



Public Interest Oversight Board

13th PIOB PUBLIC REPORT 2017

ANTICIPATING C H A N G E

PUBLIC INTEREST OVERSIGHT BOARD

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I.MESSAGE FROM THE PIOB CHAIRMAN

EDDY WYMEERSCH



When the PIOB was created, it was the aftermath of a grave crisis (Enron in 2001), which had deeply shaken the public confidence in the related audit activity. One of the main outcomes was the introduction of external oversight in the name of the public interest. The external monitor, later called the PIOB, was to oversee some of the crucial aspects of the functioning of the standard-setting system and to safeguard the public interest being respected.

Twelve years later, improvements are needed to restructure the framework for standard setting and to safeguard that they continue to reflect the public interest. The standards for auditors and accountants may indeed affect the position and interests of a wide range of beneficiaries. Major changes to the standard-setting system for auditors and accountants are being considered, resulting from fundamental questions. Many of these questions were already raised in 2003 when the present system of standard setting was adopted.

When standards are predominantly set by the parties who have to apply them, external public interest oversight is necessary. This relates to the composition of the Standard Setting Boards (SSBs) and the nomination process, striving for a balanced representation of the different types of stakeholders and avoiding predominance of one group. The standard-setting procedure should be well planned, relevant, transparent, and producing effective standards adapted to the needs of all categories of stakeholders, as well as taking into consideration necessary proportionality. These and other objectives can be ensured by effective public interest oversight. For several years, the PIOB has drawn attention to several of the changes which are now being proposed in the Monitoring Group (MG) reform.

One should not lose sight of the ultimate objective of these reforms to ensure public confidence in financial statements and the opinions expressed thereon by independent auditors and to ensure that the activities of accountants are carried out with the highest possible level of professionalism and accountability. While current standards are high quality, we should not be complacent and must look for ways to continue to improve and ensure that standards continue to be of the highest quality and relevance. Balancing the interests of all parties concerned and safeguarding the objectivity of the assessments is essential. As the role of the accountant, and especially the auditor, becomes increasingly crucial in the functioning of our economic systems (both at the micro and at the macro level), the PIOB has been assigned the duty to ensure that this core function, which is indeed an element of the public good, is exercised with the highest degree of responsibility.

The PIOB will continue to work constructively with IFAC and the MG to improve the present model in order to ensure that it better serves the public interest.

PIOB members Michael Holm and Kevin Dancey left the PIOB the first quarter of 2018. The PIOB thanks them for their contributions, expertise, and efforts for the PIOB.

II. SECRETARY GENERAL REPORT

GONZALO RAMOS



ANTICIPATING CHANGE

The year 2017 was a year that anticipated change in standard setting in the field of audit and assurance, ethics, and education for accountants. In the first half of the year, the PIOB implemented its [2017-2019 Strategy](#). The PIOB had consulted on this with the aim to improve the delivery of its mandate and to strengthen the public interest responsiveness of the audit, ethics, and education standards.

In the second half of the year, the MG launched a public consultation process to reform the current system of international standard setting in the fields of audit and ethics. This reform process affects all the components of the current standard-setting architecture (the SSBs, IFAC, the PIOB, and the MG) with the objective of greater responsiveness to the public interest. Thus, this will affect the future of the auditing profession.

Implementation of the PIOB 2017-2019 Strategy

Respondents to the 2017-2019 PIOB strategy consultation offered useful suggestions to help drive improvements in the system of standard setting to serve the public interest. In this sense, they anticipated some of the future benefits of the reform process. In particular, some suggestions pointed toward the need for a more proactive dialogue between the PIOB and the SSBs in relation to the oversight of standard projects on the one hand and closer coordination between the PIOB and the MG regarding the public interest responsiveness of the standard-setting structure on the other.

One of these main recommendations was that the PIOB should identify public interest issues early in the development of standards and convey these issues to the SSBs.

This recommendation asked the PIOB to engage more openly and transparently with SSBs during the development of standards in order to address the view that PIOB oversight was at times inconsistent due to different observers attending SSB meetings, or that PIOB comments were not conveyed to the SSBs in a timely manner. This recommendation was a challenge for the PIOB. On the one hand, it requires an active dialogue with SSBs; on the other, it carries a risk of regulatory capture. However, the PIOB took on the task for more transparency.

Improving Communications with SSBs

In 2017, following SSBs requests and responses to the 2016 PIOB strategy consultation, the PIOB agreed to develop a structured process to identify and regularly convey to the IAASB and the IESBA the main Public Interest Issues identified by the PIOB on their current projects¹. The summary of those issues was formally communicated to the IAASB and IESBA Chairs (including the CAGs) in the first quarter of 2018 (see Section III). These public interest issues originated during the standards and/or projects development. These issues were identified by PIOB members and staff during direct observations of SSB meetings, contact with stakeholders, and analysis of the evolving draft standards. These public interest issues are regularly discussed by the PIOB and shared with the SSBs to help inform standards development in line with the public interest. This summary of public interest issues intends to convey a consistent PIOB policy position regarding the main public interest elements in each standard under development. From the point of view of the SSBs, having regular knowledge of the PIOB public interest views and sufficient time to address any concerns should help them align standards development closely with public interest criteria. SSBs Chairs have reported to the PIOB that this information is welcome, useful, and timely for standard setting in the public interest.

Improved transparency is a major step forward for the PIOB and for the SSBs as the stance of the PIOB on projects under development will be communicated as the project develops. The PIOB continues to reserve the right to raise new issues as the standard evolves. Most importantly, assessment of the responsiveness to public interest concerns is required of any standard once it has been finalized and all consultations have taken place.

Public Interest Framework

Another main recommendation from the PIOB Strategy consultation process was to develop a public interest framework. The definition of public interest has been noted by many as having different meanings to different people depending on the different angles looked at by individuals. Ultimately, the public interest is an assessment that requires judgement. Some stakeholders expressed the view that the absence of a definition of public interest, or of a clear public interest benchmark, meant that the SSBs could not develop their projects to satisfy the criteria used by the PIOB to assess public interest responsiveness. This observation was linked to the above recommendation for a closer dialogue with SSBs and similarly intended to make an SSB aware, in a timely manner, of the criteria used by the PIOB to assess the public interest responsiveness of standard projects.

In addition, when the Monitoring Group (MG) launched the reform process of the standard-setting model mentioned above², the MG asked the PIOB to "support it in developing a framework which will provide a mechanism for assessing how the public interest is captured throughout the standard-setting process. The Monitoring Group expects this framework to be at the very heart of any reformed standard-setting process and has asked this work to be completed for its review, and approval of a draft for public consultation."

Therefore, during 2017, the PIOB started to develop a framework of analysis of the public interest in international standard setting (Public Interest Framework, PIF). The PIOB submitted a draft to the MG. The MG set up a specific working group during the first quarter of 2018 to develop it to reflect the views of both the PIOB and MG.

[1]. Refer to the tables with the PIOB Public Interest Issues under sections "Oversight of the International Auditing and Assurance Standards Board (IAASB) and the IAASB CAG" and "Oversight of the International Ethics Standards Board for Accountants (IESBA) and the IESBA CAG".

[2]. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD586.pdf>

The PIOB developed its proposed public interest framework based on its experience of more than ten years of public interest oversight. On the basis of that analysis, the PIOB concluded what qualitative characteristics standards should have to be in the public interest. The framework also described the roles that the structure, standard-setting processes, and independent external oversight should play to ensure that standard setting in audit and ethics is responsive to the public interest.

