16th PUBLIC REPORT

FOLLOW THE WAY

PIOB
Enhancing Public Interest

About this Report

The 2020 Public Report of the **PIOB** reflects the initial steps on our journey toward adopting the principles of integrated reporting, which are set out in the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

This report covers the activities carried out by the Public Interest Oversight Board (PIOB) from January to December 2020 and any developments up to the date when the report was approved for publication.

In order to keep the report concise, we provide links to the PIOB website, where more information is readily accessible.

[The content of this report reflects solely the views of the PIOB. The institutions or bodies cited within are not responsible for its contents or for any use that may be made of the information it contains.]

PIOB
Enhancing Public Interest

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Acronyms

APIR – analysis of public interest responsiveness

AQ - Audit Quality

BCBS — Basel Committee on Banking Supervision

CAG — Consultative Advisory Group

CUSP — Complexity, Understandability, Scalability, & Proportionality

CV — curriculum vitae

EAA — European Accounting Association

EBRD — European Bank for Reconstruction and Development

EER — extended external reporting

EQR — engagement quality review

FSB — Financial Stability Board

IAASB — International Auditing and Assurance Standards Board

IAIS — International Association of Insurance Supervisors

IESBA — International Ethics Standards Board for Accountants

IFAC — International Federation of Accountants

IFIAR — International Forum of Independent Audit Regulators

IFRS — International Financial Reporting Standards

IIRC — International Integrated Reporting Council

IOSCO — International Organization of Securities Commissions

ISA — International Standard on Auditing

ISQM — International Standard for Quality Management

ISRS — International Standard on Related Services

LCE — less complex entity

MG — Monitoring Group

NAS — non-assurance services

PIE — public interest entity

PIOB — Public Interest Oversight Board

PM — public member

QMS — Quality Management Standards

SMP — Small and Medium Practice firms

SSB — standard-setting board

TCWG — those charged with governance

VPP — Volunteer Performance Program

1.LEADERSHIP REVIEW

Message from the PIOB chair

See video on this link

Dear PIOB Stakeholders,

It is my privilege to welcome you to our 2020 annual report.

2020 was a year of transition for the PIOB. We bid farewell to Eddy Wymeersch, who led the PIOB in an exceptional way for nine years as chair. Board and staff members alike had to get used to a new chair while being under severe COVID-19 lockdown restrictions, in addition to having to learn to navigate our own meetings as well as those of the standard-setting boards (SSBs), which we now observe across time zones on virtual platforms. All of this was done while simultaneously working on the transition and implementation of the Monitoring Group (MG) reform recommendations, published in July 2020.

Before delving into 2020, I would like to share some thoughts about where the PIOB, as an organization with a mission to serve the public interest, is heading in 2021 and beyond.

In the current reality, where face-to-face meetings are on hold, we have realized the importance of written and electronic communication. Therefore, this year's public report is much more than a stewardship document reporting how we executed our duties in 2020. It also serves as a key vehicle for communicating with our stakeholders. It is a document in which we want to share, in a more focused way, who we are, what we are doing, and how we are transforming and equipping ourselves to faithfully execute our enhanced public interest responsibilities bestowed on us through the MG reforms. To this end, we have adopted the guidelines of the International Integrated Reporting Framework in preparing this report. As with all organizations taking this step, we are embarking on a journey and hope to make additional strides every year as we develop our integrated thinking and reporting.

This year's report also, for the first time, includes a letter from Jean-Paul Servais, the newly appointed MG co-chair, immediately hereafter.

The celebration of our 15th anniversary in September 2020 coincided with the rebranding of our website and our corporate image. However, what we do and why we exist—namely, to *enhance the public interest*—remain unchanged and as relevant as always.

The PIOB's role, as a global independent oversight body, is to provide oversight of the standard-setting process to ensure that international audit and ethics standards are responsive to the public interest. This objective was reaffirmed in the MG recommendations, issued in 2020. We fulfill this role by overseeing the public interest responsiveness of standards, including ongoing engagement with the SSBs throughout the standard-setting development cycle.

The MG recommendations are confirming to our remit the governance and administration of the nominations process for SSB members, protecting the SSBs from undue influence, and overseeing the administration that supports standard setting.

The public interest framework (PIF), issued as part of the MG recommendations, was a giant leap in setting a foundation for standard setting going forward. The framework is similarly a beacon for the PIOB, guiding us in executing our oversight role with a public interest mindset and holding the PIOB to a similar high level of transparency and accountability as is required of the SSBs and the standards they develop. Therefore, much attention is being focused on continuing to enhance and mature our oversight processes. This continual improvement is being achieved through ongoing engagement to better understand public interest responsiveness needs, as seen by the stakeholders who have a legitimate interest in the adequacy of the standards.

At the PIOB, we have already initiated more regular and enhanced engagements and communication with the SSBs. Through this enhanced engagement, we aim to improve our understanding of the challenges faced by the SSBs in executing their strategies and work plans, to align our thoughts on the public interest responsiveness of the standard-setting processes, and to raise, in a timely manner, any recommendation or concerns we may have in respect of how the public interest is being addressed during the development of a standard, strategy, or work plan and how the SSBs seek to find an agreed upon solution. Often this requires the careful balancing of trade-offs between various important qualitative characteristics such as timeliness, scalability, relevance, and comprehensiveness.

We have embarked on this important path of implementing the MG recommendations and striving for excellence in executing our mandate. A long and winding road, however, still stretches before us, and this journey will continue in 2021 and beyond.

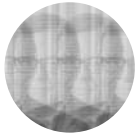
At the PIOB, we serve a diverse and extended group of stakeholders. I hope that we can have more and deeper engagements with you, as one of our important stakeholders, in 2021 and, with some luck, eventually have face-to-face engagements.

Let me conclude by saluting my predecessor, Eddy Wymeersch, for his immeasurable contribution to the PIOB, fellow PIOB members Markus Grund, Jules Muis, and Maria Helena Pettersson, who retired from the PIOB in 2020, and our dedicated team at the Secretariat in Madrid under the leadership of Gonzalo Ramos.

2021 is destined to be another year of change, hard work, and challenge. It is priceless for every one of us at the PIOB to be able to play a role in these important processes and unprecedented times.

