



Public Interest Oversight Board

# RESPONDING TO OVERSIGHT DEMANDS

**PIOB 12<sup>th</sup> PUBLIC REPORT**  
**2016**

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## **Public Interest Oversight Board**

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Since its inception, the PIOB has received financial support from the International Federation of Accountants (IFAC).

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

In 2016, the PIOB has also received financial support from: the Abu Dhabi Accountability Authority (ADAA), the Bank for International Settlements (BIS), CFA Institute, the U.K. Financial Reporting Council, and the International Organization of Securities Commissions (IOSCO).

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 contributing organizations.



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# I.MESSAGE FROM THE PIOB CHAIRMAN

EDDY WYMEERSCH

SECTION I



The reliability of financial statements of both public and private entities is an essential condition for the functioning of our economic systems, as they determine numerous decisions that affect all sections of society. Financial statements are governed not only by the accounting standards, but also by the standards relating to the activity of the accountants - especially of the auditors, who provide assurance on those financial statements. In that sense, the auditor's report is the basis for the confidence of the public in the reliability of the financial statements. They thereby produce a "public good," a service provided to all members of society.

The PIOB's objective has been described in its founding document as "to increase the confidence of investors and others that the public interest activities of the standard setting boards are properly responsive to the public interest." This statement indicates that the PIOB will oversee the way the standard setting boards develop their standards and will be able to intervene if the public interest is not adequately served. The different tools to be used to achieve this role are, among others, the approval of the chairs and members of the standard setting boards, the evaluation of the due process, the approval or rejection of the terms of reference of the boards and of their strategy and work programs. Evaluating due process is a tool to achieve public interest responsiveness, not the objective itself.

In practice, the PIOB exercises its oversight in a continuous dialogue with the standard setting boards, inviting the boards to consider certain aspects of a proposed standard, suggesting amendments to its scope, or encouraging alternative formulations that may be clearer and more concise. It draws attention to the effectiveness of a standard, or to its scope, applicable not only to both the largest audit firms but also to the small practitioners and others. It accepts arguments of a cultural nature relating to the legal or social environment in which the standards have to be applied. In rare cases the PIOB will invite a standard setting board to review a standard for reasons of public interest.

During the year under review, Charles Horstmann left the Board in December 2016, and Chandrashekhar Bhawe, left in February 2017. The Board thanks them for their year long contribution, expertise, and efforts for the PIOB. Three new members joined the Board in 2017: Karen Stothers, Kevin Dancey, and Shigeo Kashiwagi. They will enrich the Board with new and valuable insights.



## SECRETARY GENERAL REPORT

**GONZALO RAMOS**

The activity of the PIOB in 2016 was intense on many fronts, but three areas deserve specific mention: the public interest oversight applied to some specific projects developed by the IAASB and the IESBA, and on the Nominating Committee; the discussion over the future role of the International Accounting Education Standards Setting Board (IAESB); and the strategy developed by the PIOB for implementation in the 2017-2019 period.

The approval of the new standard on responding to non-compliance with laws and regulations (NOCLAR) in April 2016 by the IESBA was an occasion to celebrate after a long process of development. The provisions provide guidance to the professional accountant when identifying or suspecting non-compliance with laws and regulations and strive to attain a balance between raising the ethical requirements on professional accountants and keeping the individual protected from physical or other harm. The principle of confidentiality, one of the basic pillars in the Code of Ethics, has been qualified by the duty to serve the public interest when suspecting a NOCLAR.

IESBA also approved the standard on Long Association (LA) in December 2016. The PIOB conveyed comments during the development of the project through the finalization of the standard. Main concerns related to the complexity of the standard, the existence of exceptions to the basic rule of a five-year cool-off period for audit partners between assignments with the same client, including the so-called "jurisdictional clause," and the transitional provision. These concerns were all addressed.

In relation to the IAASB, the PIOB contributed input to the Exposure Draft of ISA 540 on Accounting Estimates, approved by the IAASB in March 2017. The PIOB also provided comments to the IAASB's Invitation to Comment (ITC) through direct contact with the IAASB and with the audit firms.

Regarding Professional Skepticism (PS), the PIOB pointed out the need to consider the existence of additional risks to PS, such as the commercial dependence on clients and the business model of audit firms. The current business model of audit firms is of relevance to standard setting. The underlying incentive system impacts the approach of the firms towards PS, the provision of non-audit services, and audit fees. The increasing share of revenue from providing non-audit services and

consulting activities in relation to revenue from audit services may raise concerns about the independence of the auditor and have an impact on audit quality. The PIOB intends to seek further clarity on the precise implications of the business model to standard setting by SSBs. This should help identify issues caused by a business model that needs to bridge the tension of a public interest function carried out within a private setting.

Regarding Audit Quality (AQ), the PIOB highlighted some risks - the structural incentives of remuneration systems, of the business model of firms, and their governance. In addition, firms need to do more to ensure that their operating practices, corporate governance structures, audit and non-audit professional services and related fees, remuneration schemes, and the firms' quality control systems are known and understood by stakeholders. This could be achieved by requiring firms to publish substantive transparency reports.

Regarding Group Audits, responsibilities between component auditors and the group engagement partner should be clearly assigned.

On IFAC's Nominating Committee, the PIOB continued to make several recommendations: to review SSBs' membership categories, to increase the independence of IFAC's Nominating Committee, and addressing issues of representation in SSBs, including the representation of different categories of IFAC members in the membership of the IAASB and IESBA and the geographical representation of members.

The year 2016 was an important year for the IAESB. The main subject of discussion was defining the strategy of the Board for the next five years and related work program, which ran parallel to the discussion about the future structure and operation of the Board and the CAG. The need to issue additional standards in education continues to be challenged by some IFAC member bodies, but in 2017, the Board submitted for approval the 2017-2021 Strategy and a Work Program for the period 2017-2018. This strategy sets clear priorities and includes important new areas for standard development and implementation support, and is supported by the PIOB. The future structural arrangements of the IAESB remain to be finalized in 2017, but, given the agenda for reform initiated by the MG in 2015, it seems appropriate that any changes to the IAESB are decided alongside those that might affect the rest of the SSBs.

To support the development of SSBs' strategies, the PIOB organized the Second Public Interest Workshop in New York on September 15, 2016: "Preparing for the Next Generation of Auditors." The 60 participants (Regulators, Standard Setting Board Chairs and Members, and CAG members amongst other stakeholders) discussed a number of issues in six round tables around three themes: *trends in audit*, which focused on the possibilities of the profession to address some aspects of the expectations gap, such as forward-looking elements in the audit of financial statements; *auditor independence*, which dealt with the effects of the current business model of the firms on the independence of auditors; and *standard setting in the public interest*, which considered options to increase the responsiveness of the current standard setting model to the public interest.

One of the questions tabled for discussion was how skills required from auditors have evolved in recent years. Workshop participants agreed that the current education model is outdated and further skills need to be developed. This applies both to the younger and current generations of auditors. Emphasis was placed on developing skills on data analytics, IT, valuation, risk assessment, business acumen, and critical thinking. It was also highlighted that skills need to be specialized. Different skills are required in audit teams and not necessarily in each individual auditor. The role of the audit partner is veering towards coordination and communication as there may be a need to bring in outside experts into multidisciplinary teams. Forward-looking information used to determine accounting estimates, provisions, and assessing the going concern status of an entity are amongst the most important components of the financial statements. Audits already incorporate these forward-looking aspects, but it was agreed that auditors could do more. Assurance on uncertainty is not possible, but assurance on the process of the audit of forward-looking information can be better.

Workshop participants agreed that the current education model needs to take these evolutions into account. The summary of the discussions is available in the PIOB website.

### 3. 2017-2019 PIOB STRATEGY

During 2016, the PIOB prepared its new strategy for the period 2017-2019.

In August 2016, the PIOB issued its 2017-2019 Strategy for public consultation, with the aim to improve on the delivery of its mandate to strengthen the public interest responsiveness of audit-related standards. The consultation included considerations on the current standard setting system and the PIOB's vision of the system's evolution in the longer term.

A total of 32 letters was received by December 2016. Responding to stakeholder input makes the PIOB confident that its planned actions carry the legitimacy of having carefully considered all views. In March 2017, the PIOB issued its Feedback Statement on the consultation carried out, as well as the final 2017-2019 Strategy.

The PIOB 2017-2019 Strategy Consultation and Feedback Statement coincide with the current initiative of the Monitoring Group (MG) to improve the audit-related standard-setting framework. Accordingly, the PIOB Strategy was consulted with the MG to ensure that the PIOB's role and mandate over the next three years does not conflict with the reforms framework that might be agreed between the MG and IFAC.

