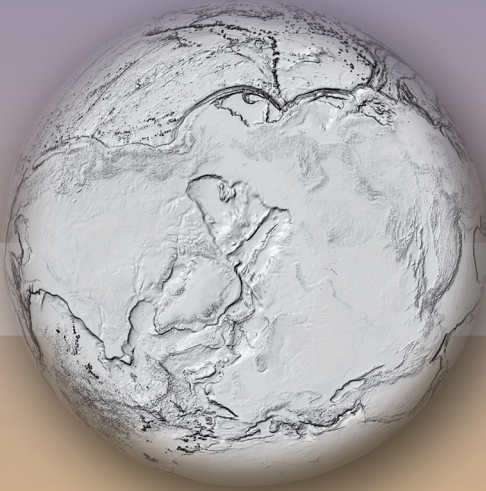


MAY 2008



THIRD PUBLIC REPORT OF THE PIOB

# PIOB

Public Interest Oversight Board

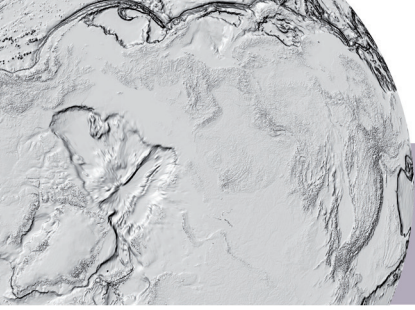
overseeing international audit, ethics and education standards for the accounting profession



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(From left to right)

**Back row :** Kai-Uwe Marten, Aulana Peters, Michael Hafeman, Arnold Schilder and Sir Bryan Nicholson.

**Front row:** Toshiharu Kitamura, Antoine Bracchi, Stavros Thomadakis (Chairman), Donna Bovolaneas (Secretary General) and David Brown. Absent: Fayezul Choudhury.

## Message from the PIOB Chairman

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This Third Public Report marks the completion of the PIOB's first term of office and reviews the activities and results of our oversight mission. I urge the readers of this report to assess how the process of setting international standards on auditing, ethics and education has changed under PIOB oversight and whether this process has improved.

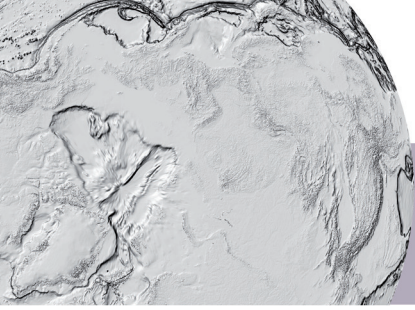
A number of new or revised international standards have already been published and more will enter the public domain in the coming months. This means that external parties are now well positioned to review the outputs of the international standard setting process and their appropriateness to the needs and expectations identified within IFAC Reform.

Present financial market conditions reinforce the need for transparency, verifiability and cross-border comparability of financial reports and related audit processes. They also increase the weight and responsibility attached to the oversight work of the PIOB. Going forward, the credibility of international standards will hinge on their applicability to a wide range of jurisdictions, audit firms of various sizes and a variety of market conditions.

Numerous jurisdictions are close to adopting the revised international standards on auditing emerging from the IAASB Clarity Project. Adoption and subsequent implementation will create two consequential effects. First, they will bring to the foreground the need to also consider international standards of ethics and education to ensure that professional accountants are equipped to fulfill their public interest role. Second, they will create new needs for international cooperation, and new tasks for both those who put the standards into practice and those who regulate practice. Many parties will require assistance for translation, interpretation, and implementation. Others will need to exchange experiences on methods of practice. A whole new area of international dialogue will open up in which users, firms, regulators and a variety of market participants will engage. The PIOB will be ready to take part in this process, to insist that the dialogue is open and inclusive, and to contribute its experience on international due process.

At this time, the need for coordinated actions around international financial markets is taking on new urgency. Accordingly, I am confident that the PIOB will continue to fulfill its mandate in ways that promote cooperation between entities acting to improve global audit and financial reporting quality.

Stavros Thomadakis  
PIOB Chairman



## Section I – Executive Summary

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The Public Interest Oversight Board (PIOB) has completed its third year of independent oversight. Composed of members nominated by international regulatory organizations and public interest entities, the PIOB executes a mandate to oversee the independent standard setting and related compliance activities undertaken by various bodies within the structure of the International Federation of Accountants (IFAC). The principal products of these activities are International Standards on Auditing (ISAs), the IFAC Code of Ethics (the Code) and International Education Standards (IESs).

Over the past year the PIOB has monitored all standard setting processes with special emphasis on due process and public interest priorities. It has also further developed its own due process review procedures, approved a number of final standards and practice statements for due process completion, and given final approval to strategic plans developed by two of the three standard setting boards. Finally, it has evaluated and endorsed nominations to the standard setting bodies, their respective consultative advisory groups and the IFAC Compliance Advisory Panel. For the first time, parity has been achieved between practitioners and non-practitioners on all three standard setting boards.

This oversight approach is not limited to monitoring and approval of due process. The international public interest is a broad and evolving concept that requires continuous engagement with many entities in the international environment. For the PIOB, this translates into two forms of ongoing relationship. The first, with the international organizations that endorse and support its mission, is based on accountability and the benefits of sharing information, agendas and priorities. The second is focused on other international entities, supported by a formal external relations program that publicizes the PIOB's mission and activities and opens up areas for future cooperation on shared goals. During the past year these activities have absorbed considerable PIOB attention.

The PIOB has also continued its efforts to develop and refine the concept of "the international public interest". In the area of financial reporting, this concept equates to the need for continuous improvement to financial reporting and audit quality and requires contributions from many actors. In this regard, international cooperation and a sharing of concepts, agendas and priorities among organizations that have explicit public interest goals can produce coordinated outcomes. The PIOB fully supports this broader mission and will continue to do its part.

## Section II – IFAC Reform and the PIOB

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### IFAC Reform and its Relationship to the Broader Financial Reporting Environment

The concept of the PIOB was forged in the early part of this decade at a time when major financial scandals had severely eroded public trust in the reliability of financial reports and in the value of independent audit opinions. Regulators and other public policy entities interested in standards set under the auspices of the International Federation of Accountants (IFAC) called for measures that would effectively address concerns about the audit process and the conduct and competence of audit practitioners. These measures were developed in collaboration with IFAC and applied to international standard setting and member body compliance processes determined to be key public interest activities<sup>1</sup>.

The architects of IFAC Reform<sup>2</sup> agreed on a core objective: to enhance the quality and public interest focus of standards emerging from IFAC activities. They also agreed that this objective should be achieved through instilling greater rigor, transparency and accountability into the operations of each Public Interest Activity Committee (PIAC). Finally, to ensure

sound monitoring and implementation of IFAC reform, they added the central element of independent oversight to the governance of each group. That decision established the PIOB's purpose and first mission.

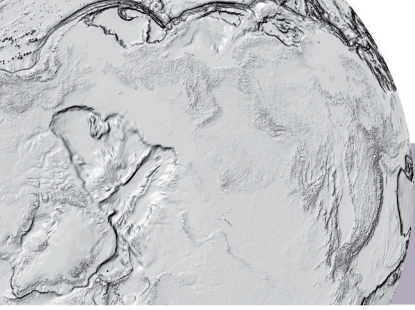
The PIOB has executed this mission primarily through a comprehensive program of active and independent oversight. At the same time, it has also considered the dynamics of the broader financial reporting environment. In so doing, the PIOB has recognized that while the production and use of international standards has an impact on the broader financial reporting environment, the environment itself continues to evolve together with the needs and priorities that drive the standard setting process. The dynamic nature of this interaction requires the involvement of many separate actors and mutual awareness of how each one's responsibilities support the international public interest. This additional knowledge has helped to shape the PIOB's oversight functions and recommendations and has provided an impetus to establish and sustain strong relationships with other interested parties in the IFAC Reform process.

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<sup>1</sup> The September 2003 IFAC Reform document identifies auditing, ethics and education standard setting, as well as IFAC's Member Body Compliance Program as key public interest activities. The specific bodies responsible for these activities, known as Public Interest Activity Committees or "PIACs" and operating under the auspices of IFAC, are:

- The International Auditing and Assurance Standards Board ("the IAASB")
- The International Ethics Standards Board for Accountants ("the IESBA")
- The International Accounting Education Standards Board ("the IAESB") and
- The Compliance Advisory Panel ("the CAP").

<sup>2</sup> IFAC reform was the outcome of efforts by a group of international regulators and other organizations, known collectively as "the Monitoring Group", in collaboration with IFAC leadership, to create a blueprint for structural reform. See **Glossary of Terms** for further information on the membership of the Monitoring Group.



## The PIOB

The first eight individuals nominated to serve on this body were recruited from diverse professional backgrounds, in most cases including significant senior regulatory experience. At the same time, the Monitoring Group took care to ensure that no single professional, organizational or geographic interest would dominate the composition of the group. The addition in late 2005 of two non-voting European Commission observers, both with senior audit oversight experience, added an important new dimension to the PIOB's deliberations.

From its inception, the PIOB regarded transparency as a key public interest component. For this reason, it decided to publish annual public reports that would outline actions taken during the prior year and communicate its evolving views on the nature of the international public interest.