Linda.

Linda de Beer
PIOB Chair



Message from the MG co-chair

The Monitoring Group is composed of international financial institutions and regulatory bodies committed to advancing the public interest in international audit and ethics standard setting and audit quality. We are responsible for the overall governance of the international audit and ethics standard-setting process and the review of its effectiveness. Our oversight of the Public Interest Oversight Board is a foundational component of our mandate: to increase the confidence of investors and others that the activities of the standard-setting boards are responsive to the public interest.

MG recommendations
While the COVID-19 global pandemic presented unique challenges in 2020, the publication of the MG recommendations in July 2020 was a significant achievement that will strengthen the independence of international audit and ethics standard setting and enhance its responsiveness to the public interest. The recommendations were developed through extensive outreach, a process that began in 2015 with collaboration and contributions from all key stakeholders.

The recommended structure, governance, process, and funding goals in the areas of international audit and ethics standard setting represent significant enhancements to the current structure. The recommendations are designed to:

- Achieve an independent and inclusive, multi-stakeholder standard-setting system
- Reinforce consideration of the public interest within the standard-setting process and throughout the full cycle of standards development, with enhanced independent oversight and standard setting guided by the public interest framework (PIF)
- Foster the development of timely, high-quality standards that respond to an accelerating pace of change.

Under the MG recommendations, the PIOB will continue to provide independent oversight of the public interest responsiveness of audit and ethics standard setting. This critical role will include expanded governance responsibilities over the nomination and appointment process for board members and assessment of the board's effectiveness.

The Monitoring Group looks forward to continuing its work with the PIOB and the standard-setting boards to enhance the standard-setting system in the public interest and drive improvements in audit quality.

Since publication of the recommendations, we have been engaged with key stakeholders on the transition, and the transition plan is moving forward as contemplated in the recommendations. We thank all stakeholders for their collaboration as we continue to implement the recommendations.

Looking ahead

As I look forward to 2021, it is of paramount importance for the public interest that we continue the momentum, move as quickly as possible to complete the transition, and facilitate implementation of the reforms. The COVID-19 global pandemic has underscored some challenges in the domain of financial reporting and auditing. These challenges, together with those posed by technological innovation, highlight the relevance of high-quality standards, timely guidance, and a standard-setting model that is responsive to this dynamic environment. We are eager to see the improvements in audit quality that are expected to result from these recommendations.

In conclusion, I would like to express my gratitude to my MG colleagues and global stakeholders in the financial reporting ecosystem for their continued support. I would also like to thank former MG co-chairs Ana Martinez-Pina and Sagar Teotia for their dedication and commitment to public service during their tenure, which began in July 2019. I look forward to working with all global stakeholders—including the PIOB, with Linda de Beer serving as chair—as we press forward to achieve our common goal of implementing the recommendations, advancing the public interest in international audit and ethics standard setting, and improving audit quality globally.

Jean-Paul Servais
Monitoring Group co-chair

2.OUR PURPOSE

Our purpose
as the Public Interest Oversight Board

is to enhance confidence in capital markets by ensuring a public interest focus in the setting of international auditing standards and in the setting of ethics standards for the accountancy and audit profession.

Who we are

The PIOB is the global independent oversight body that oversees the standard-setting process for the international audit, assurance, and ethics standards formulated by the international standard-setting boards: the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

The PIOB is a Technical Committee of the PIOB Foundation, which is the independent legal entity accountable to the Spanish foundations' regulatory body, the Spanish Protectorado.

The PIOB currently comprises the PIOB chair, seven members (The PIOB normally is composed of nine members and the PIOB chair.), and a secretary general, who coordinates a Secretariat with a staff of five that is headquartered in Madrid. The PIOB Foundation Board of Trustees and the PIOB Technical Committee meet four times a year.

The PIOB Foundation entrusts the PIOB Technical Committee with carrying out its mandate of enhancing the confidence of investors and other users that standards developed by the IAASB and IESBA are in the public interest.

Our mandate

The PIOB's mandate originates from an agreement signed in 2003 between the International Federation of Accountants (IFAC) and the Monitoring Group — the 2003 reform proposals (the reform proposal document is available at ifac.org/system/files/downloads/)

Our mandate is:

- To ensure that the development of standards under our oversight follows due process and is responsive to the public interest.

- To ensure that the strategies and work plans of the SSBs are complete and responsive to the public interest.

- To oversee the process of nominations to the IAASB and IESBA and approve appointments to the Consultative Advisory Group (CAG). (CAG chairs are elected by the CAG. The PIOB approves CAG member organizations and each organization's first nominated representative.)

In July 2020, the Monitoring Group published its Recommendations to Strengthen the International Audit and Ethics Standard-Setting System following a consultation issued in 2017. The report is available at iosco.org/about/monitoring_group/pdf

The MG recommendations include a public interest framework (PIF) developed to ensure that the public interest is observed throughout the full cycle of a standard's development and that the standard developed is responsive to the public interest. These goals are accomplished by:

- Reinforcing the importance of independence in the standard-setting process and the benefits of deep technical expertise and diverse perspectives

- Achieving a common understanding by the SSBs and the PIOB about the meaning of responsiveness to the public interest and the judgments required to achieve this objective

- Ensuring that the SSBs focus on the public interest in their development of the standards

- Providing independent oversight and giving stakeholders confidence that the two SSBs develop standards that are in the public interest

- Demonstrating appropriate accountability of the PIOB and the two SSBs in fulfilling their mandates.

How we create value

To deliver on its purpose and its mandate, the PIOB relies on a substantial amount of social and relationship, intellectual, human, and financial capital.

Our business model is built on a solid base of diverse intellectual capital, processes, and methodology. Our intellectual capital includes a wide range of technical knowledge, skills, and experience on the part of our board members and staff. Our processes and methodology, including our governance framework, policies, and procedures, were developed to ensure the public interest.

Our social and relationship capital is how we have established and continue to maintain relationships with our stakeholders through ongoing engagement intended to influence the SSBs to set strategies and standards that are in the public interest.