Public interest oversight is an essential condition for the confidence in the standards which, in turn, is critical for the credibility of financial information. The stability of financial markets rests on this confidence, and the PIOB is aware of the impact of the effective delivery of its mandate on financial stability. During the implementation of its 2017-2019 Strategy, the PIOB will strengthen its ability to identify public interest issues through different means. First, by defining a more structured methodology for analyzing the main public interest elements in international standard setting. This framework will identify the main elements that, in the PIOB's view, drive the public interest in the development of standards. Second, the PIOB will continue to strive to

identify public interest issues early in the development of standards and convey these to the SSBs, this objective does not preclude the PIOB's right to conclude on the final document: Whether an outcome meets the public interest can only be assessed after all of the consultation processes have been completed, when the disposition of all comments has been monitored, and when the board has produced a final standard. Third, the PIOB will intensify its dialogue with the MG, with CAG members, and with other stakeholders, continue to organize public interest workshops on a more regular basis, and increase its interaction with SSBs and stakeholders throughout the development of a standard. Finally, more strict oversight of the strategies of SSBs should contribute in identifying public interest issues at an early stage.

The PIOB will also continue to work with the MG to oversee the implementation of the eventual reforms agreed between the MG and IFAC within the PIOB Strategy period. The PIOB Strategy consultation yielded broad support for reviewing the current standard setting model. While the quality of the current body of standards is generally not questioned, some stakeholders continue to perceive the audit profession as having undue influence in the standard-setting process. To eliminate this perception, reforms should be contemplated regarding the composition of the SSBs and the nomination processes to SSBs membership.

The PIOB will await the outcome of the current dialogue between the MG and IFAC to review the Terms of Reference of all SSBs and the Nominating Committee, which were last reviewed in 2011. Within the strategy period, the PIOB will develop a more structured process for overseeing nominations to SSBs, including the SSBs chairs and to the Nominating Committee of IFAC.

During the next three years, the PIOB will strengthen its mandate to ensure that standard setting continues to be carried out in the public interest. This objective will be accomplished through different actions. First, by

explaining to stakeholders that the effective delivery of its mandate requires ensuring that the substance of the standard is in the public interest, that all stakeholders input has been adequately considered, and that public expectations and concerns have been met. Public interest oversight entails more than conformity with due process. Second, overseeing the constitution and operations of SSBs' task forces to ensure the participation of all relevant stakeholders. Finally, together with SSBs, considering possible time efficiencies in due process, with a special focus on the sufficiency of staff resources required to deal appropriately with the demands of international standard setting.

The consultation also asked for suggestions regarding what the curricula of accountants should contemplate and how the PIOB could better support the IAESB. In February 2017, the IAESB approved its 2017–2021 Strategy, which should place the IAESB in a leading role to support introduction of the new skills required in the education of auditors and professional accountants.

The PIOB Strategy includes a specific chapter on the IAESB and the International Education Standards (IESs). The IESs may not be specific enough to favor development of the skills needed to deliver an audit beyond the traditional audit of historical financial statements. This is especially important in developing and transition economies, for which more granularity is needed in the standards and additional implementation guidance is so important. To address this issue, during the next three years the PIOB intends to suggest ways to develop existing IESs or introduce new or sector-specific IESs, such as those considered by the IAESB in its 2017–2018 Work Plan. In addition, the PIOB will continue to consider how the IAESB can better fulfill its role in the public interest. The coordination of the IAESB with the IAASB and IESBA in current projects is important, as is the development of further implementation guidance

and material. The PIOB is of the view that the resources of the IAESB will need to be increased for it to be able to credibly implement its recently approved strategy.

Regarding adoption and implementation of the standards, the PIOB will work with IFAC and the CAP to monitor the effective application of international standards in the different jurisdictions of member bodies as issued by the SSBs. The PIOB welcomes the CAP's more intense and refined methodology with regard to the effective adoption and implementation of the standards. The effective application of ISAs in different jurisdictions may be conditioned by specific general conditions documents, add-ons, or carve outs. These differences need to be better understood. A similar concern affects the extent of adoption of the IESBA Code of Ethics and the accurate reflection of the complexity of adoption in the definition of adoption categories. Understanding the degree of adoption of IESs by IFAC members will help to understand the extent to which IESs are implemented and useful in practice.

Regarding its communication with stakeholders, PIOB transparency will be enhanced by making public a summary of the minutes of the PIOB quarterly meetings referring to the main public interest issues raised by observers.

In 2017, the PIOB will start implementing its strategy for the next three years, as outlined above.

### Overview

During 2016, the SSBs under the PIOB's oversight have been working on projects which carried important public interest implications.

PIOB members observed SSB and CAG meetings during the year, as well as IFAC's Nominating Committee and CAP meetings. Staff monitored the disposition of comments and carried out public interest reviews of the projects as they were being developed and on the final standards submitted for approval.

The oversight work performed during the year resulted in the approval of the standards detailed in Table 2 below, which the PIOB agreed had been developed in accordance with due process and with proper regard for the public interest. Throughout the year, the PIOB provided specific public interest input to the SSBs and CAGs on the different standards, as well as to IFAC's Nominating Committee and CAP.

Table 1 below shows the oversight models applied to each SSB and CAG, IFAC's Nominating Committee (Nom Com) and the CAP in 2016.

Table 1. Oversight Assurance Models during 2016

Model	Intensity of PIOB Oversight	When	PIOB Observations	SSB/NC/CAP
1	High	Higher risk to public interest protection	100% observations	IAASB IESBA NC
2	Medium	Medium risk to public interest protection	Medium level of observations	IAESB CAP
3	Low	Low risk in public interest protection	Minimal or no observations	-

## PIOB Approvals

Table 2 presents the standards that the PIOB approved in 2016.

Table 2. PIOB Approvals in 2016

PIOB BOARD MEETING	SSB	STANDARD / STRATEGY
March	IAASB	ISA 810 (Revised) – “Engagements to Report on Summary Financial Statements”
March	IESBA	Changes to Part C of the Code Addressing Preparation and Presentation of Information and Pressure to Breach the Fundamental Principles
June	IESBA	Responding to Non-Compliance with Laws and Regulations (NOCLAR)
June	IAESB	Drafting Changes to the International Education Standards, the Framework for International Education Standards for Professional Accountants and Aspiring Accountants, and the IAESB Glossary of Terms
September	IAASB	ISA 250 (Revised) – “Consideration of Laws and Regulations in an Audit of Financial Statements”, Including Related Conforming Amendments to Other International Standards”

In addition to the approvals listed above, the PIOB agreed that the CAP 2016 and 2017 Work Programs were developed with proper regard for the public interest.

Table 3 below presents the number of observations conducted by the PIOB in 2016, for all SSBs, CAGs, the Nom Com and the CAP, compared to 2015.

Table 3. Total Number of PIOB Observations in 2016 and 2015

	Total all SSBs, CAGs, NOM COM, and CAP			
	2015 Actual Observations		2016 Actual Observations	
	Nr.	%	Nr	%
Meetings of which:	24		24	
<b>DO</b>	<b>20</b>	<b>83%</b>	<b>23</b>	<b>96%</b>
RO	4	17%	1	4%
		100%		100%
<b>TC</b>	<b>9</b>	<b>100%</b>	<b>11</b>	<b>100%</b>

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

## Monitoring of Comment Letters Submitted by Members of the Monitoring Group (MG)

The PIOB closely monitors the disposition by SSBs of public interest input offered in comment letters submitted by members of the MG and other regulators, such as members of the International Forum of Independent Audit Regulators (IFIAR) and the European Audit Inspection Group (EAIG), as part of its oversight of the SSBs and the standards being developed. This process includes the analysis of the comment letters and holding conference calls whenever necessary for a comprehensive understanding of comments. The process materializes in databases summarizing the issues and recommendations conveyed by these stakeholders, as well as the assessment of PIOB staff

and how the SSBs have disposed of each one in the final standard. The databases are shared with stakeholders to ensure their consistency and with SSBs to ensure their usefulness.

In 2016, the databases continued being published in a dedicated area of the PIOB's website, at <http://www.ipiob.org/index.php/monitoring-of-comment-letters-to-ed>.

## Oversight of the Nominating Committee (Nom Com) in 2016

The PIOB discussed a number of issues with IFAC regarding IFAC's Nom Com during the year. Some are outstanding issues which remain unsolved and others were raised for the first time. The former includes the definition of Public Members (PMs) and of Non-Practitioners (NPs), which overlap with each other, and the need to increase the independence of IFAC's Nominating Committee. These issues are critical to ensure a balanced representation of stakeholders in SSBs to better respond to public interest issues.

In many respects, the nominations process has been conducted in a satisfactory way. Several issues were highlighted by the PIOB in 2016.

The geographical representation in SSBs can be improved. The representation of some regions such as Latin America and the Middle East, could be brought more in line with the criteria used by international organizations. In addition, IAASB's and IESBA's membership is predominantly associated to nominations from large audit networks and from Category A IFAC member bodies, at the expense of nominations from IFAC member bodies<sup>1</sup> from

Categories B and C. More balanced geographical representation (in terms of nominating organizations and geographical coverage) would help ensure that more stakeholders from around the globe can contribute to international standard setting and that the international public interest is better articulated.

In relation to casual vacancies, these should be limited to address unexpected permanent departures of members, to serve the needs of the regular functioning of the SSBs and Committees, and to ensure equal treatment of all candidates and members. In one instance occurring in 2016, related to the Nominating Committee, a casual vacancy did not relate to a permanent departure. The PIOB should be given the authority to approve casual vacancies consistent with appointments of SSBs' members.

