MAY 2009

FOURTH 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: David Brown, Sylvie Mathérat and Fayezul Choudhury.
Middle row: Aulana Peters, Antoine Bracchi, Michael Hafeman and Toshiharu Kitamura.
Front row: Kai-Uwe Marten, Donna Bovolaneas (Secretary General), Stavros Thomadakis (Chairman) and Sir Bryan Nicholson.

Message from the PIOB Chairman

On 26 February 2009 PIOB members deliberated on and ultimately approved the due process used to develop and finalize the last three clarified International Standards on Auditing. This was the final stage in a process that had started some years ago and culminated in approvals for 25 ISAs and one International Standard on Quality Control during this past operating year. Although the February meeting was a milestone marking completion of the ambitious "Clarity project", the actual approvals seemed normal and well anticipated. We had to remind ourselves what a historic moment this was, and how significant its impact could prove to be in today's world. The lack of excitement during this meeting reflected the degree of careful screening and detailed oversight leading up to each decision point; thus, the final deliberations themselves held no surprises. This is an important characteristic of the brand of oversight practiced by the PIOB.

The brand of oversight crafted over the four years of PIOB operation is one of continuous monitoring and early intervention if processes appear to derail from their public interest objective. This has been facilitated by an open channel of communication with the standard setters we oversee and the development of independent screening capabilities by PIOB staff. The fact that no surprises were revealed at the very end also testifies to the comprehensiveness of the process and the proper functioning of the standard setting architecture. The oversight model that we apply has benefited from the continuous engagement of a large complement of interested "stakeholders". It has also benefited from the fact that the standard setting bodies themselves have changed radically in recent years, becoming more diversified in their composition. The public interest perspective is not only imposed by the presence of external oversight. It must also be internalized within the standard setting bodies themselves.

The members of the PIOB have continued to sharpen both the concept and the practice of the "international public interest" and have brought an extraordinary amount of collegiality and personal dedication to the task. I want to thank each and every PIOB member for innumerable contributions. The members of staff have also excelled with their dedicated work and their diligence. The implementation of our very demanding oversight model would simply not have been possible without their effort. Our departing Secretary General, Donna Bovolaneas, has been the backbone of PIOB life over these years and has done a superb job in the construction and maintenance of the PIOB, both as a legal entity and as an administrative unit. She has been a trusted, untiring and loyal advisor to myself and all PIOB members and deserves many thanks for her long working hours, her dedication and her decisive contribution to the attainment of our public interest objectives.

I also note with satisfaction that the working relations of the PIOB with our Monitoring Group colleagues have been developing rapidly as our financial accountability and budget operation have come under that group's direct responsibility. Working to further strengthen the independence of the PIOB through additional funding diversification will continue to be an objective of high priority for all of us.

Stavros Thomadakis

PIOB Chairman

Section I
Overview

The past year will be remembered as one of turbulence and crisis in financial markets around the world. Economies have switched from growth to recession as policymakers, regulators and leaders of industry and finance seek ways to contain the crisis and carve new paths for future growth. In this setting, the ability of institutions and standards to function under extreme economic and market conditions is being tested in real time. While this crisis has yet to be resolved, it demonstrates just how closely intertwined economies and markets around the globe have become, and therefore how important communication, the generation of high quality information and cooperation are for governments, market leaders and organizations. In this context, the case for agreement on the use of common standards becomes even more compelling.

The present crisis has also demonstrated how actions motivated primarily by the private interest can give rise to systemic ineffectiveness and instability. This has led to renewed focus on the public interest in determining what needs to be done. It can be concluded from this that public interest regulation of market activity is the most likely outcome of wide-ranging discussions on how best to redesign institutions and reconfigure public and private initiatives.

The Public Interest Oversight Board (PIOB) was conceived as a response to the crisis of confidence created by numerous corporate and audit failures in the early years of this decade. It was established in February 2005 to oversee the auditing and assurance, ethics and education standard setting developed by independent standard setting boards under the auspices of the International Federation of Accountants (IFAC) and related compliance activities. This decision, which would have a significant and irrevocable impact on the process of international standard setting for audits and auditors, reflected the need to put public interest objectives first. Today more than ever before, accurate assessment of market risks and reliable measurement of the consequences of risk-taking call for transparent, effective and clear financial reporting and auditing standards. In other words, standards that uphold and protect the public interest.

Over the last four years, we of the PIOB have sought to achieve public interest objectives by developing and applying a new oversight model for setting international standard in the areas of auditing, assurance, ethics and education. This model has two highly distinguishing features. First, it is a collaborative model which reflects an agreement between a group of international regulators and other public sector stakeholders, and a private sector body, the International Federation of Accountants, to co-sponsor an independent oversight body for the private sector appointed by the regulators. Second, this model effectively combines the high competence of experts operating within a private standard setting body with oversight by a separate body that represents and pursues public interest objectives. In the current crisis, it is clear that the need for high quality and broadly applicable standards developed in an inclusive, responsive and credible manner has taken on a greater relevance and urgency than ever before. The PIOB oversight model was designed to meet these requirements.

The past year has been a year not only of crisis. It has also been a year in which many efforts initiated several years ago have come to fruition and have increasingly commanded public attention. The Clarity project, a major undertaking for the improvement of the International Standards on Auditing (ISAs), has now been completed. Combined with substantive revisions to the content of certain standards, this project has produced a complete set of reformulated standards which are now clearer and much more amenable to translation

and implementation. The redrafted IFAC Code of Ethics, which includes two separate independence projects, is also near completion.

Clear and globally applicable ISAs go a long way towards offering an international infrastructure for consistent and effective audit practice. Updated independence requirements create a parallel and supporting international infrastructure to ensure the application of independent and objective professional judgment and focus on the public interest. We believe that these are valuable improvements and important additions to the many regulatory enhancements being devised in response to the global financial crisis.

In overseeing the completion of the Clarity and Independence projects and the redrafting of the IFAC Code of Ethics, we have applied our oversight policies in their most developed and intensive form. We have overseen selection of the standard setters, carefully reviewed their approach to formulating plans and projects, and closely supervised the ongoing process of deliberation, consultation and finalization used in the development of each and every standard. An increasingly prominent role has been given to the views and deliberations of Consultative Advisory Groups (CAGs) comprising representatives of public interest organizations and other interested parties. Accordingly, we give the standard setters final authorization to publish each finished standard only after determining that all due process steps have been followed effectively and with proper regard for the public interest, after obtaining assurance from the CAGs that issues they raised have been considered, and after conducting our own due process reviews for all standards.

Besides the areas at the forefront of public attention – Clarity and Independence – oversight in the public interest has been applied to two other core areas affecting the global accountancy profession: standards and guidance for professional education and the work of IFAC's Compliance Advisory Panel (CAP).

The importance of these areas is undisputed. Standards for professional education, which set criteria for academic programs, initial on-the-job training and continuing professional development, are an essential complement to ISAs and the IFAC Code of Ethics. In a world where the need for high quality financial statements has become more important than ever before, professional accountants and auditors who have attained the requisite knowledge, skills and attributes embodied in these standards will play an important role.

The work of the CAP also represents an area of rapidly growing importance. Its program to test and promote improvement in IFAC member bodies' compliance with their obligations relative to international standards is a platform to promote and achieve effective implementation of these same standards. The CAP has organized an extensive project of self-assessment, monitoring and encouragement toward full compliance by existing professional bodies around the world. Closely intertwined with this process are the CAP's programs to promote development of new professional organizations of accountants and auditors in emerging economies to provide the infrastructure to support sound adoption and implementation of international standards.

This past year has also marked a turning point in other important respects.

After leading the IAASB through a period of significant reform and professional challenge, including the successful completion of the Clarity project, John Kellas stepped down as IAASB Chairman. The appointment of his successor followed an open and competitive process that brought forward many talented

candidates from around the world. The new Chairman, Arnold Schilder, combines auditing expertise with senior regulatory experience.

The Monitoring Group, which is the forum of international regulatory and public sector organisations that appoints the PIOB members through its Nominating Committee and monitors the PIOB and the progress of the 2003 IFAC Reform Implementation, also reached three significant and evolutionary decisions.

The first of these was the Monitoring Group's decision to approve the European Commission's proposal to elevate its two existing observers to full PIOB membership. This step reflected increasing EU interest in the operation of public interest oversight in view of pending decisions on whether to adopt International Standards on Auditing for use by EU member states. This adoption is clearly contemplated in the Eighth Company Law Directive and, if approved, will constitute a significant step forward towards achieving high quality and consistent audit practice around the world.

The second involved a decision by all Monitoring Group members to prepare a formal Charter describing the functions of the group and its relationship with the PIOB. This was a cooperative effort in which we were provided ample opportunity to work with the Monitoring Group and contribute our views and experience. One crucial aspect from our perspective was the Monitoring Group's decision to take explicit responsibility for PIOB budget approvals and to apply the detailed approval process to our 2009 budget. This new arrangement now provides visible reinforcement to our independence [1].