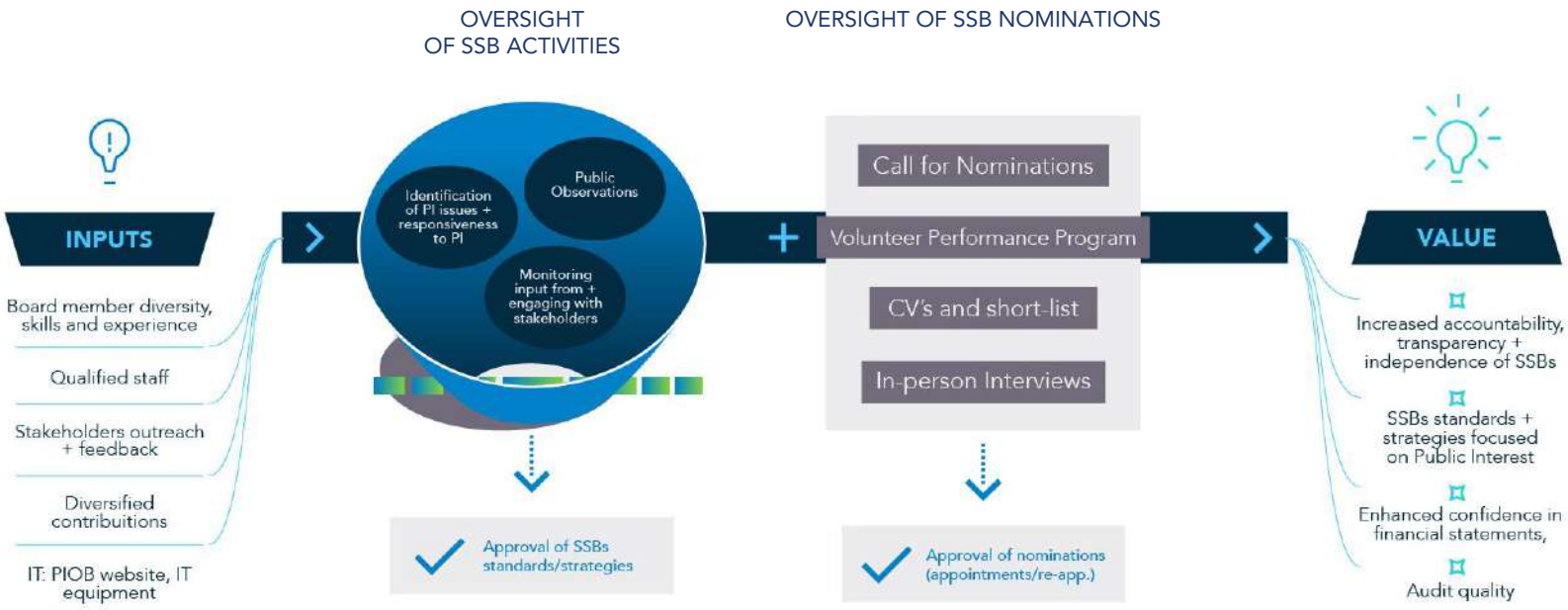
Our human capital is our staff, who are aligned with and support our governance framework, ethical values, approach to risk management, and ability to implement our strategy and are motivated to improve our processes.

Our financial capital is in the form of diversified contributions, which ensure that we have access to adequate resources. Because of its very particular role, the PIOB's capital requirements differ from those of a commercial operation in business to make a profit.

Using our intellectual, human, and financial capital, the PIOB has developed a methodology for overseeing both the standards developed by the SSBs and the process of nominations to the SSBs.

The value we add is contributing to the integrity of the standard-setting system and ensuring that standards developed by the SSBs are in the public interest and give the public greater confidence in the quality and independence of the audits of financial statements. The diagram on page 12 illustrates the ways in which we create value.

How we create value at the PIOB



Note: MG = Monitoring Group. SSB = standard-setting board. IT = information technology. CV = curriculum vitae.

3.OUR METHODOLOGY

Oversight of the nominations cycle

The PIOB oversees the nomination of members and deputy chairs for the IAASB and IESBA.

In our oversight role, we:

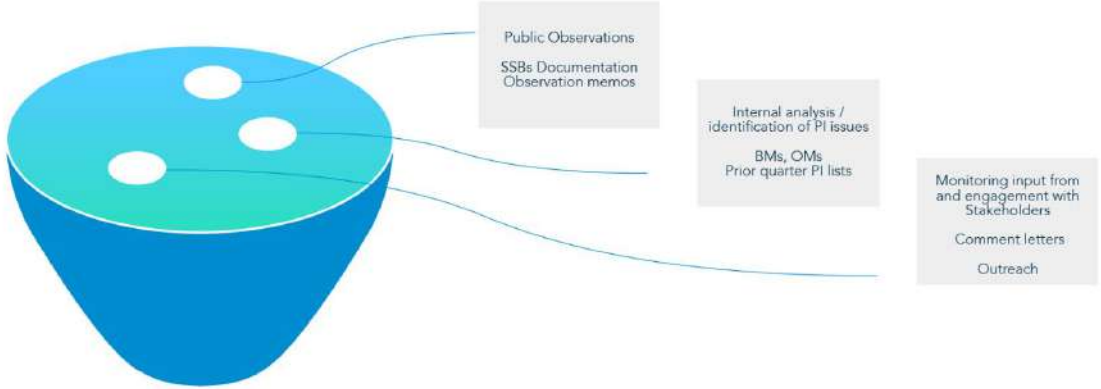
- Provide recommendations in the drafting of the Calls for Nominations, which are issued to advertise vacancies at the SSBs
- Review the documentation and curriculum vitaes (CVs) of candidates submitting their nominations
- Oversee the Volunteer Performance Program (VPP), which assesses the performance of the SSB volunteers and chairs
- Oversee the short-list selection process for interviews and discussions of interviews´ outcome
- Approve the appointments and reappointments recommended by the IFAC Nominating Committee.

Oversight of SSB activities and identification of public interest issues

Through our oversight of the development of strategies and standards, and through stakeholder outreach, we ensure that the SSBs identify the issues that need to be addressed for standards and strategies to be responsive to public interest concerns. The diagram on page 15 explains the process through which we identify public interest issues.

PIOB Process of identifying public interest issues

Note: PI = public interest. SSB = standard-setting board. CAG = Consultative Advisory Group.