During the year, the PIOB applied an **Oversight Assurance Model 1 (High Intensity)** and observed all meetings and teleconferences held by the Nom Com, as shown in the table below.

(1) IFAC has three categories of members: A, B, and C, according to the weight of their financial contribution to IFAC. The main financial contributions to IFAC come from Category A members and large audit networks grouped under the Forum of Firms.

Table 4. IOB Observations of Nominating Committee meetings in 2016

NOMINATING COMMITTEE		
7-8 April	New York	Eddy Wymeersch
9-10 May	Paris	Eddy Wymeersch
27-29 June	Madrid	Eddy Wymeersch
15 August	Teleconference	Eddy Wymeersch
6 September	Sydney	Jane Diplock
20 October	Teleconference	Eddy Wymeersch

Recommendations offered by the IOB, either by observers at Nom Com meetings or at the discussions held with IFAC Leadership during the IOB Board meetings, including the letters sent out by the IOB after those meetings, are summarized below.

## Recommendations to the Nominating Committee meetings in 2016

WHEN	PUBLIC INTEREST ISSUES RAISED	NOMINATING COMMITTEE DIRECTION
May - Nominating Committee meeting	<p><b>Geographical Representation</b></p> <p>The current regional grouping leads to unbalances in member representation (i.e., Middle East is pooled with Africa; the position of Asia is unbalanced). IFAC should reflect on this, looking at the way other international organizations have dealt with geographic representation.</p>	<p>The Governance Committee of the Board briefly discussed regional representation used by IFAC in the context of other international organizations and concluded the current split into six regions of the world (i.e. Africa-Middle East, Asia, Australia-Oceania, Europe, Latin America-Caribbean, and North America) continues to be appropriate. In particular with respect to the MENA region, where IFAC is very active, it was concluded that MENA countries are at early stages of development or have not been active with respect to the global accountancy profession activities, which creates challenges in finding highly-qualified candidates. Other international organizations, such as WB, IMF, UN, etc., have geographic division based on economic development or political reasons which are not relevant for a representative professional organization like IFAC.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	NOMINATING COMMITTEE DIRECTION
May, June, October (TTC) – Nominating Committee meetings	<p><b>Criteria to Select Public Members and Non-Practitioners Candidates</b></p> <p>The questionnaire used to interview candidates is not adapted to the category of members selected. This creates inequality as those closely involved in the audit work (i.e., Practitioners) will know more about ongoing activities, compared to Non-Practitioners and Public Members.</p> <p>Moreover, the Call for Nominations (CFN) requires all candidates for SSBs to have "previous experience and knowledge," where Non-Practitioners and Public Members cannot be expected to have the same in-depth knowledge of SSBs as Practitioners do. An alternative formulation should be considered, such as "useful experience and knowledge."</p>	<p>All candidates are treated in the same way. The questionnaire is not adapted, but the difference among candidates is taken into account.</p> <p>The CFN has been amended to reflect a different formulation in the professional experience and background sought in candidates applying for different membership categories. The formulation "technical knowledge" was replaced with "sufficient knowledge of the subject matters... to be able to contribute effectively to the work of the particular board."</p>
June – Nominating Committee meeting	<p><b>Reclassification of Members</b></p> <p>The reclassification of members in the SSBs among the different categories, especially Public Members and Non-Practitioners, is unsatisfactory. The reasons for reclassifications are not always clear because the definition of NP and PM overlap and need to be reviewed.</p>	<p>The Nom Com argues that reclassification from Non-Practitioners to Public Members is based on Public Member definition outlined in the CFN as follows: "Public Members clearly represent and are seen to represent, the broad public interest." Reclassification from Practitioner to Non-Practitioner is based on the Non-Practitioner definition outlined in the CFN as follows: "former members or employees of audit firms can be regarded as non-practitioners only after 3 years have elapsed since ceasing membership in, or employment by, a firm."</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	NOMINATING COMMITTEE DIRECTION
<p>June – Nominating Committee meeting; June and September – PIOB Letters after respective Board meetings</p>	<p><b>Casual Vacancies</b></p> <p>Casual vacancies should be limited to address unexpected permanent departures of members, to serve the needs of the regular functioning of the boards, and to ensure equal treatment of all candidates and members.</p> <p>It would be desirable to review IFAC Bylaws and clarify instances where casual vacancies can be applied and their timing. The PIOB should have the authority to approve casual vacancies.</p>	<p>The Governance Committee of the Board will review the provision regarding casual vacancies during the next cycle of revision of the IFAC Constitution and Bylaws.</p> <p>The NC has committed to consult with the PIOB on any casual vacancies until the terms of reference are revised.</p>
<p>June – PIOB Letter after Board meeting; October (TC) – Nominating Committee meeting</p>	<p><b>Public Members</b></p> <p>The 2018 Call for Nominations should include a revised definition of Public Members (PMs) so that it does not overlap with that of Non-Practitioners. The revised definition should make clear that PMs should be independent from the accounting profession. A sufficient stipend, in case of self-nominations and others, would be welcome.</p>	<p>The definition of PMs (in the context of Board composition) is part of the discussion between IFAC and MG. IFAC currently provides travel support upon request from the PM.</p>

## Oversight of the International Auditing and Assurance Standards Board (IAASB) and the IAASB CAG

During 2016, the standards developed by the IAASB related to complex areas in an audit: audits of accounting estimates, including fair value estimates and expected credit loss provisions; audits of groups; quality control at the audit firm level and audit engagement level; professional skepticism; and identification of risks, among others. In a context of increased expectations over auditors, these are areas for which the regulatory community, inspection bodies, investors, and others are calling to strengthen international standards to ensure high-quality audits.

The PIOB applied a high-intensity level of oversight to the IAASB and the IAASB CAG during the year. The PIOB observed every IAASB and IAASB CAG meeting held in 2016, as well as the several teleconferences added by the Board and the CAG throughout the year.

A key note this year was the IAASB's consultation that grouped three major projects (Group Audits, Quality Control, and Professional Skepticism) and led to the publication of the "Invitation to Comment, Enhancing Audit Quality in the Public Interest" consultation paper, exposed for comments for almost half of the year. This early consultation would be followed by the publication of exposure drafts on the three projects.

The PIOB recognized the IAASB's effort invested in the "Invitation to Comment" (ITC) initiative. At the same time, the PIOB continued to note that standard setting takes very long. This is a public interest issue because the final standard may not be issued when auditors and other stakeholders need them.

There is an inherent tension between consultation and discussion time for drafting high-quality standards and the need to issue the standards on a timely basis. This relates to the efficiency and effectiveness of global standard setting. Particular attention needs to be paid to whether resources are sufficient to meet the demands of global standard setting in today's increasingly complex world.

During 2016, the IAASB also progressed work on its revision of ISA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures." This standard will provide auditors with the requirements and application material necessary to auditing accounting estimates in general, as well as expected credit loss (ECL) provisions, recently introduced in relevant financial reporting frameworks (e.g., the IASB's IFRS9, "Financial Instruments"). Final approval of ISA 540 is planned for March 2018.

The IAASB has started work on new areas that will change the way an audit is planned and conducted. In 2016, the IAASB advanced work on two projects - Data Analytics and Integrated Reporting and other forms of non-financial reporting.

During the year, in addition to overseeing the standard setting process, PIOB observers intervened at IAASB and IAASB CAG meetings to provide public interest input or make recommendations to the IAASB and the CAG, as detailed below. These recommendations have further enhanced the final standards in the public interest.

**The PIOB applied an Oversight Assurance Model 1 (High Intensity) to oversee both the IAASB and the IAASB CAG in 2016, with 100% direct observations of all Board and CAG meetings and teleconferences held in the year.**

Table 5. PIOB Observations of IAASB and IAASB CAG Meetings in 2016

IAASB		
25 January	Teleconference	Michael Holm
14-18 March	New York, NY, USA	Karel Van Hulle
26 April	Teleconference	Michael Holm
21-24 June	New York, NY, USA	Michael Holm
26 July	Teleconference	Michael Holm
19-23 September	Hong Kong	Chandu Bhave
1 November	Teleconference	Chandu Bhave
5-9 December	New York, NY, USA	Karel Van Hulle

IAASB CAG		
8-9 March	Paris	Michael Holm
30 March	Teleconference	Susana Novoa
12-13 September	New York, NY, USA	Karel Van Hulle
29 November	Teleconference	Susana Novoa

