



## **2017-2019 PIOB STRATEGY**

### **PUBLIC CONSULTATION PAPER**

**(August – November 2016)**



The Public Interest Oversight Board (PIOB) is the global independent oversight body that seeks to ensure a public interest focus in the elaboration of the international standards formulated by the Standard Setting Boards supported by the International Federation of Accountants in the areas of audit and assurance, education, and ethics. Through its oversight activities, the PIOB provides an independent perspective from a public interest point of view, thereby contributing to the enhanced quality of international financial reporting.

The PIOB oversees the [International Auditing and Assurance Standards Board](#) (IAASB), the [International Ethics Standards Board for Accountants](#) (IESBA), the [International Accounting Education Standards Board](#) (IAESB), and the [Compliance Advisory Panel](#) of IFAC. The three boards set international standards in their respective areas and each is supported by a Consultative Advisory Group (CAG). In addition, the PIOB oversees the [Nominating Committee](#) of IFAC, which nominates candidates for the SSBs, the CAP and the non-ex officio members of the Nominating Committee itself.

Responding to some of the questions in this consultation paper will benefit from detailed knowledge of the current standard setting model in the fields of audit, ethics and education standards. The description of the roles and responsibilities of the current model can be found in the document "[Standard setting in the public interest: a description of the model](#)", issued by the PIOB in September 2015 (see Annex 1).

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## 1. INTRODUCTION

### 1. Introduction

#### 1.1 Goal

The goal of the PIOB is to ensure the public interest responsiveness of the standards developed under its oversight. This goal requires SSBs that represent all stakeholders in a balanced manner, free from undue influence of any dominant stakeholder.

The PIOB has a number of instruments to help achieve this objective. These oversight tools, mentioned in the 2003 agreement<sup>1</sup> and summarized in the document "[Standard setting in the public interest: a description of the model](#)", allow the PIOB to carry out overall monitoring of the composition and activities of the SSBs. Generally, the PIOB oversees the standard setting activity of the SSBs and their strategies and work plans, including nominations to the SSBs and the review of the Board's terms of reference. In practice much is achieved by physically attending the meetings of the SSB where the specific options for a standard are being worked out. If and when necessary, the PIOB can decide a proposed standard to be reconsidered by a board.

As part of its mandate, the PIOB considers it extremely important to reach out to its constituents, the public at large, and seek their input on its strategic focus.

#### 1.2 Reasons and timing for this strategy

The PIOB held its [10th anniversary in 2015](#). The seminar that was held on 30 September 2015 in Madrid to mark this occasion highlighted the significant progress accomplished since its creation.

After 10 years of experience since it was set up in 2005, the PIOB has become more effective and assertive. PIOB observers and the PIOB as a whole raise public interest issues when they feel a need to do so. The views of Monitoring Group (MG) members inform the PIOB of regulatory developments, and the increased activity of national inspection bodies together with the establishment of IFIAR allow the identification of weak areas in audit standards or in their implementation that may need to be addressed. As a result, the PIOB oversight process and methodology have evolved to better respond to regulatory concerns. (see Annex 2 for a summary of PIOB responses to the 2013 MG recommendations).

MG members -the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Federation of Independent Audit Regulators (IFIAR), the International Organization of Insurance

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<sup>1</sup> The [IFAC 2003 Reforms Agreement](#) outlines the PIOB mandate and authority.

Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO) and the World Bank- contribute to standard setting by ultimately monitoring the governance structure as a whole, through their role in the IAASB and IESBA CAGs, the submission of comment letters and direct contact with the SSBs and the PIOB. The PIOB supports an active involvement of MG members in the standard setting and nominations process.

Evidence of this enhanced confidence in delivering its oversight mandate can be seen in the broader, more active and transparent communications policy that shows an intense interaction with stakeholders and an awareness of their concerns.

The PIOB as an institution has become stronger. Successive processes of board renewal mandated by rotation requirements, noticeably in 2011 and 2014, have contributed to further enhance the PIOB's policies and achievements. The PIOB has grown in size and the board is now supported by a Secretariat of six staff.

Looking forward, the tenth anniversary seminar identified four broad areas of future challenges in oversight of international standard setting.

Firstly, standards and standard setting in the field of audit, assurance, ethics and education for accountants are becoming increasingly complex. Responding to the public interest is becoming more demanding as the involvement of stakeholders is bound to increase.

Secondly, the financial crisis has brought into sharp focus the concerns of investors and others about the effectiveness of an audit. There are increased expectations on what audit firms should deliver in terms of increased quality and transparency of the audit, and on the professional behavior of auditors<sup>2</sup>. A more thorough oversight process of the standard setting process is also part of this set of expectations.

Thirdly, the need to understand better the contribution which the accounting profession can make in terms of increasing the confidence in financial markets and in improving the stability of the financial system, that is, to understand better the connections between accounting, auditing and overall financial stability. This means that oversight in standard setting must be better coordinated with financial supervisors and regulators to ensure that risks are identified in a timely manner and are connected in such way that risks in one market can be contained in their effects in other markets. It also means increased attention should be paid to the role of professional accountants other than auditors and to other users of financial statements who partake in the reporting chain.

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<sup>2</sup> The new auditor's report, the new framework for audit quality and the revisions of standards related to the audit of financial instruments, for instance, are all a response to stakeholders' demands for more and better information and assurance from auditors. The relief of the confidentiality principle when auditors are faced with regulatory or legal irregularities also responds to demands that the audit profession stands up to the highest ethical standards. Auditors must be independent and professionally skeptical, promoting and demanding consistent application of the standards.

Finally, we need to consider how best to encourage the process of effective implementation of standards globally in order to improve audit quality in global financial markets.

### **1.3 Assessing performance**

#### **1.3.1 Progress in international standards and in their adoption and convergence**

A good indicator of performance is the overall progress in the development of international standards on auditing, ethics and education, as well as in their adoption and general acceptance by the accountancy profession and relevant stakeholders.

Many nations have adopted the international auditing standards (ISAs)<sup>3</sup>. Within the EU, the European Commission (EC) is empowered by Union law to adopt ISAs at the European level, but a timetable for this has not yet been set. Most EU Member States have already voluntarily adopted the ISAs at a national level. The better the quality of standards and the governance applied in their construction, the easier their endorsement will generally be.

The IESBA's Code of Ethics for professional accountants offers a global benchmark for ethical standards. In a number of jurisdictions, the Code, or parts of it, is also embodied into law or regulation. Most G-20 jurisdictions have laid down ethics standards in the form of rules that are more stringent than the principle-based IESBA Code. Seeking compromise at an international level is complex because different countries address ethical issues in different ways.

The process of review of the eight International Education Standards (IESs) was finalized in 2014.

The world is making progress in the process of convergence towards a single set of auditing and ethical standards, but the PIOB is aware that this is a process that is conditioned by many limitations and that adoption means different things in different countries. Adoption in one jurisdiction does not imply that standards are implemented in a fully homogenous way with other jurisdictions, or that standards are adopted completely, so international comparisons and any assessment of the process of international convergence are complex and require thorough analysis.

#### **1.3.2 Standard Setting system**

The system for international standard setting in audit, ethics and education standards is designed to ensure responsiveness to the public interest. SSBs consult the CAGs and globally on new or revised standards and on their work programs, react to comments received, and make efforts to reach out to stakeholders. The PIOB oversees due process

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<sup>3</sup> According to the IAASB and IFAC, the number of countries that have committed to using the Clarified ISAs is 111.

and raises matters when it thinks the outcome can be improved in the public interest.

With the hindsight after eight years since the global financial crisis (GFC), a useful benchmark to assess the current standard setting system is whether it has reacted with sufficient determination to meet the public and regulatory expectations brought about by the crisis, given the respective roles of the SSBs and the CAGs.

In the PIOB's view, there is room for structural improvements to enhance the independence of the SSBs and their responsiveness to all stakeholders. These improvements are described in section 2. 1. of this paper, *"Identification of threats to the public interest"*.

### 1.3.3 PIOB

Measuring PIOB output or performance quantitatively is challenging. PIOB outcomes are essentially qualitative. The public interest is an elusive, but recognizable concept. The bar against which to measure PIOB performance is whether standards result in greater responsiveness to the public interest than otherwise would have been the case, and whether that level of public interest responsiveness is a sufficiently robust benchmark given the necessary constraints inherent in international standard setting. This outcome is not measurable because the PIOB works by taking preventive actions during the process of standard development through its oversight activities. The existence of the PIOB together with its active participation in overseeing standard setting, irrespective of the fact whether preventive action was required, has an effect on all stakeholders in this process. This impact is not measurable but is probably significant. Table 1 shows the number of meetings of SSBs observed by the PIOB as a proxy for this preventive action.

PIOB observers or the PIOB as a whole raise their views when public interest issues arise, and SSBs are invited to respond to these views. A good indicator of PIOB performance is the number and nature of the recommendations made over the years by the PIOB to the SSBs and CAGs, which have helped steer standards to be duly responsive to the public interest and therefore to be finally approved. These recommendations can be consulted in the [PIOB Annual reports](#) and give a clear indication of the influence of the PIOB on standards development.