4.OUR SOCIAL & RELATIONSHIP CAPITAL

Our stakeholders and how we engage

Effective stakeholder engagement is a prerequisite if the PIOB is to achieve its objectives. Over the years, we have engaged with different stakeholder groups and adapted its interactions to have a better understanding of their concerns and needs and the whole standard-setting landscape.

The table on pages 18 and 19 lists some of the main stakeholder groups with which we have had formal engagements. In addition, we have had many informal interactions that are not reflected on the table.

Public interest stakeholders and the objective of PIOB engagement

Note: PI = public interest. SSB = standard-setting board. CAG = Consultative Advisory Group.

Stakeholder	Key individuals or groups	Objective of engagement
Standard-setting boards and their Consultative Advisory Groups	• SSB chairs • Individual SSB members • CAG chairs • Individual CAG members • Managing director of professional standards • Technical directors	• Engage and report effectively • Offer recommendations for public interest issues • Understand stakeholder concerns • Oversee SSB meetings and CAG meetings
Monitoring Group	• MG Co-chairs • MG members - Basel Committee on Banking Supervision - European Commission - International Association of Insurance Supervisors - International Forum of Independent Audit Regulators - International Organization of Securities Commissions - Financial Stability Board - World Bank Group	• Improve PIOB accountability and report back • Discuss concerns raised by MG members • Understand the public interest responsiveness needs of the SSBs • Implement MG reforms • Discuss PIOB membership • Discuss PIOB funding
International Federation of Accountants	• IFAC president • IFAC chief executive officer • IFAC board members	• Oversee IFAC Nominating Committee • Oversee SSBs • Reform the standard-setting process • Discuss PIOB funding

Public interest stakeholders and the objective of PIOB engagement

Note: PI = public interest. SSB = standard-setting board. CAG = Consultative Advisory Group.

Stakeholder	Key individuals or groups	Objective of engagement
Other regulators, including national standard setters	• Abu Dhabi Accountability Authority • Australian Securities & Investments Commission • Canadian Public Accountability Board (Conseil Canadien sur la Reddition de Comptes) • Haut Conseil du Commissariat aux Comptes (High Council for Statutory Audit) • Autoriteit Financiële Markten (Dutch Authority for the Financial Markets) • Financial Services Agency, Japan • Independent Regulatory Board for Auditors • Accounting and Auditing Institute, Spain • Financial Reporting Council, UK • Public Company Accounting Oversight Board	• Understand the public interest responsiveness needs of regulators • Report on PIOB activity
Firms	• Global Public Policy Committee • Grant Thornton • KPMG • Deloitte • Ernst & Young • BDO • PriceWaterhouseCoopers	• Understand the practical implications of standard-setting
Academia	• Universidad Autónoma, Madrid • Rutgers University, Continuous Audit and Reporting Laboratory • Instituto de Empresa, Madrid • Harvard Law School Global Certificate Program for Regulators of Securities Markets • EARNET • Universidad del País Vasco	• Contact academia and engage with students
Other public interest groups	• Organisation for Economic Co-operation and Development • International Monetary Fund	• Learn about broader public interest initiatives

Outreach

Each year, the PIOB develops an annual outreach plan to maintain strong relationships with key stakeholders and engage with new stakeholder groups. This outreach is held to accomplish the following:

Discuss the outcome of its activities and discuss its methodology.

Obtain further insight into stakeholder concerns.

Identify public interest issues together with stakeholders.

All PIOB communications and outreach in 2020 had to adapt to online formats due to the COVID-19 pandemic. This need gave the PIOB an opportunity to review and enhance its online communications strategy and infrastructure in order to engage better with all of its stakeholders.

Website Updated

We also analyzed our communications strategy and reviewed our branding, with the objective of enhancing the communications strategy for celebrating our 15th anniversary In September 2020.

The following are some of the actions taken to upgrade our communications strategy and technical infrastructure:

Updated ipiob.org and database to improve their content, security, and user friendliness

PIOB Rebranded

including our graphics (new logo) and voice.

Empowered communications

including branding, digital communications strategy using LinkedIn and YouTube, and database content.

A day to celebrate our **mission**

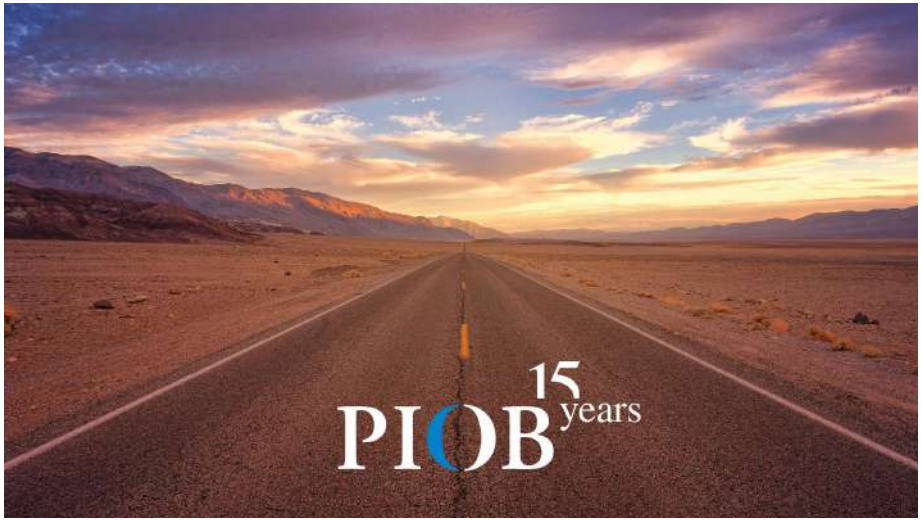
16th PUBLIC REPORT

External engagements held in 2020

The PIOB carried out numerous virtual external engagements and bilateral meetings in 2020 to discuss the MG reform process with the MG leadership, IFAC leadership, and the SSB chairs. The following table lists these engagements but excludes all observations of the SSB and Nominations Committee meetings.