## PIOB Recommendations to the IAASB and the IAASB CAG during 2016

WHEN	PUBLIC INTEREST ISSUES RAISED	IAASB/IAASB CAG DIRECTION
<b>ISA 540, "Auditing Accounting Estimates, Including Fair Value Estimates, and Related Disclosures"</b>		
IAASB January teleconference, IAASB March, June, and September meetings	<p><b>ISA 540 should be finalized on time for audits under IFRS 9</b></p> <p>ISA 540 needs to be finalized by the time IFRS 9, "Financial Instruments," and its Expected Credit Loss (ECL) model becomes effective in January 2018. The Basel Committee and the International Association of Insurance Supervisors (IAIS) requested the IAASB that this standard be the Board's priority. The Task Force and the Board progressed their work on ISA 540 during the year, though the Exposure Draft was postponed to March 2017 and final approval of the ISA to March 2018. It is important that auditors have in place the guidance and revised requirements in ISA 540 for the audits of the 2018 financial statements.</p>	<p>The Task Force made significant advancements since January 2016 when the project was started. This project has received significant support and resources from the IAASB and has benefited from PIOB input throughout the year. The approval of the ED was rescheduled for March 2017 to give the Board and the TF the appropriate time to finalize the draft ED. The IAASB plan the final approval for March 2018.</p>
IAASB & IAASB CAG March meetings	<p><b>Complexity of and Risks Related to the Use of Models</b></p> <p>ISA 540 should deal with the use of models, which is a complex issue. In terms of public interest issues, there is the risk of audit firms favoring the models which their consultant partners might have advised to be used. Also, audit firms are being required by supervisors to validate internal models.</p>	<p>The ED published by the IAASB in April 2017 includes considerations related to the use of complex models, including the need for auditors to understand the models used in making accounting estimates and the factors relevant to such understanding.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IAASB/IAASB CAG DIRECTION
IAASB November teleconference	<p><b>Simplicity of the standard is in the public interest</b></p> <p>The IAASB should strike a balance between simplicity of the standard and the attempt to draw bright lines, be precise, and cover every situation. Public interest requires simplicity of language and clear concepts.</p>	<p>The Board and the Task Force took note of this recommendation for their work and discussions forward.</p>
IAASB December meeting	<p><b>Complexity of the Wording Used in ISA 540 and Length of the ISA</b></p> <p>Without questioning the quality or thoroughness of the debate, the language used in the drafting of the ED had become complicated, making the draft difficult to understand even for auditors.</p> <p>The length of the application material (43 pages) was also an issue. The text needed to be made clearer and possibly reduced significantly in size (specific suggestions were provided of areas that could be streamlined).</p>	<p>The Board asked the TF to work on the readability of the document and present an improved text at the March 2017 meeting.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IAASB/IAASB CAG DIRECTION
<b>ISA 250 (NOCLAR), “Responding to non-compliance or suspected non-compliance with law and regulations”</b>		
IAASB March 2016	<p><b>ISA 250 should be consistent with the IESBA's NOCLAR</b></p> <p>ISA 250 should use the same wording as IESBA's NOCLAR when there is agreement in substance. Wording of the standard must be clear and direct. One main example when this was not the case was paragraph 29, about reporting NOCLAR to an appropriate authority and its supporting application material, which were unclear as proposed. The equivalent IESBA's text in NOCLAR read better. When reading ISA 250 the perception was that all the auditor was required to do with a NOCLAR was to seek legal advice, when this was not the case. This needed further consideration.</p>	<p>The language and structure of ISA 250 was improved and better aligned with NOCLAR.</p>
IAASB April 2016 Teleconference	<p><b>Requirements in ISA 250 are still not clear</b></p> <p>Paragraph 29 was still not clear. Improvements were further suggested. The sequencing of the application material supporting paragraphs A28 to A33 needed revision. A sequence was suggested at the teleconference to start with the duty to report, followed by the exceptions to this duty. The application guidance also should not start by suggesting the auditor to consult a lawyer.</p>	<p>The IAASB reviewed the structure and wording of paragraph 29 and its application material and enhanced the wording and sequence in the final standard, which was in line with the PIOB's recommendation.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IAASB/IAASB CAG DIRECTION
<b>IAASB's Work Plan for 2017-2018</b>		
IAASB March 2016 meeting	<p><b>Timing of projects and cooperation among Task Forces</b></p> <p>It is important to look at ways to speed up work in areas which are considered critical by stakeholders (e.g., ISA 540). IFRS 9, "Financial Instruments" will become in force in January 2018. The various working Task Forces need to cooperate closely, and this cooperation needs to be streamlined as well (e.g., with the IESBA and the IAESB on the common project on Professional Skepticism). Outreach and responsiveness to the concerns of the Monitoring Group are also important.</p>	<p>The IAASB was aware of calls to speed up work on ISA 540 and made efforts in this direction without compromising the quality of its work. The ED of ISA 540 was approved in March 2017.</p>
<b>Quality Controls, Group Audits, and Professional Skepticism Projects</b>		
PIOB March meeting	<p><b>Ethics Would be Included in the QMA model</b></p> <p>There was no reference to ethics and independence in the Quality Management Approach (QMA) framework included in the Invitation to Comment (ITC), which the IAASB planned to add to ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements." This is something the Board should consider.</p>	<p>The IAASB Chair and Task Force Chair responded that this matter would be brought into consideration later, during the development of the Quality Control project.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IAASB/IAASB CAG DIRECTION
PIOB March meeting	<p><b>A definition of Professional Skepticism was not included in the ITC</b></p> <p>There was no definition of professional skepticism in the ITC. The PIOB suggested that the Board pay attention to professional skepticism as it relates to going concern, auditor independence, and management bias. Also, it was important to consider how auditors should document professional skepticism.</p> <p>The PIOB also noted the benefits of having all three standard setting boards (IAASB, IESBA, and IAESB) working together on Professional Skepticism in a joint working group with balanced representation of the three Boards in the joint working group.</p>	<p>ISA 200 already includes a definition of professional skepticism. The IAASB will consider whether to open that definition for revision.</p> <p>The IAASB Chair agreed with this view. For that reason, a joint working group was established mid 2015. The three SSBs are considering ways for a more structured, improved coordination for common projects.</p>
IAASB September meeting	<p><b>Issues not discussed in the ITC</b></p> <p>The ITC briefly discussed the governance structure of the audit firms and firms' non-assurance fees. The IAASB and the IESBA needed to discuss the impact of these issues on the ability of the auditor to display sufficient Professional Skepticism and the ultimate effect on the quality of an audit.</p>	<p>The IAASB agreed to take up these issues in the next rounds of discussions of the Professional Skepticism project.</p>
IAASB December meeting	<p><b>EQCRs in the Public Interest</b></p> <p>It was suggested to refer to the Public Interest as the objective of an Engagement Quality Control Review (EQCR), and to avoid restricting the Public Interest to the impact on a large number of stakeholders or to listed entities and engagements for which an EQCR is required by law or regulation. An EQCR should be mandatory whenever the absence of an EQCR might imply quality risks or audit risks.</p>	<p>The Task Force took note of this comment.</p>

## Oversight of the International Ethics Standards Board for Accountants (IESBA) and the IESBA CAG

During 2016, the IESBA dealt with several projects relevant from a public interest perspective. A major theme has been the threats and the safeguards approach and how to address independence and familiarity threats. This is a fundamental theme, which encompasses the whole Code of Ethics.

An important target was achieved in 2016: the approval of the pronouncement on Responding to Non-Compliance with Laws and Regulations (NOCLAR). After six years since the beginning of the project, new provisions have been introduced to the Code of Ethics. The PIOB welcomed NOCLAR as these provisions were lacking in the Code. In the PIOB's view, they represent a step ahead, providing Professional Accountants (PAs) with guidance on how to deal with identified or suspected NOCLAR.

The framework designed by the IESBA establishes an escalation process and a responsibility on the PA to determine, as a possible course of further action, whether disclosure to an appropriate authority would be called for in the circumstances, consistent with the PA's responsibility to act in the public interest. The provisions do not mandate disclosure, recognizing that such an approach would not be operative globally.

Long Association (LA), another project started a few years ago, was finalized early in 2017. The PIOB intervened during the whole life of the project to express its public interest concerns and those tabled by other stakeholders on certain aspects of the provisions.

Before the IESBA could finally approve the provisions, the PIOB had to raise those concerns again.

In the PIOB's view, the LA provisions, submitted to consultation through an ED and a limited re-ED remained complex and difficult to understand, implement, and monitor. They established exceptions which weakened the proposed more strict regime. PIOB's view was that the changes proposed did not offer significant additional safeguards to familiarity and independence threats. The dialogue between the PIOB and the IESBA led to the task force reviewing some aspects of the provisions with a positive outcome in terms of the public interest responsiveness of the standard.

Significant effort has been paid during the year to the Structure of the Code and to the Safeguards projects. The Non-Assurance Services (NAS) provisions, as approved in 2015, are being restructured within the Safeguards project. Notwithstanding this initiative, the PIOB is of the view that the Code should further address NAS to ensure it best serves the public interest.

The credibility and the strength of the Code of Ethics would be otherwise negatively affected. Priority should be assigned to review NAS from a substantial perspective and this should be addressed within the next IESBA Strategy cycle (2019-2023). The IESBA is pursuing this by the inclusion of a proposed dedicated project as part of its current consultations on its next strategy.

The PIOB observed all IESBA and IESBA CAG meetings as planned, applying an **Oversight Assurance Model 1 (High Intensity)**, given the relevance of the projects discussed during the year.