On some occasions the PIOB has approved a standard with comments or expressing a recommendation. For example, the PIOB expressed its disappointment over the final outcome in the auditors' report regarding going concern, which was not deemed to be in the public interest<sup>4</sup>. The PIOB has also made a recommendation to the IESBA to expand its work regarding non-audit services (NAS). On one prior occasion in 2012, the IESBA strategy was approved after resubmission at the PIOB request.

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<sup>4</sup> [PIOB 10<sup>th</sup> Public Report](#), page 4

**TABLE 1.** Number of meetings observed 2012 -2015

YEAR MEETING	2012			2013			2014			2015		
	Held	Attended		Held	Attended		Held	Attended		Held	Attended	
IAASB - DO	4	4		5	5		4	4		4	4	
IAASB - TC	3	3		0	0		2	2		3	3	
IAASB CAG - DO	2	2		2	2		2	2		2	2	
IAASB CAG - TC	0	0		0	0		1	1		2	2	
IESBA - DO	4	3		4	4		3	3		5	5	
IESBA - TC	2	2		1	1		1	1		2	2	
IESBA CAG - DO	2	2		2	2		2	2		2	2	
IESBA CAG - TC	0	0		2	2		3	1		0	0	
IAESB - DO	3	3		3	2		3	1		2	2	
IAESB - RO	n/a	0		n/a	0		n/a	2		n/a	0	
IAESB - TC	1	1		0	0		0	0		0	0	
IAESB CAG - DO	2	2		2	1		2	1		2	1	
IAESB CAG - RO	n/a	0		n/a	1		n/a	1		n/a	1	
IAESB CAG - TC	1	1		1	1		1	1		1	1	
CAP - DO	4	2		4	1		4	2		4	1	
CAP - RO	n/a	1		n/a	3		n/a	1		n/a	2	
CAP - TC	1	1		1	1		0	0		1	1	
NOM COM - DO	5	5		5	5		5	5		4	3	
NOM COM - RO	n/a	0		n/a	0		n/a	0		n/a	1	
NOM COM - TC	2	2		1	1		2	1		1	1	
<b>TOTAL RO/DO</b>	<b>26</b>	<b>24</b>	<b>92%</b>	<b>27</b>	<b>26</b>	<b>96%</b>	<b>25</b>	<b>24</b>	<b>96%</b>	<b>25</b>	<b>24</b>	<b>96%</b>
<b>TOTAL TC</b>	<b>10</b>	<b>10</b>	<b>100%</b>	<b>6</b>	<b>6</b>	<b>100%</b>	<b>10</b>	<b>7</b>	<b>70%</b>	<b>10</b>	<b>10</b>	<b>100%</b>
<b>TOTAL (RO/DO/TC/M&amp;R)</b>	<b>36</b>	<b>34</b>	<b>94%</b>	<b>33</b>	<b>32</b>	<b>97%</b>	<b>35</b>	<b>31</b>	<b>89%</b>	<b>35</b>	<b>34</b>	<b>97%</b>

DO – direct observation, RO – remote observation, TC – teleconference, M&R – monitoring & reporting

#### 1.4 PIOB resources

The PIOB is the technical committee of the PIOB Foundation. The PIOB comprises ten members whose nominations are approved by the MG and appointed by the PIOB Foundation (currently nine members, of which four members from Europe, two from North America, one from South America, and two from Asia Pacific), one of whom is the Chair. This composition allows for balanced decision making and expert knowledge of the position of the accountant in different parts of the world. A variable number of members of the PIOB are also Trustees of the PIOB Foundation. A secretariat of six based in Madrid is coordinated by the PIOB Secretary General, who also acts as secretary to the PIOB Foundation.

Resources are limited and tightly managed, making the best possible use of the geographic location of members and combining meetings and observation activities wherever possible to minimize travel costs. PIOB's functioning is dependent on the contributions of sponsoring organizations. These contributions are extremely important and much appreciated. However, the absence of stable and reliable long term resources places a serious restriction on the activities of the PIOB in the longer term.

**TABLE 2.** Allocation of Funds by activity, 2012–2015

ALLOCATION OF FUNDS 2012-2015								
in thousand euros and %								
Activity	2012		2013		2014		2015	
	Actuals	%	Actuals	%	Actuals	%	Forecast	%
Oversight	793	56%	793	57%	821	56%	838	56%
Communications and external relations	125	9%	127	9%	143	10%	166	11%
Monitoring group and monitoring group members	130	9%	139	10%	145	10%	134	9%
Foundation board meetings	119	8%	123	9%	132	9%	130	9%
Other operating expenses	239	17%	218	16%	224	15%	224	15%
<b>Total Funds Allocated</b>	<b>1,406</b>	<b>100%</b>	<b>1,400</b>	<b>100%</b>	<b>1,465</b>	<b>100%</b>	<b>1,492</b>	<b>100%</b>

### 1.5 Content of the strategy

In developing its 2017-2019 strategy, the PIOB acknowledges the present structure of the standard setting system in the field of audit, assurance, ethics and education as summarized in the document [Standard Setting in the Public Interest: A Description of the Model](#) (Annex 1). Given this structure, the strategy first consults on possible improvements in fulfilling the PIOB mandate.

The second part of the strategy submits the PIOB views that complement the set of enhancements that the MG and IFAC are currently discussing.

## 2. IMPROVING THE DELIVERY OF THE MANDATE

### 2. 1. Identification of threats to the public interest

At present, identification of public interest issues is carried out as follows:

- PIOB observers attend and personally observe SSB and CAG meetings to identify public interest issues during the discussions. Prior to the meeting, the observer analyzes the agenda and reviews the documentation;
- Each observation is supported by staff analysis. PIOB staff reviews the documentation distributed for each SSB meeting, with a special focus on Issues Papers prepared by task forces and the response that the relevant SSBs provide to CAG's input (Report-Back). This analysis is summarized in a Briefing Memo for the PIOB observer at each meeting. Public interest issues are identified and their progress is overseen by the PIOB observer;
- After each meeting, the PIOB observer briefs the other members of the PIOB Board and staff through an Observation Memo, which includes an assessment of the meeting with a particular focus on any public interest issues that might have been identified by the observer;
- The PIOB meets in person four times a year to discuss, amongst other issues, the outcomes of these observations;
- The PIOB meets at least twice a year with each of the SSB and the CAG Chairs in person. The IAASB and IESBA chairs have seen their role enhanced with increased independence.
- The PIOB meets with IFAC leadership regularly to discuss the Nominating Committee process and other matters.
- PIOB staff monitor the responses to consultations and the way the SSBs deal with comments raised by MG members and other stakeholders, including PIOB's members' recommendations at SSBs and CAGs meetings;
- The PIOB discusses comment letters submitted by MG members with them, to ensure it understands their concerns and to seek any clarification which may be needed;
- PIOB staff prepares databases for the main standards projects which identify the main public interest issues raised in those letters, and tracks their progress up to the final approval of the standard. The databases are shared with the relevant stakeholders and published on the PIOB website;
- All these sources of information are considered in the Public Interest Issues Paper, prepared and updated by staff for every PIOB quarterly meeting. This paper is discussed by the Board in depth, with the aim to reach a consensus among members so as to ensure consistency in the oversight function and in the observations conducted by PIOB members throughout the project's life;
- Input from a broad range of stakeholders allows the PIOB to be informed about public interest concerns amongst other players of the financial community.

The PIOB intends to develop a more structured methodology for identifying public interest issues and for reflecting these in its interactions with the SSBs and the CAGs. As a first step, the PIOB foresees intensifying the relationship with MG and CAG members. Specifically,

along with meeting at least twice a year with CAG Chairs and wider audiences, the PIOB plans to organize Public Interest Workshops with the CAGs and MG representatives on a more regular basis.

A structural consideration is whether all relevant stakeholders are represented in the SSBs and whether further representation of some stakeholders is needed in the current standard setting process, in particular, more representation from the investor and regulatory communities both in the CAGs and in the SSBs. SSBs are made up of eighteen members<sup>5</sup>. Nine members are practitioners, no more than six are non-practitioners, and at least three are public members. Practitioners are partners or staff of audit firms. Non-practitioners are professionals trained in accounting who are not currently members of or employed by audit firms. They may have recently stepped down from such positions. Public members may in the past have had accountancy training, been employed by Audit firms or been active professional accounting practitioners, but they have broader experience of acting in the public interest in other roles and can therefore be perceived to be independent of the profession. A majority of SSB members are therefore related to the accounting profession. Similarly, asset managers, financial analysts, chief financial officers, and other related professions could be included more fully in the standard setting process, beyond involvement in the CAG.

Other issues when it comes to trying to identify international public interest challenges are the independence of the Nominating Committee from IFAC in the process of selecting nominations to the SSBs and the balanced representation in SSBs. IFAC's Nominating Committee is chaired by IFAC's President and composed of the President and Deputy President ex-officio, and no less than four additional members appointed by the IFAC Council on the recommendation of the IFAC Board and subject only to the PIOB's approval of the non-ex-officio members of the committee<sup>6</sup>. IFAC's Nominating Committee sources, selects and nominates all candidates for the SSBs, including the Chairs and public members.