The third was the Monitoring Group's most recent decision to include the Financial Stability Board [2] as a full member. As an original supporter of the need for public interest oversight for international standard setting, the FSB continues to play a lead role in coordinating current international regulatory efforts to address the global financial crisis.

In our last Public Report we provided our perspectives on future public interest issues and needs. Two elements stood out in particular. The first was the new challenges posed by anticipated standards implementation over the near term and the need for coordinated implementation support. The other was our belief that the array of activities, initiatives and policies aimed at achieving high audit quality also called for stakeholder coordination. Both these areas remain highly relevant to the future functioning of markets and economies, and the need for coordinated action to deal with matters affecting the international public interest has been more than validated by responses to recent global events.

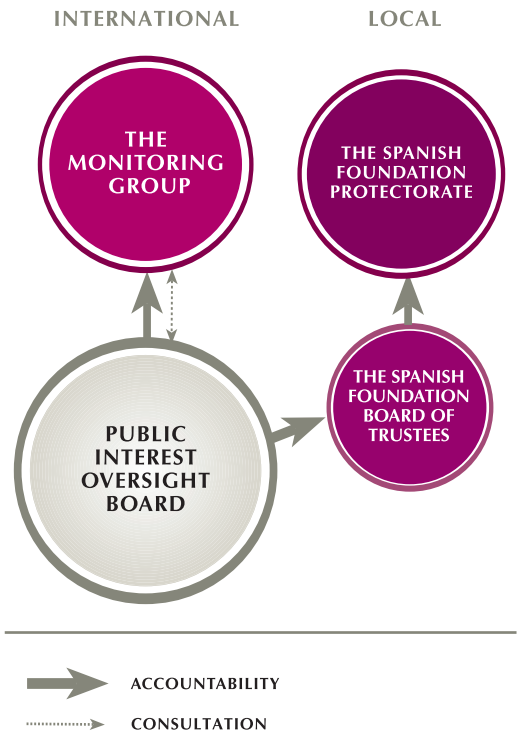
In the areas of auditing and assurance services, we believe that new challenges are likely to arise from pressures unleashed by the global financial crisis. In addition to the significant benefits of using existing global standards, the need for more comprehensive, transparent and informative financial reporting may well create new accounting and auditing standards requirements. Further alignment of auditor and regulatory objectives may also give rise to new perspectives on the purpose and conduct of audits. These and similar issues will likely dominate the audit quality agenda in future and it is in that broader context that the PIOB will undertake its role as an oversight body committed to the international public interest.

[1] The EU has recently approved the establishment of a regime to provide limited term financial support to specified EU and international bodies, including the PIOB, commencing in 2010. These bodies execute EU or international public interest missions aimed at enhancing the quality of financial reporting and/or auditing.

[2] Formerly the Financial Stability Forum.

Section II
PIOB Governance

Our ongoing work provides enhanced credibility and legitimacy to the operation of the three independent international standard setting boards that we oversee[3] and the public interest work of the IFAC Compliance Advisory Panel. Greater awareness and recognition of our efforts and the visibility of our interventions have inevitably brought new focus to the question of our own governance and independence. The following diagram and related discussion provide an up-to-date picture of the PIOB governance architecture including the impact of recent governance-related developments.



Local Governance of the PIOB Foundation

The PIOB Foundation[4] is constituted under Spanish Foundations law, subject to its provisions including related regulations, and overseen by the Spanish Foundations Protectorate. The Foundation is governed by a Board of Trustees with responsibilities defined in both the law and formal bylaws. In practice, this means that the Board of Trustees is responsible for ensuring that the Foundation operates within its approved mandate, makes continuous progress toward defined public interest objectives, operates in a fiscally prudent manner and remains fully compliant with all applicable Spanish laws and regulations.

Up to this year, the eight serving members of the Board of Trustees were drawn from among the ten existing members of the PIOB. This year, the Board of Trustees received local regulatory approval to execute a bylaw change to enlarge the Board of Trustees to a maximum of thirteen members. This change now provides greater compositional flexibility including diversification through the appointment of independent trustees.

Regulatory reporting by the Foundation derives from the Board of Trustees' statutory obligations and includes advance filing of an annual operating and financial plan, quarterly reports on core program activities, quarterly reporting of any board decisions which meet defined statutory reporting criteria and a comprehensive annual financial reporting package.

Under the Foundation structure, day-to-day oversight activity is conducted by PIOB members operating in the form of a Technical Committee.

[3] The International Accounting and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB).

[4] *La Fundación Consejo Internacional de Supervisión Público en Estándares de Auditoría, Ética Profesional y Materias Relacionadas,* which is headquartered in Madrid, Spain.

International Governance of the PIOB

The fundamentals of the international governance model are embedded in the roles and responsibilities assigned to the PIOB, the Monitoring Group and IFAC within the 2003 IFAC Reform proposals[5]. While interactions between the Monitoring Group and the PIOB have been guided by these descriptions, the recent Monitoring Group initiative to develop a formal charter – summarized in Section I of this report – has provided a timely opportunity to bring greater clarity to the overall reform model and, within it, to the governance of the PIOB.

An important impetus for this initiative has come from potential ISA adopters interested in confirming the overall soundness and legitimacy of the international standard setting process. As the role of public oversight is a critical component of this process, stakeholders have a legitimate interest in whether the PIOB is subject to appropriate governance arrangements and can maintain the necessary independence from IFAC. For this reason, the new Monitoring Group Charter has focused particular attention on clarified financial roles and responsibilities and processes to ensure our financial independence from IFAC while holding us accountable for our use of IFAC's funds. This arrangement is supported by a recently renewed IFAC commitment to provide us with unconditional guaranteed funding[6], based on an annual budget request which is reviewed and approved by the Monitoring Group. We are also required to submit an annual accountability report to the Monitoring Group for final approval of budget execution.

Separately, the PIOB Foundation produces annual financial statements prepared in accordance with International Financial Reporting Standards and subject to audit in accordance with International Standards on Auditing. These statements are published in full on our public website and each year's Public Report includes a financial summary page with highlights of these results. Audited financial statements are also presented to the Monitoring Group.

Other provisions of the Monitoring Group Charter require us to provide regular operating reports and to seek Monitoring Group input on our Public Reports prior to publication. These public reports, which are posted on our website and widely distributed in printed form, provide an annual summary of our activities, findings, conclusions, decisions and policy recommendations as well as our evolving thoughts on the international public interest.

[5] See the 2003 IFAC Reforms document which may be downloaded from the IFAC website at http://www.ifac.org/Downloads/IFAC_Reform_Proposals.pdf

[6] As part of IFAC's agreement with the Monitoring Group, IFAC provides unconditional guaranteed funding for the operation of the PIOB. Initially, IFAC agreed to guarantee funding for a five-year period, starting with the establishment of the PIOB in February 2005 (first guarantee period). During 2007, IFAC agreed with the Monitoring Group to guarantee funding for a further five-year period, starting March 2010 (second guarantee period). The initial guaranteed funding was an amount up to 1.5 million United States dollars plus annual inflation and foreign exchange adjustments unless the Monitoring Group advises IFAC that such funding is no longer necessary because of other arrangements.

From January 2007, the denomination of the IFAC guaranteed funding was converted to Euros. The amount of guaranteed funding for 2007 was determined as the Euro equivalent of 1.5 million United States dollars after adjustment for inflation and exchange rate changes since January 2004. For the remainder of the first guarantee period, and for the second guarantee period, the funding is the 2007 amount adjusted annually for the inflation rate in the Eurozone. IFAC accepts the currency risk associated with the guaranteed funding being denominated in Euros, and understands that, on this basis, the PIOB will accept the currency risk associated with any operations or expenses of the PIOB incurred in currencies other than Euros.

Section III
PIOB Oversight Framework and Activities

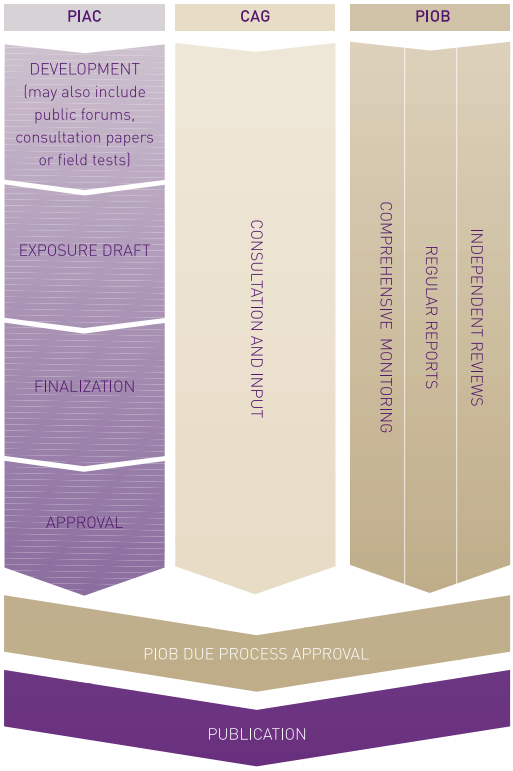
Overseeing in the Public Interest: The Elements of Due Process

Over the past year we have continued to refine our oversight model based on additional experience and continuous assessment of evolving external requirements.