Table 6. PIOB Observations of IESBA and IESBA CAG Meetings in 2016

IESBA		
14-16 March	Madrid	Jules Muis
25 April	Teleconference	Chandu Bhave
27-29 June	New York	Jane Diplock
26-30 September	New York	Chuck Horstmann
12-15 December	New York	Jane Diplock

IESBA CAG		
7-8 March	Paris	Michael Holm
20 June	Teleconference	Chuck Horstmann
14 September	New York	Chuck Horstmann
7 December	Teleconference	Chandu Bhave

During the year, PIOB observers raised public interest issues and concerns and offered recommendations, to which the board and the CAG responded as reported in the following table.

## PIOB Recommendations to the IESBA and the IESBA CAG during 2016

WHEN	PUBLIC INTEREST ISSUES RAISED	IESBA DIRECTION
<b>Safeguards</b>		
IESBA June meeting	<p>Safeguards should be observed through the lens of public interest and with the perspective of external stakeholders (i.e., investors and regulators).</p> <p>It would be helpful for market confidence and for the reputation of the profession to have greater transparency on threats and safeguards.</p>	<p>The IESBA reviewed the safeguards in the Code to ensure that they are directly correlated to the identified threats. As a result, certain actions (and in particular certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization) are no longer safeguards.</p> <p>The revised provisions also emphasize that there are some situations in which threats can only be addressed by declining or ending the specific professional activity.</p> <p>Finally, the revised provisions require Professional Accountants (PAs) to stand back and, applying the third party perspective, conclude whether actions to address the threats will eliminate or reduce them to an acceptable level.</p>
<b>Inducements – Part C of the Code</b>		
IESBA June meeting	<p>There is a large expectation on what is needed regarding bribery and corruption. There is a perception issue and the Code cannot leave them out of the scope.</p>	<p>The proposals now include bribery and corruption within scope. They require that where the PA encounters circumstances involving the offering or accepting of inducements that are prohibited under bribery and corruption laws and regulations, the PA understand and comply with those laws and regulations.</p>
<b>Fees</b>		
IESBA September meeting	<p>The IESBA leadership is urged to involve the IAASB staff in tracking the Fees project at an early date to help ensure a coordinated approach.</p>	<p>IESBA staff is liaising with IAASB staff with respect to any developments from the IESBA's fact finding on its Fees initiative.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IESBA DIRECTION
<b>Long Association</b>		
PIOB Paper (October 24); November 12 Teleconference; November 17 meeting in London	<p><b>Scope of provisions</b></p> <p>The general provisions (par. 290.148-152) apply to any kind of entity (PIEs and non-PIEs), while specific provisions (par. 290.153-168) apply only to PIEs. As there is not a unique and clear definition of PIEs across jurisdictions, the scope should be extended to all entities or at least include large unlisted companies and government owned entities. This broader scope would require an exception to protect SMPs.</p>	<p><b>Scope of provisions</b></p> <p>The IESBA concluded the scope of the provisions should remain as proposed, as a review of the definition of a PIE, which would have significant implications for the entire Code, was outside the scope of the project. The IESBA has included the topic for consideration as part of its consultations on the IESBA's future strategy and work plan.</p>
	<p><b>Complexity of provisions</b></p> <p>The complexity of the proposed regime makes it difficult to understand and will make implementation and monitoring extremely difficult. It could be made simpler (i.e., by eliminating par. 290.160).</p>	<p><b>Complexity of provisions; Exceptions – Alternative Jurisdictional Safeguards</b></p> <p>The provisions have been simplified. The "jurisdictional clause" has been reformulated and made clearer.</p>
	<p><b>Exceptions – Alternative Jurisdictional Safeguards</b></p> <p>The jurisdictional safeguards proposed are unnecessary. Stricter rules in domestic legislation (i.e., mandatory firm rotation) prevail and apply. They should not be used to allow weakening the proposed regime (i.e., reducing the cooling-off period). The exceptions (par. 290.163) could be eliminated to effectively introduce a stricter regime of cooling-off.</p>	<p><b>Complexity of provisions; Exceptions – Alternative Jurisdictional Safeguards</b></p> <p>The provisions have been simplified. The "jurisdictional clause" has been reformulated and made clearer.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IESBA DIRECTION
PIOB Paper (October 24); November 12 Teleconference; November 17 meeting in London	<p><b>Restrictions on activities during cooling-off period</b></p> <p>In principle, consulting with an EP or an EQCR is prohibited during their cooling-off period. However, after only two years of cooling-off, they can be consulted in specific circumstances (par. 290.164). Consultation should be limited only to cases where the firm has no technical or industry-specific auditors. Such consultation should be limited only to one year, after which the firm should be able to consult a specialist in the market. The provisions in par. 290.164 (b) could be simplified to establish this simple principle, eliminating (b), (i), (ii), (iii).</p>	<p><b>Restrictions on activities during cooling-off period</b></p> <p>Consultation of the EPs during the cooling-off period is prohibited, except for discussions with the engagement team, and limited to work undertaken or conclusions reached in the last year and relevant to the audit.</p>
	<p><b>Transitional provisions</b></p> <p>EPs and EQCRs on audits of PIEs who have served their seven cumulative years of service and have already started their cooling off at the time the LA provisions become effective (December 15, 2018) will have to cool off for two years (extant provisions in the Code). In all other circumstances, the cooling-off periods introduced with the revised LA provisions (5 years for EP, 3 years for EQCR) will be applied.</p> <p>There is no need for transitional provisions. If so, they should not allow the application of the old regime (extant Code).</p>	<p><b>Transitional provisions</b></p> <p>Transitional provisions have been eliminated. The "jurisdictional clause" will be valid only through a transitional period of five years, until December 15, 2023 (five years later than the effective date), to facilitate the transition to the required cooling-off period of five consecutive years for EP in those jurisdictions where the regulator has established a cooling-off period of less than five consecutive years.</p> <p>The close-off text was approved by IESBA in December 2016 and by the PIOB, by written procedure, in January 2017.</p>
<b>Non-Assurance Services</b>		
IESBA December meeting	<p>There is a clear public interest in revising Accounting and Bookkeeping Services. NAS is an important project in the upcoming Strategy and Work Plan, in line with the PIOB recommendation to the IESBA in 2015.</p>	<p>NAS has been included as a proposed priority commitment in the IESBA's initial consultations on its next strategy and work plan.</p>
<b>Public Interest Principle</b>		
IESBA December meeting	<p>There should be an "overarching" principle of the Public Interest in the preamble of the Code.</p>	<p>The Planning Committee will look further at it.</p>

## Oversight of the International Accounting Education Standards Board (IAESB) and the IAESB CAG

The education of professional accountants and auditors is key in determining their ability to provide high-quality financial information and high quality audits in the public interest. The PIOB is aware that the competences required for auditors and professional accountants have evolved in recent years and continue to evolve very rapidly. These changing competences influence learning outcomes, which in turn influence the curricula. These changes also apply to professional accountants in business and those in government accounting. This is most notably the case with skills such as data analytics, IT, cybersecurity, valuation of financial instruments, risk assessment procedures, forward looking aspects affecting financial statements (e.g., assessing an entity's going concern status and Expected Credit Loss -ECL-provisions), and auditor's critical thinking. Participants to the PIOB Second Public Interest Workshop held in New York in September 2016 agreed with this view.

If the need for new skills and competences is not addressed in the education of auditors and professional accountants, the educational gap will become evident in the quality of audits and of financial information. This would not be in the public's interest.

Most of the IAESB's activity in 2016 focused on developing a new Strategy for the next 5 years, 2017-2021, and determining work streams for 2017 and 2018. The IAESB CAG provided input to the IAESB during the development of the Strategy. In December, the IAESB submitted to the PIOB its Strategy and Work Program

for approval. The PIOB discussed the draft Strategy and Work Plan and deferred its decision on these documents. The new Strategy needed improvements related to placing the IAESB at the lead of the current global debate on the future education of professional accountants; including relevant work streams and the resources needed to implement the Strategy and the Work Program. The PIOB provided further detailed input to the IAESB for its consideration. The IAESB resubmitted the documents to the PIOB in February 2017 when the PIOB approved them.

An issue that has taken much support from the PIOB is the future of the IAESB as an SSB. The IAESB has concluded its own study and assessment process, towards arriving at a final decision regarding its future structure and operational features, including its relationship with the CAG. The CAG has been and continues to collaborate with the IAESB regarding how they can effectively work together. Nevertheless, the PIOB has acknowledged that such decision may be influenced by the discussions being held between the PIOB, MG and IFAC. The final outcome will have an impact on whether and how the work streams scheduled for 2017-2018 could be carried forward. The PIOB expects a final decision in 2017.

In this context, PIOB's oversight of the IAESB during 2016 was set at a medium level intensity, but with an increased level of direct observations of Board and CAG meetings, compared to 2015.

The PIOB applied an **Oversight Assurance Model 2 (Medium Intensity)** to oversee the IAESB and the IAESB CAG in 2016, with direct observations of all Board and CAG meetings and teleconferences held in the year.

The observations made by the PIOB during 2016 are shown in Table 7.