The First PIOB Public Report asserted that the fundamentals of what is in the public interest would not change dramatically over time and that, if it was not possible to directly observe the international public interest, one would need to at least understand the actions that support it. The report went on to state that while high quality was an important attribute of international standards, high clarity and

usability were also necessary to ensure that such standards could be applied broadly around the world.

After a further year of experience, the Second Public Report concluded that credible standard setting was as important as standards quality and broad applicability. To be accepted as fully credible, standard setting due process would need to be highly transparent, incorporate significant and broad-based public consultation, and be conducted by well-balanced and diverse standard setting boards.

The PIOB's third year of operations has provided the opportunity to further refine its oversight approach and continue developing its understanding of the international public interest. The balance of this report will deal with these two themes as follows:

- Sections III – V will explain the PIOB's oversight policy framework, describe its programs and results, and demonstrate the impact of independent oversight on IFAC and its public interest activities.
- Section VI will present further reflections on the nature of the international public interest.

Finally, in Section VII, the PIOB will consider its future directions.



## Section III – The PIOB’s Oversight Policy Framework

### Core Objective

The PIOB’s core objective is to provide **independent**, **constructive** and **effective** international public oversight. Its approach to meeting this objective reflects an understanding of the role it occupies in the international effort to improve global financial reporting.

**Independence of mind** guides the evaluations of what the PIOB sees and hears in the process of observing various groups at work, what it learns through dialogues with IFAC and other interested parties and what it discovers through its own research. This independence manifests itself in four ways:

- the PIOB focuses on due process quality and does not take a view on the technical substance of individual standards. It will intervene whenever it believes the public interest is being undermined;
- the PIOB focuses on achieving an appropriate balance among various perspectives so that the views and concerns of all constituencies are heard and incorporated into final solutions wherever possible;
- in assessing the completeness of due process, the PIOB focuses on the integrity of processes used to aggregate, assess and reflect public comments. This includes the quality and completeness of deliberations and the quality and transparency of public accountability reports to Consultative

Advisory Groups (CAGs)<sup>3</sup> and other interested external parties; and

- the PIOB interacts with various interested external parties, in particular the Monitoring Group and its individual member organizations. Such interactions are a source of continuing public interest perspectives and priorities that help to maintain a well-balanced and independent view.

The important tasks of monitoring due process quality, identifying and curing any due process breaches and recommending incremental due process enhancements rely heavily on regular, open and **constructive** communications with IFAC that acknowledge and maintain the respective roles of each.

The **effectiveness** of the PIOB’s decisions and actions depends not only on independence of mind but also on how readily its decisions have been internalized and implemented by those most affected. Over the course of the last three years, IFAC and its PIACs have been highly receptive to recommendations for specific due process improvements. In addition, there is evidence of strengthened IFAC commitment to the public interest.<sup>4</sup>

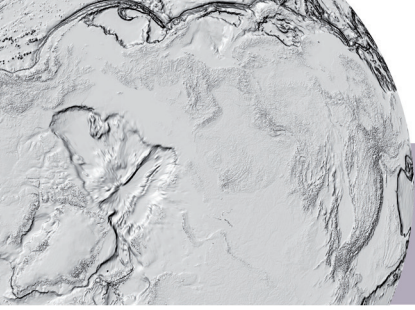
### The Role of Comprehensive Observation

The PIOB implemented a policy of comprehensive observation as one of its first operating decisions in 2005. This policy applied initially to the IAASB, the IESBA, IAESB, their respective CAGs and, in recognition of the importance of the nominations process, the

<sup>3</sup> Consultative Advisory Groups provide input and assistance to standard setting boards through:

- advice on the board’s agenda and work plan, including project priorities;
- technical advice on projects; and
- advice on other matters of relevance to the activities of the board.

<sup>4</sup> Refer to Footnote 20 and **Section V – Measuring Impact**, including Footnote 26.



IFAC Nominating Committee. At the time, this policy served two purposes. First, it provided an efficient way to learn about the processes of standard setting and IFAC nominations. Second, this policy facilitated the rapid establishment of the PIOB's presence and authority in standard setting proceedings. Effective April 2007, direct observation was extended to meetings of the Compliance Advisory Panel (CAP).

As due process credibility is vital to acceptance of standards, the PIOB plans to continue comprehensive monitoring of all public meetings of PIACs and their CAGs as a key element of its public interest oversight. Continuous physical observation contributes to understanding the dynamics of standard setting work and to evaluating the quality and effectiveness of deliberations. This policy also enables timely intervention when public interest concerns arise and ensures that the final assessment of each completed standard will

reflect and incorporate the observations and conclusions of PIOB members accumulated during the standard's development.

### **The PIOB's Broader Interest in IFAC**

During the past operating year the PIOB Chairman has continued to attend meetings of the IFAC Board and Council. These meetings present important and continuing opportunities for the Chairman to interact with those bodies responsible for the overall governance of IFAC, understand their policies and strategic direction, provide periodic updates on the work of the PIOB and share any pertinent findings or observations. Such interactions permit monitoring of broader trends and developments within IFAC that could have a significant impact – positive or otherwise – on the specific boards and activities overseen by the PIOB.

## Section IV – The PIOB Oversight Program and Results

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### Implementing Public Interest Oversight

Although the general scope and operation of the PIOB's oversight model is based on the original blueprint of IFAC reform, this model has continued to evolve based on ongoing assessment of actual conditions and public interest needs.

The PIOB's First Public Report focused on the essentials of the mission: approving and putting the key elements of IFAC reform architecture into place; launching its core oversight program; and reporting on the progress of each PIAC toward achievement of its specific IFAC reform objectives. In addition, the PIOB reported its initial views on the need for more transparency and inclusiveness in the IFAC board and committee selection process and, in particular, for parity between practitioners and non-practitioners on all PIACs. Through these steps, it established the connection between two of three critical inputs to public interest-focused due process – getting “the right people” engaged in “the right process”.

The Second Public Report delved more deeply into the relationship between people and process and, in particular, what parameters should be used to evaluate the ongoing performance of the various groups subject to oversight. This report also announced two new program elements designed to complete the PIOB's public interest oversight approach: the

launch of due process approvals for individual international standards<sup>5</sup>, and approval of a common framework for use in PIAC strategic planning that would lay the groundwork for future due process approvals of the completed plans. In this manner, the PIOB positioned itself to determine in due course whether “the right people”, following “the right process”, were also doing “the right things”.

In its third operating year the PIOB has concentrated on refining its internal due processes while continuing to execute its ongoing oversight responsibilities. Its latest steps have focused on the internal deliberations that support due process approvals. As anticipated a year ago, these approvals have grown significantly and will dominate the working agenda for the 2008/2009 operating year.

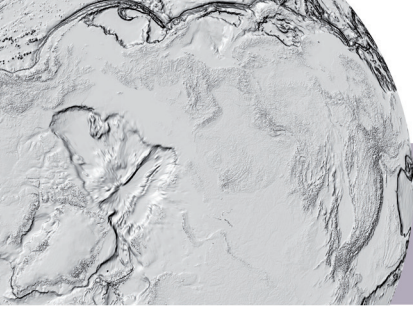
### Further Refinements to Due Process Approval Procedures

The first objects of due process approvals were final international standards developed by the IAASB, the IESBA and the IAESB. In the past operating year, the PIOB also considered and approved strategic plans and several proposed practice statements.

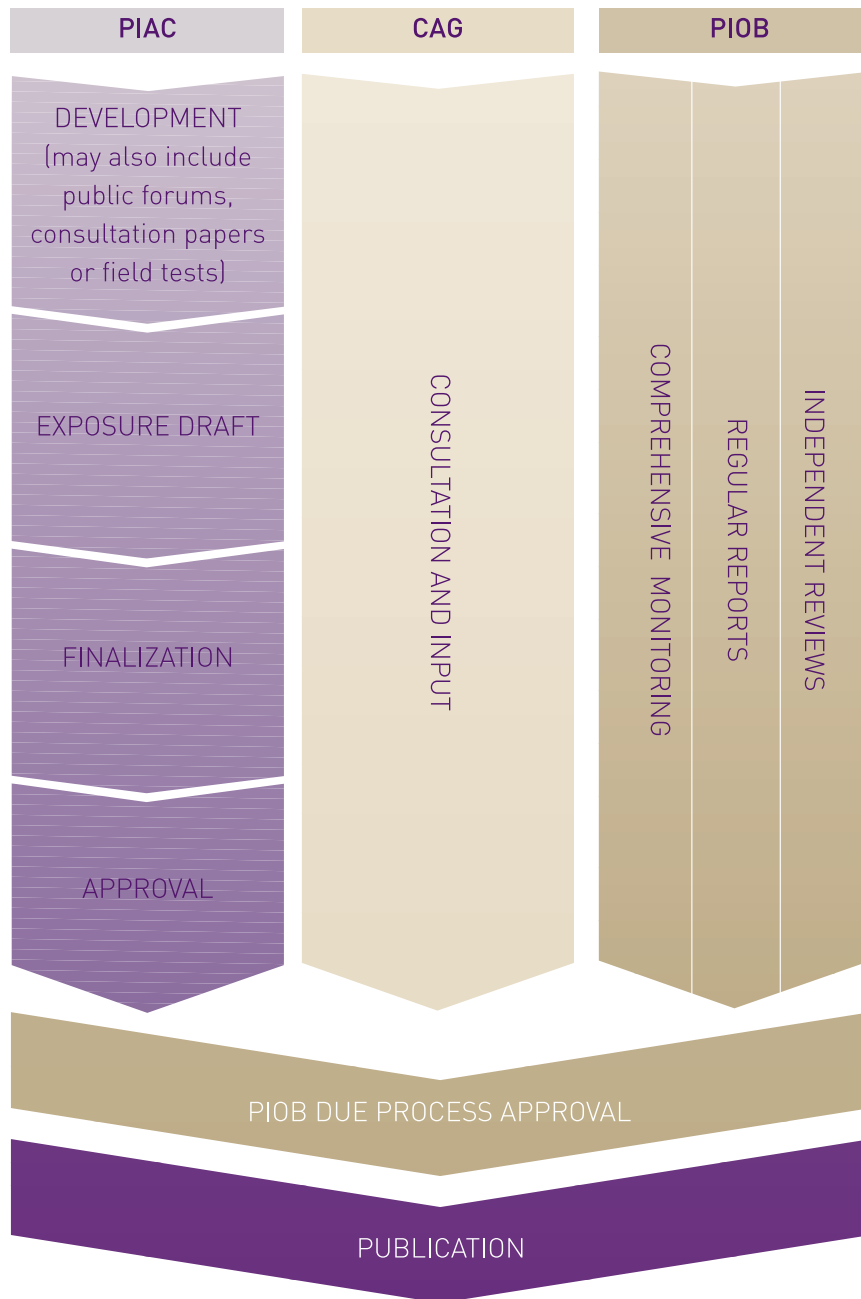
The initial approvals approach consisted of reviewing proposed closed-off or final standards, accompanying Basis for