The development of this Public Interest Framework (PIF) should bring transparency to all stakeholders regarding public interest oversight and how the PIOB assesses the public interest responsiveness of a project. The framework addresses questions such as: Are the interests of all stakeholders appropriately identified and recognized in the standard? Does the scope of the proposed standard rightly address the expectations of stakeholders? Is the standard effective in meeting the objective as stated by the SSBs? Is it simply written, clear, and implementable?

MG Consultation Process

The launch of the MG consultation process at the end of 2017 resulted in closer coordination between the MG and the PIOB. Representatives of MG members attended PIOB meetings in June 2017 (EC), and September (BCBS). The PIOB Chair and Secretary General attended meetings of the MG.

[The PIOB developed its opinion on the MG consultation process.](#) The PIOB stressed the need for a broad, open, and transparent consultation among major stakeholders (including the MG and the IFAC) in order to drive consensus and facilitate global adoption of standards.

The PIOB believes that independent external oversight will continue to be necessary over any reformed system in standard setting in audit and ethics. As stated in the PIOB comment letter to the MG, external oversight in standard setting in audit and ethics is needed, because the highly specialized nature of this activity requires an oversight mechanism to ensure the responsiveness of standards to the public interest. While in standard setting for accounting, companies and their wide range of stakeholders are concerned; in auditing, the stakeholders are essentially the auditors.

As a consequence, the engagement by stakeholders, other than the audit firms and professional member bodies, is usually very limited. These stakeholders have a strong reliance approach rather than an active engagement, and often their interest requires others to ensure the balance with that of the profession. This results in a need for explicit public interest oversight to protect the interests of users and balance the interests of all stakeholders.

Therefore, the PIOB advised that public oversight in their view for audit and ethics standard setting should not be limited to assessing due process if the public interest is to be served.

The PIOB looks forward to the conclusions of the MG consultation process during 2018.

Interim Nominating Committee

In 2018, the MG also put into place an Interim Nominating Committee (INC) with the mandate to run a selection process for the new IAASB Chair and recommend a candidate for appointment. The term of the current Chair expired at the end of 2017 but was prolonged for one additional exceptional year. In addition, with the MG reforms not yet finalized, it was important to select the candidate for this position without further delay. The INC is chaired by an independent Chair and is made up of three nominees from IFAC (one with observer status only) and three from the PIOB (also one with observer status only).

PIOB Oversight and Outreach

Regarding PIOB oversight activities, the SSBs continued to discharge their standard-setting responsibilities in 2017 (see Section III).

The IAASB was involved in very substantial projects, especially ISA 540, ISA 315, ISQC1, and ISA 220 (see Section III). The revision of ISA 540 responds mainly to support audits of expected credit loss provisions and bring it up to date as the standard for all accounting estimates. ISA 315 is being enhanced in areas concerning the identification and assessment of risks of material misstatement and to address the increased impact of technology developments. ISQC1, the standard that governs audit quality at the audit firm level, is also under revision to incorporate a new Quality Management approach.

In 2017, the IESBA focused mainly on the development of the Restructured Code of Ethics for accountants, as well as on the projects on Safeguards.

IESBA's complex work on the restructure project has resulted in a major overhaul of the Code. The different task forces impacted by the restructure worked in close coordination with each other.

The IESBA also worked on Professional Skepticism and Professional Judgment (application material) and on Inducements.

The PIOB looks forward to the development of the new IESBA strategy cycle which includes a planned review of significant threats to auditor independence.

The IAESB focused its work on finalizing its new Strategy and Work Plan. This included a focus on the revision of IES7 addressing Continuing Profession Development (CPD), on implication of information and communications technology (ICT) on education, on Professional Skepticism, on education related to Public Sector Reporting and Assurance, as well as on its initiatives on Stakeholder Engagement and Implementation Guidance.

Finally, the CAP made progress regarding the issuance of status reports on adoption of standards by member bodies. However, implementation issues continued to be of concern and are mentioned in the next Section.

The outreach activities of the PIOB are reported in Section IV.

III. PIOB OVERSIGHT IN 2017

OVERVIEW

During 2017, the IAASB, IESBA, and IAESB worked on challenging projects which carried important public interest implications.

At the beginning of the year, PIOB members were assigned to dedicated teams for the IAASB, the IESBA, and the IAESB respectively and observed the SSB and CAG meetings according to what was provided in the annual oversight plans. Members also observed IFAC's Nominating Committee (Nom Com) and CAP meetings. PIOB staff supported observers with briefing memos for each observation, monitored the disposition of comments to exposure drafts on key issues for the public interest, and carried out public interest reviews of the projects as they were being developed to support PIOB discussions and PIOB approvals of the final standard/strategy.

The oversight work performed during 2017 resulted in the approval of the standards detailed below. The PIOB agreed that these standards were developed in accordance with due process and with proper regard for the public interest. Throughout the year, the PIOB provided specific public interest input to the SSBs and CAGs on the different standards, as well as to IFAC's Nominating Committee and the CAP.

Table 1 below shows the oversight models applied to each SSB and CAG, IFAC's Nom Com, and the CAP in 2017.

Table 1. Oversight Assurance Models during 2017

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

PIOB APPROVALS AND OBSERVATIONS

Table 2 presents the standards, strategy, and work plans that the PIOB approved in 2017.

Table 2. PIOB Approvals in 2017

PIOB BOARD MEETING	SSB	STANDARD / STRATEGY
January (written procedure)	IESBA	"Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client - close off document"
February	IAASB	2017-2018 Work Plan
February	IAESB	2017-2021 Strategy and 2017-2018 Work Plan

By written procedure, the PIOB agreed with the CAP 2018 Work Program and the extension of the CAP 2016-2018 Strategy for one additional year.

In light of the forthcoming changes as proposed by the MG, the PIOB approved the extension, on an exceptional basis, of the IAASB Chair for one year, and the reappointments for one year of the IESBA and IAESB Chairs, though both of them were eligible for reappointment beyond 2018. The PIOB approved the new IAASB CAG and IAESB CAG Chairs for a three-year term. It also approved appointments and reappointments of members of the SSBs, the Nom Com, and CAP.

Table 3 below presents the number of observations conducted by the PIOB in 2017 for all SSBs, CAGs, the Nom Com, and the CAP compared to 2016.

Table 3. Total Number of PIOB Observations in 2016 and 2017

	Total all SSBs, CAGs, NOM COM, and CAP			
	2016 Actual Observations		2017 Actual Observations	
	Nr.	%	Nr	%
Meetings of which:	24		23	
DO	23	96%	21	91%
RO	1	4%	2	9%
		100%		100%
TC	11	100%	10	100%

Public Interest Issues

During 2017, the public interest issues identified by PIOB observers and from analysis carried out by PIOB staff on the standards being developed were summarized in an internal database. The PIOB discussed these issues at its quarterly meetings which supported the observations of meetings by PIOB observers throughout the year.

Building on this internal database, the PIOB developed a structured process to regularly communicate public interest issues to the IAASB and the IESBA Chairs, and to the CAG Chairs for projects under development. The objective of this communication is to share with the SSBs and CAG Chairs, in writing and with full transparency, the PIOB's public interest concerns with the current projects and to invite SSBs to consider these aspects so that the standards effectively serve the public interest. This is in line with the PIOB 2017-2019 Strategy where the PIOB committed to convey its observations on public interest issues to the SSBs and stakeholders more consistently and transparently.

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

During 2017, the PIOB continued monitoring the public interest input offered in comment letters submitted by members of the MG and other relevant stakeholders and by regional oversight bodies. This monitoring included the disposition of those comments by the SSBs, which is an essential part of the PIOB's oversight of the SSBs and of the standards being developed. This process included the analysis of comment letters and conference calls held with some respondents whenever this was necessary for a comprehensive understanding of their comments.