Table 7. PIOB Observations of IAESB and IAESB CAG meetings in 2016

IAESB		
13-15 April	Johannesburg, SA	Aileen Pierce
2-4 November	New York, NY, USA	Aileen Pierce

IAESB CAG		
11-12 April	Johannesburg, SA	Aileen Pierce
29-30 September	Toronto	Jules Muis

During the year, in addition to overseeing the standard setting due process, PIOB observers provided public-interest input at IAESB and IAESB CAG meetings, as detailed below.

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## Recommendations to the IAESB and the IAESB CAG during 2016

WHEN	PUBLIC INTEREST ISSUES RAISED	IAESB DIRECTION
<b>Implementation Guidance</b>		
IAESB April meeting	<p><b>Material removed from guidance on IES 1, "Entry Requirements to Professional Accounting Education Program," could be reinstated</b></p> <p>Even when guidance material issued by an SSB does not require PIOB approval, it was suggested to consider keeping a summary of IES 1 requirements and the reference to the Public Interest in the guidance. The two elements were important but had been removed from the proposed guidance.</p>	<p>The IAESB agreed to reinstate a brief summary of the requirements of IES 1 in the guidance.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IAESB DIRECTION
<b>Future of the IAESB &amp; Coordination of Work</b>		
IAESB CAG April meeting	<p><b>IAESB interaction with other SSBs and others is instrumental</b></p> <p>The PIOB supports IAESB's collaboration with other SSBs (e.g., with the IAASB and IESBA in relation to the common project on Professional Skepticism) and with the CAP and IFAC's PAO Development Committee. This would be constructive in the context of the IAESB's strategic priorities, including visibility, impact, relevance, and currency.</p>	<p>The CAG agreed with this view, as well as the IAESB Chair. CAG members also expressed a view of possible collaboration with some of the other CAGs by holding joint meetings with IPSASB, IESBA and IAASB. Areas of mutual interest competence of professional accountant/auditor, quality of audit and financial reporting, as well as integrated reporting.</p>
IAESB CAG September meeting	<p><b>A Decision on the Future of the CAG is needed</b></p> <p>There is a need for clarity about the IAESB CAG, in the context of the future of the IAESB, to overcome the perceived lack of communication and consultation on the Board and its future.</p>	<p>The CAG agreed with this comment. The CAG also took initiative to begin an efficiency review of how it can work more effectively in being a trusted advisor to the IAESB.</p>
PIOB September meeting	<p><b>Uncertainty Over the Future of the IAESB</b></p> <p>The PIOB supports high-quality education standards for professional accountants. The uncertainty over the IAESB runs the risk of affecting the credibility of the standard setting process itself. It is also damaging the CAG. A decision on the role and shape of the IAESB needs to be reached with urgency.</p>	<p>In December, the IAESB Chair reported to the PIOB that the IAESB discussed options for the way forward during its November meeting, including suggested limited changes to its current Terms of Reference. The IAESB plans to discuss this matter with IFAC in 2017 to reach a final decision.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IAESB DIRECTION
<b>IAESB 2017-2021 Strategy and 2017-2018 Work Plan (SWP)</b>		
IAESB CAG September & IAESB November meetings	<ul style="list-style-type: none"> <li>• The draft Strategy was not ambitious enough. The three streams of future work (standards development, IESs implementation support, and post-implementation review of the revised IESs) were not sufficiently developed in the draft. The IAESB could consider developing these streams further.</li> <li>• The IAESB considered issuing annual Work Plans (WP). This meant that there would be five annual WP under the new Strategy. A more efficient approach would be to prepare bi-annual WPs, as the IAASB does. Also, it was noted that the CAG was presented with a template of the WP with no substantial content. The Board should have submitted a complete WP to the CAG, including the list of projects, their starting and ending dates, and their relative priorities to allow proper discussion by the CAG.</li> <li>• The description of the Professional Skepticism work stream was not enough, as it did not clearly convey the IAESB's commitment and possible work on this important subject matter during the 2017-2021 cycle.</li> <li>• Details of the Board's communications plan were not included in the draft Strategy, although the Board noted the important role communications with stakeholders would play in raising awareness on the Strategy and the IAESB's future work streams.</li> </ul>	<p>Many CAG representatives shared these comments. The Task Force reported the matters raised by the PIOB at the IAESB November meeting. CAG members were consulted on two versions of the SWP, after the November meeting – the latter reflecting substantive thoughts incorporated into both the Strategy and Work Plan documents.</p> <p>The Board agreed that bi-annual WPs would be better than annual ones. A 2017-2018 WP was drafted and discussed to accompany the Strategy.</p> <p>The description was expanded in the 2017-2018 WP.</p> <p>The Board added details to its work stream on strategic communications in the 2017-2018 WP.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	IAESB DIRECTION
IAESB November meeting	<p><b>References to IFAC should not be Included in an Independent SSB's Strategy</b></p> <p>The draft Strategy included several references to IFAC. IAESB members needed to be more conscious of the independent nature of the SSBs under PIOB oversight. The IAESB should clearly describe itself as such in all its documentation where reference is made to the IAESB under the PIOB oversight. References to IFAC were not appropriate and would contribute to the public's misunderstanding of the Board's independent status.</p>	<p>The IAESB agreed to remove references to IFAC from the Strategy documents.</p>
PIOB December meeting	<p><b>Deferring approval of the IAESB 2017-2021 Strategy</b></p> <ul style="list-style-type: none"> <li>• The high-level format and content of the Strategy could benefit from further detail.</li> <li>• The IAESB has limited resources (both budget and staff wise). The Board is not on additional resources under its new Strategy. This is a major concern, as it may compromise how much of the proposed 2017-2018 WP is achieved. There is a need to identify the allocation of the resources needed to carry out the different projects and to include the objectives, targets, timing, and funding for each project in the WP.</li> </ul>	<p>The format was chosen based on what the IAESB felt would be more appropriate for a strategic document, and as being clear and concise is a best practice for communications. It also facilitates electronic access, allowing elements to be viewed through the IAESB's website and enabling readers to navigate the document through the internet. The CAG was involved in the final SWP document that was submitted.</p> <p>The IAESB Chair acknowledged the limited resources but thought the WP would be achievable with the current resources. The Chair also noted that monitoring of resources will continue as the various work streams are further developed.</p>

## Oversight of the Compliance Advisory Panel (CAP)

PIOB oversight of the CAP is different from that of SSBs and CAGs. The CAP is not a standard setting body. Amongst the CAP's responsibilities, one in particular bears a high relevance from a public interest perspective: monitoring the status of global adoption of international standards, which adds to its regular activities related to following IFAC member bodies' compliance with membership responsibilities. Monitoring the status of adoption of the standards would enable the CAP, over time, to provide feedback to the SSBs about issues encountered by member bodies or jurisdictions in the adoption or implementation of the standards. This could trigger SSBs' remedial actions to address those matters.

The PIOB expects that under the CAP 2016-2018 Strategy, approved by the PIOB in 2015, status reports on adoption would become one of the most important CAP activities. Status reports will include the ISAs, the IESBA Code of Ethics, and the International Education Standards (IESs), in addition to other international

standards. The objective is to identify the extent to which different jurisdictions require application of the standards as issued by the SSBs or may somehow apply limitations to their scope.

The CAP started work on a first status report by Q3 of 2016. The report covered about 50% of the jurisdictions. Further reports will become available as completed in 2017.

In October, the CAP approved its Work Program for 2017 (WP). The PIOB agreed with the due process followed by the CAP and that proper regard had been given to the public interest.

Based on the above, in 2016 the PIOB's oversight of the CAP was set at a medium level intensity with an increased level of direct observations of CAP meetings (compared to 2015) because of its important leveraging effect in improving the global adoption of standards.

In 2016, the PIOB applied an **Oversight Assurance Model 2 (Medium Intensity)** to oversee the CAP with observation of 75% of CAP meetings.

Table 8. PIOB Observations of CAP Meetings in 2016

CAP		
15-16 February	San José, Costa Rica	REMOTE OBSERVATION
19-20 May	Washington, DC, USA	Jules Muis
14-15 July	New York, NY, USA	Jules Muis
20-21 October	New York, NY, USA	Chuck Horstmann

During the year, PIOB observers intervened at CAP meetings to provide public-interest input or make recommendations to the CAP. The most important ones are detailed below. The CAP expressed appreciation for the input received.

