



## **PIOB RECOMMENDATIONS IN RESPONSE TO ITS CONSULTATION ON THE PIOB WORK PROGRAM 2012 AND BEYOND**

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- 1. Outcome of the PIOB consultation process**
  - 2. PIOB recommendations**

### **Annex**

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The PIOB and the Monitoring Group (MG) each launched a simultaneous consultation process on March 28, 2012. The PIOB consulted on its “PIOB Work Program 2012 and Beyond,” and the MG consulted on the “Governance of the MG, the PIOB, the Standard Setting Boards, and Compliance Advisory Panel Operating under the Auspices of IFAC.”

A total of 21 submissions were received as part of the PIOB consultation. In this paper the PIOB offers a set of recommendations reflecting the comments received. These recommendations are drawn based on the relative strength of argument from the point of view of the PIOB’s mandate to protect the public interest.

A full analysis of comment letters underlying the recommendations set out in this report can be found at [www.ipiob.org](http://www.ipiob.org).



## 1. OUTCOME OF THE PIOB CONSULTATION PROCESS

A total of 21 letters were received in response to the PIOB consultation: six from audit firms, eight from IFAC member bodies,<sup>1</sup> five from audit regulators,<sup>2</sup> one from the International Public Sector Accounting Standards Board (IPSASB), and one from an individual.

Audit firms and IFAC member bodies all expressed strong support for the current allocation of responsibilities within the standard-setting architecture and for the independent role of the PIOB in due process oversight, but they also expressed reservations about the new model of oversight introduced in 2011<sup>3</sup>.

The PIOB acknowledges the arguments from investors and some regulators<sup>4</sup> regarding the benefits of a standard-setting architecture based on boards that are independent from IFAC, especially regarding the perceived independence of the standard-setting boards. Leaving aside the merits of a role for the profession to ensure the high quality and use of standards and the challenges of financing standard-setting boards outside IFAC, the issue is how best to ensure that standards are developed in the public interest within the current model.

If it is suggested that the present system of independent standard-setting boards, sitting within IFAC, is too vulnerable to undue influence from the profession, the answer is the existence and refinement of an effective PIOB oversight mechanism to ensure mitigation of any such undue influence and balanced participation of all stakeholders, including regulators, in the standard setting process. PIOB oversight ensures that regulators can input their views through the Consultative Advisory Groups (CAGs) and comment letters, together with the rest of the stakeholders, and ensures that all issues are thoroughly debated.

The PIOB encourages all stakeholders to continue to participate in the debate preceding the adoption of standards through established due process in order to help protect the public interest, and applauds the continued efforts of international organisations who are members of the Monitoring Group —the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the

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<sup>1</sup> One letter represents two French professional bodies, and another four represent U.K. professional associations, so the total number represented by this input is 12.

<sup>2</sup> The European Securities and Markets Authority (ESMA), the Government of British Columbia (GBC), the Independent Regulatory Board for Auditors from South Africa (IRBA), the Superintendencia de Compañías del Ecuador (SCE) and the Australian Financial Reporting Council (AUS FRC).

<sup>3</sup> See the Seventh Public Report of the PIOB ([www.ipiob.org](http://www.ipiob.org))

<sup>4</sup> ESMA and AUS FRC.



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International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), the International Forum of Independent Audit Regulators (IFIAR) and the World Bank— to articulate their views individually through the CAGs and comment letters.



## 2. PIOB RECOMMENDATIONS

***Q1: Do you find the mandate of the PIOB as defined in the 2003 IFAC reforms (“to increase the confidence of investors and others that the public interest activities of IFAC, including the setting of standards by IFAC boards and committees, are properly responsive to the public interest”) still appropriate? Please explain your views.***

All respondents expressed strong support for the current mandate to protect the public interest through independent oversight. One respondent suggested eliminating the focus on investors in the current definition and replacing it with a focus on all key stakeholders.

***R1. The PIOB will continue to protect the public interest through independent oversight.***

***Q2: Do you agree that the PIOB’s main focus should continue to be to oversee due process and protect the public interest? Are there any other matters that the PIOB should focus on? Please explain your views.***

Audit firms and IFAC member bodies expressed serious concerns about having the PIOB go beyond due process oversight to analyze technical content, because they felt that doing so would duplicate the role of the public interest activity committees (PIACs) and CAGs.

However, some regulators<sup>5</sup> argued that the PIOB should increase its capacity to carry out technical assessments of standards. ESMA said that the PIOB should not limit its role to due process oversight and could consider substantive issues and, if necessary to protect the public interest, challenge the decisions of PIACs. ESMA suggested that protecting the public interest could imply analyzing the outcome of the standard-setting process and the quality of the standards.