In addition, the definition of the category of Public Members overlaps with that of non-practitioners, so categorization of members can be unclear<sup>7</sup>. Public Members should generally speak out for the public interest with a perspective different to that of the accountancy profession. The introduction of a remuneration scheme could help enhance the ability to further attract public members and to expand self-nominations and nominating organizations beyond IFAC member bodies<sup>8</sup>.

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<sup>5</sup> See Standard Setting in the Public Interest: A Description of the Model

<sup>6</sup> See Annex 1, [Standard Setting in the Public Interest: A Description of the Model](#)

<sup>7</sup> The "non-practitioner" category includes professionals from academia, the government, the public sector, international agencies, development banks and other organizations related to the accounting profession, professional accountants in business and individuals who are not professional accountants. See page 2 in Annex 1, Standard Setting in the Public Interest: A Description of the Model

<sup>8</sup> Positions in SSBs are not remunerated, with the exception of the IAASB and IESBA Chairs. Candidates need to be financially independent or have the financial backing of a sponsoring or nominating organization willing to pay for the time and work of the members as well as for her/his travel costs. This is the case for practitioners (9) and non-practitioners (6), who are

The responsiveness of the SSBs to public interest threats could be enhanced if these issues were addressed.

The Terms of Reference of the SSBs under PIOB oversight were last reviewed in 2011, so a new review is needed that could contemplate discussing these issues, as is the case with those of the Nominating Committee of IFAC. The PIOB also intends to develop a more structured process for approval of nominations to SSBs vacancies, including the Chairs, and to the Nominating Committee of IFAC to help contribute to a more balanced representation in SSBs.

#### Questions

**Q1.** Do you think the process currently in place to identify risks to the public interest is appropriate? Can you suggest any improvements?

**Q2.** In addition to investors and regulators, are there any other stakeholders that you think merit further representation in the standard setting process?

**Q3.** Do you see any benefit in the introduction of a public member Chair of the Nominating Committee for the selection of SSB members and Chairs?

Do you see any benefit in an entirely separate Nominating Committee constituted by public members for this purpose?

**Q4.** Do you believe Public Members bring perspectives on the public interest different from those of the accounting profession?

**Q5.** Do you think that Public Members should receive modest remuneration for their contribution to standard setting in the absence of a sponsoring organization? If so, who should pay?

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generally sponsored by international audit networks and by professional accountancy organizations who are members of IFAC. However, nominations of public members (3) from organizations representing the public interest need to be encouraged, including self-nominations. These objectives cannot be adequately secured in the absence of an appropriate remuneration framework. See page 3 of the Standard Setting in the public interest: a description of the model (Annex 1)

## 2.2 Strengthen PIOB Oversight

The PIOB oversight process under the current standard setting model is outlined in the document *“Standard Setting in the Public Interest. A Description Model”* (Annex 1), available on the PIOB website.

The PIOB focuses on ensuring the public interest responsiveness of the standards. A risk-based oversight methodology was designed and implemented in 2011, and, subject to refinements, remains in place to date. This methodology relies mostly on direct observations of the meetings of the SSBs and the CAGs by PIOB members and is documented in annual oversight plans based on an annual risk assessment of each SSB and CAG and of the standards being developed. Direct observation is the preferred method because observers can interact directly with the members of the SSBs or the CAGs, observe the discussions and raise issues immediately as they come up.

The PIOB attaches particular importance to respecting due process throughout the development of international standards. Due process assists in ensuring a balanced participation by stakeholders in the standard setting process and a thorough debate of comment letters by the SSBs and the CAGs. However, given the current standard setting system, due process may not guarantee outcomes in the public interest. If all stakeholders contributed to the consultation process in a way commensurate with their interests and stakeholder representation at SSBs and CAGs was balanced, adherence to due process would better guarantee outcomes in the public interest. However, the current standard setting system does not fully meet these conditions: the audit industry is actively involved in consultation processes which may fail to elicit the views of other relevant stakeholders such as investors or the public at large, which may not be sufficiently organized to articulate comments; and not all relevant stakeholders are represented in the SSBs. Furthermore, new issues might appear during the standard setting process, as initial proposals may considerably change over time. Within the present structure, due process oversight is a means to try to ensure the public interest responsiveness of the standards, but the latter is an objective which requires understanding their substance and their impact on the public interest.

The development of a specific oversight methodology has allowed a more effective identification of public interest issues or possible threats to the public interest, and has resulted in a more meaningful PIOB oversight of standards and SSBs’ strategies and work programs. PIOB Board members or the board as a whole intervene when considered appropriate in the public interest. Whilst the PIOB has not felt it necessary not to approve any SSB standard, on some occasions it has had to comment on public interest matters when providing its approval, and in one instance invited the IESBA to submit an amended proposal.

Only SSBs have the authority to approve a project proposal or an exposure draft and to

issue a final pronouncement<sup>9</sup>. In the current standard setting framework, a pronouncement issued by SSBs only becomes authoritative after the PIOB concludes that due process has been followed effectively and proper regard has been paid to the public interest<sup>10</sup>. It would be a welcome clarification for all if the IAASB, IESBA and the IAESB informed stakeholders clearly in their published standards that these standards have received the approval of the PIOB which concluded that due process has been followed in the elaboration of the standard and that proper regard has been paid to the public interest. This mention would strengthen the credibility of a standard as having been overseen from the angle of the public interest. The EU Directive on statutory audits, for instance, conditions the possibility of adopting international auditing standards to their being developed with proper due process and public oversight and transparency<sup>11</sup>.

Developing effective standards needs time, but the length of time taken to develop standards is a cause of concern. The standards on the new Auditor Report and on NOCLAR, for instance, have taken over five years to develop. Current IAASB projects contained in the ITC may not be finalized until 2020. This delivery period may be a threat to the public interest because standards cannot react to market needs with timeliness. It would be advisable to reflect on ways to improve on a timelier delivery of projects.

The widespread expectation on the role of auditors begs consideration whether continuing to strengthen oversight is necessary. The detection of clear and objective audit deficiencies from external inspections and their effective transmission to SSBs should help determine the priorities of the SSBs in their strategies and work programs<sup>12</sup>. The PIOB is well equipped to continue to assess the completeness of strategies and work programs of the SSBs and recommend additions as necessary. Potential threats to the public interest also arise from factors beyond standard setting processes, such as implementation deficiencies, the current firms' business model and governance arrangements, remuneration issues, consulting services, etc., all of which have an impact on the role played by the accounting profession in contributing to financial stability. The professional accountant will further need to adapt to the impact of data management technology.

## Questions

**Q6.** Did you come across cases where auditing, ethics and education standards did not adequately respond to your public interest concerns?

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<sup>9</sup> IFAC's standard-setting Public Interest Activities Committee's' Due Process and Working Procedures, March 2010

<sup>10</sup> "Only final international pronouncements issued by the SSB after the Public Interest Oversight Board (PIOB) concludes that due process has been followed effectively and with proper regard for the public interest are authoritative". IFAC's standard-setting Public Interest Activities Committee's' Due Process and Working Procedures, March 2010, page 1: [https://www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf)

<sup>11</sup> Art. 26 (3) (a): "The Commission may adopt the international auditing standards only if they have been developed with proper due process, public oversight and transparency, and are generally accepted internationally". Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory accounts and consolidated accounts (OJ L 157, 9.6.2006, p. 87), as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 (OJ L 158, 27.5.2014, p. 196).

<sup>12</sup> See IFIAR 2015 Inspection Results Survey (<https://www.ifiar.org/IFIAR-Global-Survey-of-Inspection-Findings.aspx>)

**Q7.** Technical work on a standard under development is in the first instance undertaken by working groups or task forces. Do you see any benefit in the PIOB being involved at an earlier stage by overseeing working groups and or task forces?

**Q8.** Where do you see gaps in the PIOB's oversight?

**Q9.** Do you think the length of time taken in standard development should be shortened in the public interest? If so, how can the need for public consultation and respect for due process be balanced?

### 2.3 Supporting Accounting Education

Important changes in accounting and audit, including in areas such as Big Data and cyber security, require new skills from accounting professionals. Additional demands are being placed on the accounting profession in terms of professional skepticism and independence. The message of the integrated reporting initiative, which the PIOB firmly supports, is that global carbon risks, social responsibility and corporate governance considerations as well as business model risks can no longer be disassociated from financial reporting, if only because long term sustainability risks may affect present valuations. Audit firms also need to face up to these challenges.

All these demands can only be met if the right talent continues to be attracted, if the curricula of the aspiring accountants innovate as necessary, and if the skills set of accountants evolves as needed through continuing professional development. The PIOB supports high-quality education for accountants, paying special attention to the public interest awareness of the future accountant in the education programs. New standards or the review of existing standards could offer an international best practice reference as well as a global stimulus to the response of the accounting profession to these challenges. The IAESB is particularly well placed to play a leading role in helping the accounting profession evolve to meet the future requirements for accountants and auditors.