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<sup>5</sup> IAASB standards presented for approval can be at one of two completion points: “closed off”, or “final”. A “closed off” standard indicates that the IAASB has concluded deliberations on revising the technical content of the standard but has not yet applied the new prescribed Clarity format, while “final” describes a standard, revised or unrevised, to which the Clarity format has been applied. These distinctions will disappear once the Clarity Project is completed as by that point all prior standards requiring both revisions and redrafting will have been finalized.



## THE PROCESS OF INTERNATIONAL STANDARD SETTING



Conclusions<sup>6</sup> and due process completion certifications, supported by dialogue with IFAC's Executive Director for Professional

Standards, and internal deliberations. This approach was further refined during the past operating year to include:

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- dialogue with the relevant PIAC chair<sup>7</sup>;
- examination of PIAC task forces' written accountability reports documenting final disposition of any matters raised by CAG members; and
- dialogue with the relevant CAG Chair.

At the PIOB's request, IFAC recently implemented a new quarterly status report describing, for all PIAC active projects, the progress of due process steps, projected completion dates and proposed presentation dates for due process approval. This report is now a regular feature of quarterly meetings and has proven to be useful for information, analysis and forward planning purposes. In view of the high volume of due process approval work to come, and to facilitate an orderly process flow for the development, completion and approval of international standards, the PIOB has actively promoted the need for good coordination among PIAC, CAG and PIOB meetings.

### Extended Reviews

The PIOB focuses on the quality, transparency and public interest focus of three key processes – PIAC and CAG discussions, PIAC member

nominations, and PIAC strategic planning and priority setting – and uses its assessments of these processes to inform all its due process-related decisions. At the same time, it has also identified certain projects where greater attention to other aspects of due process would be beneficial. For this purpose, a framework of extended review procedures ("Extended Review Framework", or ERF) has been designed to further enhance the scope and depth of existing due process reviews.

The ERF approach has been based on two core principles.

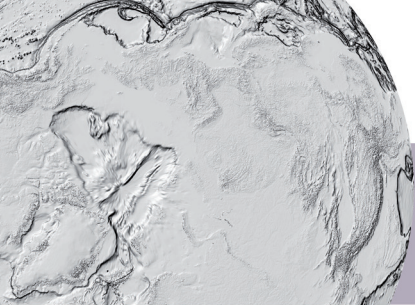
First, ERF procedures are designed to complement and not duplicate existing PIAC, CAG and PIOB due processes. Instead, these procedures take a closer look at the effectiveness of the various steps completed during the life cycle of selected projects, especially the period between the completion of the public consultation process and finalization of the standard. It is during this period that each PIAC decides how best to respond to the outcome of public consultation and to the final views of its CAG and evaluates, based on facts and circumstances, whether its final standard should be published or re-exposed for further public comment<sup>8</sup>.

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<sup>6</sup> A document prepared at the close of a PIAC project which provides background to a project, main comments received on the exposure draft, and the PIAC's conclusions regarding these comments in developing the final standard.

<sup>7</sup> At minimum, PIAC and CAG Chairs meet with the PIOB twice annually and, amongst other matters, address due process approvals scheduled for the same meetings. Given the schedule of approvals for 2008, additional discussions related to completion of the Clarity Project may be needed.

<sup>8</sup> The italicized text of paragraph 16 of IFAC's Standard Setting Public Interest Activities Committees' Due Process and Working Procedures – March 2006 notes, "Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement".



Second, the ERF program is applied to only certain standards selected by the PIOB on the basis of public interest priorities.

While the immediate purpose of the ERF is to provide an additional measure of independent analysis on specific projects, the examinations may also identify broader due process issues and opportunities for future improvements.

The PIOB approved a pilot test of this methodology in September 2007 and ERFs were conducted for ISA 540, *Auditing Accounting Estimates, Including Fair Value*

*Estimates, and Related Disclosures* and the closed-off version of *Independence 1*<sup>9</sup>. After final consideration of the pilot test results, the ERF program was formally implemented.

### Observation Activities

The PIOB has continued to apply its comprehensive observation policy over the past year and will do so until the end of 2008. Table 1 provides information on the scope of this activity to date, including both physical meetings and teleconferences:

**TABLE 1**

Meeting Date	4/2005 - 3/2006		4/2006 - 3/2007		4/2007 - 3/2008	
Entity	Held / Observed		Held / Observed		Held / Observed	
IAASB	5	5	6	6	5	5
IAASB CAG	2	2	2	2	4	4
IESBA	3	3	4	3 <sup>10</sup>	4	4
IESBA CAG	2	2	2	2	4	3 <sup>11</sup>
IAESB	3	2 <sup>12</sup>	3	3	3	3
IAESB CAG	2	2	2	2	2	2
CAP (from April 2007)	N/A	N/A	N/A	N/A	5	5
IFAC Nominating Committee	6	5 <sup>13</sup>	8	8	8	7 <sup>14</sup>
<b>TOTAL</b>	<b>23</b>	<b>21</b>	<b>27</b>	<b>26</b>	<b>35</b>	<b>33</b>

<sup>9</sup> Revised Section 290 of the Code of Ethics for Professional Accountants, *Independence - Audit and Review Engagements*, and Section 291, *Independence - Other Assurance Engagements*

<sup>10</sup> Conflict with PIOB meeting

<sup>11</sup> Ibid

<sup>12</sup> Observations commenced November 2005

<sup>13</sup> Observations commenced June 2005

<sup>14</sup> Other conflict

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As this table demonstrates, the number of direct observations has grown significantly during the past operating year for two reasons: heightened IAASB and IESBA activity levels, and addition of the CAP. Up to the end of 2006, the Chair of the CAP and senior Compliance staff reported semi-annually to the PIOB on the progress of Parts 1 and 2 of IFAC's Compliance Program<sup>15</sup>. By early 2007, however, Part 2 of the program was effectively complete and the CAP began to turn its focus to the development and implementation of member body action plans. The PIOB concluded that this was the appropriate point at which to begin its monitoring of CAP meetings.

This first period of direct CAP observation was useful in two ways. First, it deepened the understanding of mechanisms used by the CAP to guide and oversee execution of the Compliance Program. Second, it provided the PIOB with an opportunity to observe the processes by which recommendations are developed for member body action plans and to fulfill other membership-focused aspects of the CAP's mandate. Over time, the PIOB expects to take an even greater interest in this work.

Information gathered during the second stage of the Compliance Program has already provided valuable insights into the variety of standard setting and implementation models in

use around the world. It should also prove useful in helping to identify and address the challenges of adopting and implementing international standards. While this type of information can be of particular interest to parties at the national and international levels who have responsibility for regional and national implementation and compliance activities, it may need to be expanded, strengthened and more proactively communicated for this purpose.

At the same time, the PIOB also recognizes the direct impact of Part 3 action plan development and monitoring on member bodies' efforts to achieve and maintain compliance with IFAC SMOs. For this reason, the progress and outcomes of this program, including all relevant discussions of the CAP, will be closely monitored.

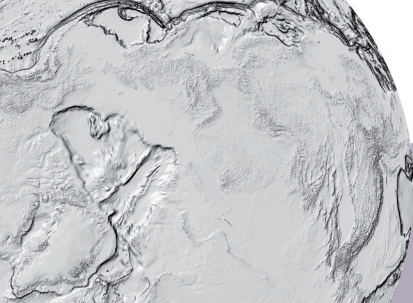
### **Approval Activities**

Approving a variety of proposals from a due process and public interest perspective is a major PIOB responsibility.