This debate about the scope of public interest oversight is understandably difficult and echoes many board deliberations and public report analyses. The issue is summarized in the following sentence included in the consultation paper and the VII PIOB public report: “Protection of due process may not always guarantee the public interest.” The answer lies in the PIOB finding the right balance between continuing to respect the role of PIACs and CAGs and being aware that a technical understanding of the standards is necessary to

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<sup>5</sup> ESMA and, more forcefully, IRBA.



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protect the public interest. In circumstances where the public interest clearly is not being served, it may be necessary to express an opinion on substance.

**R2.** *The PIOB agrees that increasing its oversight capacity might enhance its ability to protect the public interest. However, PIOB due process oversight cannot be taken to the point of interfering with the CAGs' and PIACs' debates. The PIOB will continue its current policy: a PIOB observer or the PIOB as a whole may raise an issue of substance if the public interest is considered to be clearly at stake.*

**Q3: Do you find the PIOB model of informed oversight the best possible model to guarantee public interest protection?**

Nineteen out of 20 respondents<sup>6</sup> said that they support the concept of “informed oversight” and the need for the PIOB to engage stakeholders through a more active communications policy. Understanding the implications of standards and strategies is considered necessary for oversight to be effective. This input has clear implications regarding more active interaction with stakeholders.

**R3.** *The PIOB welcomes the support to improve and to continue to apply its “informed oversight” approach. The PIOB will endeavor to engage stakeholders more actively with a view to enhancing its awareness of their concerns regarding standard setting in the fields under its mandate. As part of this effort the PIOB will discuss with IFAC the representation of small and medium-size practitioners and developing countries in standard-setting and consultative bodies.*

**Q4: Would you suggest any other avenues for the PIOB to further improve its oversight of the PIACs?**

The respondents offered several recommendations in this regard. The PIOB will enhance its oversight of the PIACs as follows:

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<sup>6</sup> All audit companies, all IFAC member bodies, and all regulators but one expressed support generally for due process oversight and specifically for the current model of informed oversight.



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**R4.** *The PIOB will work with IFAC and the chairs of the standard-setting boards to expand the content and use of feedback reports<sup>7</sup> to enhance the transparency of due process.*

**R5.** *PIOB staff will continue to observe selected PIAC task force meetings.*

**R6.** *The PIOB will continue to encourage IFAC, the standard-setting boards, and the Compliance Advisory Panel (CAP) to seek ways to gain wider acceptance of International Standards on Auditing, International Education Standards, and the Code of Ethics.*

**R7.** *The PIOB will work with IFAC and the chair of the nominating committee to explain better the workings of the nomination process.*

**Q5: Do you agree with the medium-term strategic objectives for the PIOB? Please explain otherwise.**

Nineteen out of 20 respondents expressed support for the PIOB's medium-term objectives. The PIOB should consider its communications policy, especially a more active engagement with stakeholders (R3), and should proceed cautiously with implementation of the Oversight Assurance Model (OAM, see Q6). Some respondents<sup>8</sup> also recommended clarifying the roles of the MG and the PIOB.

**R8.** *As agreed with the MG, the PIOB will work with the MG and IFAC to clarify the roles of the MG and the PIOB.*

<sup>7</sup> Reports that summarize the comments received to consultation processes.

<sup>8</sup> The Fédération des Experts Comptables (FEE) and the Belgian Institute.



**Q6: Given the implementation of the Oversight Assurance Model in place of the 100% direct observation model, do you think that the achievement of a sufficient level of oversight comfort by the PIOB will itself provide stakeholders with a sufficient level of comfort that the public interest is being protected? Please explain your reasons.**

Replies to this question were mixed. Four out of five respondents among audit companies stated that they prefer the 100% observation model over the current risk-based methodology,<sup>9</sup> and two out of seven member bodies said that they prefer 100% direct observation. The lack of continuity in observations of a PIAC or the failure to observe meetings in full are risks that may outweigh the cost benefits of applying an OAM with less than 100% observation. Regulators said that they support the risk-based methodology and the resulting OAM.<sup>10</sup>

**R9.** *The OAM model of oversight is still in its trial phase and will be kept under review. The PIOB is aware of its risks and assesses them every time it decides not to observe a meeting. One of the objectives of the OAM is to conduct the appropriate level of direct observations. This may result in 100% or less than 100% observation over a PIAC's board activities for a particular year. Conducting 100% direct observation where it is not required is neither appropriate nor cost effective. Final conclusions on this approach will be drawn at the end of the trial period.*

**Q7: Do you agree that consulting the MG and other stakeholders through an active communications policy will help the PIOB to form its own opinion on agenda-setting public interest priorities? Please explain.**

With one exception, all respondents said that they support PIOB consultation with a broad range of stakeholders, amongst which the MG occupies a leading role, regarding agendas and other issues. The PIOB has to develop its own opinions on the public interest independently after consulting stakeholders, considering not only the regulatory interests of MG members but also the interests of other stakeholders such as investors, creditors, and other users of accounts.