The diagram on the right, which was first published a year ago, sets out the fundamentals of the due process applied by standard setting boards to the development of international standards, practice statements and other key PIAC pronouncements. It also illustrates the key interactions that occur between each standard setting board (the IAASB, the IESBA and the IAESB), its respective Consultative Advisory Group and the PIOB. The PIOB's ultimate responsibility to consider whether this due process has been applied effectively and with proper regard for the public interest relies on three key inputs: the results of direct and comprehensive monitoring, reports from and dialogue with PIAC and CAG chairs, and independent staff reviews. This model has also been successfully adapted to support a range of other PIOB approval duties, including assessment of the due process used by the IFAC Nominating Committee to appoint PIAC Chairs and members, by the PIACs to update their strategies and work programs, by the CAGs in nominating CAG Chairs and, most recently, by the IFAC Board in undertaking a review and consolidation of PIAC Due Process, Working Procedures and related Terms of Reference.

In applying the first part of this model (comprehensive monitoring) we form first-hand opinions on the overall level of professionalism, efficiency, transparency, inclusiveness and public interest focus of each PIAC and CAG. These opinions, along with other inputs, also contribute to the formation of our final view on the

THE PROCESS OF INTERNATIONAL STANDARD SETTING



appropriateness of each stage of the due process used to develop individual standards. In the second (regular reports), we supplement our first-hand observations with reports from and dialogue with PIAC and CAG Chairs. We also meet regularly with the IFAC leadership on nominations and other public interest initiatives undertaken by the IFAC Board.

The final element (independent reviews) refers to the work of PIOB staff conducted under the Extended Review Framework program to provide us with additional independent assessments of the due process applied to the development of individual standards and PIAC strategic plans.

Comprehensive Monitoring: Observation Activities

Based on the many tangible benefits derived in previous years, which were reported on extensively in our Third Public Report, we continued to apply our policy of comprehensive physical observation to meetings of the PIACs, CAGs, CAP and IFAC Nominating Committee. This approach provided us with the opportunity to assess the ongoing activities of each group, to intervene if we identified any matter that might have an impact on the public interest, and to interact with members, their technical advisors, other official observers and, on occasion, members of the general public.

We did this for three reasons. First, we believed that our mandate to increase stakeholder confidence in the responsiveness of these groups to public interest needs was best served by a program of ongoing observation. In particular, our continuous presence at all IAASB and IESBA meetings[7] during the final phases of the Clarity and redrafted IFAC Code of Ethics projects enabled us to assess how well these groups maintained focus on the public interest while also dealing with an extraordinarily large workload and demanding deadlines. Second, we also believed that those relying on us to add credibility and legitimacy to the operation of these processes would expect this level of attention. Finally, this approach ensured that our judgments on a standard by standard basis would be fully informed.

Table 1 provides comparative information on the scope of our observation activities[8]:

TABLE 1

Meeting Date	4/2006 - 3/2007		4/2007 – 3/2008		4/2008 - 3/2009	
Entity	Held	Observed	Held	Observed	Held	Observed
IAASB	6	6	5	5	4	4
IAASB CAG	2	2	4	4	2	2
IESBA	4	3	4	4	5	5
IESBA CAG	2	2	4	3	3	2
IAESB	3	3	3	3	4	4
IAESB CAG	2	2	2	2	2	2
CAP (from April 2007)	N/A	N/A	5	5	5	4
IFAC Nominating Committee	8	8	8	7	8	8
TOTAL	**27**	**26**	**35**	**33**	**33**	**31**

[7] Plus all but one of the related CAG meetings.

[8] Including teleconferences.

While the overall volume of our observations was similar to that of the previous year, the mix of meetings was different. The individual changes from PIAC to PIAC reflected several distinct trends: a shift in the IAASB's focus from more complex revisions tasks to a higher volume of redrafting activity and consideration of new project proposals, the IESBA's intensified efforts to complete its final changes to Independence and redraft the full IFAC Code of Ethics, and the IAESB's launch of its Framework Review Exposure Draft together with several new guidance projects. Although neither the Nominating Committee nor the CAP changed the frequency of its meetings, each managed a workload that was more demanding than in previous years.

Based on these observations, we were positioned to provide concrete views to the PIACs and CAGs and, in some cases, recommendations on various public interest matters.

For example, we considered the approaches taken by PIACs to resolve differences in stakeholder views, especially where jurisdictional matters might be involved. In one instance, and without prejudice to the robustness of the due process applied, we conveyed some disappointment concerning the IAASB's decision to resolve one particularly challenging public interest issue by withdrawing proposed accounting framework-related guidance from ISA 700 on which stakeholders could not agree. While recognizing that a more satisfactory resolution would require explicit action by some of these stakeholders, we encouraged the IAASB to consider whether they could still make a contribution and to make this consideration a priority.

In addition, we opined positively on PIAC efforts to incorporate the widest possible range of stakeholder views without compromising the robustness of the standard. We also supported proposals to provide additional guidance to assist auditors in understanding and managing the challenges posed by the financial crisis. Finally, we stressed the importance of PIAC public members'[9] regular attendance and active participation in the operation of due process.

The outcomes of our observations of CAP and IFAC Nominating Committee deliberations are presented later in this section.

Regular Reporting: Dialogue with IFAC, PIAC and CAG Leadership

This year we continued our schedule of regular communications with the President of IFAC and the Chairs of all PIACs and CAGs together with relevant senior members of IFAC staff. With one exception, these exchanges took place at the PIOB's regular quarterly meetings and covered items brought to us by IFAC for consideration as well as matters which we wished to raise with IFAC. At the presidential level, these exchanges provided us with valuable insights into key developments and initiatives having an impact on the general public interest environment prevailing within IFAC and on the progress of nominations and the development of related policies. Discussions with the Chairs of the standard setting boards and CAGs provided similar insights into specific projects and the overall conduct of their activities. We also gained significant value from the CAP Chair's presentations on the progress of Part 3 of the IFAC Compliance Program and other membership matters.

[9] See Glossary of Terms

Finally, our Chairman or his designate continued to attend all IFAC Board and Council meetings during this year to gain a first-hand understanding of their policies and strategic direction and to update them on our own oversight activities and results.

Extended Review Framework: Our Independent Reviews

This year we continued to refine and improve our oversight model and policies, based primarily on our experience in responding to the heavy agendas of the IAASB and IESBA but also on our understanding of the broader changes taking place in IFAC and PIAC operating strategies and in the public interest needs and priorities of other interested parties[10].

In our Third Public Report we set out the fundamentals of our latest development, the "Extended Review Framework" program (see below) and reported on its formal launch after a period of successful pilot testing. We have subsequently applied this program to individual standards within the Clarity project.

ERF Core Principles

- **ERF builds on existing PIAC and CAG due process steps**
- **The scope of an ERF application is determined through a risk assessment**

The purpose of the ERF program is to provide an additional measure of independent internal analysis to our consideration of the due process used for specific projects, strategic plans or standards, and thus to supplement our other oversight tools. ERF procedures involve a closer look at and consideration of the effectiveness and appropriateness from a public interest perspective of the various steps completed[11] during the life-cycle of a standard. Particular emphasis is placed on the period from the completion of the public consultation process (including the review of comment letters received) through to finalization[12]. This emphasis recognizes the public interest embedded in the consultation process including the adequate treatment of the comments and input received.

As part of the evolution of this program, we initiated staff observations of selected Task Force meetings as a way to obtain insights into the workings of these groups. Further, in view of the impending completion of the Clarity project, we developed a new ERF program tool, the "focused review", to provide a more targeted form of review for those standards not selected for a full scope ERF application. Overall, our staff conducted full-scope or focused reviews for twenty-four existing clarified ISAs, one new ISA, ISQC 1 and the IAASB Strategy and Work Program for 2009-2011[13].

We determined the specific scope to apply to each standard by considering a wide variety of factors. First we considered the subject matter, whether the standard was being revised, redrafted or both, whether the standard was general or specific, and how it would interrelate

[10] See Section IV of this report.

[11] Only certain of these steps are public and therefore not fully susceptible to routine observation by the PIOB or other interested parties. Non-public steps include analytical and other support work of IFAC staff and the deliberations of individual project Task Forces.

[12] This is the period during which each PIAC decides how best to respond to comments from the public and the views of its CAG and evaluates whether the resulting version of the standard should be approved and published after PIOB approval or re-exposed for further public consultation.