Databases summarizing the issues and recommendations conveyed by these stakeholders, as well as the assessment made by PIOB staff on how the SSBs had disposed of each issue in the final standard, continued to be issued during the year (e.g., ISA 540 and IESBA's Long Association and Professional Skepticism), they were shared with stakeholders and the SSBs, and were published in a dedicated area of the PIOB's website ([Monitoring of comment letters to ed](#)).

Oversight of the Nominating Committee (Nom Com)

The Nom Com continued its regular work in 2017 and completed its cycle for the relevant vacancies at the SSBs and IFAC Board and Committees. The PIOB approved 13 appointments and 17 reappointments of members (including Chairs) of the SSBs, CAP, and Nom Com.

The selection process was properly conducted. The PIOB raised some concerns during the year. These concerns are listed in the table below.

Some outstanding issues raised in previous years, such as the need to revise the Public Member and Non-Practitioner definitions and the need to increase the independence of the Nom Com, were not repeated because these points are part of the MG reforms.

Despite the uncertainty on the outcome of the MG Consultation, the Nom Com planned its regular activities for 2018. The advertisement of vacant positions of the SSB Chairs was dealt with in the first quarter of 2018. The IAASB's was dealt with by the MG and an Interim Nom Com was created. The IAESB Chair position was dealt with by the IFAC Nominating Committee. The IESBA Chair position was not advertised as the current Chair was proposed for reappointment.

During the year, the PIOB applied an Oversight Assurance Model 1 (High Intensity) and observed all the meetings and teleconferences held by the Nom Com as shown in the table below. Some meetings were remotely and partially observed as the agenda included topics beyond PIOB's mandate.

Table 4. PIOB Observations of the Nominating Committee in 2017

Nom Com		
22 February	Teleconference	Jane Diplock
3-4 April	New York, USA	Jane Diplock
10-11 May	New York, USA	Jane Diplock (remotely)
6-7 July	New York, USA	Jane Diplock
1 September	New York, USA	Jane Diplock (remotely)
31 October	New York, USA	Jane Diplock

Recommendations offered by the PIOB, either by observers at Nom Com meetings or at the discussions held with IFAC Leadership during the PIOB meetings, are summarized below.

Recommendations Made to the Nominating Committee in 2017

WHEN	PUBLIC INTEREST ISSUES RAISED	NOMINATING COMMITTEE DIRECTION
April meeting	Volunteer Performance Program The evaluation of “leadership ability” seemed somewhat unbalanced since few women from non-English speaking countries were identified as having “leadership ability.” This might warrant further examination as to the criteria employed.	The NC agreed to look at the issue.

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

The year 2017 was a challenging one for the IAASB and the IAASB CAG. The standards being developed related to complex matters, for which there are calls for improvements by stakeholders. The IAASB was aware of the significant time required to develop most of the projects and the need to address stakeholders’ expectations that the Board delivers the final standards in a timely manner.

During the year, the PIOB continued applying a high-intensity level of oversight over the IAASB and the IAASB CAG. The PIOB observed every IAASB and IAASB CAG meeting held in 2017, as well as the several teleconferences added by the Board and the CAG throughout the year.

A high priority of the IAASB’s 2017 agenda was the finalization and publication for comments of the Exposure Draft of ISA 540, “Auditing Accounting Estimates and Related Disclosures.” This publication was issued in March of 2017. Following this publication, the Board discussed the almost 70 comment letters received and discussed further improvements to be made to the standard. These discussions also addressed concerns raised in the letters. The finalization of ISA 540 is currently planned for June 2018.

Two other priority projects progressed by the IAASB this year were the revisions of ISQC1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance Engagements and Related Services Engagements” and of ISA 220, “Quality Control for an Audit of Financial Statements.” On the review of ISQC1, the IAASB has been working to incorporate a new Quality Management System (QMS) to identify relevant risks to quality and design-appropriate responses to those risks. Elements such as audit firm governance and leadership, more transparent information, quality objectives and quality risks, responses to quality risks, and monitoring and remediation are expected to be included in the revised standard. The IAASB

also discussed considerations related to the proportional application of ISQC1 to smaller and less complex audit firms. In addition, the IAASB agreed to develop a new standard, ISQC 2, which will separately regulate engagement quality control reviews and reviewers. Exposure drafts could be approved by Q3/Q4 of 2018. The PIOB is following these projects closely, especially as governance elements are crucial.

Revisions to ISA 220 progressed in tandem with those of ISQC1 and are envisioned to strengthen the responsibilities of the engagement partner in relation to audit quality.

The PIOB attaches great importance to these projects because they directly link to audit quality. ISQC 1 and ISA 220 should set stronger requirements for audit quality both at the audit firm and the audit engagement levels, areas for which audit oversight and inspection bodies have reported findings³. The PIOB looks forward to a relevant upgrading of a firm's audit quality procedures and firm's responsibilities to improve audit quality.

Another priority project the IAASB worked on during 2017 was the revision of ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" including the development of a first draft of an ED. This ISA, issued in 2003, requires an update, especially to include developments in technology that support audit methodology and entities' procedures.

The IAASB published a project update on ISA 600, "Special Considerations Audits of Group Financial Statements" and discussed several topics for this standard.

In relation to Professional Skepticism (PS), a joint IAASB-IESBA-IAESB communications paper on PS was published in August 2017 (the first of its kind) to report to stakeholders what each of the three SSBs had been doing on PS and what they plan to do next.

IAASB's work on Data Analytics (DA) and integrated reporting and other emerging forms of external reporting (EER) advanced this year through the comment letters received and the discussion papers published in 2016, followed by the publication of feedback statements in January 2018. A project proposal to develop non-authoritative guidance on EER was approved in December 2017 as a first step. The PIOB welcomes this progress and expects helpful revisions to the ISAs or in up-to-date supporting guidance as applicable.

The PIOB acknowledged the first joint plenary session of the IAASB and IESBA (attended also by IAESB leadership representatives) in September 2017, addressing coordination between the SSBs.

During the year, PIOB observers attended IAASB and IAASB CAG meetings and teleconferences, raised public-interest concerns, and made recommendations. The Board or the CAG responded as reported in the following table.

The PIOB applied an Oversight Assurance Model 1 (High Intensity) to oversee both the IAASB and the IAASB CAG in 2017 with direct observations of all Board and CAG meetings and teleconferences held in the year.

[3] E.g., as reported in IFIAR's 2017 and 2016 Surveys on Inspection Findings.

Table 5. PIOB Observations of IAASB and IAASB CAG Meetings in 2017

IAASB		
31 January	Teleconference	Michael Holm
13-17 March	Lima, Peru	Michael Holm
19-22 June	New York, USA	Karel Van Hulle
1 August	Teleconference	Karen Stothers
18-22 September	New York, USA	Karen Stothers
24-26 October	New York, USA	Karel Van Hulle
7 November	Teleconference	Michael Holm
11-15 December	New York, USA	Karen Stothers

IAASB CAG		
7-8 March	New York, USA	Maria Helena Pettersson
11-12 September	Madrid, Spain	Michael Holm
6 December	Teleconference	Karen Stothers