### ***Due Process Completion of International Standards and Practice Statements***

Table 2 lists international standards and practice statements approved during the past operating year:

<sup>15</sup>The IFAC Board established the Member Body Compliance Program as a means to evaluate the quality of members' and associates' endeavors to meet IFAC membership requirements. The program's primary objective is one of encouragement and improvement. The Statements of Membership Obligations (SMOs) are issued by the IFAC Board and establish requirements for members and associates to promote, incorporate, and assist in implementing international standards issued by IFAC and the International Accounting Standards Board. The SMOs also establish requirements for quality assurance and investigation and discipline activities. The Compliance Program comprises three parts. Part 1 is the collection of information on the regulatory and standard setting framework in each jurisdiction. Part 2 requires members and associates to complete a self-assessment questionnaire about their best endeavors to promote and incorporate international standards issued by IFAC and the IASB, quality assurance and investigation and discipline programs to monitor compliance with applicable professional standards. Part 1 and 2 responses are available to the public on the IFAC website. Part 3 requires members and associates to develop action plans, including identifying tools, resources and regulatory changes to address areas identified through the Part 2 self-assessment.



**TABLE 2**

<b>PIOB Meeting</b>	<b>Standard</b>	<b>Name</b>	<b>Status</b>
<b>September 2007</b>	ISA <sup>16</sup> 600 (Revised and Redrafted)	<i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	Final
	IEPS <sup>17</sup> 1	<i>Approaches to the Development and Maintenance of Professional Values, Ethics and Attitudes in Accounting Education</i>	Final
	IEPS 2	<i>Information Technology for Professional Accountants</i>	Final
<b>December 2007</b>	ISA 230 (Redrafted)	<i>Audit Documentation</i>	Final
	ISA 260 (Revised and Redrafted)	<i>Communication with Those Charged with Governance</i>	Final
	ISA 720 (Redrafted)	<i>The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements</i>	Final
	IEPS 3	<i>Practical Experience Requirements – Initial Professional Development for Professional Accountants</i>	Final
<b>February 2008</b>	ISA 540 (Revised and Redrafted)	<i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures<sup>18</sup></i>	Final
<b>March 2008</b>	ISA 560 (Redrafted)	<i>Subsequent Events</i>	Final
	ISA 580 (Revised and Redrafted)	<i>Written Representations</i>	Final
	Sections 290/291	<i>Revised Section 290 of the Code of Ethics for Professional Accountants, Independence - Audit and Review Engagements, and Section 291, Independence – Other Assurance Engagements (based on the December 2006 Exposure Draft)<sup>19</sup></i>	Closed off

<sup>16</sup> International Standard on Auditing

<sup>17</sup> International Education Practice Statement

<sup>18</sup> The decision to approve this standard for publication in early 2008 was taken in the public interest. As a result, guidance which could be relevant to the immediate needs and circumstances of some auditors was made available to them in a timely manner.

<sup>19</sup> Additional changes to Sections 290 and 291 based on the July 2007 Exposure Draft are still being considered by the IESBA.



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### ***Due Process Completion and Completeness of PIAC Strategic Plans***

The PIOB approved the strategic plans of the IAESB (2007-2009) and IESBA (2008-2009) for due process completion as well as completeness from a public interest perspective. The IAASB is expected to approve its 2009-2011 Strategic Plan in June 2008 and to present this plan for the PIOB's consideration in July.

### ***2008 PIAC Nominations***

The governance structure and rotational policy for each PIAC is designed to address multiple objectives. These include the need for a

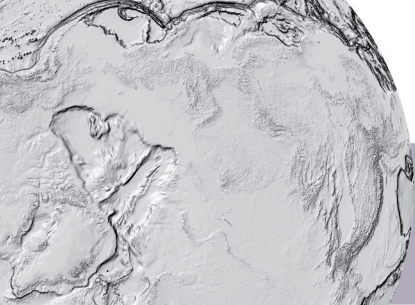
balance and variety of perspectives (such as those of non-practitioners, small and medium practitioners and various geographic regions) as well as mechanisms to ensure that fresh viewpoints and experience are regularly introduced into the standard setting process. At the same time, PIACs must also maintain essential continuity, in particular at the leadership level, so that strategic planning and execution of work plans can proceed in an orderly manner.

Table 3 lists nominations approved by the PIOB at its September 2007 meeting:

**TABLE 3**

<b>Group or Individual</b>	<b>Appointment</b>		
	<b>Total</b>	<b>New</b>	<b>Renewed</b>
International Auditing and Assurance Standards Board	5	4	1
International Ethics Standards Board for Accountants	6	4	2
IESBA Deputy Chair	1		1
International Accounting Education Standards Board	7	6	1
IAESB Deputy Chair	1		1
Compliance Advisory Panel	2	2	
CAP Deputy Chair	1	1	

In reaching its conclusions on these appointments the PIOB first considered the transparency, inclusiveness, public interest focus and overall quality of due process used in recruiting and selecting the final candidates. It then considered the balance and impact that proposed new appointments would have on the composition of each PIAC and on the PIAC's effectiveness in reaching its goals.



Two of the three PIAC Chairs will reach the end of their second consecutive term by the end of 2008. The IFAC Nominating Committee has engaged in a special search to identify a successor to John Kellas, the full-time Chair of the IAASB. The PIOB has provided input to the formulation of this special process and will be asked to approve the candidate ultimately proposed by the Nominating Committee. Selection of the next Chair of the IAESB will be conducted as part of the general 2009 nominations process.

During the 2008 nominations cycle the IFAC Nominating Committee achieved four important “firsts”. For the first time, the volume, diversity and overall quality of nominations generated by the regular Call for Nominations produced more than sufficient numbers of qualified candidates for each vacant position. Second, the IFAC Nominating Committee put forward equal numbers of practitioners and non-practitioners for all PIAC slates, including the IAASB. Third, the Transnational Auditors Committee (TAC) presented multiple nominees for all vacant TAC positions on each PIAC. Finally, the Nominating Committee developed and approved the implementation of a pilot program to evaluate the performance of board and committee members. These achievements required hard work, carefully balanced judgments and a firm commitment to putting the public interest first in every aspect of the IFAC nominations process.

Nevertheless, further improvement in this process is both possible and desirable. In this regard, it is noted that for purposes of the 2009 cycle the IFAC Nominating Committee has

published additional guidance for nominating organizations designed to strengthen local recruitment and selection practices, especially in areas of the world that may be under-represented on IFAC boards and committees.<sup>20</sup> The PIOB looks forward with interest to the results of this improved nominations strategy.

### *CAG and CAG Chair Renewals*

The Terms of Reference for each CAG note that member organizations or individual members are appointed for a three year term<sup>21</sup>. In 2007 the non-permanent members of all three CAGs reached the end of their respective terms of appointment<sup>22</sup>. After undertaking a PIOB-approved due process, the Membership Panel of each CAG brought forward a recommendation to renew all existing members for a further term. In each case, after seeking the input of the CAG Chair and considering various other factors including the public interest perspectives represented, the contributions of each member and the overall public interest balance achieved on the CAG as a whole, the PIOB concurred with these recommendations.

The first term of appointment for the IAASB CAG Chair also expired in 2007. After completing an approved due process, the IAASB CAG Membership Panel brought forward its recommendation to reappoint the current Chair for a further three years. After considering the views of other CAG member organizations and the IAASB as well as its own assessment of the Chair’s performance, the PIOB approved this recommendation.

<sup>20</sup> In 2007 IFAC also established a Developing Nations Travel Fund to encourage applications from and support the participation of members from developing nations.

<sup>21</sup> Exceptions to this rule are the founding organizations (IOSCO, the Basel Committee, the IAIS and The World Bank) as well as the European Commission, who occupy permanent seats on certain of these groups.

<sup>22</sup> The IAASB’s previous three year term began on 1 September 2004. The IESBA and IAESB CAGs were established and commenced operations shortly thereafter.

## THIRD PUBLIC REPORT OF THE PIOB

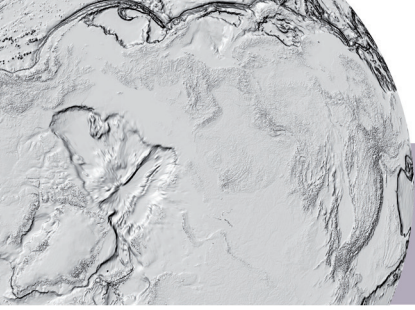
### Next steps

For the balance of this calendar year, the PIOB's primary task will be to oversee and approve the completion of due process for all remaining standards in the Clarity Project<sup>23</sup>. At the same time, the PIOB is also responsible to:

- oversee and approve the completion of a redrafted IFAC Code of Ethics<sup>24</sup>;
- oversee the progress of the IAESB program to review the framework for international education standards, update existing standards and develop tools for measuring standards implementation success;
- oversee the execution of the 2009 IFAC nominations due process and approve final PIAC candidates; and
- oversee the progress of Part 3 Action Plan development within the IFAC Compliance Program.

<sup>23</sup> The Clarity Project is a major undertaking of the IAASB to apply a new drafting approach to all existing ISAs. The Clarity format involves a three-part structure – objectives, requirements and application guidance – and the application of more simplified English to clarify intent, improve understandability and facilitate translation. This project is expected to be completed by the end of 2008.