[13] See Table 2, pages 16 and 17, for further details of these approvals.

with other standards. We then considered the needs and concerns being expressed by certain constituents representing specific aspects of the public interest such as the international regulatory community, small and medium-size enterprises, and developing nations. Finally, we considered the potential challenges inherent in each standard, including those faced by the PIAC in setting a global standard when there were known differences at the jurisdictional level, and the application challenges for auditors.

This first full year of operating the ERF program resulted in a number of positive outcomes. In addition to individual findings which were communicated to the relevant parties, we found that these procedures could be successfully adapted to deal with a variety of oversight situations. We also enhanced the methodology and identified the importance of monitoring for changes in the facts and circumstances of each project that might affect our view on the type of ERF scope required.

We were also able to validate our presumption that, over time, these reviews had the potential to identify more generic due process and public interest related issues which could then be communicated to IFAC for corrective action. Three such findings emerged and were actioned over the course of this year. First, IFAC's recent proposed updates to the PIAC Terms of Reference incorporated our recommendation to clarify and strengthen the due process steps related to re-exposure decisions. Second, the CAG Chairs implemented our request to provide views on whether the established due process governing PIAC interaction with the CAG had been followed in each case and whether the PIAC and Task Force had dealt appropriately with final CAG comments, Third, IFAC staff implemented improvements to its process for communicating with CAGs to harmonize differences we noted in the scope and depth of agenda papers developed for PIAC and CAG discussions of certain issues.

While a positive PIOB conclusion on due process is not a guarantee that every matter raised by stakeholders has been reflected in a final pronouncement, such conclusions imply that all matters raised were considered and that the standard setting board documented and explained its final decisions on all significant matters in a transparent and fully accountable manner [14].

PIOB Approval Activities

Our approvals agenda this year was dominated by the Clarity project but also included a number of other decisions required under the terms of our mandate.

Due Process Completion of International Standards and Quality Control Standards

Our major responsibility is approval, from an international public interest perspective, of the due process used to develop and finalize a variety of international standards and other pronouncements.

[14] Each CAG is provided with Report Back documents which account for the handling of all significant points raised during CAG meetings. At the conclusion of each project, a non-authoritative Basis for Conclusions document is also prepared to account for the disposition of all significant matters raised during all phases of public consultation. This document is published together with each final approved international pronouncement.

Table 2 lists twenty-five International Standards on Auditing and one International Standard on Quality Control approved this year. This table also details the specific type of independent review (full-scope ERF or focused review) performed in each case.

TABLE 2

PIOB Meeting	Standard	Name	Status	PIOB Review
July 2008	ISA 550 (Revised and Redrafted)	Related Parties	Final	ERF(1)
	ISA 250 (Redrafted)	Consideration of Laws and Regulations in an Audit of Financial Statements	Final	FR(2)
	ISA 510 (Redrafted)	Initial Audit Engagements - Opening Balances	Final	FR
	ISA 570 (Redrafted)	Going Concern	Final	ERF
September 2008	ISA 200 (Revised and Redrafted)	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	Final	ERF
	ISA 320 (Revised and Redrafted)	Materiality in Planning and Performing an Audit	Final	FR
	ISA 450 (Revised and Redrafted)	Evaluation of Misstatements Identified during the Audit	Final	FR
	ISA 530 (Redrafted)	Audit Sampling	Final	FR
	ISA 610 (Redrafted)	Using the Work of Internal Auditors	Final	FR
	ISA 705 (Revised and Redrafted)	Modifications to the Opinion in the Independent Auditor's Report	Final	FR
	ISA 706 (Revised and Redrafted)	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Final	FR
December 2008	ISA 220 (Redrafted)	Quality Control for an Audit of Financial Statements	Final	ERF
	ISQC 1 (Redrafted)	Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services	Final	ERF

(1) Full-scope ERF.
(2) Focused review.

PIOB Meeting	Standard	Name	Status	PIOB Review
December 2008	ISA 500 (Redrafted)	Audit Evidence	Final	FR
	ISA 501 (Redrafted)	Audit Evidence – Specific Considerations for Selected Items	Final	FR
	ISA 505 (Revised and Redrafted)	External Confirmations	Final	ERF
	ISA 520 (Redrafted)	Analytical Procedures	Final	FR
	ISA 620 (Revised and Redrafted)	Using the Work of an Auditor's Expert	Final	ERF
	ISA 700 (Redrafted)	Forming an Opinion and Reporting on Financial Statements	Final	ERF
	ISA 710 (Redrafted)	Comparative Information – Corresponding Figures and Comparative Financial Statements	Final	FR
	ISA 800 (Revised and Redrafted)	Special Considerations – Audits of Financial Statement Prepared in Accordance with Special Purpose Frameworks	Final	ERF
	ISA 805 (Revised and Redrafted)	Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	Final	FR
	ISA 810 (Revised and Redrafted)	Engagements to Report on Summary Financial Statements	Final	FR
February 2009	ISA 210 (Redrafted)	Agreeing the Terms of Audit Engagements	Final	ERF
	ISA 265 (New)	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	Final	FR
	ISA 402 (Revised and Redrafted)	Audit Considerations Relating to an Entity Using a Service Organization	Final	FR

Due Process Completion and Completeness of PIAC Strategy Plans

In July 2008 we approved two aspects of the IAASB Strategy and Work Program for 2009-2011: the due process followed in developing and finalizing this plan, and its completeness from a public interest perspective. Given the importance of this document to the near- and mid-term activities of the IAASB, we performed a full-scope ERF review which considered, in addition to the normal range of meetings and documents, the survey questionnaires published and two international forums held to seek external stakeholder input prior to drafting the final plan.

In addition, we have monitored the IAESB's discussions on its next Strategy and Work Plan for 2010-2012. The IAESB expects to approve this document later in 2009, after which it will be submitted to the PIOB for due process and completeness approval.

Due Process Assessment and Approvals of 2009 PIAC Nominations

As noted in last year's report, the PIAC governance structure and rotational policy have been designed to address several (sometimes competing) objectives, all of which are in the public interest. The first is to ensure that each group is comprised of individuals with a broad variety of regional, professional and other perspectives. The second is to maintain an appropriate balance in all respects, in particular the requirement for parity between practitioners and non-practitioners. This specific requirement reflects the public interest objective of ensuring that the input and perspectives of experts from the auditing profession are matched by those of an equal number of well-qualified individuals, including designated public members, drawn from other backgrounds. The third is the need to balance the need to introduce fresh viewpoints and experience on a regular basis against the need to maintain essential continuity, especially at the leadership level.

In this context, the 2009 nominations cycle posed three exceptional challenges for the IFAC Nominating Committee: the anticipated impact on existing board membership of completing the Clarity and IFAC Code of Ethics projects, a shift in the focus and priorities of all three boards based on their latest approved strategic plans, and the planned retirement of the IAASB and IAESB Chairs.

IFAC initiated its search for the new IAASB Chair in November 2007 following a period of planning and consultation with us on the process and criteria to be applied. Given the importance of this particular appointment[15], the process needed to be fully transparent and executed in an objective and highly professional manner. This was accomplished through a series of steps, beginning with a special public call for nominations that attracted over two dozen highly qualified applicants from around the world, and followed by the participation of a professional recruitment firm in developing the process for screening and evaluating these applicants. Finally, we observed all relevant meetings and teleconferences of the Committee to evaluate the execution of the agreed process.

In determining its final nominee, the Committee considered how well each candidate had met the demanding list of criteria for this position which called for a combination of strong technical knowledge and extensive leadership experience, particularly on matters highly relevant to current and anticipated public interest priorities. The Committee also ensured that the final candidate would meet the rigorous independence criteria attached to this full-time remunerated position. The final recommendation of Arnold Schilder[16] of The Netherlands carried the unanimous support of both the Committee

[15] This is the only full time and remunerated PIAC Chair position.

[16] A complete description of Professor Schilder's background and credentials was provided in IFAC's 7 July 2009 Press Release which is available at http://www.ifac.org/MediaCenter/?q=node/view/578.

and the IFAC Board. We approved this appointment on 3 July 2008 with effect from 1 January 2009.

In a similar way, the impending retirement of Henry Saville as Chair of the IAESB required the Nominating Committee to carefully consider not only the attributes required in his successor but also the broader question of whether the appointment process for other PIAC Chairs should be more closely aligned with the one used for the IAASB Chair.

Under Mr. Saville's leadership, the IAESB completed its first full suite of educational standards after which it focused its attention on developing companion practice statements to support users of the published standards and considering how best to respond to the evolving educational needs of professional accountants. From this came the launch of its framework review project, intended to provide an up-to-date foundation to guide the next phase of standards development, and the decision to undertake development of appropriate benchmarks for measuring adoption and implementation success. In view of these priorities, the IFAC Nominating Committee selected Mark Allison, an experienced national education standards director, as its nominee to succeed Mr. Saville.

With our active encouragement, and in view of the impending retirement of the IESBA and CAP Chairs at the end of 2009, the IFAC Nominating Committee also updated its existing processes for nominating all PIAC Chairs, developed detailed job descriptions for both open positions and incorporated them into the IFAC 2010 public Call for Nominations [17].