Accounting education is a broad arena with many essential contributors. By continuing to challenge the role the IAESB or others may play, the PIOB believes it can continue to have a positive effect on the global education landscape. For example, is there more that can be assimilated from regulatory and inspection processes to inform the IAESB and others? Are there matters of broader relevance to quality of education, beyond education within IPD/CPD, that should be considered? Who is best placed to influence other participants in the chain (e.g. preparers, directors, auditors, regulators) to acquire and maintain relevant ability, skills and attitudes to deliver on their responsibilities, and how might this happen? Are more demanding requirements needed for practical relevant experience, developing new skills, or maintaining and adapting previously acquired skills? Examples of such requirements could include responding to regulatory and inspection concerns about skill deficits, about ethical and professional lapses, or about perceived deviations from public expectations of accounting professionals.

The PIOB intends to continue to encourage the IAESB to respond to the important public interest challenges that the education of accountants is facing today.

Questions:

**Q10.** What topics would you consider – from a public interest perspective - essential additions to the present education curricula?



**Q11.** Can you suggest how the PIOB might enhance its understanding of the public interest issues relevant to international accounting education standard-setting, and to accounting education practices and processes?

## 2.4. Adoption and implementation

The PIOB recognizes the need to have the ISAs, the Code of Ethics and the IESs globally adopted and effectively implemented, and it is committed to supporting adoption and implementation by those who hold the responsibility.

The role of IFAC is critically important in the area of adoption and implementation. Through its compliance program, IFAC requires that its members, 175 accounting professional organizations throughout the world, either adopt or carry out their best efforts to ensure adoption and implementation of each Statement of Membership Obligation (SMO). The PIOB oversees the compliance program through its oversight role of the CAP<sup>13</sup> and offers public interest input. The PIOB intends to continue observing the CAP to offer its public interest perspective to the program.

The role of national professional member bodies is also critically important in facilitating implementation. The PIOB is increasingly working with some<sup>14</sup> of them and intends to continue doing so. Adoption of ISAs is monitored by the World Bank through their Reports on Observance of Standards and Codes (ROSCs).

Regarding implementation, the European Audit Inspection Group (EAIG) and the International Forum of Independent Audit Regulators (IFIAR), play an important role in supporting proper implementation of the standards through the publication of their inspection findings and their dialogue with the standard setters and the audit profession. The PIOB has strengthened its relationship with IFIAR and EAIG to ensure its oversight is fully informed about their views.

### Questions

**Q12.** In your opinion, what else could the PIOB do to encourage adoption and implementation of international standards (ISAs, the Code of Ethics, and the IESs)?

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<sup>13</sup> Under its new 2016-2018 Strategy the CAP will produce qualitative and quantitative analyses regarding the status of adoption of international standards and compliance with the SMOs. The CAP also plans to review its enforcement framework

<sup>14</sup> For instance, the Institute of Chartered Accountants of England and Wales (ICAEW) and the Lebanese Association of Chartered Professional Accountants (LACPA)

## 2.5 Transparency and communication

The PIOB makes public the conclusions of its deliberations. In those instances when the PIOB offers comments on public interest issues, it does so with full transparency.

- Each quarter, the PIOB publishes the agenda of its quarterly Board meetings as well as an official report on the decisions made. These quarterly updates make public the PIOB views on public interest aspects of the standards under its consideration.
- The PIOB Public Report discloses the public interest issues identified by the PIOB and the [recommendations](#) made to the SSBs, the CAGs, CAP and the Nominating Committee.
- In addition to the annual Public Reports and quarterly updates, PIOB publications include the conclusions from the international public interest seminars organized by the PIOB, the recently issued Standard Setting Model Description Document and a recent [publication](#) dedicated to the PIOB's 10<sup>th</sup> anniversary.
- The PIOB website includes the databases showing the follow-up of comment letters from members of the Monitoring Group and other relevant stakeholders.
- The PIOB regularly updates its [website](#) with relevant information such as oversight plans and details of oversight and external relations activities scheduled for each year.
- General information, speeches, communications are also posted on the website.

The PIOB will continue to make public the results of its deliberations on the public interest responsiveness of standards.

Standard setting, oversight of standard setting processes and outcomes, inspection of audit work, and adoption and implementation responsibilities have all witnessed an unprecedented growth over the last decade. As a result, a large number of new actors have come to play a role within the regulatory and non-regulatory fields. It is important that all these actors remain informed about ongoing discussions, follow the standard setting process and discuss issues of common interest regularly. The PIOB is well placed to independently organize a forum for dialogue between the accounting profession, the user community and international regulatory bodies. This forum would help different stakeholders identify risks in different financial markets that may be interconnected.

Since 2012, the PIOB has continued to widen its outreach<sup>15</sup> and increased its participation in [external events](#). This approach has contributed to a better understanding of the standard setting process and the role that the PIOB plays in this context, to an increased awareness of public interest issues and to the importance of having a public interest oversight.

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<sup>15</sup> E.g., International Forum of Independent Audit regulators (IFIAR), European Audit Inspectors Group (EAIG), Bank for International Settlements (BIS), Institute of Chartered Accountants for England and Wales (ICAEW), Fédération des Experts Comptables Européens (FEE), International Corporate Governance Network (ICGN), United Nations Conference on Trade and Development-Intergovernmental Group of experts on International Standards of Accounting and Reporting (UNCTAD-ISAR), Public Company Oversight Board (PCAOB), International Association of Insurance Supervisors (IAIS), IFRS Foundation, UK Financial Reporting Council, Abu Dhabi Accountability Authority (ADAA), LACPA, Arab Federation of Accountants and Auditors (AFAA), Prince's Accounting for Sustainability, International Monetary Fund, World Bank.



During the period 2017-2019, the PIOB will continue to act as a convener and strive to bring together regulators, the profession and the general public with a view to identify risks to the public interest.

Questions

**Q13.** Do you find the PIOB Quarterly Updates useful?

**Q14.** Is there anything the PIOB could do to improve the understanding of its role as a defender of the public interest?

## 3. VISION

### 3.1 PIOB vision 2019 and beyond

This section offers the PIOB views on the longer term evolution of the standard setting system, of which the PIOB and the MG are constituent parts. Currently the MG is discussing with IFAC enhancements of the standard setting governance (see text box). The enhancements focus on the composition and the independence of the SSBs, their task forces and of the PIOB, strengthening the safeguards for delivering high quality work, responsive to the long terms needs of the users of financial information. A balance of professional input and wider societal expertise should lead to optimal quality of the professional standards.

Standard setting enhancements being developed by the MG in 2016:

\*Achieving a more independent nomination process for the Chair and the board members of the SSBs. Both the Nominating Committee and the process of nomination should be independent, instead of being exclusively conducted by IFAC.

\*Achieving a more balanced, multi-stakeholder composition of the SSBs. In order to better serve the public interest, the composition of the SSBs should be a more balanced reflection of the different stakeholders of audit and ethics standards, i.e. by including stakeholders from users (professional and retail investors, analysts), regulatory and possibly issuer (audit committee member) perspective. At the same time the SSBs should be able to face the technological challenges of standard-setting by having sufficient professional know-how on the impact of technology on the audit.

\*Achieving a more balanced composition of the Task Forces. Like for the SSBs, different stakeholders should be involved from the first moment of the drafting the standards<sup>16</sup>.

\*Strengthening the (perceived) independence of the PIOB by not extending IFAC's prerogative to nominate a PIOB member.

The PIOB submits the following ideas to complement the enhancements of the standard setting governance:

- Ensure a balanced composition of the PIOB in terms of experience, gender and geography. Fully respecting the MG prerogative to appoint the PIOB members, a consultation process could be conducted ex-ante to ensure a balanced PIOB composition;

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<sup>16</sup> The composition of the Task Forces should bring the right balance of technical expertise and public interest perspectives and sufficient direct participation by members of the SSB.

- Guarantee the stability of the PIOB through a stable and diversified funding framework, free from any influence from any party. Available resources should not limit PIOB activities relevant to its mandate;
- Establish a close coordination between the MG and the PIOB so as to ensure that the PIOB is aware of the views held by MG members and that MG members' views benefit from the oversight role of the PIOB. The PIOB and the MG would hold at least one full plenary meeting every year. The Chair of the MG and/ or MG members would attend selected PIOB meetings, and the Chair and Secretary General of the PIOB would continue to regularly attend MG meetings.
- Monitor the implementation of the governance enhancements which will be developed by the MG.

#### Questions

**Q15.** What would you think should be the role of the PIOB in the longer run given the set of reforms currently contemplated?

## ANNEX 1

### STANDARD SETTING IN THE FIELD OF AUDIT AND ASSURANCE, ETHICS AND EDUCATION

This document describes international standard setting in the field of Audit and Assurance, Ethics and Education for professional accountants.

The current system is the result of an agreement<sup>17</sup> between the Monitoring Group (MG) and the International Federation of Accountants (IFAC). The 2010 MG Review of the IFAC Reforms and the 2012 MG Governance review and Public Interest Oversight Board (PIOB) consultation processes added specific recommendations to the original arrangements<sup>18</sup>. Standard setting in these fields is the responsibility of Standard Setting Boards (SSBs) which operate with the financial and operational support of IFAC and whose members are selected by IFAC's Nominating Committee, under the agreement that standard setting processes should be transparent, receive broad public input, including from the regulatory community and be subject to public interest oversight, with such oversight receiving regulatory monitoring. The objective of this agreement is to facilitate standard setting that is responsive to the public interest and produces high-quality international standards.