PIOB Public Interest Issues

PUBLIC INTEREST ISSUES	IAASB/IAASB CAG DIRECTION
ISA 540 - "Auditing Accounting Estimates and Related Disclosures"	
Better explanation and articulation of risk factors The risk factors (RF) need to be clearly explained and articulated in the standard and well supported by application material.	The IAASB has expanded the use of the inherent risk factors in the ISA's risk assessment procedures, and further clarified the risk factors in relevant requirements. Application material, including a revised Appendix 1, now also includes an enhanced description of the inherent risk factors.
Requirement to understand and test internal controls Auditors should thoroughly understand and test the internal controls around complex accounting estimates and valuation models, particularly for financial institutions. A robust internal control environment is a critical part of an entity's governance system, including how risk is managed by the entity and reported in the entity's financial statements.	The IAASB decided that for all entities, the ISA should now direct the auditor to obtain an understanding of control activities at a more granular level than was the case in the Exposure Draft. This is supported by requirements to separately assess control risk and, for significant risks, to test controls in the current period if the auditor plans to rely on those controls. The ISA also highlights the requirement in ISA 330 regarding when testing the effectiveness of controls is required. Application material includes further guidance regarding when testing the effectiveness of controls may be required (e.g., high volume of transactions or data, use of complex model, extensive use of information technology).
Additional ECL-specific application material should be included in ISA 540 Given that ISA 540 applies to all accounting estimates, additional guidance on auditing complex ECL estimates and valuation models would be helpful for auditors in the banking and insurance industry. Such guidance would help auditors: • Understand the entity's business model. • Assess the classification and nature of financial assets and liabilities. • Audit management's assessment of credit risk and the consequent accounting estimation, e.g., in "lifetime" ECLs.	The IAASB has included material in ISA 540 on expected credit losses and insurance contract liabilities. This includes application material addressing modelling, the need for the auditor to apply specialized skills and knowledge, the requirements of the applicable financial reporting framework, when substantive procedures alone cannot provide sufficient appropriate audit evidence, the use of information from the entity's risk management system, and communications with regulators or prudential supervisors. The IAASB concluded that more specific material on the nature of accounting estimates arising from specific financial reporting frameworks is not appropriate for an international standard.

PUBLIC INTEREST ISSUES	IAASB/IAASB CAG DIRECTION
ISA 540 - "Auditing Accounting Estimates and Related Disclosures"	
Early adoption Given the length of the development of this standard, the PIOB supports early adoption of the ISA by auditors.	The IAASB has progressed the timely development of this important standard on a priority basis and anticipates finalizing the revised standard mid-2018. This is only some thirty months since approval of the project proposal. The IAASB will deliberate an appropriate effective date for the standard. It is anticipated that the Board will permit early application.

In addition to these outstanding issues, during 2017 PIOB observers noted the need for more clarity in ISA 540, as well as expanding the documentation requirements in view that accounting estimates are based on judgement. The IAASB agreed with these comments and enhanced the ED accordingly.

The PIOB also suggested that the standard would benefit from requiring auditors to know the applicable regulatory and prudential requirements and recommended that it could require regular communications between auditors and regulators. ISA 540 requires auditors to obtain an understanding of regulatory factors, including regulatory frameworks related to prudential supervision; and notes that in certain circumstances, the auditor is required by law or regulation to communicate about certain matters with other relevant parties, such as regulators or prudential supervisors.

PUBLIC INTEREST ISSUES	IAASB/IAASB CAG DIRECTION
ISQC 1 - QUALITY CONTROL AT THE FIRM'S LEVEL	
The firm's business model (BM) should not interfere with audit quality (AQ) The audit firm's BM should promote good AQ. This is especially important when non-audit services (NAS) are being delivered in the context of an audit. The BM includes the governance structure of the firm, adherence to ethical requirements by the firm's management and by the auditors, and auditor's accountability.	IAASB deliberations on ISQC 1 are in progress. Among other improvements, it is envisioned that ISQC 1 will be enhanced in relation to firms' governance and leadership, i.e., establishing an environment (including a culture, decision-making process, actions, organization, leadership, and resources) that promote a commitment to quality. The IAASB notes that ISQC 1 deals with systems of quality management relevant to the performance of engagements under the IAASB Engagement Standards, whereas the topic of audit firms' BM involves matters beyond the scope of ISQC 1.

PUBLIC INTEREST ISSUES	IAASB/IAASB CAG DIRECTION
ISQC 1 - QUALITY CONTROL AT THE FIRM'S LEVEL	
Networks need to be addressed in ISQC1 Investors and those who use audit services from a global "branded firm" should receive uniform quality from that brand. Requirements at the Network level are needed in ISQC1, e.g., QMS should be set at the network level, as well as quality control, internal inspections, and quality control monitoring.	IAASB deliberations on ISQC 1 are in progress. It is envisioned that ISQC 1 will be enhanced to address the firm's responsibility in circumstances when the firm uses the network's requirements or services in its system of quality management (i.e., that the firm has an appropriate basis for doing so). It is unclear at the moment, however, whether the PIOB recommendation for requirements at the Network level is practically possible.
ISQC1 should highlight the public interest role of the audit The public interest role played by an auditor should be highlighted in ISQC1. This could be done by reminding firms/auditors that high-quality audits are in the public interest.	IAASB deliberations on ISQC 1 are in progress. It is envisioned that ISQC 1 will explain in the introductory material the firm's responsibility to act in the public interest. The Task Force will further consider how the concept of public interest can be reinforced in the standard, such as through the governance and leadership and communication with external parties.
Transparency Reports (TR) should be required in ISQC1 ISQC 1 should require audit firms to publish TR. Communicating externally the firm's quality systems is in the public interest. This would include a firm's operating practices, corporate governance structures, audit and non-audit professional services and related fees, remuneration schemes and incentives for partners, and the firms' quality management system. TR are already required in the EU as well as in other jurisdictions. And in others, they are voluntarily provided by some firms.	IAASB deliberations on ISQC 1 are in progress. It is envisioned that ISQC 1 will encourage firms to communicate matters related to its system of quality management with external parties, taking into consideration various factors that affect the need for such communication. This would likely be done in a principles-based manner in order for the standard to be appropriately inclusive of different types of communication with external parties and remains future proof.

PUBLIC INTEREST ISSUES	IAASB/IAASB CAG DIRECTION
The objective of a QMS should focus on high-quality audits The current objective is too compliance oriented and is not aligned with the objectives of the new QMS. Compliance is a way to achieve quality but not an end in itself. The objective should be reformulated to reflect that “achieving high audit quality” is the priority of any QMS.	IAASB deliberations on ISQC 1 are in progress. Given that the standard deals with systems of quality management relevant to the performance of all engagements under the IAASB Engagement Standards and the importance of the objective being measurable, ISQC 1 does not focus on financial statement audit quality only. Nevertheless, the IAASB continues to explore how the standard can emphasize the need to comply with the spirit and the letter of professional standards.
Professional Skepticism (PS) needs to be included in ISQC1 ISQC1 should highlight the direct link between PS and AQ. ISQC 1 should also include the main risks to PS, namely, the firm's commercial dependency on the client, the firms' business model, and issues around auditor independence.	IAASB deliberations on ISQC 1 are in progress. The IAASB continues to explore how best to appropriately emphasize professional skepticism, including at the engagement level.
The IAASB should continue coordinating with the IESBA aspects related to ethical requirements The IAASB should continue coordinating with the IESBA those aspects that link to ethics, e.g., ethical requirements, auditor independence, and engagement quality control reviews. Topics regulated by the IESBA Code of Ethics, e.g., cooling off periods, should be the same in the IAASB standards. ISQC1 could highlight that NOCLAR, conflicts of interest, and the provision of non-assurance services constitute risks to AQ.	The IAASB has recognized SSB coordination as a strategic imperative. There is active and ongoing coordination between the IAASB and IESBA on relevant topics, including those pertaining to ISQC 1, while respecting the mandates and purview of the respective Boards and standards.
Engagement Quality Control Reviews (EQCRs) should be required for all PIEs EQCRs are currently required in ISQC 1 for listed entities only.	The IAASB is developing a separate ISQC on EQCRs. The IAASB has discussed this issue at past meetings and focused on whether an EQCR is always an appropriate response to the quality risk. The Task Force will take the PIOB's comment into account in progressing the ISQC.