In reaching our conclusions on PIAC appointments, we first considered the transparency, inclusiveness, public interest focus and overall quality of the due process used to encourage nominations and evaluate the individual nominees. We then considered the balance and impact that each proposed new appointment would have on the composition of each PIAC and on the PIAC's effectiveness in achieving its public interest goals.

Table 3 lists the nominations approved at our September 2008 meeting:

TABLE 3

Group or Individual	Appointment		
	Total	New	Renewed
International Auditing and Assurance Standards Board [18]	8	5	3
IAASB Deputy Chair	1	1	
International Ethics Standards Board for Accountants	7	2	5
IESBA Deputy Chair	1		1
International Accounting Education Standards Board	5	3	2
IAESB Chair	1	1	
IAESB Deputy Chair	1		1
Compliance Advisory Panel	2		2
CAP Deputy Chair	1		1

[17] This policy change and related steps to initiate a search for a replacement in 2010 were also extended to the Chair of the International Public Sector Accounting Standards Board.

[18] The number of approvals noted for each PIAC may also include certain individuals who are separately identified as appointees to related Chair or Deputy Chair positions. The appointment of Arnold Schilder as an IAASB member has been included in the IAASB totals, but as his appointment to the Chair's position was approved in July 2008, it has not been repeated in this table.

Due to a subsequent resignation, we further approved the interim appointment of a new IAASB public member at our December 2008 meeting.

Overall, the IFAC Nominating Committee achieved a number of specific objectives during this year while continuing the trend of steady progress noted in prior years. It successfully met all the challenges identified earlier in this discussion and maintained the parity of practitioners and non-practitioners on all four PIACs. It also drew from its accumulated experience in assessing candidates for PIAC public member positions to develop a more highly evolved set of criteria and a clearer distinction between the attributes of public members and other non-practitioners. While progress was made toward longer-term compositional goals, the Committee also identified further strategies to be applied during the 2010 nominations process to address the need for greater gender balance.

With respect to improving board and committee member performance, the Committee reviewed the results of its 2008 pilot program to assess the performance of Chairs and individual members, introduced several improvements based on these results, gave final approval to the improved program and published updated information in the 2010 IFAC Call for Nominations. The Committee also introduced new safeguards[19] to identify interim changes in established composition levels and protect individual member independence from undue external influence.

Nevertheless, further improvements in these policies and processes are always possible and desirable. In this regard, we have noted even greater specificity in the targets established for various boards and committees in the 2010 Call for Nominations and look forward to reviewing the outcomes of this strategy.

CAG Membership and CAG Chair Renewal

In December 2008, and after considering the final recommendations made by the IAESB CAG and the IESBA CAG Membership Panels as well as the due processes followed in making these recommendations, we approved the reappointments of Charles Calhoun as Chairman of the IAESB CAG for a three year period commencing 1 January 2009, and of Richard Fleck as Chairman of the IESBA CAG for a three year period commencing 1 April 2009.

We further approved the appointments of three new member organizations and their initial representatives to the IESBA CAG.

At the time of this Report, the process to replace David Damant, current Chairman of the IAASB CAG, has just started. Mr. Damant's second term of appointment will expire on 30 September 2010 and, under the CAG Terms of Reference, he is ineligible to stand for a third term. As the IAASB CAG Chair is a key position, we will closely monitor the progress of this nomination.

Oversight of the CAP and the IFAC Compliance Program

Part 3 Action Plans [20]

This year, our continuing observations of the CAP and its deliberations on the IFAC Compliance Program and other IFAC membership policy matters focused on the process used to evaluate and approve member bodies' Part 3 Action Plans. These observations were complemented by periodic updates provided by the CAP Chairman, Robert Mednick, on the progress of these initiatives. Given the good rate of progress being achieved on Part 3, we were also in a position this year to observe and consider all phases of the program including final CAP deliberations on whether to approve individual member body Part 3 Action Plans for publication.

[19] IFAC Board and Committee members are now required to report changes of employment occurring after appointment so that the impact of these changes on Board or Committee composition can be identified and evaluated. Members' nominating organizations or employers must also declare that they will not exert undue influence, whether financial or otherwise, which might impair the member's ability to act with independence, integrity and in the public interest.

[20] See IFAC Member Body Compliance Program in the Glossary of Terms.

In observing the interactions between the CAP and Compliance staff, we noted that those related to Part 3 Action Plan issues were not restricted to requests for final approval. Where necessary, Compliance staff sought the CAP's interim guidance on how to deal with more complex individual proposals and respond to emerging trends identified across a number of plans. These additional dialogues ensured that the CAP remained fully apprised on both routine and exceptional situations and could assist Compliance staff to administer the Compliance Program in a consistent and high quality manner.

Initially, all finalized plans were presented to the CAP for approval and publication. As the year progressed and the volume of work increased, the CAP agreed to delegate limited authority to Compliance staff to approve and publish plans of a more routine nature, subject to providing the CAP with a sampling of these plans for ongoing information and validation purposes. Based on our observations, we were comfortable that this step would help to improve program efficiency without sacrificing quality or effectiveness.

One important development on which we reported last year was the CAP's decision to require all IFAC member bodies, including those with no substantial compliance deficiencies, to develop Part 3 Action Plans. Our interest at the time was in the potential for these member bodies to provide useful information concerning their experiences in promoting international standards adoption and facilitating implementation, and their current plans and programs for keeping current with these obligations. This year, other member bodies with early experiences in implementing various elements within their action plans are also in a position to document and share these experiences with their peers.

One of our most important observations has been the attention paid by both the CAP and Compliance staff to maintaining a careful balance among competing factors at both the individual and program level.

While the Compliance Program has been established as a way to evaluate the quality of members' and associates' efforts to meet IFAC membership requirements, its focus is on encouragement and improvement. This recognizes the fact that each member body's state of compliance is unique and that both the extent and timing of progress toward full compliance are affected by unique environmental circumstances and pressures, most often in the form of financial and technical limitations. At the same time, Compliance Program participation is mandatory and has been established as a condition for continuing IFAC membership. This requirement is critical to maintaining the overall credibility of the program.

A further challenge facing the CAP is to ensure that completed plans are both substantive and realistic given the unique circumstances of each member body. In this regard, we have noted that the CAP and Compliance staff deal in the same even-handed manner with plans that are either overly ambitious or which suffer from serious deficiencies.

Thirty-two final Part 3 Action Plans have been published to the end of March 2009, a completion rate of just over twenty percent. One of the more important outcomes of this step is the availability of a number of completed plans from developing regions which can now be used as concrete models by their peers.

Based on our observation of this program and its results to date, we believe that the CAP and

Compliance staff are well positioned to gather even more information on standards implementation goals and approaches and to facilitate sharing of this and other useful information among IFAC member bodies. We also believe that more work can be done to identify the most critical environmental factors which inhibit member body progress toward compliance and workable approaches to overcome these factors. Finally, we believe that the Compliance Program can become an important platform for encouraging and facilitating international standards convergence.

Strategic Coordination

The CAP's role and strategic position within the IFAC structure provide it with unique scope to mobilize public interest stakeholders both within IFAC and beyond. We have noted important steps taken by the CAP to interact with, clarify and reinforce the roles of other key IFAC groups as well as to reach out to other potential contributors to the common goal of international standards adoption and convergence. Initiatives such as the development of an Accountability Framework for Regional Organizations and Acknowledged Accountancy Groupings help to align the mission, objectives and work programs of these bodies with those of IFAC, including efforts to promote international standards adoption and global convergence. For the same reason, the CAP's relationships with public sector organizations, developed bodies, governments and donor agencies will be instrumental in discovering and promoting approaches to overcoming barriers to member body progress. Finally, the CAP's outreach to IFIAR and its community of audit regulators to provide background on the Compliance Program represents an important first step toward coordinating the efforts of member bodies and audit regulators to achieve and maintain ongoing improvement to local and global audit quality.

IFAC's Triennial Review of the Effectiveness of PIAC Due Process

Purpose and Scope of the Review

This year, IFAC conducted its first triennial review of the effectiveness of the PIAC due process covering PIAC Due Process and Working Procedures and the PIACs' Terms of Reference. IFAC's stated objective for this exercise was to refine, rather than overhaul, the existing due process model, and given the experience gained in applying the provisions of the existing terms of references and due process over the last few years, to codify changes made under PIOB oversight. For this reason, the review incorporated only limited consultations with key interested parties in September 2008. The Review Group appointed by the IFAC Board to carry out this exercise issued its final report in October. This report, together with the proposed changes to the affected documents, was submitted to the IFAC Board in November 2008 and approved without changes.

This review did not address the CAGs' Terms of Reference on grounds that these were relatively new documents and that more experience was needed before undertaking any further revisions.