The result is a three-tier model made up of:

- (i) SSBs which have the responsibility to set international standards in the fields of Audit, Assurance and Related Services (International Auditing and Assurance Standards Board, IAASB, <http://www.iaasb.org>), Ethics for Professional Accountants (International Ethics Standard Board for Accountants, IESBA, <http://www.ethicsboard.org>), and Professional Accounting Education (International Accounting Education Standards Board, IAESB, <http://www.iaesb.org>)<sup>19</sup>;
- (ii) An independent oversight body, the Public Interest Oversight Board (PIOB, [www.ipiob.org](http://www.ipiob.org)), with the responsibility to oversee standard-setting processes by these three Boards as well as their nominations processes, and
- (iii) A group of international public interest and financial organizations, the MG, ([http://www.iosco.org/about/?subsection=monitoring\\_group](http://www.iosco.org/about/?subsection=monitoring_group)), with the

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<sup>17</sup> Current arrangements are based on two agreed texts:

- a. IFAC Reform Proposals of November 2003 (<http://www.ipiob.org/media/files/about/IFAC%20Reform%20Proposals%202003.pdf>)
- b. The Monitoring Group (MG) Charter agreed in 2008, which includes as annexes the IFAC Proposal for Assured PIOB funding of August 15, 2007, and the MOU between IFAC and the MG in relation to nominations to the PIOB Foundation Board of Trustees, dated September 4, 2008 (<http://www.ipiob.org/media/files/about/MG%20Charter%20only.pdf>).

<sup>18</sup> <http://www.ipiob.org/index.php/public-consultation>  
[https://www.iosco.org/about/monitoring\\_group/governance\\_review/comments/cr2.pdf](https://www.iosco.org/about/monitoring_group/governance_review/comments/cr2.pdf)

<sup>19</sup> The IAASB issues International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Related Services (ISRSs), International Standards on Assurance Engagements (ISAEs), International Standards on Quality Control (ISQCs), and non-authoritative pronouncements such as the International Framework for Assurance Engagements and International Auditing Practice Notes (IAPN). The IESBA issues the Code of Ethics for Professional Accountants.

The IAESB issues International Education Standards for Professional Accountants (IESs), International Education Practice Statements for Professional Accountants (IEPSs) the Framework for International Education Standards and non-authoritative publications such as the International Education Information Papers for Professional Accountants (IEIPs)

responsibility to monitor the overall structure and to which the PIOB is accountable.

The IFAC Council is responsible for the overall governance of IFAC, and the IFAC Board oversees the management of IFAC.

## **ROLES AND RESPONSIBILITIES**

### **Standard Setting Boards and IFAC Nominating Committee**

SSBs are responsible for issuing high quality international standards in the public interest. SSBs may also issue non-authoritative pronouncements such as guidance material for implementation.

SSBs are made up of eighteen members including the Chair<sup>20</sup>. No more than nine members are practitioners<sup>21</sup>, at least six are non-practitioners<sup>22</sup> and at least three are public members<sup>23</sup>. Members (with the exception of the Chair) serve a maximum of two consecutive three-year terms, and sign an annual statement that they will act in the public interest.

Practitioners are partners or staff of audit firms. Non-practitioners represent a broad category of professionals, who are generally related to the accountancy profession, but are not members or employees of audit firms<sup>24</sup>. Public members have a broader background and experience in serving the public interest, and are independent from the accountancy profession.

All candidates for these positions are selected through the annual nominations process managed by IFAC's Nominating Committee, chaired by IFAC's president. The PIOB oversees this process by assigning an observer in the Nominating Committee through the full nominations cycle, including interviews of candidates, and approval of IFAC's recommendation regarding which candidate to appoint.

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<sup>20</sup> The composition of SSBs is set forth in each SSB's terms of reference, endorsed by the IFAC Board and approved by the PIOB (art. 26.1 in the IFAC Bylaws).

<sup>21</sup> A "practitioner" is a member or an employee of an audit practice firm. Individuals who are not providing audit services in the audit practice firm are designated as practitioners because their employment relationship places them in a position where they have an interest in the economic results for the firm as a whole.

<sup>22</sup> A "non-practitioner" is not a member or an employee of an audit practice firm. Former members or employees of such firms can only be regarded as non-practitioners after three years have elapsed since ceasing membership in or employment by the firm. This category includes professionals from academia, the government, the public sector, international agencies, development banks and other organizations related to the accounting profession, professional accountants in business and individuals who are not professional accountants.

<sup>23</sup> The definition used for the 2016 Call for Nominations reads as follows: "Public members clearly represent, and are seen to represent, the broad public interest, and therefore nominations of non-accountants are strongly encouraged for these positions. Individuals nominated for public member positions should desirably have a technical knowledge of the subject matters considered by the Board. Public members cannot be practitioners".

<sup>24</sup> For instance, staff from professional IFAC member bodies, which are national organizations of the accountancy profession, or other within the current definition.

Every year, IFAC issues a public “Call for Nominations” for vacancies that will open in the SSBs the year after, and receives expressions of interest from candidates. All nominations to the SSBs are open to the general public: the “Call for Nominations” allows for nominations from any organization or individual. Positions in SSBs are voluntary, that is, are not remunerated, with the exception of the IAASB and IESBA Chairs. The voluntary nature of SSB membership – the absence of any remuneration for the standard setting work - means that candidates need to be financially independent or have the financial and institutional backing of a sponsoring or nominating organization willing to pay for the time and work of the members as well as for her/his travel costs.

Nominations of practitioners (9) and non-practitioners (6) are generally candidates sponsored by international audit networks and by professional accountancy organizations who are members of IFAC. Candidates for vacancies of public members (3), who come from the wider public interest (preparers, users, regulators and public at large), are also selected by the IFAC Nominating Committee. Nominations of public members from organizations representing the public interest are encouraged, including self-nominations. In the absence of a sponsoring organization, a self-nominated public member, if appointed, may apply for IFAC’s travel support program<sup>25</sup> and receive a reimbursement of actual travel expenses. He or she is not entitled to any remuneration despite the time requirement advertised for these positions<sup>26</sup>.

The same process applies to nominations of candidates to the SSBs Chairs. The IAASB and the IESBA Chairs are subject to independence requirements<sup>27</sup>. The IAASB Chair is a full time position while the IESBA Chair is a part-time position<sup>28</sup>. The IAESB Chair is not required to meet independence requirements<sup>29</sup>. SSBs’ Chairs serve a maximum of three consecutive three-year terms, including time served as members, and can exceptionally serve a fourth term.

SSBs are supported by technical staff employed by IFAC and seconded to the SSBs. The IAASB has eight technical staff positions, the IESBA has five and the IAESB has one. Nominating organizations have the right to provide technical advisors (TAs) to assist SSB members. This support is limited to SSB members whose nominating organizations will contribute the resources<sup>30</sup>. TAs are required to sign an annual statement affirming they serve in the public interest and cannot vote in lieu of the member. TAs have the privilege of the

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<sup>25</sup> Applicable also to practitioners and non-practitioners, see [IFAC Call for Nominations 2016](#)

<sup>26</sup> IAASB, 81 to 100 days per year; IESBA, 46 to 65 days per year; IAESB, 22 to 31 days per year

<sup>27</sup> The IAASB’s and IESBA’s Chairs Independence requirements are set in IFAC’s document “The Independence Requirements of the IAASB/IESBA Chair”, which they must fulfill in order to assume the position: “The Chair shall sever all employment relationships with current or former employers and shall not hold any position giving rise to incentives or conflicts of interest which might call into question their independence of judgment in setting auditing standards”

See <http://www.ifac.org/auditing-assurance/about-iaasb/terms-reference>

<sup>28</sup> <http://www.ifac.org/ethics/about-iesba/terms-reference>

<sup>29</sup> <http://www.ifac.org/education/about-iaesb/terms-reference>

<sup>30</sup> In case a nominating organization does not wish to provide a technical advisor or a SSB member does not have a nominating organization (i.e. candidate is a self-nominee), SSB staff may assist in identifying a technical advisor

floor with the consent of the Board member and may participate in projects<sup>31</sup>. A TA can serve as a member of a TF in his or her own capacity, or accompany a Board member who is a member of a TF to TF meetings.

### **Steering Committee**

SSBs have each established a Steering Committee (SC) or similar with the purpose to formulate views and advise on matters of strategic and operational importance. The Steering Committee's objectives, responsibilities, composition, operating procedures, and membership for the IAASB are set in <http://www.ifac.org/auditing-assurance/about-iaasb/steering-committee>. The IESBA and the IAESB have no formal ToR for their respective "Planning" Committees.