Date	Type of meeting	PIOB representative(s)
February	IFAC board meeting	Jules Muis
March-June	Introductory calls with key representatives of the individual members of the MG: Basel Committee on Banking Supervision, European Commission, World Bank Group, International Association of Insurance Supervisors, Financial Stability Board, and International Forum of Independent Audit Regulators	Linda de Beer
June	IFAC board meeting	Linda de Beer
October	Prerecorded video presentation for IFAC council session on the Monitoring Group reforms	Linda de Beer
November	Committee of European Auditing Oversight Bodies standards subgroup	Linda de Beer, Gonzalo Ramos, and oversight staff
	Accounting for Sustainability Summit	Gonzalo Ramos
	IAASB Roundtable on Disruptive Technologies	Gonzalo Ramos
	IFAC council meeting	Karel Van Hulle
December	IFAC board meeting	Karel Van Hulle

Celebrating our 15th anniversary



In 2020, the PIOB celebrated 15 years of existence. An online event was held on September 29, 2020, which brought together many of our contributors and stakeholders over the past 15 years. More than 160 guests connected live to the event.

The speakers included In-Ki Joo, former IFAC president; Tom Seidenstein, IAASB chair; Stavros Thomadakis, IESBA chair; Sagar Teotia and Ana Martínez-Pina, former MG co-chairs; Jane Diplock AO, former PIOB member; Gonzalo Ramos, PIOB secretary general; and Linda de Beer, PIOB chair. A mini site was launched for the event, and videos are available at 15th.ipiob.org

5.OUR INTELLECTUAL CAPITAL

Governance structure

The PIOB is one part of a three-tier collaborative model: the international regulatory community (MG), the oversight body (the PIOB), and the international standard-setting boards (IAASB and IESBA).

Together we strive to produce high-quality global standards that are responsive to the public interest. The following diagram depicts the structure of this model. For more information, please visit ipiob.org/how

The PIOB is accountable to the MG, reports back to its leadership, and holds regular meetings with its members.

The PIOB board membership in 2020

We conduct an annual self-assessment of our board to evaluate how well we are pursuing our mandate and which improvements we need to adopt.

Karen Stothers | Board member
Appointed in 2017

Aileen Pierce | Board member
Appointed in 2015

Michael Hafeman | Board member
Appointed in 2020

Karel Van Hulle | Board member
Appointed in 2014

Linda de Beer | PIOB chair
Appointed in April 2020

Robert Buchanan | Board member
Appointed in 2020

Jane Diplock AO | Board member
Appointed in 2012

Shigeo Kashiwagi | Board member
Appointed in 2017

See the PIOB members' full curriculum vitaes and the members who left the PIOB in 2020, at **iptob.org/who**

The PIOB Foundation

The PIOB Foundation, which is governed by a Board of Trustees, discharges its public interest mandate, employs PIOB staff, owns PIOB assets, and is accountable for the funds and means that support the PIOB's activities. This table lists the members and focus areas of the Board of Trustees. All of the PIOB's legal documents are available on the PIOB website at ipiob.org/who

Board members

Linda de Beer – chair from March 2020

Robert Buchanan – From September 2020

Michael Hafeman – From December 2020

Shigeo Kashiwagi – From March 2017

Aileen Pierce – From March 2015

Karel Van Hulle – From March 2015

Markus Grund – Until September 2020

Jules Muis – Until September 2020

Maria Helena Pettersson – Until March 2020

Eddy Wymeersch – chair until March 2020

Key focus areas

- Governance of the PIOB Foundation
- Annual budget approval
- Appointment and acceptance of resignation of Technical Committee members
- Appointment and acceptance of resignation of trustees
- Approval of statutory accounts for Spanish regulator

The Technical Committee

The Technical Committee is entrusted by the PIOB Foundation with carrying out its mandate of public interest oversight. This table lists the members and focus areas of the Technical Committee.

Composition of the Technical Committee

Linda de Beer – chair from March, 2020

Robert Buchanan – From March, 2020

Jane Diplock AO - From March 2012

Michael Hafeman – From December 2020

Shigeo Kashiwagi – From March 2017

Aileen Pierce - From March 2015

Karel Van Hulle – From March 2015

Karen Stothers – From February 2017

Markus Grund – Until September, 2020

Jules Muis – Until September, 2020

Maria Helena Pettersson – Until March, 2020

Eddy Wymeersch – chair until March, 2020

Key focus areas

- Engage regularly and pro-actively with SSB leadership
- Attend quarterly meetings to discuss observations and review the reports submitted by the SSB, CAG, and Nominating Committee chairs
- Observe the SSB, CAG, and Nominating Committee meetings (an annual Oversight Plan is published on the PIOB website to determine the key projects ahead and actions required)
- Review the documentation prepared by the SSBs, CAGs, and the Nominating Committee and the internal briefing memos prepared by the PIOB staff before observing a meeting
- During meetings, communicate the PIOB's position regarding public interest issues
- Prepare observation memos to document each observation and guarantee continuity of oversight
- Attend a variable number of external relationship assignments to maintain stakeholder relations and gain further insight into public interest concerns

The Audit Committee

The Audit Committee reviews the PIOB Foundation's audit matters prior to their approval by the Board of Trustees of the foundation. This table lists the members and focus areas of the Audit Committee.

Aileen Pierce
From March 2015

Maria Helena Peterson
Until March, 2020

Financial reporting practices

- Review the audit cycle and the results of the external audit
- Review any significant, operational, legal, or reporting issues affecting the financial statements of the PIOB Foundation
- Review the impact of significant changes in accounting principles or financial reporting requirements
- Review the PIOB Foundation's major risk exposures and the steps that management has taken to monitor and control such exposures
- If required, meet separately (via conference call or in person) with the external audit firm
- Pre-approved any non-audit services to be provided by the external audit firm
- Review the performance of the external auditors on an annual basis and, if circumstances warrant, recommend their removal from the board of trustees

Internal controls

- Review the internal control framework, including external parties such as contractors
- Conduct a periodic review of the expense claims of the chair of the Board of Trustees and secretary general

6.OUR HUMAN CAPITAL

P OB

OUR HUMAN CAPITAL

All PIOB staff hold university degrees or equivalent qualifications, have international working experience, and share a strong commitment to the public interest.