PIOB Role and Approval

In view of the nature and scope of our mandate, we took a strong interest in this review. We first observed the scheduled PIAC and CAG consultations and then convened a roundtable of the PIAC and CAG chairs to obtain their direct views on the outcomes. We also recommended that the Review Group report back to the IAASB and IESBA CAGs on the final results of the review project. Finally, we considered the final changes approved by the IFAC Board and provided further recommendations on specific matters.

Section IV

The Importance of Coordinated International Public Interest Efforts

Since our inception we have devoted a section of each year's Public Report to our evolving views on the nature of the international public interest. Initially these views emerged from our exposure to the international standard setting process and our belief in the potential for high quality international standards to contribute to the improvement of global audit quality. External stakeholders were also encouraged to participate actively in this process so that the result would reflect the widest possible expression of the public interest.

Over time, these views have been further refined by our intensified oversight of the CAP and our deeper understanding of the role played by IFAC member bodies in local adoption, implementation and compliance activities. In addition, appropriate ways and means to provide implementation support are under consideration by all three standard setting boards. For these reasons, our most recent views on the international public interest have focused on the full continuum of activities that flow from and propel the international standard setting process and the importance of well-coordinated effort.

While our own mandate is clearly defined under IFAC Reform, we believe that international standard setting in the public interest involves far more than the core process of standards development: credible adoption and implementation, and subsequent monitoring and evaluation of the outcomes of applying these standards, are essential to the realization of all related public interest benefits[21]. For this reason, we take an active interest in those processes where we do not have a direct role and stand ready to support and facilitate these processes wherever appropriate.

Adoption and Implementation

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

A decision to adopt international audit, assurance services, ethics and education standards must begin with establishing a clear understanding of the standards and satisfaction with the process used in their development.

Adoption of international standards means firmly committing to the significant and ongoing effort required to ensure that the anticipated benefits of adoption can be fully realized and sustained. Further, each adopting jurisdiction must be mindful of the broader impact its decisions and actions will have on stakeholders outside the jurisdiction. These stakeholders – investors, regulators and others who rely on financial reports to support key decisions – expect that independent audit opinions issued in accordance with international standards have the same meaning, quality and reliability regardless of their point of origin. In other words, individual adoption decisions are steps that should promote, and not undermine, the improvement of global audit quality.

Additional adoption and implementation considerations

It is recognized that individual legal and regulatory frameworks differ in structure and operation and that laws and regulations that may appear similar to one another do not always have equivalent content. Differences in the scope and construction of legal and regulatory frameworks[22] mean that each jurisdiction will need to undertake a unique adoption plan which may involve amending existing laws and regulations, developing new ones as needed, or a combination of both. Different legislative and regulation-making processes, and the degree of flexibility available within these processes, will determine how long the adoption process is likely to take and therefore whether desirable target dates for coordinated global adoption and implementation can be achieved. Differences in

[21] See Sections VI and VII of the PIOB's Third Public Report, pp. 20 – 25.

[22] Which, for example, may establish more rigorous requirements for public interest entities compared to others, but which may also define these entities slightly differently from one jurisdiction to the next.

the scope, style and content of individual pieces of legislation and regulation raise a host of other planning issues regarding what will be adopted (individual standards or the full body of standards) as well as where (in statute or regulation) and how (by reference or in full) the adoption will be effected.

The delicate question of balancing global against national objectives has never been more important. Global leaders and the international regulatory community are working together towards achieving common economic recovery objectives through coordinated efforts and delivery of tailored local solutions. But in the current environment, the temptation for countries to follow individual recipes has been recognized as a key threat to global recovery. In the same way, the pursuit of national public interest objectives through adopting international standards is a process intended to align national action with the broader public interest objectives underlying international convergence efforts.

In our Third Public Report we noted that the task of implementing standards would involve an entirely separate education and training process and urged member bodies, firms and academia to ensure that the needs of every user community affected by the new standards would be met. What we did not address, but which has emerged over this past year, is the role that IFAC itself is planning to take in these efforts. This role will be discussed later in this section.

Monitoring and Evaluation

Robust processes for ongoing monitoring and evaluation are necessary to determine whether international standards are meeting 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.

In our previous Public Reports we noted the role of IFAC in monitoring its member bodies' efforts to promote local adoptions and facilitate implementations. We also explained the complementary role of organizations such as the World Bank in determining whether countries were in fact complying with adopted standards. Further, we highlighted the important and growing role of the International Forum of Independent Audit Regulators (IFIAR) in identifying the processes used by audit firms to implement international standards and evaluating how these standards were being applied in practice.

Over the last year, IFIAR has undertaken discussions with each of the six largest transnational audit firms on their global quality monitoring arrangements. As these firms move forward on their respective ISA implementation programs, it is hoped that similar dialogues can be arranged to help audit regulators develop a good understanding of how implementations are progressing across the major transnational networks.

At the same time, the importance of getting audits right is not confined to the largest global networks. In many parts of the world, particularly in economies with developing capital markets and few large and internationally-active enterprises, the backbone of the local audit profession is the small or medium-sized practitioner (SMP) serving the small and medium-sized business (SME) sector. The needs within this sector for high quality audit services and the added credibility provided by reliable audit opinions are as real as those of the largest multinational corporations seeking capital in the global markets. This is especially true in markets where lender trust and confidence is at an all-time low.

For this reason, national regimes for assessing audit quality must not lose sight of this important segment of the audit market, its contribution to

development of the local economy and the need for a robust and consistent system of practice monitoring and enforcement that protects the public interest. How to organize these regimes – including determining the roles and responsibilities of external authorities and the profession – depends on the unique circumstances of each jurisdiction and requires careful consultation between public and private sector stakeholders.

IFAC Public Interest Initiatives

In our previous reports we noted IFAC's continuing efforts to demonstrate and further strengthen its commitment to serve the public interest. This past year, IFAC has developed a timely companion document to its 2007 policy statement on *Regulation of the Accountancy Profession* [23]. This newest policy statement, entitled *International Standard Setting in the Public Interest* [24], describes the arrangements in place to develop international auditing and assurance, ethics and education standards based on a model of shared responsibility between public and private sector organizations.

The need to develop clear, faithful and official translations of approved English texts is a major consideration in many parts of the world and the importance and complexity of this task cannot be underestimated. To support these initiatives, IFAC recently updated and strengthened its official translation policy [25] and has added further resources to coordinate and facilitate local translations of clarified ISAs.

IFAC has also recently finalized the strategic plan that will guide its efforts from 2009 through 2012. One of the four core strategies within this plan [26] reflects IFAC's commitment to actively support adoption and assist implementation efforts of its member bodies, national standard setters and other organizations. In addition to its translation-related activities, IFAC plans to focus on ISA and IFAC Code of Ethics adoption by major capital markets and relevant organizations, further adoption of International Education Standards, support to those responsible for local adoption and implementation activities, improvements to the applicability of standards to the SME/SMP marketplace and promoting convergence, sound implementation and enforcement to a broad array of audiences. IFAC plans to achieve these various objectives through a combination of advocacy, facilitation/information sharing, targeted development work and assessments of standards and implementation effectiveness. In our view, this integrated effort reflects a clear understanding of IFAC's responsibility to identify and assume appropriate roles during the adoption and implementation phases of the standard setting cycle.

In addition to the strategic initiatives noted above, and as noted in Section III of this report, the third phase of IFAC's Compliance Program has been extended to those member bodies assessed as being fully compliant with their membership obligations. In this way, these developed bodies provide useful insights into their established processes for keeping current with international standard setting developments. As the information gathered can be shared with all member bodies, this specific initiative will promote the broader use of best existing implementation practices and promises to make an important contribution to the public interest.

The referenced papers are available for download at:

[23] http://www.ifac.org/Members/DownLoads/Regulation_of_the_Accountancy_Profession.pdf.

[24] http://www.ifac.org/Members/DownLoads/international-standard-setting-in-the-public-interest.pdf

[25] http://web.ifac.org/download/IFAC_Policy_Statement_Permission_to_Translate_and_Reproduce_and_Distribute_Standards_Dec_2008.pdf

[26] http://web.ifac.org/download/Strategic_Plan_2009-2012.pdf

Section V
PIOB Outreach Activities

We have consciously undertaken a comprehensive approach to external outreach activities. This approach reflects our view that the community of stakeholders sharing our public interest objectives and goals covers not only international regulators but also national decision-makers, IFAC and its member bodies, the audit profession, and other end users of international standards.

Outreach to International Regulators

Over the past year we have continued our established outreach program directed at Monitoring Group member and observer organizations. Through this program we provided updates to key committees or the broader membership of these organizations, received their questions, input and insights and engaged in dialogue on issues of mutual interest. In addition, we expanded our regulatory outreach program this year by inviting key representatives of these constituencies to meet with us. This program is supplemented with interim bilateral discussions at either the Chairman or staff level.