The IAASB SC is chaired by the IAASB Chair. It comprises four to six members of the IAASB and includes the IAASB Technical Director. The Consultative Advisory Group (CAG) Chair is entitled to attend meetings of the SC as an observer with privilege of the floor, or may appoint a Representative to attend with the same privilege<sup>32</sup>.

### **Task Forces**

SSBs develop their standards and strategies and work plans through task forces<sup>33</sup>.

The commencement of a standard begins with a project proposal. The subject and initial timing of a project proposal originates from the approved Strategy and Work Plan (SWP). A proposal to start a new project is first considered by the SC, which decides the path to be followed to develop the project proposal. Typically, SSB staff prepares the proposal based on the background on the issue as manifested in the SWP and further research and consultation as necessary. In cases when the scoping and subject of a topic is more challenging, the SC may decide to set up a dedicated working group made up of Board members and others, if necessary, to help staff prepare the proposal. The project proposal is discussed by the SSB and the CAG. When the SSB approves the project proposal, it becomes the basis for drafting the project exposure draft.

Only the SSB has the authority to approve a project proposal, an exposure draft, and issue a final pronouncement. A final pronouncement issued by SSBs only becomes authoritative

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<sup>31</sup> Technical Advisors are expected to possess the technical skills to participate, as appropriate, in SSB debates and attend SSB meetings regularly to maintain an understanding of current issues relevant to their role. TAs do not need to be approved by the Board. The TA is chosen by the nominating organization. There is no formal process for his or her nomination. [https://www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf)

<sup>32</sup> [http://www.ifac.org/system/files/downloads/IAASB-Amended\\_CAG\\_Terms\\_of\\_Reference.pdf](http://www.ifac.org/system/files/downloads/IAASB-Amended_CAG_Terms_of_Reference.pdf)  
<http://www.ifac.org/ethics/cag/terms-reference>  
<http://www.ifac.org/education/cag/terms-reference>

<sup>33</sup> For the role of Task Forces, see IFAC's standard-setting Public Interest Activities Committee's' Due Process and Working Procedures, March 2010, IFAC, at [https://www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf)

after the PIOB concludes that due process has been followed effectively and with proper regard for the public interest.<sup>34</sup>

A project proposal includes a proposed assignment of responsibility for the project to a Project Task Force, which is ordinarily<sup>35</sup> chaired by a member of the SSB. The composition of the Project Task Force is determined by the senior staff member of the SSB, in consultation with the Chair of the SSB<sup>36</sup>, in a manner that brings the right balance of technical expertise and public interest perspectives to the project discussions and sufficient direct participation by members of the SSB. The identification of Project Task Force members focuses on finding the best persons for the job. Project Task Forces may contain participants, such as external experts, who are not members of the SSB, but have experience relevant to the subject matter. Members of a Project Task Force are identified in the project summaries contained on the SSBs' websites and in the relevant project agenda papers for a SSB meeting.

Project Task Force meetings are not open to the public, but matters deliberated by the Project Task Force and the outcome of the Task Forces' deliberations are reported in the public agenda material of the SSB. An SSB member that is participating in a Project Task Force may, at the member's request, be accompanied by his or her technical advisor to support that member.

A Project Task Force identifies issues and proposes recommendations relevant to the development of the proposed pronouncement in a paper named "Issues paper" which is ordinarily accompanied by a draft version of the proposed exposure draft of the pronouncement. "Issues papers" are developed based on research and consultation, which may include: conducting research; consulting with the SSB or the CAG, practitioners, regulators, national standard setters and other interested parties; and reviewing professional pronouncements issued by IFAC member bodies and other parties.

The "issues papers" and draft project exposure draft are tabled by the task force with the SSB and with the CAG. The task force chair attends all SSB and relevant CAG meetings. The "issues paper" is updated with the comments raised at the SSB and the CAG. The project exposure draft is the subject of discussion both at the SSB and the CAG through the process of project development. This process ends with the task force producing a final exposure draft, which is discussed and approved by the Board.

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<sup>34</sup> "Only final international pronouncements issued by the SSB after the Public Interest Oversight Board (PIOB) concludes that due process has been followed effectively and with proper regard for the public interest are authoritative". IFAC's standard-setting Public Interest Activities Committee's' Due Process and Working Procedures, March 2010, page 1: [https://www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf)

<sup>35</sup> The norm is that TF Chairs are Board members. Exceptionally, some flexibility may be needed: a retiring member who was a TF Chair had to continue as a TF Chair to finalize the project; the appointment of a co-Chair may be needed; during the Clarity Project, due to the demands on the capacity of the IAASB, former Board members or TAs had to serve as TF Chairs.

<sup>36</sup> [https://www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf)

Standard development is subject to a strict due process<sup>37</sup>, approved by the PIOB, that aims to ensure the responsiveness of the standard to regulatory and other stakeholder input: after a project proposal is approved, an exposure draft is developed and approved by the SSB, standards are exposed for public comment for at least ninety days, comments received through comment letters are publicly available, the CAG is consulted by the task force chair at all stages throughout the process, comments received both through comment letters and CAG discussions are dealt with in the “issues paper”, which is public, and agendas and minutes of meetings are publicly available. In addition, the task force chair reports back to the CAG on the disposition of all comments made by CAG representatives throughout the development of a project. For this purpose, the task force tables a “report-back” document at CAG meetings which explains how the Board has disposed of the comments made by CAG members. The “report-back” document is discussed with the CAG. Task Force and SSB Chairs may hold bilateral meetings with stakeholders to explain decisions made and collect their input.

The PIOB oversees that due process, with proper regard for the public interest, is followed throughout the development of a project. Specifically, the PIOB reviews the comments received through the consultation processes both with the public and with the CAG, and monitors the way the SSB deals with these comments. The PIOB has developed a specific process to document the tracking of comments submitted by MG members, European Audit Inspection Group (EAIG), and national audit oversight bodies and the way they are disposed of in the final standard.

Standards are approved by the affirmative vote of at least twelve (12) of the SSBs members present at the meeting in person or via simultaneous telecommunications link. The SSB issues a document (“Basis for Conclusions”) at the end of the process followed to develop a standard that explains the main issues raised in comment letters and the disposition of comments received. If a comment from an MG member is not taken up in the final standard, a feedback-mechanism provides that the MG member receives specific explanation from the SSB on the reasons why.

## **CAGs**

Each SSB is supported by a CAG that offers advisory input and actively contributes to the development of SSB pronouncements.

According to the Terms of Reference (ToR) of the CAGs<sup>38</sup>, which are approved by the PIOB, “the CAG comprises Member Organizations that are interested in the development and

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<sup>37</sup> For a full description of due process followed, see IFAC’s Dues Process and working procedures, March 2010, at: [https://www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf)

<sup>38</sup> IAASB CAG ToR: [http://www.ifac.org/sites/default/files/downloads/IAASB-Amended\\_CAG\\_Terms\\_of\\_Reference.pdf](http://www.ifac.org/sites/default/files/downloads/IAASB-Amended_CAG_Terms_of_Reference.pdf)  
IESBA CAG ToR: <http://www.ifac.org/ethics/cag/terms-reference>  
IAESB CAG ToR: <http://www.ifac.org/education/cag/terms-reference>



maintenance of high-quality international standards... designed to serve the public interest". The Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the World Bank (WB) are permanent Member Organizations of the IAASB and IESBA CAGs. The Chair of the CAG is elected by the CAG amongst its members.

The CAG Membership Panel, comprising the CAG Chair, two representatives selected by the Chair for this purpose, the SSB Chair and the SSB Technical Director, considers nominations to determine whether organizations and their representatives are suitable for membership and tries to ensure a balanced geographical spread and functional backgrounds. The appointments of all CAG members, including the Chair, are approved by the PIOB.

Member organizations' representatives serve a three-year term, which is renewable twice (maximum of nine years). The CAG Chair serves a three-year term, renewable once, and is elected amongst its members. The Chair of the CAG leads the process to ensure adequate representation in the CAG, monitors rotation of CAG representatives and carries out an evaluation of member organizations every five years<sup>39</sup>.

The Chair of the SSB attends CAG meetings to provide feedback on the work of the respective SSB, and the Chair of the CAG attends as an observer the respective SSB meeting to ensure coordination.

Both SSB and CAG meetings are open to the public with the exception of closed or private sessions, respectively. Private sessions are typically held at each CAG meeting. A private session includes CAG representatives and the PIOB, but not SSB representatives or the public.

### **Public Interest Oversight Board (PIOB)**

The PIOB is a Technical Committee of the PIOB Foundation. The PIOB Foundation was set up by IOSCO, BIS and IAIS in 2005, and entrusted the activities of public interest oversight to a Technical Committee (PIOB) whose members are appointed by the Foundation Board. This Committee is made up of ten members, including the Chair, nominated by the MG (except one member nominated by IFAC)<sup>40</sup>, and a secretary general that coordinates a secretariat with a staff of five headquartered in Madrid. The PIOB provides independent

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<sup>39</sup> IAASB CAG ToR: [http://www.ifac.org/sites/default/files/downloads/IAASB-Amended\\_CAG\\_Terms\\_of\\_Reference.pdf](http://www.ifac.org/sites/default/files/downloads/IAASB-Amended_CAG_Terms_of_Reference.pdf)

IESBA CAG ToR: <http://www.ifac.org/ethics/cag/terms-reference>

IAESB CAG ToR: <http://www.ifac.org/education/cag/terms-reference>

<sup>40</sup> See MG Charter, <http://www.ipiob.org/media/files/about/MG%20Charter%20only.pdf>.