To ensure that our staff thrive and perform at their best, staff needs and performance are assessed annually, and support is provided in the form of training and learning opportunities, such as language and skills training; investments in technology and tools, such as online communication software tools and training; and a focus on their well-being, including free regular COVID-19 testing and home-office support as needed.

Gonzalo Ramos | Secretary general
Joined 2009

Claudia Deodati | Director of oversight
Joined 2012

Heather Erickson | Executive assistant
Joined 2013

Rocío Goudie | Communications advisor
Joined 2006

Renzo Lari | Financial controller
Joined 2013

Nerea Lastras | Oversight advisor
Joined 2020

7.OUR RISKS AND HOW WE MITIGATE THEM

P OB

The PIOB's work entails several risks that we work hard to minimize. The table on page 36 describes the risks to our work and our efforts to mitigate them. It does not address operational risks.

Management of enterprise risk

Enterprise risk	Description	How we mitigate the risk: Status update
Lack of sustainable funding	(1) As a nonprofit organization, we have no activity-generated revenue stream and rely on external funding grants. (2) Funding deficits translate into a liability risk for PIOB trustees.	IFAC currently guarantees any funding shortfall in the PIOB annual budget. Reserves are in place and well maintained. *Post 2020 actions:* Funding is a key focus of the implementation of the MG recommendations, with specific emphasis on obtaining independent funding for the PIOB.
Inability to execute our public interest mandate due to lack of knowledge, understanding, skills, or capacity	To execute effective oversight of the standard-setting processes and standards of the SSBs, the PIOB needs to demonstrate the following: ● A deep understanding of the public interest issues applicable to each SSB project and SSB strategy ● An understanding of the varying perspectives and needs of stakeholders with a legitimate interest in the standards ● An understanding of the challenges faced by the SSBs and trade-offs needed to balance the qualitative characteristics expected of the standards ● A strong set of skills and capacity at the PIOB Secretariat ● A strong set of skills and capacity on the PIOB board to observe and oversee the work of the SSBs appropriately. In the absence of these critical factors, the PIOB runs the risk of being unable to execute its functions in the public interest.	The PIOB engages frequently with stakeholders - especially whenever stakeholders request our involvement—to understand their views and to test our understanding of public interest issues. The PIOB engages regularly with SSB leadership, as do the PIOB oversight staff and SSB technical directors, to understand the practical challenges. PIOB observers prepare their comments carefully, with input and assistance from the PIOB oversight team in the Secretariat. PIOB observers report to the full PIOB board and discuss matters of importance. The PIOB's views on public interest issues are updated quarterly and published. The PIOB board engages with the PIOB Secretariat in order to enhance the PIOB's skills and capacity to understand important matters. The drive to appoint strong and experienced PIOB members, as nominated by the MG, is ongoing. Staff planning and recruitment, retention, and succession planning are considered carefully. *Post 2020 actions:* More regular and pro-active engagements between PIOB and SSB leadership as well as between technical staff were added to the annual calendar. A PIOB skills matrix that will be used for future PIOB board nominations is in development. The PIOB nominations process was revised in accordance with the MG recommendations. Further transparency enhancement post transition period with regards to PIOB meetings being open to the public, and minutes, observation memos, and briefing memos being made available on the PIOB website.
Reputational risk relating to the impact of the lack of diversification of funding on the independence of the PIOB in overseeing the work of the SSBs	If the PIOB board, individual trustees, and staff are not, in fact or perception, independent from the SSBs they oversee, the value that the PIOB adds in serving the public interest will be diluted and our legitimacy to continue will be compromised. We are sensitive to the possible perception of influence if a significant part of our funding is obtained from the accountancy profession for which we provide oversight. The ultimate objective is for more than 50 percent of PIOB funding to come from sources outside of the accountancy profession. (Further information on our funding sources is available on pages 79-80 of this report)	Separation of sources of funds from management of the funds. MG oversight over the PIOB budget process. The PIOB, MG leadership, and MG member bodies all work continuously to diversify our funding sources, and efforts have been made over time to diversify the PIOB's sources of funding. The independence and integrity of PIOB staff and board members are governed by the PIOB's Code of Conduct. Internal processes seek to identify public interest issues independently through robust, independent oversight systems and engagement with a broad group of stakeholders, to avoid any perception of influence by funders. Public interest issues identified by the PIOB are posted on the PIOB website on a quarterly basis. Comments of PIOB observers at SSB meetings are made in a public forum and captured in the SSB minutes. Conscious efforts are made to perform oversight of the SSBs at arm's-length. *Post-2020 actions:* A consistent conflict of interest policy for SSB and PIOB board members and staff as part of the MG recommendations are in development. PIOB terms of reference and operating procedures are in the process of being revised as part of the MG reform. The PIOB board will consider staff succession.

8.OUR OVERSIGHT ACTIVITIES

Introductory remarks by the PIOB secretary general

2020 was a year of global change following the COVID-19 outbreak. Like most organizations, the PIOB had to adapt to the environmental changes, face the challenges, and continue to fulfill its mission.

At the PIOB, both staff and members worked and met remotely rather than at the PIOB offices and made internal structural changes. The PIOB welcomed its new chair Linda de Beer in April 2020. She replaced Eddy Wymeersch, who led the organization for three terms. In addition, PIOB board membership was reduced to seven and eight members during the year, as Maria Helena Pettersson and Jules Muis ended their terms and Markus Grund resigned as PIOB member (PIOB board membership includes 10 members). Robert Buchanan was appointed to the board, and Michael Hafeman was reappointed. In addition, early in 2020 the PIOB team was restored to its full complement, and Nerea Lastras joined the oversight team.

The PIOB implemented new technological resources to allow for a smooth transition to working exclusively online, as required by confinement measures. Despite the restrictions imposed by the pandemic, we continued to work throughout the year.

Oversight

SSBs' observations and outreach to stakeholders were maintained, albeit with extra effort from board members and staff. The SSBs completed some of the most important projects developed during the last few years, including the Quality Management Standards (QMSs) for the IAASB and the Non-Assurance Services and Fees Projects for the IESBA.