The following table indicates our key interactions with the regulatory community:

TABLE 4

Date	Event	Representative(s)/Guest(s)
April 2008	IFIAR Spring Meeting, Oslo	PIOB Chairman *
May 2008	IOSCO Technical Committee, Paris	PIOB Chairman
June 2008	IFIAR Observers**	PIOB Chairman *
	IOSCO Standing Committee 1**	PIOB Chairman
	IFIAR Leadership**	PIOB Chairman
	IFIAR Observers**	PIOB Secretary General
July 2008	PIOB Quarterly Meeting, Madrid	Chairman, IFIAR Chairman, Auditing Subgroup of the Basel Committee Accounting Task Force
	Monitoring Group, Madrid	PIOB Chairman *
September 2008	IFIAR Observers**	PIOB Chairman *
	PIOB Quarterly Meeting, Madrid	Chair, IOSCO Standing Committee 1 Secretary General, IOSCO
October 2008	IAIS Technical Committee, Budapest	PIOB Secretary General
	Monitoring Group, Madrid	PIOB Chairman *
December 2008	PIOB Quarterly Meeting, Brussels	Chairman, Monitoring Group

* Accompanied by PIOB Secretary General
** Teleconference

The Chairman and other PIOB members have also addressed a number of other stakeholder audiences in various regions of the world on the PIOB, our mission, and our views on the international public interest.

Outreach to Decision Makers

This year, ISA endorsement began to move higher on the European Parliament's agenda. This movement and the interest shown by parliamentarians in the governance aspects of international standards development provided new opportunities to present our work and its contribution to the public interest. Although the exact timing and likely outcome of the endorsement vote cannot be predicted, the European Union's continuing commitment to give high priority to reaching a final decision is in itself a strong and positive signal. We will continue to monitor EU developments closely and stand ready to provide further assistance as needed.

Outreach to the Accountancy Profession

We have continued to recognize the high value of maintaining contact with the profession. This has permitted us to further strengthen and deepen our understanding of the full range of local issues and needs to be taken into consideration in developing acceptable and broadly useful international standards. It has also provided us with a richer appreciation of the many challenges involved in achieving sound and lasting adoption and implementation outcomes.

The following table illustrates the scope of this outreach activity:

TABLE 5

Date	Audience	PIOB Representative
May 2008	IFAC BRIC Conference, New York	Stavros Thomadakis
September 2008	Malaysian Institute of Accountants Seminar, Kuala Lumpur	Fayez Choudhury
October 2008	ICAEW[27] Audit Quality Forum, London	Stavros Thomadakis
	NASBA[28], Boston	Aulana Peters
November 2008	IFAC Council, Rome	Stavros Thomadakis
December 2008	FEE[29] Conference on Audit Regulation, Brussels	Stavros Thomadakis
March 2009	International Auditing and Ethics Standards Developments, Dubai	David Brown

[27] The Institute of Chartered Accountants in England & Wales

[28] National Association of State Boards of Accountancy

[29] Fédération des Experts Comptables Européens

Outreach to the General Public

Finally, we continued to develop and improve our two main platforms for communicating with the general public – our Public Reports, and our website.

Readers of our previous Public Reports will have noted a steady trend of increasing detail and greater transparency in explaining the nature of our due process model and its operation. This year, in addition to further discussion of our oversight work, our attention has turned to our governance arrangements so that those parties deeply interested in the legitimacy and credibility of these arrangements will have complete and factual information which may assist them in their impending decisions.

In addition, beginning with our spring 2008 meeting, we are now publishing quarterly meeting summaries on our website; we trust that readers find these a useful addition to our comprehensive Public Reports which will continue to be published once a year.

Finally, a project to redesign and update our website is nearing completion. Our focus has been on improving content and functionality in ways which will better serve our existing users and which will also attract new users interested in learning more about our work and the public interest environment within which we operate.

Chairman Stavros Thomadakis, FEE Conference, Brussels, 9 December 2008.

Fayez Choudhury, MIA Seminar, Kuala Lumpur, 9 September 2008.

Section VI
The Future Outlook for Public Interest Oversight

When the PIOB started out four years ago, the Clarity and Independence projects were still in their formative stages. We recognized that these projects would become the most important initiatives on the agendas of the respective boards and that an important part of our mission was to ensure that the conduct of these projects would fully satisfy demanding public interest criteria. At the same time, focusing on these projects did not prevent these standard setting boards from identifying and proposing new initiatives or from planning for future standards development. Now that the Clarity and Independence projects are complete, these new agendas have come to the fore and will absorb much of our oversight attention going forward.

As a result of enhanced strategic planning involving extensive consultations with standards users and other public interest stakeholders, all three standard setting boards are giving priority to revising several existing standards and incorporating new conditions and public interest priorities into their future work. Initiatives such as the IAASB's projects to provide assurance on carbon emissions information and on financial information used in public offerings are examples of projects intended to address current high profile public interest concerns. In the same way, the IESBA's new focus on ethical responsibilities when fraud is encountered, conflicts of interest and serving the needs of accountants in government, as well as the IAESB's current framework review, are direct responses to the public interest needs of their constituents. PIOB oversight will continue its focus on all these initiatives, and on the ongoing strategic planning efforts of these boards, to ensure that new standards and standards revisions will continue to reflect the requirements of the public interest.

Public interest oversight is also an activity with expanding horizons.

Adoption of international standards in the areas of audit practice, assurance services, ethics and education for professional accountants will bring new requirements and challenges to the forefront. Their implementation will confront international standard setters with possible requests for interpretation, practice guidance and revision of the existing standards and, potentially, the creation of brand new ones. Current world conditions and wide-ranging needs for financial reform may also give rise to entirely new requirements for transparency, with standards development and application expanding to new areas and populations of economic agents seen to be significant to the public interest. Thus, international standard setters will need to deal with a constantly growing and evolving body of requests and pressures for change and innovation.

The value of international standards rests in their credibility together with their capacity to accommodate new situations. In other words, standards must be stable but not inflexible. In this regard, the evolution of any body of standards retains credibility only if it comes about as a result of processes that continue to be transparent, inclusive and focused on the evolving public interest.

The PIOB model for public interest oversight is now a seasoned tool which has served well in the execution of an important international task: managed evolution of comprehensive bodies of standards such as the clarified ISAs and the IFAC Code of Ethics. We have recently taken time to reflect on the substance and operation of our oversight function in the context of future needs and more sharply defined concepts of the international public interest. The results of this reflection, together with our continuous interaction with the Monitoring Group and a broad spectrum of other public interest stakeholders, will help to identify any necessary clarifications to our mandate and possible improvements to our practices.

There is no doubt that the future will present even more complex challenges than the past and that these challenges will arise for the most part from implementing international standards. At the same time, implementation is not the same as compliance, although it involves numerous activities and actors to help set the stage for successful compliance. Some of these tasks and processes include standards translation, the development of implementation methodologies by all sizes of audit practice, practitioner education and training, development of professional bodies in emerging markets or regions, and the creation of mechanisms and communications channels to promote achievement of uniform implementation practice outcomes around the world. While these are largely local activities, the creation of necessary conditions to support compliance success is an area of implementation support that requires international coordination subject to common due process disciplines.

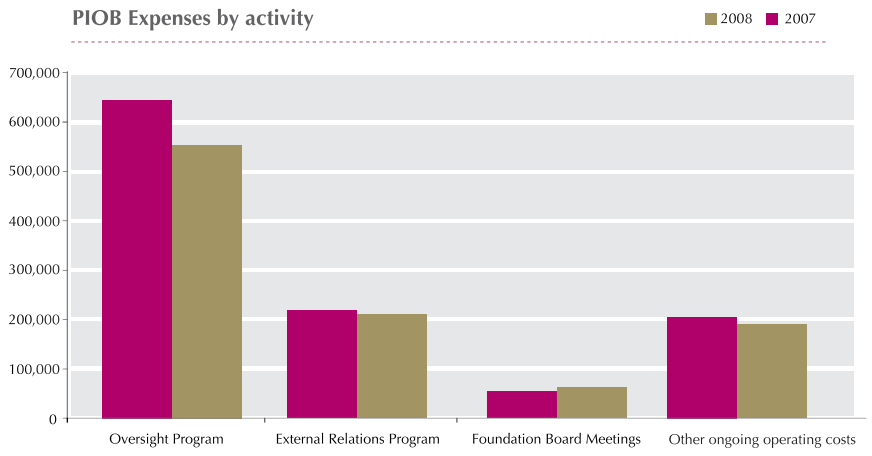
Standards compliance is a joint responsibility of audit practitioners, other accounting professionals and those who regulate their local activities. Ultimately, the achievement of high audit and financial reporting quality will result from a combination of standard setting, adoption, implementation, application and compliance monitoring that responds to the public interest.

In this context, transparency, credibility, expertise and independence remain the pillars of the international public interest and will continue to guide the practice of public interest oversight.