IOSCO nominates 4 PIOB members, including the Chair; the EC nominates 2 PIOB members, and the IAIS, WB, BCBS and IFAC nominate one each.

oversight of the areas under its mandate.

The responsibility of the PIOB is to ensure<sup>41</sup> the public interest responsiveness of the processes and structures under its oversight, namely<sup>42</sup>:

- (i) to ensure that standard setting follows due process and is responsive to the public interest<sup>43</sup>,
- (ii) to ensure the completeness of the strategies and work plans of the SSBs<sup>44</sup>,
- (iii) to oversee the process of nominations to all SSBs and CAGs under its oversight<sup>45</sup>.

This responsibility is exercised by a simple majority vote of its members when consensus cannot be reached, on the basis of observations and technical analysis by staff. However, a two-thirds majority will be necessary to request the removal of the chair of any SSB or the Compliance Advisory Panel (CAP) for a good cause, or to determine whether additional IFAC activities are public interest activities that should fall under PIOB's oversight<sup>46</sup>. The vote of each member carries equal weight.

The PIOB also oversees the CAP of IFAC. Through its compliance program and CAP, IFAC monitors the extent to which its member bodies have used their best endeavors to have international standards adopted in their respective jurisdictions, in line with IFAC's "Statements on Membership Obligations (SMOs)". These SMOs include obligations with respect to quality assurance review systems, adoption of IESs, ISAs, Code of Ethics, International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), and discipline and investigation.

The PIOB approves ToR of the SSBs, the CAGs and the CAP, and evaluates the adequacy of funding provided to the SSBs with reference to their strategies and work programs.

The PIOB has the right to attend all meetings of the boards and committees under its oversight as observer, including closed sessions of SSBs, and has the right of the floor: the IAASB, IESBA, IAESB, their respective CAGs, CAP, IFAC Nominating Committee and the IFAC Board (except executive sessions). The PIOB applies a risk-based oversight methodology that relies on direct observations of meetings and staff monitoring as outlined in the annual Oversight Plans<sup>47</sup>.

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<sup>41</sup> See MG Charter, page 2

<sup>42</sup> The source of these three aspects of the PIOB mandate is the IFAC 2003 Reform Proposals, pages 10 and 11.  
<http://www.ipiob.org/media/files/about/IFAC%20Reform%20Proposals%202003.pdf>

<sup>43</sup> See PIOB 8<sup>th</sup> Public report and <http://www.ipiob.org/index.php/piob-oversight/standard-setting-process> for a description of PIOB due process oversight

<sup>44</sup> See <http://www.ipiob.org/index.php/piob-oversight/strategies-and-work-plans>

<sup>45</sup> See <http://www.ipiob.org/index.php/piob-oversight/nominations>

<sup>46</sup> See 2003 IFAC Reforms, page 12

<sup>47</sup> See PIOB 7<sup>th</sup> Public Report

Regarding *standard setting*, the PIOB mandate<sup>48</sup> is to conduct due process oversight of the standards developed by the three SSBs mentioned above with the aim of ensuring their public interest responsiveness. Public interest responsiveness is the PIOB's primary responsibility, and respect for due process helps ensure that the public interest is embedded in standard development. Oversight of the standard-setting process, including of the CAGs and public consultation processes, helps to ensure that international standards are set in a transparent manner with sufficient attention to stakeholder input, which in turn helps to enhance their legitimacy and ensure that they are appropriate and credible.

In 2011, the PIOB reflected that respect for due process may not always guarantee the public interest<sup>49</sup>. The public consultation carried out by the PIOB in 2012 in coordination with the MG enquired about the nature of PIOB oversight, and responses suggested that oversight should be focused on protecting the public interest<sup>50</sup>. The PIOB agreed that increasing its oversight capacity might enhance its ability to protect the public interest and agreed that a PIOB observer or the PIOB as a whole may raise an issue of substance if the public interest is considered to be at stake.

Regarding the SSB's *strategies and work programs*, the PIOB is mandated<sup>51</sup> to determine whether strategic plans are complete, in addition to considering whether due process has been followed in their development. Oversight of the strategies and work programs helps to ensure that SSB work is focused on the needs of users of accountancy services, appropriately reflecting the public interest. The PIOB has the right to ask that particular projects be included in the plan<sup>52</sup>. The PIOB also approves changes to or extensions of the strategy and work programs.

Regarding the process of *nominations* to select candidates for SSBs, IFAC Nominating Committee and the CAP, the PIOB mandate includes overseeing the selection process managed by IFAC's Nominating Committee and approving the recommended appointments to the SSBs, including the Chairs, the IFAC Nominating Committee (excluding its two ex-officio members), and the CAP. The PIOB monitors the annual "Calls for Nominations" and makes recommendations to IFAC regarding issues such as selection

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<sup>48</sup> See 2003 IFAC Reforms, page 9

<sup>49</sup> [http://www.ipiob.org/media/files/attach/ANNUAL\\_REPORT11.pdf](http://www.ipiob.org/media/files/attach/ANNUAL_REPORT11.pdf)

<sup>50</sup> 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 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.

European Securities and Markets Authority (ESMA) suggested that protecting the public interest could imply analyzing the outcome of the standard-setting process and the quality of the standards. <http://www.ipiob.org/index.php/public-consultation>

<sup>51</sup> MG Charter, art. 2.2.

<sup>52</sup> IFAC's standard-setting Public Interest Activities Committee's' due process and working procedures, March 2010, IFAC, at [https://www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf):

"The PIAC also obtains the PIOB's opinion, as at the date of that opinion, on the appropriateness of the items on the PIAC's work program, and its approval of the completeness of the strategy and work program from a public interest perspective. The PIAC adds to its work program those items that the PIOB resolves should, from a public interest perspective, form part of the PIAC's work program."

criteria or definition of members' categories. The PIOB attends IFAC Nominating Committee meetings as observer through the full nominations cycle. At the end of the year, the IFAC Board submits to the PIOB for approval the list of candidates selected by IFAC's Nominating Committee to fill the vacancies in SSBs the year after.

Regarding nominations to the CAGs, the PIOB oversees the CAG process to elect its Chair and approves its nomination, and approves the nomination of new member organizations as well as the appointment of the first representative. The PIOB oversees the five-year evaluation of CAG member organizations conducted by the CAG Chair and approves any recommendations.

Oversight of the nominations process helps to ensure that the persons involved in standard setting collectively bring sufficient technical competence and breadth of perspectives to develop appropriate standards.

Regarding oversight of the CAP, the PIOB mandate is limited to being consulted on its strategy and work program and overseeing the due process followed in the reviews of the SMOs.

The PIOB reports to the public through its annual report.

IFAC funds about 50% of the PIOB budget<sup>53</sup>. The rest of the PIOB budget is supported by the European Commission, which has provided PIOB funding since 2010 through an annual grant<sup>54</sup>, other MG members which have contributed to PIOB funding since 2013, as well as the United Kingdom Financial Reporting Council (UK FRC) and the Abu Dhabi Accountability Authority (ADAA).

## **The MG**

The MG is the group of regulatory and international public interest and financial organizations committed to advancing the public interest in the field of auditing. It meets this objective by supporting the development of high-quality international standards for auditing and assurance and accountant ethics and education, and by exchanging views relating to international audit quality, and regulatory and market developments having an impact on auditing.

The MG is composed of representatives from the following organizations: the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the

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<sup>53</sup> 2014 PIOB Financial Statements: <http://www.ipiob.org/index.php/public-reports>.

<sup>54</sup> In September 2009, the European Commission decided to award a grant for the Foundation for the period 2010-2013 to support the Foundation's work program. In April 2014, these contributions were renewed with a multi-year funding program for the period 2014 -2020.

International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO), and the World Bank (WB). The responsibilities of the MG are to<sup>55</sup>:

- (i) Cooperate in the interest of promoting high-quality audit and assurance, ethical and educational standards for accountants.
- (ii) Monitor the implementation and effectiveness of the IFAC reforms and to undertake effectiveness assessments of the IFAC reforms at least every five years. The MG has the right to make recommendations to IFAC and the PIOB based on its assessment, including proposals for amendments to the 2003 IFAC Reforms.
- (iii) Appoint the members of the PIOB through its Nominating Committee. The MG Nominating Committee, composed of representatives of BCBS, the European Commission, IAIS, IOSCO, and the World Bank, has the responsibility to develop its own processes to source and nominate PIOB members. IOSCO has the right to nominate four PIOB members, including the Chair. The EC has the right to nominate two members, and the BCBS, IAIS and the WB have the right to nominate one member each. IFAC can nominate one member to the PIOB.
- (iv) Monitor the execution by the PIOB of its mandate and consult and advise the PIOB with respect to regulatory and legal developments.
- (v) Convene to discuss issues and share views relating to international audit quality as well as regulatory and market developments having an impact on auditing.
- (vi) Approve the annual PIOB budget according to an established approval process.