<sup>24</sup> The IESBA is undertaking a Drafting Conventions Project for application to the IFAC Code of Ethics. While the purpose of this project is similar to that of IAASB Clarity, the proposed redrafting approach is confined to language and will not change the fundamental structure of the Code.



## Section V – Measuring Impact

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While the IFAC reform architecture contains numerous elements, the PIOB's position and defined role in that architecture are pivotal to the integrity of PIAC due process and, in turn, to the success of IFAC reform.

Previous sections of this report have explained the PIOB's approach to public interest oversight, the development of its programs, and specific outcomes achieved during its third year of operations. This section will address the broader question of whether efforts to date have made a difference through comparing various IFAC public interest activities as they were in early 2005 to how they are today.

### The PIACs

Standard setting boards in early 2005 already operated under established due processes and operating procedures including various consultation elements. However, individual board practices differed, some board structures were more heavily weighted toward practitioners than others, diversity needed more attention, strategic planning processes were opaque, and none of the boards was subject to independent public interest oversight.

Today, all three standard setting boards apply rigorous and consistent due processes and operating procedures. Both standard setting and strategic planning are conducted in a highly transparent and inclusive manner. Final board decisions are documented and explained through new or improved public accountability documents. Further, the balance and variety of perspectives on each PIAC has been improved through achieving parity between practitioners and non-practitioners and measurable progress toward other diversity goals<sup>25</sup>. Finally, PIAC due process is continuously monitored by the PIOB.

### The CAGs

Three years ago, only the IAASB CAG was led by an independent Chairman. All three groups met in private and discussed agendas set primarily by the PIACs. CAGs were an acknowledged source of external stakeholder views and advice on project content. However, their overall influence on the quality and outcomes of due process was difficult to assess in the absence of formal accountability mechanisms and independent oversight.

Today's CAGs are all independently led, set their own agendas and meet in public. CAG Chairs are also permitted to attend PIAC meetings and regularly exercise their rights of the floor. Each CAG has developed effective mechanisms to measure its board's responsiveness to CAG member input. Finally, these groups are subject to continuous oversight.

### Nominations

Three years ago, the IFAC Nominating Committee's board and committee selection process included a public call for candidates and the application of various technical and other criteria to select final nominees. However, there was no independent approval of final nominations to PIACs, PIAC member performance was not subject to formal evaluation, and nominations due process was not subject to formal public oversight.

Today, all board and committee candidates, not just those standing for appointment to PIACs, are recruited and selected using significantly enhanced criteria and procedures that incorporate recommendations made by the PIOB. More comprehensive, targeted and transparent annual calls for nominations have

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<sup>25</sup> These include a broad spectrum of professional skills and experience, global representation and gender balance.

dramatically increased the volume and diversity of well-qualified candidates for practitioner, non-practitioner and public member vacancies. The annual Call for Nominations now explicitly emphasizes the role of the public interest in the nominations process and commitment to the public interest has been explicitly identified as a component in IFAC's recently implemented performance evaluation program. All aspects of the IFAC nominations due process are overseen by the PIOB which also gives final approval to all PIAC appointments.

### **IFAC Leadership**

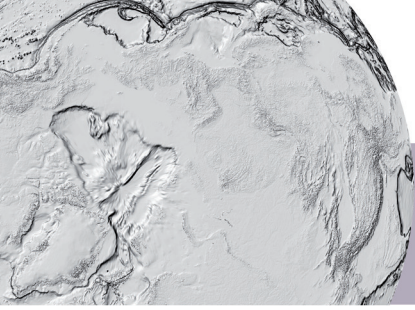
In early 2005 the leadership of IFAC had just embarked on the difficult undertaking of IFAC Reform. Its challenge was to lead, encourage

and support its membership through a major multi-year implementation of structural change that would affect almost every aspect of IFAC's mandate and require IFAC to demonstrate its fundamental commitment to the public interest. Reform meant not only transforming how things were done but also adopting new ways of thinking and behaving.

Today, it is clear that the leadership of IFAC has stayed firmly on the path of reform and, by adopting a positive approach to this task, assisted the work of the PIOB. IFAC leadership has also gained a deeper understanding of the nature of the public interest. This awareness is now generating new initiatives<sup>26</sup> which more explicitly demonstrate IFAC's commitment to the public interest.

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<sup>26</sup> IFAC's new board and committee member evaluation program and its efforts to further engage representatives of developing nations in IFAC public interest activities have been discussed elsewhere in this report. IFAC's December 2007 position paper, *Regulation of the Accountancy Profession*, sets out the profession's view that professional accountancy bodies, acting in the public interest, must play an active role in the regulation of the profession and that professional accountancy bodies and governments need to work together to ensure that regulation is effective and efficient. This paper may be downloaded from: [http://www.ifac.org/Members/Downloads/Regulation\\_of\\_the\\_Accountancy\\_Profession.pdf](http://www.ifac.org/Members/Downloads/Regulation_of_the_Accountancy_Profession.pdf).



## Section VI - Dynamic Nature of the International Public Interest

### Public Interest in the Context of Financial Reporting

The effect of a well-designed and public interest-focused financial reporting structure provides assurance that accountancy services are of the nature and quality needed by both the users of those services and the wider global economy. Recent turmoil in the world's financial markets is a sobering reminder that the requirement to maintain and continuously adapt this structure to changing economic conditions and user needs is even more relevant today than it was in the period following the collapse of Enron.

The development of high quality international standards that incorporate transparency, proportionality and comparability is a valid anchor for the international public interest. However, thinking of the public interest in an international dimension also introduces greater complexity due to differences in language, culture, legal frameworks and level of development. While these differences make it more difficult to build unbiased structures and agree on approaches that deliver the greatest global wellbeing, the objective of cross-border confidence finds strong support among a multitude of constituencies around the world. In fact, the idea of convergence to a single set of international standards for financial reporting purposes has come from investors, preparers, the accounting profession, academics, and national and international regulatory authorities.

More specifically, the Preface to the International Standards on Auditing (ISAs)

identifies that a financial statement audit contains an inherent public interest objective:

*"The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. It is undertaken to enhance the degree of confidence of intended users in the financial statements."<sup>27</sup>*

Nevertheless, it is not just the quality of auditing standards that determines the credibility and reliability of the audit process. Educational and ethical standards for the accounting profession affect the quality of both the accountants who prepare financial reports and the quality of those who ultimately audit them. In addition, effective implementation and application of these standards is important to audit quality.

Where the actions of a profession can improve or harm the common wellbeing, professionals are expected to promote the needs of the public and restrain their own self interests in a balanced fashion. Accordingly, accountants and auditors must demonstrate sufficient knowledge and experience to meet their professional responsibilities and the professional judgment to properly apply high quality and increasingly principles-based standards. Further, accountants and auditors are expected to behave in accordance with high ethical standards and possess the personal integrity required to consistently take decisions which promote and sustain the public interest.

<sup>27</sup> Paragraph 11, Amended Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services, December 2006 with an effective date of December 15, 2009

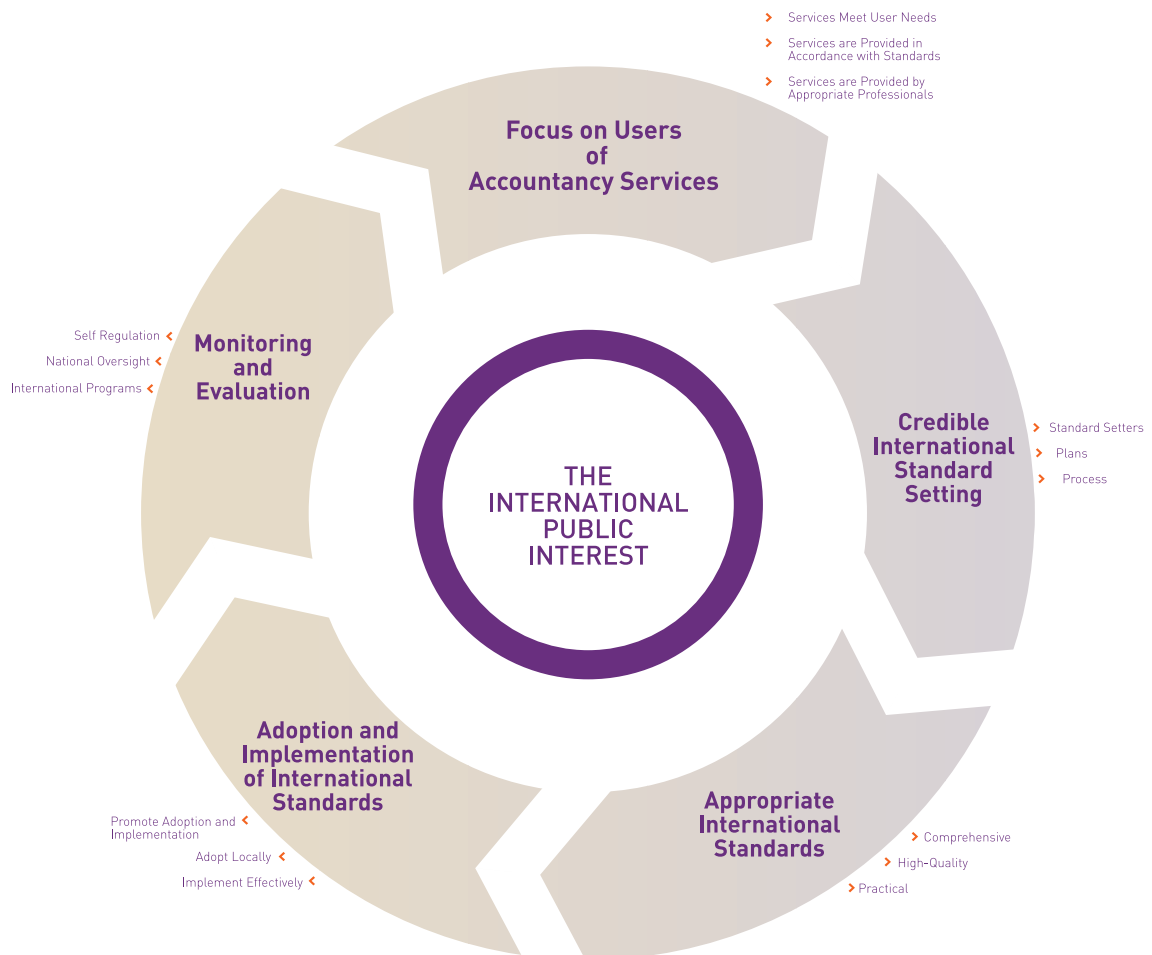
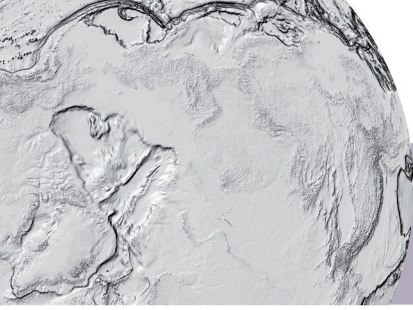
While undertaking its independent oversight responsibilities, the PIOB has continued to develop its understanding of the nature and context of the international public interest as it applies to the improvement of financial reporting quality. The PIOB considers it essential that – as the body created to ensure a strong focus on the public interest in the work of the PIACs – it have a clear and consistent view of what “the international public interest” means in the broader context of accountancy. That understanding has evolved through consideration of both the big picture – the needs of the ultimate users of accountancy services and the key elements that must be in place to respond to those needs – and the detailed criteria that contribute to success within each area. In order to maintain the necessary broad view, the PIOB has developed a public interest map that has evolved along with its understanding.