Section VII

PIOB Foundation[1,2] Summary Statement of Financial Performance

(in Euros)	2008	2007
TOTAL REVENUES [3]	**1,216,384**	**1,008,021**
EXPENSES BY ACTIVITY		
Board-related operating costs		
Oversight Program	644,711	551,951
External Relations Program	215,677	208,574
Foundation Board Meetings	48,462	57,198
Other ongoing operating costs	200,244	190,298
TOTAL EXPENSES	**1,109,094**	**1,008,021**
SURPLUS	**107,290**	**0**



(1) The PIOB operates as a Technical Committee of its Spanish not-for-profit foundation, La Fundación Consejo Internacional de Supervisión Público en Estándares de Auditoría, Etica Profesional y Materias Relacionadas ("the Foundation".)

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

(3) PIOB total revenues for 2008 were contributed by the International Federation of Accountants (IFAC) under a revised agreement to fund the operating expenses of the Foundation to a limit of € 1,317,000 per year, adjusted for inflation. This replaces a previous commitment to provide up to US $1,500,000 per year, adjusted for both inflation and foreign currency exchange movements. Revenue is recognized on an accrual basis and any revenue amounts in excess of annual operating expenses are deferred and recognized as revenue of the following year. In 2008, the remainder of revenue over expenses of € 107,270 was retained to strengthen the Foundation's capital base for the near term.

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.**

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

Mme Sylvie Mathérat*
Director of Financial Stability, Banque de France, Member of the Basel Committee on Banking Supervision and current Chair of the Basel Committee's Accounting Task Force.

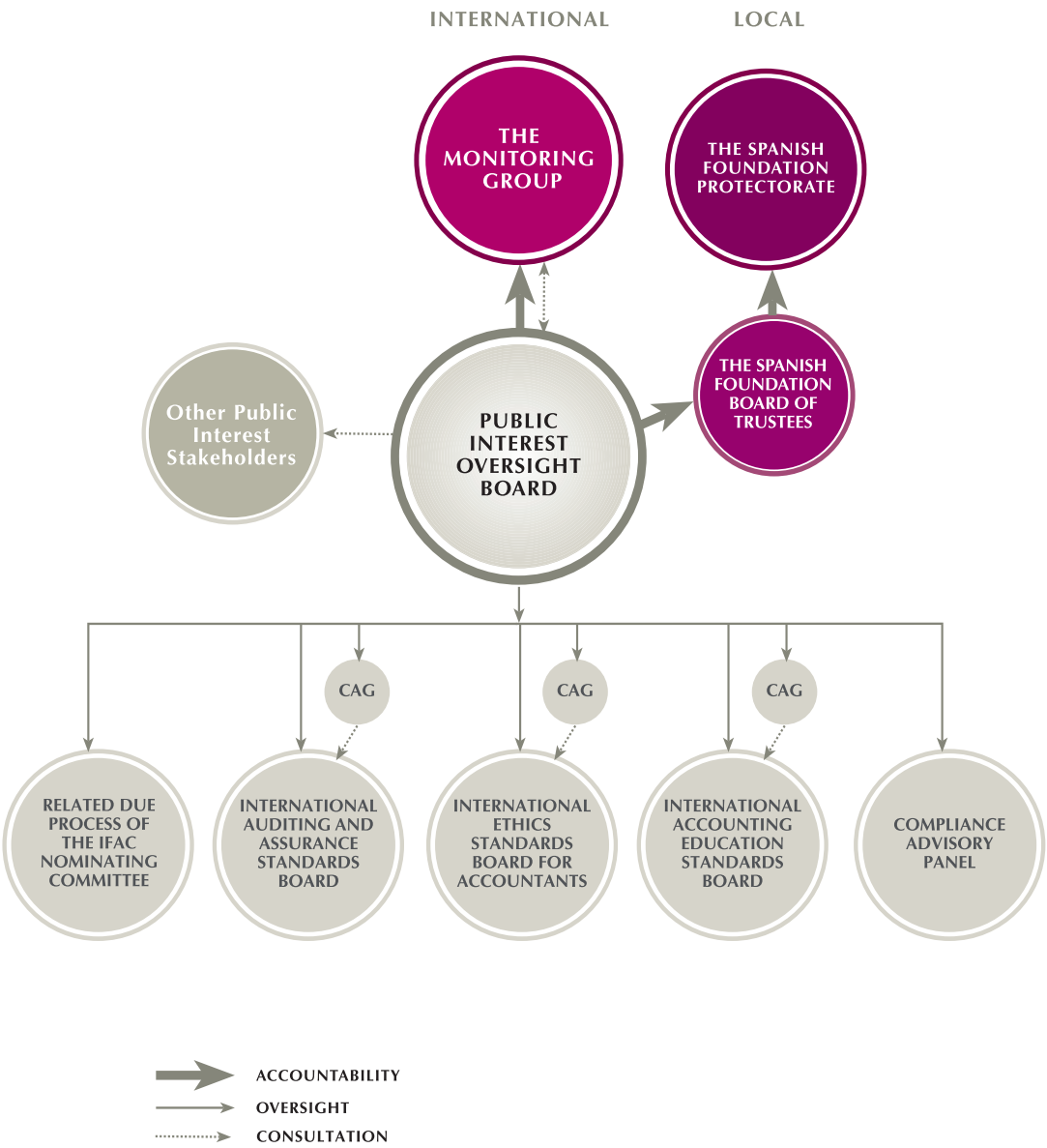
Sir Bryan Nicholson, GBE
Former Chairman of the UK Financial Reporting Council

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

Ms. Donna M. Bovolaneas, CA
Secretary General

*Replaced Prof. Dr. Arnold Schilder, RA, who resigned on 3 July 2008

Appendix B
The PIOB Operating Environment



Appendix C
Glossary of Terms

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.

Clarity project: a comprehensive IAASB program to enhance the quality and consistency of global audit practice through applying a new drafting format to all existing and future ISAs. The drafting conventions adopted for this purpose involve a new three-part structure – objectives, requirements and application guidance – and simplified English to clarify intent, improve understandability and facilitate translation. This project was completed in December 2008.

Code of Ethics redrafting: an IESBA initiative to enhance the clarity and understandability of the provisions of the IFAC Code of Ethics through the application of new drafting conventions. The conventions adopted for this purpose focus on clarified language and do not change the fundamental structure of the Code.

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

Extended Review Framework (ERF): a risk-based framework which provides the PIOB with an additional measure of independent analysis and assessment of the due process applied in the development and finalization of a specific standard, practice statement, other authoritative international pronouncement or PIAC Strategy and Work Plan.

Financial Stability Board (FSB): (formerly the Financial Stability Forum), 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 FSB brings together representatives of national financial authorities responsible for financial stability in significant international financial centers, international financial institutions, international regulatory and supervisory groupings, and committees of central bank experts.

Independence project: An IESBA Project, conducted in two phases (Independence I, which is complete, and Independence II, which is anticipated to be completed by mid-2009), and intended to update and strengthen the independence requirements contained in existing Section 290 of the IFAC Code of Ethics. One structural consequence of this project will involve narrowing the scope of Section 290 to address the independence requirements for audit and review engagements only. The independence requirements for all other assurance engagements are being transferred to new Section 291.

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 education standards and other pronouncements for professional accountants. These pronouncements deal with education, practical experience and tests of professional competence for accreditation, and the nature and extent of continuing professional education. 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 to determine member bodies' compliance with a series of Statements of Membership Obligations (SMOs) that require these bodies, on a best endeavors basis, to promote adoption and assist in the implementation of international auditing, accounting, ethical and educational standards,

as well as quality assurance and enforcement mechanisms. In Part 1 of this program, member bodies provide fundamental information about their structure and operations. In Part 2, members undertake a self-assessment of their level of compliance with each of the seven SMOs. Based on IFAC evaluation of Part 2 information and member body agreement on areas for improvement, Part 3 requires member bodies to develop a proposed action plan for IFAC approval and to execute the approved plan.

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 2003 reforms agreed between IFAC and the Monitoring Group to introduce processes for 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, World Bank and FSB. IFIAR is an observer.

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.

Practitioner Member: a member of the IAASB, IAESB or IESBA who is also a member or employee of an audit practice.

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 and identified in IFAC bylaws as public interest activity committees subject to PIOB oversight. These consist of three independent standard setting boards – the IAASB, the IAESB and the IESBA – and the CAP. Each of the boards is independent from the IFAC Board and is composed of Practitioner, Non-Practitioner and Public Members.

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. The PIOB's mandate requires it to increase public confidence that those activities are properly responsive to the public interest. PIOB Public Reports cover the operating period 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, is capable of reflecting the wider public interest, and does not have a direct interest in the subject matter under development. Public members are not required to hold a professional accounting designation. However, they should have a strong technical knowledge of subject matters encompassed by the board on which they serve.

Task Force (TF): a group of individuals (drawn from PIAC members, Technical Advisors and IFAC technical staff and occasionally 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 and the CAP. These documents are available on the IFAC website.

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.

PIOB Secretariat in Madrid.

PIOB

Public Interest Oversight Board

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

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