MG reforms

In July 2020, the Monitoring Group published a set of recommendations regarding reforms of standard setting in the field of audit and assurance and the field of ethics for accountants. These recommendations constitute a major achievement of the Monitoring Group and deserve special recognition. The recommended model retains the three-tier structure described above, makes the SSBs legally independent from IFAC under a new legal entity, places the responsibility for managing nominations to the SSBs under a new Nominations Committee, and sets a new public interest framework (PIF) for the activities of both the SSBs and PIOB oversight. The framework is central to ensuring that the SSBs' standard-setting activities are focused on preserving the public interest and aligned with public interest oversight criteria. The reforms are intended to enhance the independence of the standard-setting system to prevent any single type of stakeholder from wielding undue influence and to ensure that standards are set in the public interest.

The PIOB 15th anniversary gave us an opportunity to acknowledge the people who have made the PIOB and its work possible, to celebrate the road traveled so far, and to widen our dialogue with society and continue building on our purpose.

2021 priorities and objectives

2021 is a year of hope on all fronts. Institutional changes that took place in 2020 should settle after a successful transition, but the board will experience further changes with the departure of three of its longest-serving members in 2021. Also, a transition process to agree on the implementation of the MG recommendations was initiated at the end of 2020. Implementation of MG reforms will start in 2021 based on the agreed transition plans, including new requirements for transparency, a new public interest framework to govern our oversight activities and the activities of the SSBs, and new responsibilities over nominations. We expect the new model to be implemented in 2022, for which agreement on a funding model is critical.

In this context, we will continue to review the PIOB strategy for the next three to five years, fostering strong relationships with existing and new stakeholders and building greater confidence in capital markets.

Gonzalo Ramos
PIOB secretary general

Oversight overview

The PIOB conducted its oversight in 2020, adapting to the pandemic and observing all meetings, almost entirely held virtually. Because of the extension of meeting dates and more projects close to finalization, oversight was increasingly demanding in this climate.

Nevertheless, oversight processes were applied consistently, including PIOB member observations and staff reviews of meeting documentation, comment letters to exposure drafts, and other documents distributed during the year. The interactions of PIOB members and staff and the discussions at quarterly board meetings made it possible to continue identifying and updating the public interest issues concerning the main IAASB and IESBA projects, which were communicated to the SSBs and CAGs and published quarterly on the PIOB website. Databases on the main issues raised by MG members and other stakeholders were also updated and published.

The PIOB board assessed the approval of standards and strategies. The submission of PIOB documents (analysis of public interest responsiveness (APIR)) prepared by PIOB staff, supported an evaluation of how SSBs responded to the public interest issues raised on a specific standard (or strategy) by stakeholders and by the PIOB itself and whether the final standard (or strategy) met the qualitative criteria established in the public interest framework, which is detailed in the MG recommendations report

In view of the recommendations from the MG reform process regarding transparency, we are considering the implications of making some PIOB documents available to the public in anticipation of implementation in the near future.

PIOB Approvals in 2020

(IAASB and IESBA standards, strategies, and work plans)

IAASB

ISRS 4400 (Revised) – Agreed-Upon Procedures Engagements
Conforming Amendments to IAASB International Standards as a Result of the Revised IESBA Code
2020–2023 Strategy and 2020–2021 Work Plan
ISQM 1 – Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
ISQM 2 – Engagement Quality Reviews
ISA 220 – Quality Management for an Audit of Financial Statements
Conforming Amendments to ISAs and Related Material Arising from the Quality Management Projects

IESBA

Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants
Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

Oversight of the Nominating Committee

The PIOB's oversight of the IFAC Nominating Committee is intended to ensure that the process of nominating and selecting SSB members is conducted according to clear selection criteria and in a transparent manner. The IFAC Nominating Committee performs its mandate with the aim of selecting the most suitable person for the job, based on a candidate's professional background and the board's or committee's needs. It also seeks to achieve broad regional, professional, and gender balance within the SSB.

During the year, the IFAC Nominating Committee ran the nominations cycle for the vacancies shown in the following graph.

Vacancies on the Nominating Committee, IESBA and IAASB in 2021

Note: P = Practitioners. NP = non practitioners. PM = public members.

The PIOB Board approved the appointments and reappointments recommended by the IFAC Nominating Committee for 2021.

The 2022 Call for Nominations for IFAC groups, including open positions for the IFAC Nominating Committee membership, was issued in November 2020. In addition, two separate Calls for Nominations were issued in mid-December (one for the IAASB and one for the IESBA).

During 2020, the IAASB chair was reclassified from non-practitioner to public member, recognizing his actual membership status. An IESBA public member was reclassified as non-practitioner since he undertook an additional role as the Chair of an External Advisory Board that was commissioned for an audit firm.

The term of the IESBA chair was renewed for a final one-year term that will end in 2021.

A designated observer attended the IFAC Nominating Committee meetings, observed the nominations cycle, made suggestions, and offered recommendations. The following table lists the meetings observed and page 43 describes the PIOB's recommendations as well as the IFAC leadership's responses.

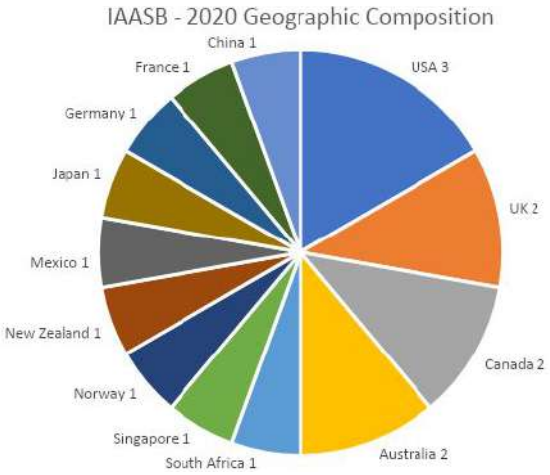
PIOB observation of the IFAC Nominating Committee meetings in 2020 (all virtual)