PUBLIC INTEREST ISSUES	IAASB/IAASB CAG DIRECTION
ISA 315 - "Identifying and assessing the risk of material misstatement through understanding the entity and its environment"	
Risk Assessment Procedures Need to be strengthened The identification of risks of material misstatement is at the core of any risk-based audit and is the starting point for auditors to design the procedures that will address those risks. The standard needs to acknowledge the impact of technology on audit procedures, e.g., big data, data analytics, cyber risks and cyber security (including the importance of professional skepticism), and updating the risk factors.	IAASB deliberations on ISA 315 are in progress. The IAASB has made significant revisions and enhancements in the proposed Exposure Draft (ED) relating to the entity's use of information technology (IT), and automated tools and techniques. The IAASB has also enhanced the application material regarding the exercise of professional skepticism and has overall enhanced the risk assessment process to provide a more robust identification and assessment of the risks of material misstatement. This includes explanation of the inherent risk factors.
Susceptibility to fraud (STF) should be included as a risk factor in the standard In addition to the other factors being discussed by the IAASB, STF should be one of the risk factors included in ISA 315 given that this is clearly a public interest issue.	IAASB deliberations on ISA 315 are in progress. The IAASB has included in the draft ED susceptibility to management bias and fraud as an inherent risk factor to recognize both unintentional and intentional aspects of a possible misstatement.
Separate assessments for inherent risks and control risks The PIOB supports a separate identification and assessment of inherent risks and control risks in ISA 315. This would allow auditors to better design their procedures for each type of risk.	IAASB deliberations on ISA 315 are in progress. The IAASB noted the PIOB support in this area, and it is anticipated that the exposure draft of ISA 315 will feature separate identification and assessment of inherent and control risks.
Procedures around internal controls should be updated Auditor's work and conclusions over an entity's internal controls need to be strengthened in ISA 315. For instance, by acknowledging the impact of technological change.	IAASB deliberations on ISA 315 are in progress. Significant clarifying changes have been proposed in the draft ED relating to the auditor's understanding of the system of internal control, including clarifying the nature and extent of work effort required and how this impacts the auditor's identification and assessment of the risks of material misstatement. Specific enhancements regarding the IT environment, applications, and IT controls have been added.

PUBLIC INTEREST ISSUES	IAASB/IAESB CAG DIRECTION
Professional Skepticism (PS)	
Strengthening PS in the ISAs At the time of the "Invitation to Comment," the PIOB recommended the IAASB pay attention to PS because it relates to going concern, auditor independence, and management bias. The PIOB also highlighted the need to consider how auditors should document PS and looks forward to the IAASB's strengthening the notion of PS throughout the standards. The PIOB supports PS to apply to all accountants and auditors. Auditors may have different requirements around PS.	The IAASB continues to actively consider in each of its relevant standard-setting projects ways to give additional prominence to the concept and importance of professional skepticism and ways to further enhance requirements and guidance that supports strengthened application of professional skepticism by auditors. The IAASB is also considering a new project on audit evidence where related matters may be further addressed. The IAASB is maintaining close coordination with the IESBA and IAESB (at leadership, Working Group, and staff levels) as each further develops its thinking on the matter of strengthening professional skepticism.

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

The IESBA continued intense work on the restructure of the Code during the year and successfully completed it in December 2017. The completion of the restructure of the Code was an important achievement. It was the top priority project for the IESBA over the last few years, aiming to facilitate the readability, usability, and applicability of the Code. The project included the restructuring of the close-off texts approved in previous years, such as Part C (Phase I), Long Association, and NOCLAR.

On Professional Skepticism, the IESBA was involved in the tripartite Working Group (together with the IAASB and the IAESB) and developed its application material applicable to auditors. The three SSBs published a joint publication on PS.

The restructured Code also includes the Professional Skepticism and Professional Judgment Application material (short-term initiative).

The other related high priority project completed in the year was Safeguards (including the restructure of NAS), addressing threats to compliance with the fundamental principles and to independence.

The PIOB acknowledged the first joint plenary session of the IAASB and IESBA (attended also by IAESB leadership representatives) in September 2017, addressing coordination between the SSBs.

The PIOB looks forward to the outcome of the current IESBA consultation surrounding its next strategy, and that may translate into new projects and work streams. These include issues such as: prohibition of certain NAS, communication with Those Charged With Governance (TCWG), definition of materiality, which have been raised by respondents to the Restructure and Safeguards EDs.

Some of the PIOB concerns expressed during the years also remain outstanding. In particular, the need to revise NAS from a substantial perspective and the need to advance on the "long-term" initiative on Professional Skepticism. Those concerns are described below.

In 2018, the IESBA completed the review of Part C of the Code⁴ – Phase II (Inducements, including Gifts and Hospitality), which will be embedded in the restructured Code and will be finalizing its next Strategy and Work Plan for 2019-2023.

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

Table 6. PIOB Observations of IESBA and IESBA CAG Meetings in 2017

IESBA		
13-15 March	New York, USA	Jules Muis
18 April	Teleconference	Jules Muis
18 May	Teleconference	Jules Muis
19-21 June	New York, USA	Jules Muis
19-22 September	New York, USA	Aileen Pierce
4-7 December	Livingstone, Zambia	Jules Muis

[4] Part C of the Code (before restructure) pertains to Professional Accountants in Business.

IESBA CAG		
11 January	Teleconference	Eddy Wymeersch
6 March	New York, USA	Maria Helena Pettersson
13 September	Madrid, Spain	Michael Holm

During the year, PIOB members observed IESBA and IESBA CAG meetings and teleconferences, raised public-interest concerns, and made recommendations, to which the Board or the CAG responded as reported in the following table.

PIOB Public Interest Issues

PUBLIC INTEREST ISSUES	IESBA/IESBA CAG DIRECTION
Professional Skepticism (PS)	
Timeliness of development of PS concept and need for coordination among SSBs PIOB encourages a focus on the broad PS project by all SSBs in the medium term. We recommend that SSBs in auditing, ethics, and education engage collaboratively with a broad initiative on PS. With regards to ethics, we believe that IESBA should include this topic in its next Strategy cycle.	A project on PS is already a priority for the IESBA in the medium term to respond to stakeholder concerns. It has been included as a pre-commitment in the proposed Strategy and Work Plan (SWP) 2019-2023. While the IESBA must respond within its remit and the scope of the Code, it is maintaining close coordination with the IAASB and IAESB (at leadership, Working Group, and staff levels) as it further develops its thinking on the issues from an ethics perspective. This is already a pre-commitment in the IESBA's SWP 2019-2023, with a consultation paper on PS issued in May and global roundtables to be held in June and July 2018.

PUBLIC INTEREST ISSUES	IESBA/IESBA CAG DIRECTION
Professional Skepticism (PS)	
Applicability scope of PS Recognizing the different roles played by PAs, PIOB supports the idea that a minimum level of PS (or other suitable term) should be applied by all professional accountants. Auditors may have different requirements around PS. The IESBA could develop the concept of “critical mindset,” which potentially could be applied to PAs who are not auditors. PIOB believes it is in the public interest to extend PS to all PAs as a way of strengthening the financial reporting supply chain. The professional attitude of PAIBs (preparers, those charged with governance [TCWG], etc.) is a critical line of defense to underpin reasonable assurance that financial statements are free from fraud, errors, and/or material misstatements. All PAs involved in the financial reporting supply chain need to apply PS (or equivalent construct) because auditors cannot detect and resolve all problems at the very end of the process.	The concept of critical mindset is one of the options being explored in the PS consultation paper. The PS consultation paper acknowledges the PIOB’s view and rationale that the concept of PS should extend to all PAs.