## Recommendations to the CAP during 2016

WHEN	PUBLIC INTEREST ISSUES RAISED	CAP DIRECTION
CAP February and May meetings & PIOB March meeting	<p><b>“General Conditions” Documents Used by IFAC Member Bodies May Limit Auditor’s Liabilities</b></p> <p>This matter relates to how IFAC Member bodies report to the CAP the adoption of the standards and how CAP staff validates such information. In 2015, the PIOB raised a concern with one IFAC member body in Europe who reported compliance with ISAs, for which such compliance was not clear. This member requires all auditors and their clients to sign a “general conditions” document, a document that referred to auditors making their “best efforts.” The PIOB urged the CAP to review this case for possible carve outs to the ISAs.</p> <p>A final response was due by the CAP. The PIOB made IFIAR aware of this issue.</p>	<p>The CAP discussed this matter in February 2016 and consulted with the IAASB staff. The CAP concluded that ultimately, the use of “general conditions” documents have acceptance by national audit regulators and are their responsibility or fall within the local legal framework. The CAP also decided that a detailed review of member organizations’ contract conditions would not be incorporated into the regular monitoring procedures of the IFAC Member Compliance Program.</p>
CAP July and October meetings & PIOB June/July and September meetings	<p><b>Current category “adopted” may be too broad in the case of the IESBA Code of Ethics</b></p> <p>The current category of “adopted” used with respect to the adoption of standards is misleading in the case of the IESBA Code because it conveys the message that the jurisdictions included in the category have adopted the Code. In fact, many jurisdictions apply additional ethics legislation, altering the requirements included in the IESBA Code.</p> <p>In September, the PIOB asked the CAP to review the definitions of the categories used, and to consider the possibility of a new category to include those countries/ jurisdictions which apply additional ethical requirements. This would provide greater transparency on the status of adoption of the IESBA Code.</p>	<p>The CAP discussed the PIOB recommendation in October and agreed to invest time during Q1 and Q2 of 2017 to further consider the recommendation. The CAP 2017 Work Program includes this commitment.</p> <p>In April 2017, the CAP discussed a timetable for the way forward in analyzing the PIOB’s recommendation and a proposal to start consultations with a number of MBs over a three-month period, mainly to better understand those cases where the ethical requirements at a jurisdiction are more stringent than those in the IESBA Code of Ethics.</p>

WHEN	PUBLIC INTEREST ISSUES RAISED	CAP DIRECTION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Since 2012 PIOB September meeting</p>	<p><b>Opening CAP membership to third parties.</b></p> <p>The PIOB has recommended to the CAP to open its membership to all stakeholders (instead of limiting membership only to IFAC member bodies) on the belief that the presence of independent members would make a valuable contribution to the CAP. One option would be to have a member from an international development institution.</p> <p>In September 2016, the PIOB sent a letter to the President of IFAC articulating the arguments supporting the recommendation and asking IFAC Board to reconsider its decision.</p>	<p>IFAC Board discussed the PIOB letter in November. The Board agreed with the conclusion by the IFAC's Governance Committee that the CAP composition continues to remain adequate and does not require changes now.</p>

## PIOB OUTREACH IN 2016

The PIOB has been dedicating increased resources to improving its communications. During 2016, it focused on continuing to build its relations with stakeholders, reaching out to new audiences, and identifying and compiling feedback to develop further its Communications and outreach policy.

In parallel, the PIOB launched the 2017-2019 Strategy for public consultation on August 26th. During the 90-day consultation period, the PIOB Chairman, Eddy Wymeersch, and the Secretary General, Gonzalo Ramos, held a number of meetings aimed at informing stakeholders about the key themes in the Strategy and to encourage their participation.

A total of 32 letters <http://www.ipiob.org/index.php/public-consultation-2016> were received with several suggestions and improvements to the Draft Strategy.

The PIOB published a **Feedback Statement**<sup>(2)</sup> in March 2017 after consultation with the Monitoring Group which was involved in the consultation process. The final 2017-2019 Strategy was issued on March 31, 2017.

The outcome of the consultation was aligned with the actions taken by the PIOB in terms of improving its communications policy. Many stakeholders highlighted the importance of the PIOB having clear messages on public interest issues, being transparent about PIOB activities, communicating comments in a timely manner, and acting as a convener of stakeholders by providing a forum to understand and discuss stakeholder concerns.

In this light, the PIOB organized the Second Public Interest Workshop in New York on September 15, 2016, following the positive experience of the first edition in 2014. The workshop was organized to encourage debate between all the participants from different fields (Standard-setters, regulators, investors, audit committee members, academia) to find new ways forward and address issues from a broader perspective.

The morning event gathered 60 guests who were distributed in round tables of eight to ten participants to encourage closer debate around the overarching theme of the workshop: *Preparing for the next generation of auditors*. The event was structured in two sessions dedicated to: *Trends in Audit, Auditor Independence, and Standard setting in the Public Interest*.

As an integral part of the standard setting infrastructure, the PIOB has worked to deepen its relationship with both the Standard Setting Boards and the Monitoring Group. In September 2016, the PIOB held a joint meeting with the three CAG Chairs and the Chair of the IESBA to discuss common issues between them and explore improvements in the standard setting system.

Also, the PIOB held its annual Plenary MG-PIOB meeting and the PIOB Chair and Secretary General met with the leadership of the MG individually twice during year.

As the table below shows, the number of meetings held and attended by the PIOB in 2016 has been intense.

(2) <http://www.ipiob.org/index.php/news?id=1174#see>

Date	Location	Event	Observer
3 February	Teleconference	MG - Gerben Everts	Gonzalo Ramos
20-21 February	Cairo	AFAA	Gonzalo Ramos
10 March	Paris	OECD	Michael Holm
17 March	Athens	EAIG	Eddy Wymeersch and Gonzalo Ramos
5 April	Geneva	ISAR Consultative Group meeting on monitoring, compliance, and enforcement	Karel Van Hulle
6 April	Madrid	Deloitte's Audit Technical Advisory Board	Gonzalo Ramos and Susana Novoa
12 April	Johannesburg, SA	IRBA-IAESB Accountancy Education Forum: "Building Human Capacity and Professional Accounting Education"	Aileen Pierce
15 April	Amsterdam	MG Meeting	Eddy Wymeersch and Gonzalo Ramos
18 April	London	Meeting at Investment Association	Eddy Wymeersch and Gonzalo Ramos
19-20 April	London	IFIAR Plenary	Eddy Wymeersch and Gonzalo Ramos
7 June	Brussels	European Commission - Alain Deckers	Eddy Wymeersch and Gonzalo Ramos
3 May	Madrid	III Jornada sobre Normalización y Derecho Contable	Gonzalo Ramos
11-12 May	Madrid	AEG Meeting	Eddy Wymeersch
24 May	Amsterdam	Meeting with the IAASB team	Eddy Wymeersch, Gonzalo Ramos, and PIOB staff
17 June	Bilbao	Encuentro ASEPUC	Gonzalo Ramos
23 June	Madrid	EFAA International conference on SMPs	Gonzalo Ramos

Date	Location	Event	Observer
8-9 June	Sydney	IFAC Board	Jane Diplock
15 September	New York, NY, USA	PIOB Public Interest Seminar	PIOB Board
15 September	New York, NY, USA	Plenary MG- PIOB meeting	PIOB Board
20 September	Madrid	New Regulation in Financial Markets - CNMV Seminar	Gonzalo Ramos
22-23 September	Braganza, Portugal	XVII Meeting AECA	Gonzalo Ramos
27-29 September	Washington, DC, USA	Meetings with PCAOB & SEC re: PIOB Strategy	Gonzalo Ramos
30 September	Toronto	Professional Skepticism Education Forum	Jules Muis
4-6 October	Geneva	33rd ISAR	Karel Van Hulle
5-6 October	London	Meetings with ICAEW & UK FRC re: PIOB Strategy	Gonzalo Ramos
13 October	Brussels/Paris	Meetings with FEE & H3C re: PIOB Strategy	Eddy Wymeersch and Gonzalo Ramos
18 October	Madrid	III Jornada Investigación Auditoria	Goanzalo Ramos
26 October	London	Meetings with GPPC Networks & ICGN re: PIOB Strategy	Eddy Wymeersch and Gonzalo Ramos
28 October	Málaga, Spain	National Audit Congress	Gonzalo Ramos
16-17 October	Brasilia	IFAC Council Meeting	Maria Helena Pettersson
18 October	Brasilia	IFAC Board	Maria Helena Pettersson
14 November	Moscow	Bank of Russia Conference - Modern Audit: Problems and Perspectives	Michael Holm
16-17 November	London	HRH The Prince of Wales' Accounting for Sustainability Project's Summit	Gonzalo Ramos
6-7 December	London	ICGN - IIR Conference	Jane Diplock
7 December	Brussels	Accountancy Europe -30 Years Accountancy event	Jane Diplock

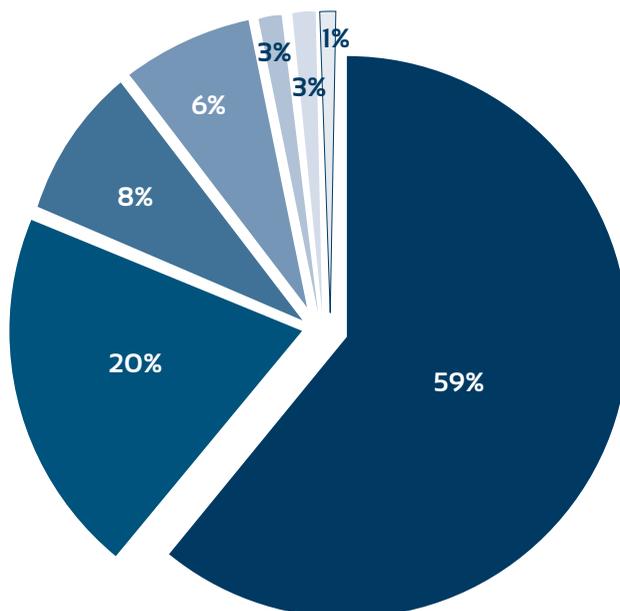
## PIOB Budget Diversification

In 2012, the PIOB conducted a fundraising exercise in close coordination with the MG and IFAC. As a consequence, in 2013, 2014, 2015 and 2016, the PIOB achieved a more diversified funding base that includes sources other than IFAC. In 2016, the PIOB received contributions that amounted to 1,563,565 euros from the following contributors:

- International Federation of Accountants: 914, 758 euros
- European Commission: 318,000 euros
- Abu Dhabi Accountability Authority: 120,000 euros
- International Organization of Securities Commissions: 100,000 euros
- CFA Institute: 45,000 euros
- Financial Reporting Council: 40,000 euros
- Bank for International Settlements: 23,000 euros
- Interest income: 2,807 euros

## 2016 Contributions

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



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

## SECTION V

	2016	2015
TOTAL REVENUE (3)	1,563,565	1,532,907
<b>EXPENSES</b>		
Board related operating costs		
Oversight Program	831,403	842,800
Communication and External Relations Program	176,980	131,584
Monitoring Group and Monitoring Group members	131,255	134,027
Foundation Board Meetings	107,748	134,441
Other ongoing operating costs	243,128	221,396
<b>TOTAL EXPENSES</b>	<b>1,490,514</b>	<b>1,464,248</b>
<b>Surplus</b>	<b>73,051</b>	<b>68,659</b>

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(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 2016 were contributed by the International Federation of Accountants (IFAC) in the amount of 914,758 Euros, the European Commission (EC) in the amount of 318,000 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, CFA Institute in the amount of 45,000 Euros, Financial Reporting Council (FRC) in the amount of 40,000 Euros and Bank for International Settlements in the amount of 23,000 Euros(\*).

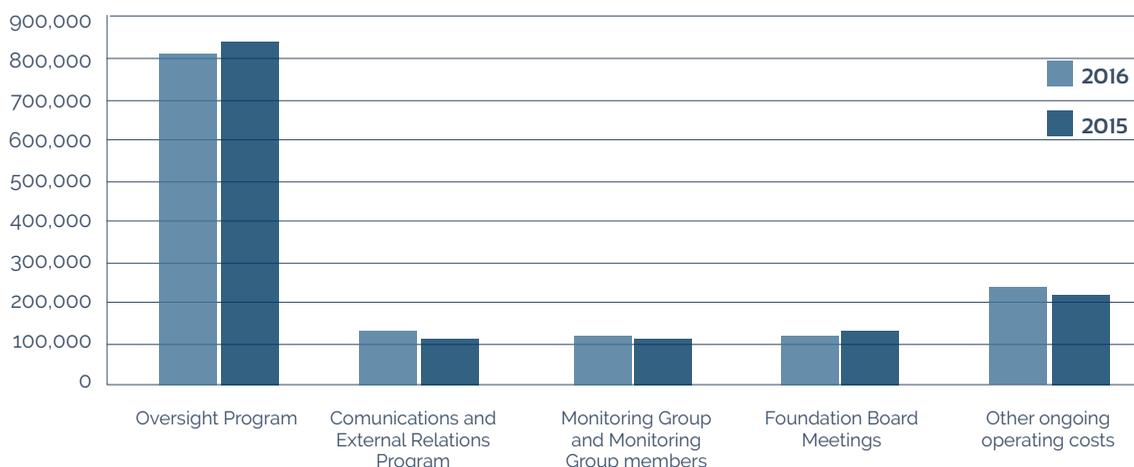
In 2016, the remainder of revenue over expenses of 73,051 Euros was retained to strengthen the Foundation's capital base for the near term.

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).

(\*): Provided in the name of the FSB, BCBS and IAIS.

## PIOB Expenses by Activity





### **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; Chairman Abu Dhabi Regulatory Committee, Abu Dhabi Global Market; Director, Singapore Exchange Limited 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. 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 PIOB and its oversight roles; involved in monitoring standard-setting developments and providing comment letters to the Monitoring Group, the PIOB, 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).



### 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).



### Dr. Aileen Pierce

Emeritus Professor of University College Dublin (UCD), Ireland. Chair of the Consultative Advisory Group (CAG) of the International Accounting Education Standards Board (IAESB) (2012–2015), European Accounting Association (EAA) representative on the CAG (2008–2012). Director of the UCD Quinn School of Business (2007 - 2010), President of the EAA (2009–2011), Chair of the Irish Accounting and Finance Association (2004 to 2005). She is currently a member of the Board of Trustees for Enactus Ireland, the Rowland Ghill fund Ireland, and of the governing body (ARD COMHAIRLE) of the Camogie Association (an Irish female Sports' organization).



### 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 academic member 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.

**NOTE:** Karen Stothers, Kevin Dancey, and Shigeo Kashiwagi, joined the PIOB Board in February 2017.

## 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

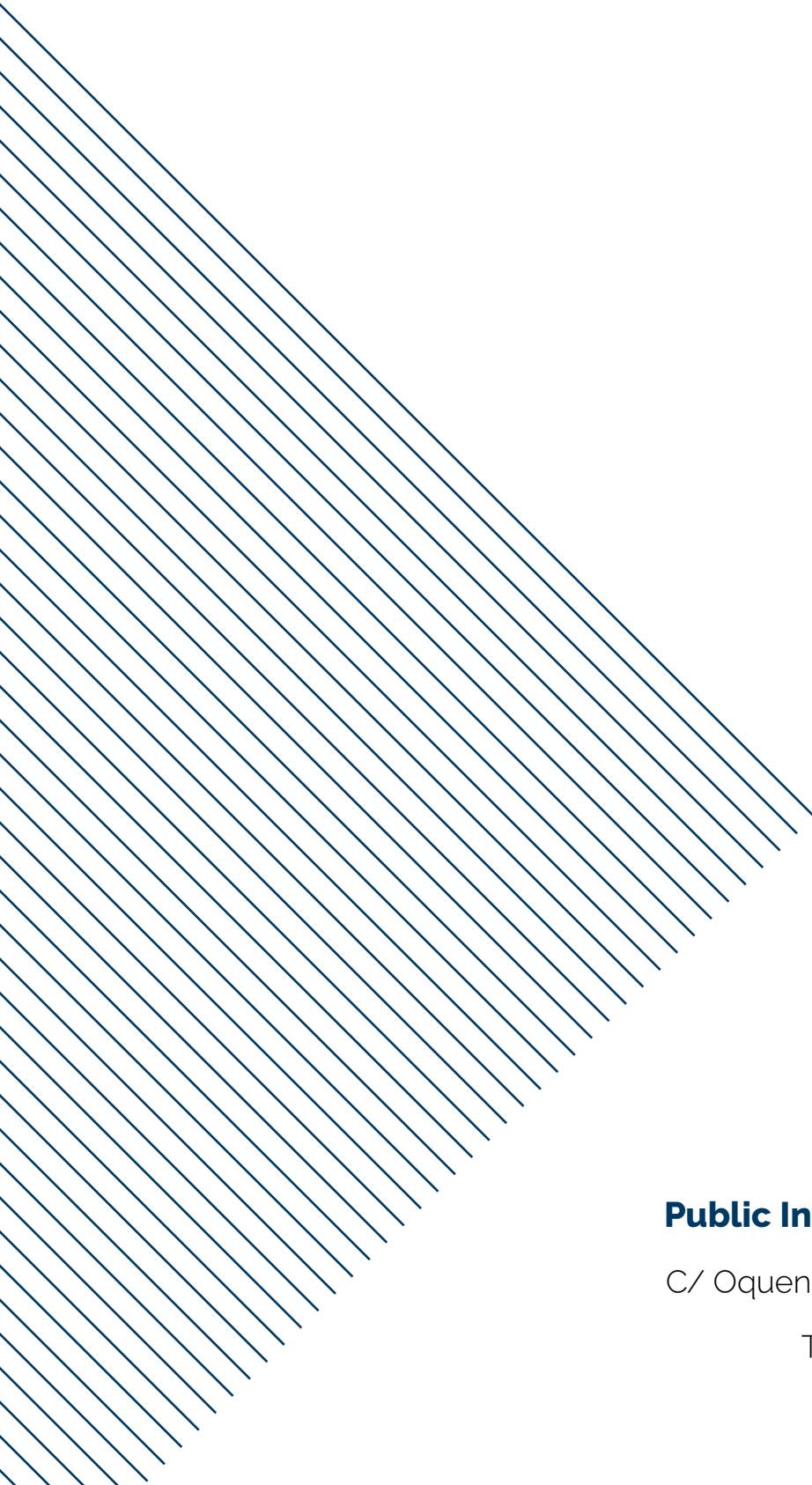
**Rocio Goudie** – Communications and External Relations Advisor

**Claudia Deodati** – Oversight Advisor

**Heather Erickson** – Executive Assistant

**Renzo Lari** – Financial Controller





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