In accordance with its responsibility to monitor the PIOB's public interest role, the MG addresses issues relating to PIOB funding<sup>56</sup>. Both IFAC and the MG consider it in the public interest that parties other than IFAC shall fund at least 50% of the costs of the PIOB<sup>57</sup>.

The MG meets at least twice a year, and at least once a year with the PIOB and with IFAC to discharge its monitoring role. Each MG member decides who will represent the member organization. Decisions are taken by consensus, but if a vote is required, the vote of each member carries equal weight.

The MG receives the PIOB annual report before publication to provide comments. Extending the scope of SSBs under PIOB oversight requires agreement between the MG, the PIOB and IFAC.

The MG may at any time make recommendations to IFAC and/or the PIOB regarding the 2003 IFAC reforms and operations of the PIOB<sup>58</sup>.

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<sup>55</sup> MG Charter, 2008, page 1

<sup>56</sup> MG Charter, page 5

<sup>57</sup> 2003 IFAC Reform Agreement, section 2.6

<sup>58</sup> MG Charter, page 3: <http://www.ipiob.org/media/files/about/MG%20Charter%20only.pdf>

## APPENDIX – GLOSSARY OF TERMS

- ADAA - Abu Dhabi Accountability Authority
- BCBS - Basel Committee on Banking Supervision
- CAP - Compliance Advisory Panel
- CAG - Consultative Advisory Group
- EAIG - European Audit Inspection Group
- EC - European Commission
- ESMA - European Securities and Markets Authority
- IAESB - International Accounting Education Standards Board
- IAIS - International Association of Insurance Supervisors
- IAASB - International Auditing and Assurance Standards Board
- IEPSs - International Education Practice Statements for Professional Accountants
- IEIPs - International Education Information Papers for Professional Accountants
- IESs - International Education Standards for Professional Accountants
- IESBA - International Ethics Standard Board for Accountants
- IFAC - International Federation of Accountants
- IFRS - International Financial Reporting Standards
- IFIAR - International Forum of Independent Audit Regulators
- IAPN - International Framework for Assurance Engagements and International Auditing Practice Notes
- IOSCO - International Organization of Securities Commissions
- IPSAS - International Public Sector Accounting Standards
- ISAEs - International Standards on Assurance Engagements
- ISAs - International Standards on Auditing
- ISQCs - International Standards on Quality Control
- ISRSs - International Standards on Related Services
- ISREs - International Standards on Review Engagements
- MG - Monitoring Group
- PIACs - Public Interest Activity Committees
- PIOB - Public Interest Oversight Board
- SC- SSB Steering Committee
- SSBs - Standard Setting Boards
- SMOs - Statements on Membership Obligations



ToR - Terms of Reference

UK FRC - United Kingdom Financial Reporting Council

WB - World Bank

## ANNEX 2

### PIOB response to the 2013 Recommendations

In March 2012, within the context of financial sector reforms following the global financial crisis, the Monitoring Group (MG)<sup>59</sup> and the PIOB respectively issued public consultation papers on:

- (i) [the governance of the MG, the PIOB and the standard-setting boards and Compliance Advisory Panel operating under the auspices of the International Federation of Accountants \(IFAC\)](#)
- (ii) [the PIOB work program](#)

As a result, in March 2013 the MG published a statement on Governance recommending a number of operational improvements to the standard setting activity within IFAC as overseen by the PIOB. These [recommendations](#) were conducive to strengthen the capacity of the SSBs to identify public interest issues and to respond to MG members concerns, and to increase the public interest oversight efficacy of the PIOB as well as its transparency. The PIOB also issued its [response](#) to its consultation process, and adopted a new oversight methodology.

In response to these operational improvements, the PIOB has:

- Documented the monitoring of comments from MG members, as well as those from other stakeholders. [Databases](#) summarizing the main comments are posted in the PIOB website and updated with the disposition of comments by the SSBs.
- Improved the transparency of its oversight activities by issuing a quarterly update after each Board meeting that includes its meeting agendas, the deliberations and decisions adopted by the Board.
- Updated its website to better describe its oversight activities.
- Issued a summary document in 2015 entitled [Standard Setting in the Public Interest: A Description of the Model](#), following consultations with the Monitoring Group (MG), the International Federation of Accountants (IFAC) and the Standard Setting Boards in order to provide greater clarity to the public and to broaden the general understanding of the governance functions supporting audit related standard setting.

In addition, the PIOB has implemented all the recommendations adopted following its own consultation process, with the exception of the recommendation to systematically observe task forces due to resource constraints.

The PIOB:

- Implemented its Oversight Assurance Model<sup>60</sup>

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<sup>59</sup> The Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO), and the World Bank (WB).

<sup>60</sup> See [Seventh Public Report](#) and later amendments

- Improved transparency of its oversight activities by providing greater detail in the annual Public Report of the recommendations offered to standards under development. In addition, the PIOB reports after each meeting through its website
- and publishes the annual oversight plans approved for each SSB, CAG, the CAP and the Nominating Committee on its website.
- Engaged stakeholders more actively in order to understand their objectives and concerns while objectively explaining the current system of standard setting (see table 1 below) and the role of the PIOB.

**Table 1.** PIOB communications policy, 2012-2015

	2012	2013	2014	2015
<b>PIOB PUBLICATIONS</b>	<ul style="list-style-type: none"> <li>• PIOB annual public reports</li> <li>• PIOB quarterly updates</li> <li>• PIOB Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>• PIOB annual public reports</li> <li>• PIOB quarterly updates</li> <li>• PIOB Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>• PIOB annual public reports</li> <li>• PIOB quarterly updates</li> <li>• PIOB Financial Statements</li> <li>• Conclusions of Public Interest Workshop for CAGs &amp; PIOB</li> </ul>	<ul style="list-style-type: none"> <li>• PIOB annual public reports</li> <li>• PIOB quarterly updates</li> <li>• PIOB Financial Statements</li> <li>• PIOB Meeting Agendas</li> <li>• Standard-setting Model Document</li> <li>• PIOB Commemorative Publication</li> <li>• 10th Anniversary Seminar videos</li> </ul>
<b>PIOB-ORGANIZED OUTREACH EVENTS</b>	NA	NA	<ul style="list-style-type: none"> <li>• Public Interest Workshop for CAGs and PIOB, New York, September (43 participants)</li> </ul>	<ul style="list-style-type: none"> <li>• Public Interest International Forum in collaboration with ADAA, Abu Dhabi, March (98 participants)</li> <li>• PIOB Tenth Anniversary Seminar, September (80 participants)</li> </ul>
<b>OUTREACH EVENTS ATTENDED</b>	49	43	47	42
<b>WEB STATISTICS</b>	NA	NA	643,5 visits/month (Average: 21 visits/day)	1453 visits/month (Average: 48 visits/day)
<b>DATABASE ENTRIES</b>	350 contacts	NA	NA	1905 contacts

- Diversified its funding in close coordination with the Monitoring Group and IFAC, in order to enhance its perceived independence from the accounting profession (see table 2).

**Table 2.** PIOB funding 2012–2015

PIOB FUNDING 2012-2016										
in thousand euros and %										
Contributors	2012		2013		2014		2015		2016	
	Actuals	%	Actuals	%	Actuals	%	Actuals	%	Forecast	%
IFAC	1,140	79%	778	53%	874	58%	930	61%	928	59%
<b>Sub - Total</b>	<b>1,140</b>	<b>79%</b>	<b>778</b>	<b>53%</b>	<b>874</b>	<b>58%</b>	<b>930</b>	<b>61%</b>	<b>928</b>	<b>59%</b>
European Commission (EC)	300	21%	293	20%	272	18%	312	20%	318	20%
IOSCO	-	0%	100	7%	100	7%	100	7%	100	6%
Bank for International Settlements (BIS)	-	0%	100	7%	55	4%	23	2%	55	4%
World Bank (WB)	-	0%	38	3%	36	2%	-	-	-	-
<b>Sub - total MG Members</b>	<b>300</b>	<b>21%</b>	<b>531</b>	<b>36%</b>	<b>463</b>	<b>31%</b>	<b>435</b>	<b>28%</b>	<b>473</b>	<b>30%</b>
Financial Reporting Council (UK FRC)	-	0%	40	3%	40	3%	40	3%	40	3%
Abu Dhabi Accountability Authority (ADAA)	-	0%	120	8%	120	8%	120	8%	120	8%
<b>Sub - total Other Public Sector</b>	<b>-</b>	<b>0%</b>	<b>160</b>	<b>11%</b>	<b>160</b>	<b>11%</b>	<b>160</b>	<b>10%</b>	<b>160</b>	<b>10%</b>
Interest income	6	0%	4	0%	5	0%	8	1%	2	0%
<b>Total Contributions</b>	<b>1,446</b>	<b>100%</b>	<b>1,473</b>	<b>100%</b>	<b>1,502</b>	<b>100%</b>	<b>1,533</b>	<b>100%</b>	<b>1,563</b>	<b>100%</b>