PUBLIC INTEREST ISSUES	IESBA/IESBA CAG DIRECTION
Non-Assurance Services (NAS)	
Review of NAS provided by auditors should be a priority in the next IESBA strategy The PIOB recommends a review of NAS provisions in the Code of Ethics as a priority in the next IESBA Strategy & Work Plan (2019-2023).	This is already a pre-commitment in the SWP 2019-2023 and a high priority with global roundtables to be held in June and July 2018.
Exceptions to prohibit NAS compromise auditor's independence, and reduce the efficacy and credibility of the Code of Ethics The PIOB has serious concerns around exceptions in the context of NAS. The Code of Ethics would be stronger and more credible if it were to establish prohibitions, without exception, on auditors providing incompatible services, e.g., bookkeeping and accounting services to audit clients. A clear list of prohibitions would be welcome. The PIOB suggests that NAS provided by an auditing firm to its audit clients should be approved by the Audit Committee.	This is a specific issue being addressed in the NAS initiative and to be discussed at the roundtables. This is also a recommendation from the Fees WG (in its report for the June 2018 IESBA meeting) for the NAS initiative to address. It is an option to be discussed at the roundtables.
Fee-related matters	
Potential impact of fee levels and their significance on auditor independence As shown in several researches, the share of revenue from consulting services is increasing in relation to those from audit. Accountancy firms may devote less and lower quality resources to audit activities if this trend continues. The level of fees in audit and in consulting and relative revenue shares should be looked into to ensure high-quality audits. The PIOB believes there is sufficient concern among stakeholders that a comprehensive IESBA project on fees is justified in the next strategy cycle.	This comment appears to be raising a concern on two distinct issues: (1) Firms' business model (2) Ratio of NAS to Audit fees Re 1 - see below re firms' business model. Re 2 - the ratio of NAS to audit fees is a specific issue that the Fees Working Group is recommending in its June 2018 report to IESBA that the NAS initiative address.

PUBLIC INTEREST ISSUES	IESBA/IESBA CAG DIRECTION
IESBA Strategy & Work Plan 2019-2023 (SWP)	
Significant ethical issues in public discourse should be visible in IESBA's SWP Ethical issues around aggressive tax planning and related services were identified in the stakeholder survey as an important area for IESBA. PIOB believes there is a need for IESBA to delve more deeply into the public interest implications of aggressive tax planning.	The topic of aggressive tax planning and related services is a proposed priority topic in the IESBA's SWP 2019-2023.
Audit Firms' Business Model may be a barrier to auditor independence and Audit Quality The audit firm business model can be seen as a barrier to real independence, to the effective implementation of PS, and to audit quality. PIOB recommends an in-depth consideration of this issue during the next strategy cycle.	This topic is being considered as part of the IESBA's Fees initiative. However, the topic involves a number of other significant aspects beyond ethics. Not least among them is audit quality. The Code alone cannot respond to the business model issue effectively. A multi-stakeholder discussion is needed and there must be strong regulatory participation. The IESBA will also be seeking stakeholder views on the topic at the NAS roundtables.
Coordination among SSBs The recent movement towards explicit collaboration among SSBs needs to be extended and to be seen as operating effectively in order to increase coherence of standards.	The IESBA has recognized SSB coordination as a strategic imperative in its SWP 2019-2023 consultation paper. There is now ongoing coordination among the SSBs at all levels on a number of overlapping topics, including PS, quality control, technology, etc. The IESBA and IAASB have instituted the practice of a joint meeting (at least on an annual basis), with the next one scheduled for September 2018.

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

The PIOB attaches significant importance to the education of both practitioners and future generations of accountants. In previous years, the PIOB highlighted to the IAESB that essential skills are increasingly expected from auditors and accountants. For instance, data analytics, IT, cybersecurity, valuation of financial instruments, and critical thinking. The PIOB looks forward to the IAESB continuing to lead discussions at the international level on the impact of education for accountants in these areas.

The IAESB's activity in 2017 focused on finalizing its 2017-2021 Strategy and 2017-2018 Work Program following input received from the CAG and from the PIOB, as well as on finalizing the Exposure Draft (ED) of revised IES 7, "Continuing Professional Development," published in June 2017. The IAESB first discussed the 42 comment letters received to the ED in November and plans to conclude discussions and approve the revised standard by mid-2018.

The Board also initiated two new projects that were included in its 2017-2018 Work Program (WP) which relate to two areas mentioned above: one on Professional Skepticism (PS), and the other on Information and Communications Technology (ICT). The Board also participated in the publication of the joint IAASB-IESBA-IAESB document on PS. The PIOB expects that these new projects will result in substantial enhancements to the international education standards or eventually in a new standard(s) or new guidance. A third new project on Public Sector Accounting and Assurance was also commenced this year. A project on Stakeholder Engagement and Communications, which will include the publication of various types of communication pieces, was also advanced this year.

During 2017, PIOB's oversight of the IAESB was set at a high-level intensity, with a 100% direct observation of all Board and CAG meetings.

The PIOB applied an Oversight Assurance Model 1 (High Intensity) to oversee the IAESB and the IAESB CAG in 2017 with direct observations of all Board and CAG meetings held in the year.

The observations made by the PIOB during 2017 are shown in Table 7.

Table 7. PIOB Observations of IAESB and IAESB CAG in 2017

IAESB		
3 February	Teleconference	Aileen Pierce and Gonzalo Ramos
26-28 April	New York, USA	Aileen Pierce
1-3 November	Mexico City, Mexico	Aileen Pierce

IAESB CAG		
24- 25 April	New York, USA	Aileen Pierce
30-31 October	Mexico City, Mexico	Aileen Pierce

During the year, PIOB observers attended IAESB and IAESB CAG meetings, raised public-interest concerns, and made recommendations. The Board or the CAG responded as reported in the following table.

Recommendations Made to the IAESB in 2017

WHEN	PUBLIC INTEREST ISSUES	IAESB DIRECTION
IAESB 2017-2021 Strategy and 2017-2018 Work Plan		
IAESB February & November meetings	Board resources need to cope with its Work Program The issue of limited Board resources raised by the PIOB in 2016 still needs to be considered in the context of the 2017-2018 Work Plan (WP). The availability of resources would have a direct impact on the feasibility of the projects included in the WP.	At the IAESB November meeting, the Chair informed the Board that IFAC will allocate budget for a "second staff member" after April 2018.
Information and Communications Technology (ICT)		
IAESB CAG October meeting	The right level of competence for ICT should be included in the IESs Only an "Intermediate" proficiency level is specified in the Initial Professional Development (IPD) IESs. The absence of granularity in the IESs limits their usefulness, especially where the profession is less developed.	The matter is under deliberation.

Oversight of the Compliance Advisory Panel (CAP)

PIOB oversight of the CAP is different from that of SSBs and CAGs since the CAP is not a standard setting body.

During 2017, the CAP discussed the application of its enhanced enforcement framework, reporting cycles, and Action Plans submitted by member bodies. A new version of a Status Report on the Global Adoption of International Standards was also developed, which included some enhancements vis-à-vis the 2016 version and a larger number of jurisdictions. The PIOB expects further enhancements over the methodology used to produce these reports, including increasing the number of jurisdictions covered in the report to cover all jurisdictions. This will result in more useful Status Reports in the future.

From a public interest perspective, the PIOB believes that the most important CAP activity relates to adoption and implementation of the standards by the member bodies. Adoption and implementation of standards are critical elements of public interest responsiveness of international professional standards. The PIOB acknowledges that the CAP has made good progress in this area. Looking forward, the PIOB encourages the CAP (under the auspices of IFAC) to further enhance its working methodology in order to achieve greater effectiveness and support the increasing adoption and compliance of international standards. This is an area where the CAP can make tangible and significant contributions looking forward, including after the current MG consultation on reforms of the standards setting system.