The results of this exercise have already helped the PIOB to focus its internal deliberations, guide its recommendations to the PIACs, and enhance its communications with external

parties. Similarly, it may be both possible and desirable for other actors at national and international levels to undertake one or more roles in the broader process. Such efforts will provide balance to the global architecture of financial reporting and supply momentum for continued improvement.

The PIOB’s ongoing communications with both the world regulatory community and the global accounting profession serve two purposes. They ensure that the PIOB remains informed about existing activities designed to deliver improved financial reporting as well as evolving public interest issues and concerns. They also present opportunities for the PIOB to promote further dialogue about the structures and processes that can best achieve international public interest objectives.

The following is a simplified version of this mapping exercise. In this representation, the international public interest can be seen as an ongoing flow of activities that moves through various phases beginning and ending with the users of accountancy services.



Previous IOB Public Reports dealt with the first three phases of the public interest map. The current report looks at the remaining phases: adoption and implementation, and monitoring and evaluation.

### **Adoption and Implementation of International Standards**

International standards will deliver tangible benefits in the international public interest only if they are properly adopted and implemented.

Adoption and implementation of international standards are closely connected but are not the

same. Adoption refers to a decision that the international standard is appropriate for use in the national financial reporting environment whereas implementation is concerned with the practical steps necessary to make use of the standards. As a result, quite different actions may be necessary to achieve each step in a meaningful way. Furthermore, both adoption and implementation can create significant challenges that are not necessarily related to the level of development of a particular country. Differences in legal and regulatory systems can be relevant factors in this process.



### ***Willingness to adopt is essential to acceptance***

Decisions about the structure and content of national financial reporting frameworks, including how they compare with international standards, are taken by the relevant national authority. The case for adoption will be most compelling if it can be supported with an assurance that strict due process has been followed throughout the development of the international standard and that standard setters have been responsive to public comment and to public interest considerations.

The PIOB conducts its oversight program in a manner that maintains high levels of transparency and consultation. In addition to producing a Public Report each year, it welcomes the opportunity to discuss its role within the standard setting structure and methods employed for due process oversight. This may be of particular interest to those national or regional organizations responsible for standards development and currently evaluating the suitability of international standards for adoption.

Other national and international participants can and do play a role in promoting adoption of international standards. Many international organizations, including the individual member organizations that make up the Monitoring Group, encourage the development of international standards for both financial reporting and auditing. Some are also considering what more they could do to support the adoption process. For example, IOSCO noted publicly in November 2007 that it was “evaluating under what conditions IOSCO could endorse ISAs for use for cross border purposes and the form of such an endorsement” and that “the IAASB responses to public interest concerns in its standard setting will be a relevant factor to such an endorsement”.

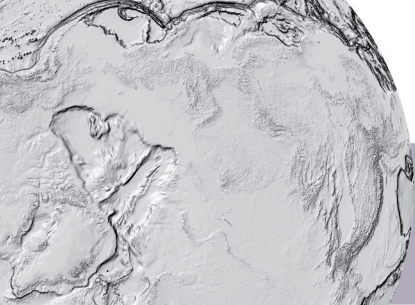
### ***Credible adoption means consistency with international standards***

If adoption is an ultimate goal then convergence – the process of aligning national standards to be consistent in all essential respects with international standards – can be seen as a valid transitional point in that process. It is possible for a national standard to be consistent with an international standard where the national standard setter has included additional requirements to those contained in the international standard. What is important is that convergence results in a national standard that meets and does not conflict with all international requirements.

### ***Implementation requires multiple and focused efforts***

Implementation occurs subsequent to national adoption and necessitates an entirely separate education and training process. While training is delivered primarily through programs developed by IFAC member bodies and audit firms, changes to international standards also have a direct impact on academic curricula. In this case, implementation requires timely and expert involvement of the academic community to ensure that all relevant pre-qualification programs are updated. Further, IFAC member bodies have a role in facilitating and coordinating these efforts with special attention to any training gaps that may emerge, for example to meet the needs of sole and small firm practitioners.

Determining what and how much implementation guidance may be required to deliver sound national implementations, and whose responsibility it is to develop such guidance, will depend on the standards, the jurisdictions and any special constituencies involved in the adoption and implementation efforts. It is noteworthy that all three standard



setting boards under PIOB oversight have included (or plan to consider) implementation support measures in their current strategic plans.

### **Challenges to adoption and implementation**

In September 2004, Peter Wong produced a report entitled *Challenges and Successes in Implementing International Standards: Achieving convergence to IFRSs and ISAs*. That report noted translation as a major challenge to be overcome in the adoption and implementation of international standards.

One of the proposals to facilitate improved translation was for standards to be written in simple English. While the Clarity Project of the IAASB has aimed to deliver this objective by writing standards that are clear and understandable, the need for high quality, authoritative and up-to-date translations of these standards remains an important issue.

The Wong Report recommended that regional professional accountancy organizations take an active role in the facilitation of such translations. The involvement of the profession in producing translations is important given the technical nature of the documents. The PIOB supports IFAC efforts to encourage and coordinate its members, associates and other interested parties with a view to producing one quality translation of the standards per language.

In summary, adoption of international standards can be relatively straightforward or long and difficult, depending on the national legislative framework and the availability and quality of translation support. However, ensuring that standards are implemented effectively can require a host of other supporting actions, ranging from guidance to training to quality control, and necessitate the sustained participation of a wide range of national and international actors.

### **Monitoring and Evaluation**

Processes for ongoing monitoring and evaluation are necessary to determine whether the international standards meet their intended objectives. Where problems or deficiencies are identified, it is vital to understand whether they result from compliance failures, adoption or implementation issues, or shortcomings in the standard itself.

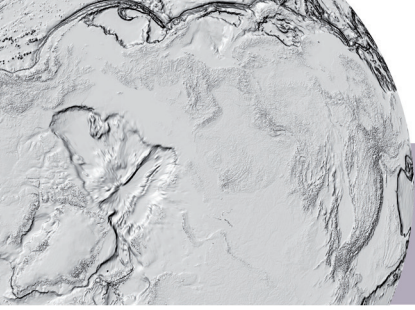
For this reason, adoption cannot be in name only. If it is to inspire the confidence of investors and other users, adoption must be practical and imbedded and its quality and sustainability must be continuously tested through monitoring and evaluation of audit outcomes.

IFAC is committed to promoting the adoption of international standards and does so through its ongoing communications as well as the Statements of Membership Obligations (SMOs). SMOs require member bodies to use their best endeavors to incorporate international standards in their national requirements or, where the responsibility for the development of national standards lies with third parties, to persuade them on a best endeavors basis to do so. These SMOs are the foundation of the IFAC Member Body Compliance Program which tests the extent of adoption. As noted in earlier sections of this report, this program is monitored by the Compliance Advisory Panel, one of the bodies overseen by the PIOB. Other international organizations, in particular The World Bank, engage in broader reviews of countries that include the extent of their compliance with international standards.