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<sup>9</sup> The current risk-based methodology can also lead to 100% direct observation.

<sup>10</sup> ESMA, SCE, GBC, and IPSASB support the OAM, but ESMA recommends strengthening the OAM applied to the International Auditing and Assurance Standards Board (IAASB).



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**R10.** *The PIOB in developing its opinion on the public interest will increase its consultations with the MG as well as with a broad range of stakeholders.*

**Q8:** *Do you agree that the PIOB has to be fully aware of the implications of its work to protect the public interest and that its informed approach to oversight requires an active interaction with all stakeholders?*

**Q9:** *Do you agree that the PIOB mandate requires an active communication policy explaining the processes of standard setting and their public interest focus? Do you think the present minimalist policy is sufficient? Do you think that raising awareness of the work of the PIOB should be an objective of its communications policy? Please explain.*

All respondents with one exception supported a more active communications policy. Many respondents argued that the oversight system would be improved by strengthening the communication of work that is being considered and work that has been done.

**R11.** *The PIOB is aware that its core responsibility is oversight and that its communications policy serves to support its core mission. Its communications policy will engage stakeholders more actively with a view to understanding their objectives and concerns, which is necessary to carry out effective oversight, while objectively explaining the current system of standard setting and oversight to improve their knowledge of it.*

**R12.** *The PIOB will improve the transparency of its oversight functions: it will disclose its meeting agendas, will continue to provide summaries of its meetings in a timely manner with a better description of the decisions adopted and an indication of the discussions held, and will disseminate this information more effectively by electronically circulating a quarterly update. In addition to its public report, the PIOB will publish on its website the results of its reports assessing compliance with due process (limited and extended reviews) as well as summaries of the annual oversight plans approved for each PIAC.*



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**Q10: Do you agree with the view that has been put forward that funding has to be diversified and should not largely dependent of IFAC funding?**

**Q11: Please suggest alternative sources for diversifying and financing the PIOB budget.**

All respondents agreed on the desirability of diversifying PIOB funding. There was widespread agreement that the present funding scheme is not optimal and that current efforts should be pursued. This would help to improve the perception of PIOB independence. Majority external funding is considered a sufficient safeguard, and several comments indicated that obtaining such funding is the role of the MG and its members. One proposal was a levy on audit firms, but this does not change the essence of the present situation, in which funding is obtained through IFAC contributions.

Budget diversification will be very difficult in the current economic circumstances. In the absence of clear alternatives, it is important to note that solid safeguards are in place to ensure the PIOB's independence: IFAC has guaranteed PIOB funding until 2015, but it is the MG, not IFAC, that approves the PIOB budget. Moreover, PIOB members are appointed by the MG.

**R13.** *The PIOB will continue to work together with the MG and IFAC to widen its funding base.*

**R14.** *The PIOB will review the adequacy of its current resources to accommodate recommendations R1–R13 and reflect any changes in future budget proposals to the MG.*



## ANNEX

### COMMENT LETTERS SUBMITTED TO THE PIOB

<b>Organization/individual</b>
1. Denise Juvenal and Manuel Rejón López
2. IPSASB (International Public Sector Accounting Standards Board)
3. Deloitte
4. CSOEC (Conseil Supérieur de L'Ordre des Experts Comptables) and CNCC (Compagnie Nationale des Commissaires aux Comptes), France
5. AICPA (American Institute of CPAs)
6. FEE (Fédération des Experts Comptables)
7. IDW (Institut der Wirtschaftsprüfer in Deutschland)
8. ICAEW, ICAS, CIPFA (Chartered Institute of Public Finance and Accountancy) and Chartered Accountants Ireland
9. Malaysian Institute of Certified Public Accountants
10. Institut des Réviseurs d'Entreprises
11. KPMG
12. Grant Thornton
13. CPA Australia
14. Price Waterhouse Coopers
15. Ernst & Young
16. Intendencia de Mercado de Valores, Ecuador
17. IRBA (Independent Regulatory Board for Auditors)
18. BDO
19. Government of British Columbia
20. ESMA (European Securities and Markets Authority)
21. Financial Reporting Council Australia

Total submissions to PIOB consultation: 21