Monitoring the status of adoption of international standards would allow the CAP (over time) to provide feedback to the SSBs about what practical issues are being encountered by jurisdictions when adopting or implementing the standards. This would also allow the CAP to verify the extent to which jurisdictions apply the standards as issued by the SSBs. This information should eventually trigger action by the SSBs to address those adoption issues.

Based on the above, in 2017 the PIOB's oversight of the CAP was set at a medium-level intensity with a medium intensity of direct observations of CAP meetings.

In 2017, the PIOB applied an Oversight Assurance Model 2 (Medium Intensity) to oversee the CAP with a medium-level of direct observation of CAP meetings.

Table 8. PIOB Observations of CAP Meetings in 2017

CAP		
19 January	Teleconference	Jules Muis
3-4 April	New York, USA	Jules Muis
12-13 October	New York, USA	Jules Muis

Two recent recommendations made by the PIOB to the CAP were not agreed upon by the CAP. One related to a PIOB concern with a "general conditions" document that one IFAC member body requires from auditors. The PIOB believes this may limit the effective implementation of the ISAs in that jurisdiction. The PIOB asked the CAP to review whether the use of such documents was generalized and could represent actual "carve outs" to the implementations of the ISAs, especially since the CAP activity rests on information self-assessed and reported by IFAC member bodies. The other recommendation related to considering creating a new category of adoption of the IESBA Code of Ethics for those jurisdictions whose ethical requirements are more stringent than those in the IESBA Code, not identified in the current categories of adoption.

IV. PIOB OUTREACH IN 2017

In 2017, the PIOB focused on improving its communications policy as a result of the public consultation launched in 2016 on its 2017-2019 Strategy.

Following the analysis of the 32 letters received, the PIOB published a [feedback statement](#) and the final 2017-2019 Strategy on March 1, 2017.

The letters revealed suggestions from stakeholders for better communicating the public interest issues identified by the PIOB to the SSBs and CAGs. Stakeholders encouraged the PIOB to improve the consistency of its observations on projects under development and increase their transparency by communicating them in a timely manner. Another particularly useful suggestion advised the PIOB to develop a Public Interest Framework, setting out the criteria for assessing the public interest responsiveness of projects.

The PIOB responded by developing a structured process to communicate (in writing and with full transparency) to the SSB and CAG Chairs the main public interest issues with projects under development. This process, currently being tried out with the SSBs, will help ensure that the standards effectively serve the public interest and is in line with the feedback statement on the PIOB 2017-2019 Strategy, where the PIOB committed to convey its observations on public interest issues to the SSBs and stakeholders more consistently and transparently.

In addition, the PIOB developed a Public Interest Framework (PIF) during 2017 in response to the outcome of its strategy consultation. The MG asked the PIOB to provide a public interest framework that could apply in the reformed standard setting system. The PIOB continued to work on the PIF with the MG to agree on a public interest framework.

In addition to the regular communications activities through the PIOB Quarterly Updates and PIOB web page, important activities to reach out to stakeholders took place in 2017. During the first PIOB meeting of the year (which took place in Delhi, India), the PIOB had the opportunity to meet with the leadership of the Institute of Chartered Accountants of India (ICAI) to understand the challenges and concerns of the accounting profession in India, how it is structured, and its future plans.

Additionally, the PIOB had the opportunity to reach out to new audiences in the ICAI – PIOB Joint Stakeholders' Conclave under the title, "Global Audit Oversight: Reconciling Perception Gap" hosted by the (ICAI). During the full-day event,

panelists and over 60 guests explored the following themes: Sustaining Audit Quality: Challenges for Regulators, the Role of Audit Committee in Improving Governance, and Audit in a Disruptive Era.

The PIOB also organized a discussion on the "Impact of Technology on Audit" in June in Madrid. Two experts in the field were invited to bring to light the importance of the impact of technology on audit processes: Professor Miklos Vasarhelyi from the Rutgers Accounting and Research Center and Continuous Auditing and Reporting Laboratory at Rutgers University and Ms. Liv Watson from Workiva, which delivers Wdesk, the leading cloud platform for reporting, compliance, and data management.

Professor Vasarhelyi presented the findings of his recent research, and Ms. Watson presented her perspectives from a provider of technological services for auditors. The conference gathered 50 attendants, which included the IFAC Leadership, the IAASB, IAASB CAG, IESBA and IESBA CAG Chairs, representatives from the EC, the Big Four large audit firms, the Spanish Financial Regulator (CNMV), members of the academic community, and the PIOB in full.

The PIOB has a solid list of annual engagements with different stakeholders which helps the Board to carry out a better-informed oversight. In 2017, the PIOB carried out additional engagements with new stakeholders as part of the improvements on the PIOB's communications policy.

The PIOB Chairman and Secretary General have also met with the Monitoring Group several times throughout the year to discuss the outcome of the PIOB consultation and direction of its 2017-2019 Strategy and also in preparation of the MG Consultation launched in December 2017.

Table 9. PIOB 2017 Outreach and External Relations Engagements

PIOB 2017 Outreach and External Relations Engagements		
FEBRUARY		
9	Delhi, India	ICAI-PIOB Joint Stakeholder's Conclave
15-16	Amsterdam, Netherlands	Meeting with MG, Dutch Investors
20	Brussels, Belgium	Meeting with EC (Dorota Zaliwska)
22	Basel, Switzerland	Meeting with FSB (Pablo Perez)
23	London, UK	SUERF Brexit Conference
MARCH		
2-3	New York, USA	IFAC Board
8	Berlin, Germany	Meeting with IDW/WPK

APRIL		
3-5	Tokyo, Japan	IFIAR Plenary Meeting
18	Madrid, Spain	Egyptian Delegation
20-21	Amsterdam, Netherlands	Meeting with the MG
MAY		
4	Paris, France	Meeting with the MG
JUNE		
2	Madrid, Spain	MACAM Conference
8	Berlin, Germany	EFAA Conference
15-16	New York, USA	IFAC Board
24-25	Basel, Switzerland	BIS Annual General Meeting
30	Madrid, Spain	Impact of Technology on Audit Discussion
JULY		
11-13	Kuala Lumpur, Malaysia	ICGN Conference
18	London, UK	ICGN Conference
SEPTEMBER		
7-8	New York, USA	IFAC Board
7-8	London, UK	IAASB-GPPC Networks Workshop on Quality Control
20	Vienna, Austria	Meeting with AEG-BCBS
25	Brussels, Belgium	Meeting with EC (Nathalie de Basaldúa)
OCTOBER		
24	London, UK	Meeting w/MG
NOVEMBER		
2	Teleconference	MG Chairman Gerben Everts
16	London, UK	Accounting for Sustainability Summit
15-16	Brussels, Belgium	IFAC Council
17	Brussels, Belgium	IFAC Board

V. PIOB FUNDING AND SUMMARY OF FINANCIAL STATEMENTS IN 2017

PIOB Budget Diversification

In 2012, the PIOB conducted a fundraising exercise in close coordination with the MG and IFAC. As a result, in 2013, 2014, 2015, 2016 and 2017, the PIOB achieved a diversified funding base that includes sources other than IFAC. In 2017, the PIOB received contributions that amounted to 1,594,836 euros from the following contributors:

- International Federation of Accountants: 1,059,807 euros
- European Commission: 325,000 euros
- International Organization of Securities Commissions: 100,000 euros
- Financial Reporting Council: 40,000 euros
- Abu Dhabi Accountability Authority: 35,000 euros
- Bank for International Settlements: 35,000 euros
- Interest income: 29 euros

2017 Contributions



Summary of Financial Statements

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

	2017	2016
TOTAL REVENUE (3)	1,594,836	1,563,565
EXPENSES		
Board-related operating costs		
Oversight Program	944,466	831,403
Communication and External Relations Program	163,195	176,980
Monitoring Group and Monitoring Group members	175,160	131,255
Foundation Board Meetings	131,079	107,748
Other ongoing operating costs	199,346	243,128
TOTAL EXPENSES	1,613,246	1,490,514
Surplus	-18,410	73,051

(1) The PIOB operates as a Technical Committee of its Spanish not-for-profit foundation, La Fundación Public Interest Oversight Board ("the PIOB Foundation").