Previous PIOB Public Reports have identified the important and developing role performed by independent national audit regulators and their International Forum of Independent Audit Regulators (IFIAR) established in September

2006. National audit regulators support the public interest by either undertaking directly or overseeing a system of recurring inspection of audit firms that measures compliance with the relevant standards. These inspections may provide details concerning the method of adopting international standards including whether additional local requirements exist.

Furthermore, by reviewing the way international standards are implemented and applied in practice, these inspections and their conclusions provide a qualitative basis for confidence. In this manner, observations emerging from independent inspections can both guide and provide impetus to the continuing international public interest-driven development process.



## Section VII - Looking to the Future

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The PIOB will continue to focus on the primary tasks laid out for it under IFAC Reform and on the objective of high quality standard setting for international use. In line with this objective, the PIOB will devote a large portion of its near term agenda to the remaining stages of the Clarity and IFAC Code of Ethics Projects. At the same time, it will continue to refine and improve its oversight practices based on further experience and evolving needs. While no major adjustments are anticipated in these practices over the short term, it will be appropriate to conduct a review upon completion of the two major projects that are evolving at present.

Concurrently, the PIOB has continued to engage and communicate with a variety of actors in the broader environment in which it operates. It has sought signals and insights from other regulators and various international entities in order to respond better to evolving external needs for oversight and priority setting. In that regard, a number of emerging requirements have been noted which deserve careful consideration.

One such requirement has emerged from the consultation process related to development of strategic plans for the three international standard setting boards: persistent requests for support by those responsible for national implementation of international standards.

It is natural for such requests to arise at a time when many jurisdictions are on the verge of adopting international standards. It is also desirable that adoption and implementation across a variety of jurisdictions are achieved on as uniform a basis as possible. Accordingly, while each of the standard setting boards has committed to explore how standards implementation assistance can be provided, a more broadly coordinated implementation initiative must also be contemplated.

Such an initiative could address a variety of related needs including the definition of implementation assistance, identification of the most appropriate and effective delivery methods, and development and execution of a final implementation assistance plan. Given its mandate for public interest oversight and its objective to enhance public confidence in international standard setting, the PIOB will monitor closely the consistency and coordination of implementation assistance measures as they develop in the work of the boards that it oversees or at other points of planning and action within the broader IFAC framework.

Another emerging requirement relates to the multiple activities, policies and public discussions underway around the issue of audit quality.

All actions, policies and decisions that relate to the goal of enhancing audit quality offer the potential to establish a platform for mutual support and coordination. In this regard, the setting of international standards, which is the primary activity on the PIOB's oversight agenda, correlates in many ways with other regulatory activities that seek to attain the common goal of enhancing audit quality.

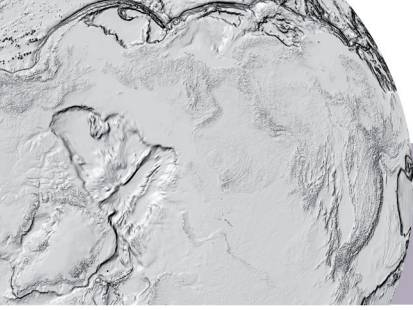
For this reason, the PIOB's external relations program already seeks to establish and maintain strong relationships with key actors and policymakers such as the Monitoring Group and its constituent members, IFIAR and individual audit regulators, and other key international and regional organizations who share this common interest. Over the coming year the PIOB will further intensify its efforts to facilitate interaction between these groups. Further, actions that others can take which correlate with PIOB goals, and actions that the PIOB can take which correlate with the regulatory objectives of others, could well form the basis for coordinated work.

Also in the context of its external relations program, the PIOB will continue to welcome opportunities to inform national, regional and international policy makers about its oversight mission, the safeguards which are in place in the international standard setting process and its specific policies to strengthen due process and enhance the credibility of international standards.

Although much has been accomplished to date, the circumstances which gave rise to IFAC reform have been overtaken by new and even more turbulent market events. These events have placed heightened emphasis on the need for transparent and high quality financial reporting and have underlined the need for high quality and reliable auditing. These same events have also raised specific concerns about the capacity of existing financial reporting models to cope with complex valuations under extreme market conditions, loss of liquidity and, more generally, loss of market confidence. Thus, they may well pose fresh challenges to financial reporting and the audit profession.

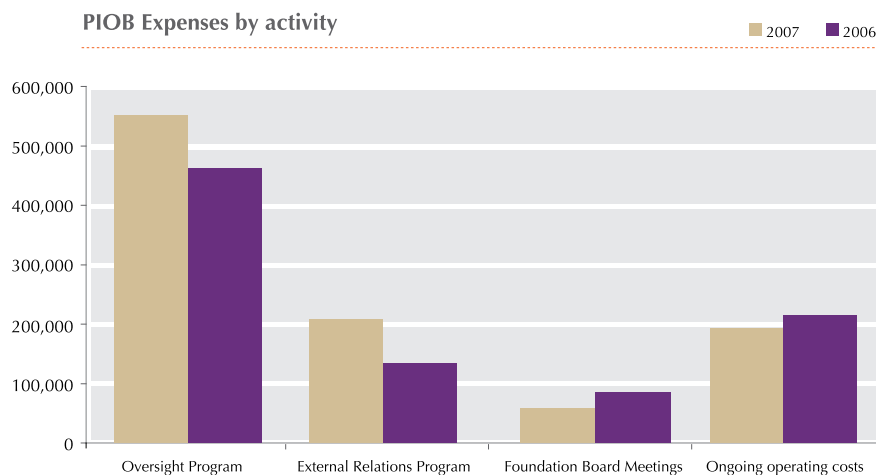
At the same time, public demands for a response by international regulators have also demonstrated the value of timely and well-coordinated international action to deal with a matter of urgent public interest. This process has provided validation and purpose to the international public interest model described in Section VI of this report. This process also supports the role of continuous and well-coordinated improvements to audit and financial reporting quality in achieving and maintaining market stability and public confidence around the world.

The PIOB will continue to play its role within the broader scheme of international regulatory activities focused on financial reporting and audit quality. At the same time, it will use every available opportunity to cooperate with those organizations which pursue similar agendas and goals in support of the international public interest.



## Section VIII - PIOB Foundation<sup>1,2</sup> Summary Statement of Financial Performance

(in Euros)	2007	2006
<b>TOTAL REVENUES <sup>3</sup></b>	<b>1,008,021</b>	<b>893,779</b>
<b>EXPENSES BY ACTIVITY</b>		
Board-related operating costs		
Oversight Program	551,951	461,171
External Relations Program	208,574	132,589
Foundation Board Meetings	57,198	85,900
Other start-up and ongoing operating costs	190,298	214,119
<b>TOTAL EXPENSES</b>	<b>1,008,021</b>	<b>893,779</b>



(1) The PIOB operates as a Technical Committee of its regulated Spanish not-for-profit foundation, La Fundación Consejo Internacional de Supervisión Pública en Estándares de Auditoría, Ética Profesional y Materias Relacionadas ("the Foundation"). Subject to the limits set out in Note 3 below, the Foundation operates on a breakeven basis.

(2) In addition to its local regulatory responsibilities, the PIOB Foundation is operationally and financially accountable to the Monitoring Group. This accountability includes the presentation of periodic operating reports, the PIOB's annual Public Reports, the PIOB Foundation's yearly audited financial statements and an annual budget for the Monitoring Group's review and approval.

(3) PIOB total revenues for 2007 were contributed primarily by the International Federation of Accountants (IFAC) under an existing five year commitment to provide up to an annual amount of USD 1,500,000, adjusted for inflation and foreign currency exchange movements. In addition to IFAC's individual contribution of EUR 942,247 (2006: EUR 782,191), it provided a further EUR 65,774 (2006: EUR 111,588) in targeted funding received from The World Bank and the US Federal Reserve Board. IFAC has recently agreed with the Monitoring Group to redenominate its existing annual funding commitment of USD 1,500,000, into Euros and to extend it for a further five years.

The PIOB Foundation's auditor, BDO Audiberia S.L., delivered an unqualified opinion on the complete financial statements of the Foundation. The full version of these statements and the auditor's report are available separately on the PIOB web site at [www.ipiob.org](http://www.ipiob.org).

## Appendix A - The PIOB



### **Dr. Stavros Thomadakis, Chairman**

Professor of Finance, University of Athens, Greece. Former Chairman of the Hellenic Capital Market Commission, the European Regional Committee of IOSCO, and the expert group on Market Abuse of the Committee of European Securities Regulators



### **Mr. Antoine Bracchi**

Former Président, Conseil National de la Comptabilité



### **Mr. David A. Brown, Q.C.**

Former Chair of the Ontario Securities Commission, Canada. Founding Chair of the Council of Governors of the Canadian Public Accountability Board. Member of the Council of Senior Advisors to the Auditor General of Canada



### **Mr. Fayezul Choudhury**

Controller and Vice-President, Strategy and Resource Management, The World Bank



### **Mr. Michael Hafeman**

Actuary and independent consultant on supervisory issues. Chairman, Insurance Advisory Board, Toronto Centre, Canada. Former Assistant Superintendent of Financial Institutions, Canada



### **Mr. Toshiharu Kitamura \***

Professor of Financial Economics, Waseda University, Japan. Former Senior Executive Director, Development Bank of Japan



### **Prof. Dr. Kai-Uwe Marten\*\***

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



### **Sir Bryan Nicholson, GBE\*\***

Former Chairman of the UK Financial Reporting Council



### **The Hon. Aulana L. Peters**

Retired lawyer, Former Commissioner of the U.S. Securities and Exchange Commission. Former member of the Public Oversight Board of the American Institute of Certified Public Accountants. Member, Accountability Advisory Board to the U.S. Comptroller General



### **Prof. Dr. Arnold Schilder, RA**

Executive Director, De Nederlandsche Bank NV, Netherlands. Member of the Basel Committee on Banking Supervision and Chair of the Basel Committee's Accounting Task Force 1999-2006

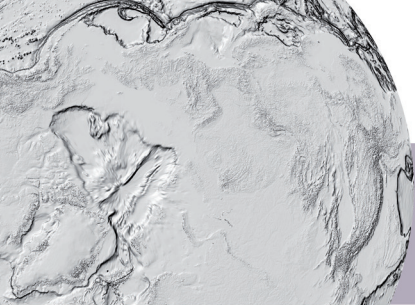


### **Ms. Donna M. Bovolaneas, CA**

PIOB Secretary General

\* Appointed 25 June 2007 to replace Mr. Kosuke Nakahira.

