports from the PIOB, and updates the PIOB regarding significant events in the regulatory environment. Members of the MG are the Basel Committee on Banking Supervision, the European Commission, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the World Bank, the Financial Stability Board, and the International Forum of Independent Audit Regulators.

**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.

**Public Interest Oversight Board (PIOB):** an independent body that is nominated by the Monitoring Group and is responsible for approving appointments and conducting ongoing oversight of IFAC public interest activities. The PIOB's mandate requires it to increase public confidence that those activities are properly responsive to the public interest.

**Standard-setting boards (SSBs):** the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) under the oversight of the PIOB.

**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.



PIOB 10<sup>th</sup> ANNIVERSARY SEMINAR - Madrid, 30<sup>th</sup> September, 2015

## **Public Interest Oversight Board**

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