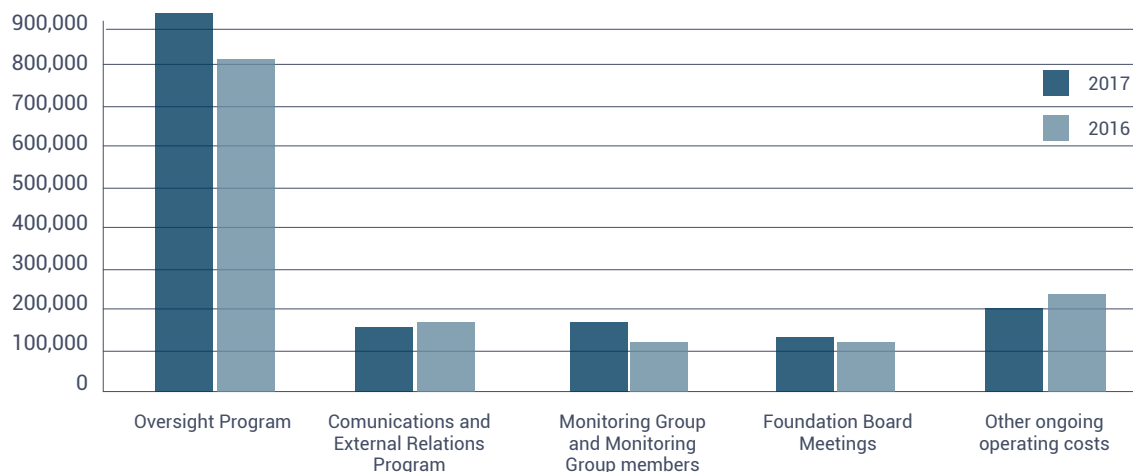
(2) In addition to local regulatory responsibilities, the PIOB Foundation is operationally and financially accountable to the Monitoring Group. This accountability includes the presentation of periodic operating reports, the PIOB's annual Public Reports, the PIOB Foundation yearly audited financial statements,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

(3) PIOB total revenues for 2017 were contributed by the International Federation of Accountants (IFAC) in the amount of 1,059,807 Euros; the European Commission (EC) in the amount of 325,000 Euros; International Organization of Securities Commissions (IOSCO) in the amount of 100,000 Euros; Financial Reporting Council (FRC) in the amount of 40,000 Euros; Abu Dhabi Accountability Authority (ADAA) in the amount of 35,000 Euros; and Bank for International Settlements (BIS) in the amount of 35,000 Euros(*).

The PIOB Foundation's auditor, Deloitte S.L., delivered an unqualified opinion on the complete financial statements of the Foundation. The full version of these statements and the auditor's report are available separately on the PIOB website at www.ipiob.org.

(*) In 2017, provided through FSB, BCBS and IAIS.

PIOB Expenses by Activity



VI. ANNEX - PIOB MEMBERS IN 2017



Mr. Eddy Wymeersch - PIOB Chairman

Member of the board of Euroclear SA and of the Association for the Financial Markets in Europe (AFME); former chairman of the Committee of European Securities Regulators (CESR) (2007–10) and of the European Regional Committee of IOSCO, in that capacity also taking part in the Executive and the Technical Committees (2006–10); former chairman of the Belgian Commission Bancaire, Financière et des Assurances (CBFA, chief executive in 2001–07 and chairman of the supervisory board in 2007–10); and member of Swiss FINMA (2012).



Mr. Kevin Dancey

Former President and CEO of Chartered Professional Accountants of Canada and The Canadian Institute of Chartered Accountants, CEO and Senior Partner of PricewaterhouseCoopers. Assisted in leading the unification of the Canadian Accounting profession.



Ms. Jane Diplock, AO

Chair, Executive Committee, IOSCO (2004–11) and chairman, New Zealand Securities Commission; Chairman Abu Dhabi Regulatory Committee, Abu Dhabi Global Market; Director, Singapore Exchange Limited director of the Singapore Exchange Ltd.; director of the Australian Financial Services Group Party Ltd.; director of the International Integrated Reporting Council Board; member of the International Advisory Board Securities and Exchange Board of India; and member of the International Advisory Committee, China Securities Regulatory Commission.



Mr. Michael Holm

Former director of the Reinsurance and General Insurance Division of Finanstilsynet, Danish Financial Supervisory Authority, becoming a bank inspector (1988), head of Market Risk Division (1990), director of Financial Conglomerates (1992), and director of Reinsurance and General Insurance (1998); former president of the Council Working Group on Financial Conglomerates during the Danish Presidency of the EU and negotiated the final details with the European Parliament (2002); former member of the IAIS Technical Committee and of the IAIS Reinsurance Subcommittee; and knighted by the Queen of Denmark in 1993.



Mr. Shigeo Kashiwagi

Held several decision-making positions during his 34-year career in the Japanese Ministry of Finance, in addition to gaining wide experience with international financial institutions, in particular with the International Monetary Fund (IMF) and the Asian Development Bank (ADB). Prior to that Mr. Kashiwagi was a full-time professor at Keio University for 9 years. He has also been a Board member in several private companies.



Mr. Jules Muis

Former director general and chief internal auditor of the European Commission (2001–04) and vice president and controller of the World Bank (1995–2000); prior to 1995, held senior client- and practice-management positions at Ernst and Young, serving as executive partner of its European operations (1992–94); former president of NIVRA, the Dutch Institute of Registered Accountants (1991).



Ms. Maria Helena Pettersson

Initially joined the auditing profession as a trainee auditor at Ernst and Whinney (1981-83); held an executive position at Preformed Line Products in São Paulo (1983-85); rejoined the auditing profession as a senior auditor at PwC Brazil (1985-88); audit manager at PwC Sweden (1989-91); audit partner at Ernst and Young Brazil (1991-2012); consultant and independent board member (2012-present); vice president of the Brazilian National Association of Accountants and Management Professionals (ANEFAC).



Dr. Aileen Pierce

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



Ms. Karen Stothers

Senior Director of the Office of the Superintendent of Financial Institutions (OSFI), in Canada. Member of the Basel Committee on Banking Supervision's Accounting Experts Group and is accountable for the OSFI membership in the International Association of Insurance Supervisors' Accounting and Auditing Working Group.



Mr. Karel Van Hulle

Associate professor at the Business and Economics Faculty of the KU Leuven, honorary professor at the Economics Faculty of the Goethe University in Frankfurt and academic member of the Insurance and Reinsurance Stakeholder Group of the European Insurance and Occupational Pensions Authority (EIOPA); former head of unit at the European Commission until March 2013, with subsequent responsibilities for accounting, auditing, company law, insurance, and pensions.

PIOB Secretary General



Mr. Gonzalo Ramos

PIOB Secretary General; former chairman of the International Monetary Fund External Audit Committee; former executive director, chairman of the Financial and Operations Committee, and vice chairman of the Audit Committee, European Bank for Reconstruction and Development; former director general of international finance for the Spanish Ministry of Economy and Finance.

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Claudia Deodati — Oversight Advisor

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