\*\* Former European Commission Observer, now appointed to full PIOB membership.



## Appendix B - Glossary of Terms

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**This glossary has been prepared to guide readers of this report by explaining various terms used in its preparation. It is not intended to be used or cited as a source of authoritative definitions.**

**Accountancy:** the profession of accounting. Accounting comprises measurement, preparation, validation, disclosure, auditing of and provision of assurance and advisory services on financial information.

**Basis for Conclusions:** the final public accountability document prepared at the conclusion of a standard setting or other approved PIAC project and published on the IFAC website. The Basis for Conclusions provides background information on the project, sets out the main comments received in response to the public exposure draft, explains how the relevant standard setting board has addressed these comments and provides the rationale used to support the board's conclusions. This document is not part of the approved final pronouncement and is non-authoritative.

**Basel Committee on Banking Supervision (BCBS):** the international body comprised of central banks and banking supervisory authorities from certain key markets that formulates and encourages convergence towards broad supervisory standards, guidelines and statements of best practice.

**Consultative Advisory Group (CAG):** the groups constituted to provide advice, including technical advice, to the IAASB, IAESB and IESBA. Regular interaction between each CAG and its respective standard setting board is part of the board's formal consultation processes. The PIOB oversees the work of each CAG.

**Compliance Advisory Panel (CAP):** the panel responsible for overseeing the implementation and operation of the IFAC Member Body Compliance Program. The objective of this

program is to evaluate the quality of IFAC member and associate member bodies' endeavors to meet the requirements of IFAC membership. The PIOB oversees the work of the CAP.

**Due process completion:** the point at which the established and approved due process to be followed by the IAASB, IAESB and IESBA in developing international pronouncements is determined to be complete. Prior to publication of an international pronouncement, the PIOB receives certification from the IFAC Executive Director for Professional Standards that all required due process steps have been completed. The PIOB's decision is based on evaluation of this certificate together with the results of its own oversight activities.

**European Commission (EC):** the Executive Branch of the European Union (EU). The EC may make legislative proposals and is ultimately responsible for the implementation of EU legislation throughout Member States.

**Forum of Firms (FoF):** the forum that brings together international networks of firms performing transnational audits and involves them more closely with the activities of IFAC. The FoF's objective is to promote consistent and high quality standards of financial reporting and auditing practices worldwide.

**Financial Stability Forum (FSF):** the forum that promotes international financial stability, improved functioning of markets and reduced systemic risk through information exchange, cooperation in financial supervision and surveillance, and coordination of efforts. The FSF brings together representatives of national financial authorities responsible for financial stability in significant international financial centers, international financial institutions, securities regulators and other international regulatory and supervisory groupings, and committees of central bank experts.



**International Auditing and Assurance Standards Board (IAASB):** the independent standard setting board that develops international standards and other pronouncements dealing with auditing, review, other assurance, quality control and related services. The PIOB oversees the work of the IAASB.

**International Accounting Education Standards Board (IAESB):** the independent standard setting board that develops international standards and other pronouncements dealing with education, practical experience and tests of professional competence for accreditation, and the nature and extent of continuing professional education for professional accountants. The PIOB oversees the work of the IAESB.

**International Association of Insurance Supervisors (IAIS):** the global organization that represents insurance regulators and supervisors, issues global insurance principles, standards and guidance papers, provides training and support on related issues, and promotes effective insurance supervisory regimes.

**International Ethics Standards Board for Accountants (IESBA):** the international standard setting board that develops ethical standards and other pronouncements for use by professional accountants. The PIOB oversees the work of the IESBA.

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

**IFAC Member Body Compliance Program:** the program that applies a series of Statements of Membership Obligations to support the adoption

and implementation of high quality auditing, accounting, ethical and educational standards by IFAC members, as well as quality assurance and enforcement mechanisms.

**IFAC Nominating Committee:** the committee that recommends to the IFAC Board the appointment of chairs, deputy chairs, members and public members for IFAC PIACs. The PIOB has the right to observe and speak at Nominating Committee meetings with respect to PIAC appointments.

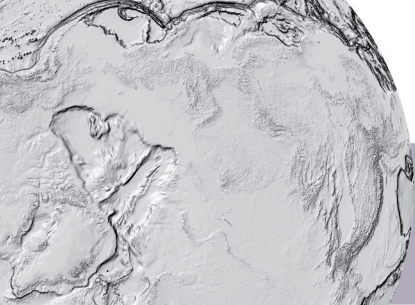
**IFAC Reform:** the introduction in 2003 of processes, including oversight and monitoring, designed to strengthen IFAC international standard setting, achieve convergence to international standards and ensure that the international accountancy profession is responsive to the public interest.

**International Forum of Independent Audit Regulators (IFIAR):** a forum of national audit regulators from several jurisdictions that conduct inspections of auditors and audit firms. Among its objectives are the sharing of knowledge and practical experience, promotion of collaboration and consistency in regulatory activity and engagement with other organizations with an interest in audit quality.

**International Organization of Securities Commissions (IOSCO):** the cooperative forum for securities regulatory agencies and international standard setter for securities markets.

**International pronouncements:** the standards, codes, interpretations, practice statements and information papers issued by the IAASB, the IAESB or the IESBA.

**Monitoring Group (MG):** the regulatory and international organizations responsible for monitoring the implementation of IFAC Reform. The MG nominates PIOB members and engages in dialogue with the international accountancy profession, receives operating and financial



reports from the PIOB, and updates the PIOB regarding significant events in the regulatory environment. Members of the MG are the BCBS, EC, IAIS, IOSCO and World Bank. The FSF and IFIAR are observers.

**Non-practitioner Member:** a member of the IAASB, IAESB or IESBA who is not a member or employee of an audit practice. If previously a member or employee of an audit practice firm, the individual would normally be subject to a cooling-off period of three years.

**Public accountability documents:** documents produced at various points during the execution of due process which explain the PIAC's disposition of input received during a specific phase of public consultation. See also Basis for Conclusions.

**Public consultation:** various types of public engagement between a standard setting board and a broad spectrum of external interested parties. The standard setting board may hold one or more public forums or roundtables or issue a consultation paper in order to solicit views on a matter under consideration. All draft international pronouncements are published as Exposure Drafts on the IFAC website for public comments. In addition to comments made by respondents to an exposure draft, the standard setting board seeks advice from its CAG and may also consider whether to conduct a field test of its proposals. After approving the revised content of an exposed international pronouncement, the standard setting board assesses whether substantive changes have been made to the exposed document that may warrant its re-exposure.

**Public Interest Activity Committees (PIACs):** the groups established under the auspices of IFAC consisting of three independent standard setting boards – the IAASB, the IAESB and the IESBA – and the CAP. Each board is composed of Practitioner, Non-Practitioner and Public Members and is subject to PIOB oversight.

**Public Interest Oversight Board (PIOB):** the independent body nominated by the Monitoring Group responsible for approval of appointments and ongoing oversight of IFAC public interest activities. Through fulfilling these responsibilities, the PIOB contributes to increasing public confidence that those activities are properly responsive to the public interest.

**PIOB operating year:** The twelve months from 1 April to 31 March.

**Public Member:** a member of the IAASB, IAESB or IESBA who satisfies the requirements of a non-practitioner member and is also capable of reflecting the wider public interest.

**Practitioner Member:** a member of the IAASB, IAESB or IESBA who is also a member or employee of an audit practice. Like all other PIAC members, practitioner members sign an annual declaration to act at all times in the public interest.

**Task Force (TF):** a group of individuals (drawn from PIAC members, Technical Advisors and IFAC technical staff and external experts) responsible for developing an international pronouncement for consideration and PIAC approval.

**Terms of Reference (ToR):** the document that sets out the objective, scope of activities and membership for each of the IAASB, IAESB, IESBA and their respective CAGs. These documents are available on the IFAC website.

**Transnational Auditors Committee (TAC):** the executive arm of the Forum of Firms and the IFAC committee which provides an official link between the Forum of Firms and IFAC.

**World Bank:** the international financial institution which provides financial and technical assistance to developing countries while furthering its mission to reduce global poverty and improve living standards.





## Public Interest Oversight Board

overseeing international audit, ethics and education standards for the accounting profession

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