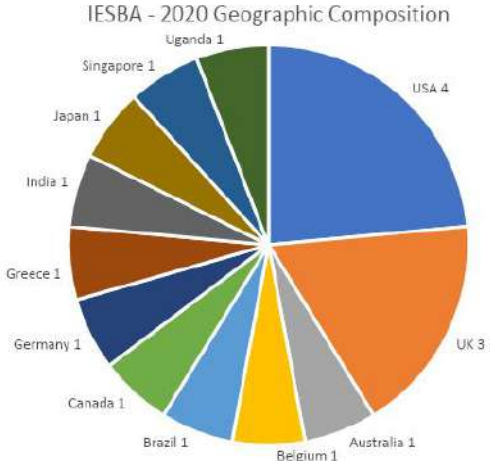
Date	Observer
March 26	Aileen Pierce
June 8–9	Aileen Pierce
June 22	Aileen Pierce
July 15	Aileen Pierce
July 17	Aileen Pierce
August 12	Aileen Pierce
October 22	Aileen Pierce

PIOB recommendations made to the IFAC Nominating Committee and IFAC leadership's response in 2020

PIOB's Recommendations	IFAC Leadership Response
Correlation between nominating organizations of SSB members rotating off and new candidates proposed In addition to the geographic diversity targets not being achieved, there is a concerning correlation between the nominating bodies of the members rotating off the SSBs and the recommended candidates.	The Nominating Committee acknowledged the need to diversify the pool of candidates for IAASB and IESBA vacancies and agreed to devote more efforts for outreach for 2022 vacancies.
Definition of Public Member (PM) and overlap with Non-Practitioner There is no robust definition of PM as the classification criteria are not explicit in specifying what a PM is, but only what is not (a practitioner). Moreover, there is no clear distinction between the PM and the Non-Practitioner definition. As the Public Member category has been retained in the 2022 Call for Nominations, it is important that the definition be clarified.	The key distinction between PMs and Non-Practitioners outlined in the PM definition is that "PMs clearly represent, and are seen to represent, the broad public interest". Although the Nominating Committee acknowledged that the PM definition could be further clarified, it would not be practical to undertake this exercise in the context of IAASB and IESBA transition to a new multi-stakeholder model based on the Monitoring Group reforms.
Volunteer Performance Program (VPP) In the annual performance evaluation of SSB members, a 360-degree peer review might be considered in the VPP process, in addition to the reviews undertaken almost exclusively by the SSB Chairs. A more inclusive process would protect SSB members from potential bias, as it would be fairer and more open. PIOB observers could be potentially included in such consultation.	The Nominating Committee consulted with the SSB chairs on whether adding some type of peer review would be beneficial. Based on Chairs' input, the Nominating Committee concluded that adding a 360-degree element to the volunteer performance would not be effective in the context of the purpose of the VPP and the current standard-setting model. The Nominating Committee added a new provision in the VPP guidelines for members to be able to express their views to the Nominating Committee in situations of any disagreement regarding their performance evaluation.
Drafting suggestions in the 2022 Call for Nominations The focus on the experience of volunteers could be more nuanced, broader than in audit and assurance. Particularly in the context of IAASB Desired Qualifications and Experience, an understanding of the significance of audit and assurance standards for quality audits and effective corporate governance, might be explicitly stated. Reference to the broad stakeholder input envisaged in the MG reforms might usefully be made in the Desired Qualifications and Experience section of the Call for Nominations.	Input provided by the PIOB (and Monitoring Group) was incorporated in the 2022 Calls for Nominations for IAASB and IESBA.

The composition of the IAASB and IESBA in 2020, which is depicted in the pie charts below, shows the geographic diversity of the membership of both the IAASB and the IESBA. Out of 18 members, the IAASB includes 13 nationalities. Out of 17 members, the IESBA includes 12 nationalities. The United States and United Kingdom each contribute more than one member to each SSB. Canada and Australia each contribute more than one member to the IAASB. The rest of the nationalities are represented evenly, with one member in each SSB.





Oversight of the IAASB and its CAG

The IAASB's key achievement for the year was the completion of its work on the three Quality Management Standards. In addition, the IAASB agenda included revising the ISA on Group Audits (ISA 600) and determining the direction to be taken for Audits of less complex entities (LCEs). The IAASB undertook several outreach activities to start its information-gathering activities on the Fraud and Going Concern initiatives as well as its Audit Evidence and Technology workstreams, according to its 2020–2021 Work Plan.

The IAASB CAG chair was reelected for a three-year term, effective October 1, 2020, and the PIOB oversaw the relevant process.

Projects finalized by the IAASB and approved by the PIOB in 2020

ISQM1 (Revised), ISQM2, ISA 220 (Revised) (Quality Management Standards - QMS)

The three QMS (ISQM1 (Revised), ISQM2, and ISA 220 (Revised)) aim to encourage and improve quality management at the firm and engagement levels as well as the performance of engagement quality reviews. Among the objectives and public interest issues that the project intended to address were the need to manage quality pro-actively and the need to keep the standards fit for purpose. A key issue was also scalability, to allow firms of different sizes and complexity to apply the standards. Close coordination among the three QMS task forces, between them and other IAASB task forces (for example, ISA 600), and between the IAASB and the IESBA was achieved during development of the QMS.

The PIOB raised several public interest issues throughout development of the standards. The tables on pages 47 and 48 describe the public interest issues raised by the PIOB on the project and the PIOB's analysis of the IAASB response.

Public interest issues raised by the PIOB with regard to QMS and PIOB's analysis of the IAASB response

Description of the PIOB's public Interest issues	PIOB's analysis of SSB disposition
ISQM 1	
The objective of a Quality Management System should focus on high quality audits	
The standard should state clearly that the objective of the quality management system is to produce high-quality audits, not just compliance with standards and legal requirements. The objective should be outcome based, rather than focused on compliance with a process.	The reference to the public interest, formerly placed in the introduction of the standard, was given more prominence and moved to the objective of ISQM 1, explaining that the public interest is served by the consistent performance of quality management.
The firm's business model should not interfere with Audit Quality (AQ)	
The firm's business model includes the governance structure of the firm, adherence to ethical requirements by the firm's management and by the auditors, the incentive structure of partners and staff, auditor's accountability, and non-assurance services provided to audit clients. All those elements should promote AQ, not interfere with it.	The PIOB acknowledges the inclusion, in the standard, of the business model as a factor which may adversely affect AQ.
The IAASB should continue coordinating with the IESBA aspects related to ethical requirements	
The PIOB welcomes the coordination between the IAASB and the IESBA on aspects related to the Code of Ethics (e.g., ethical requirements, auditor independence, and engagement quality reviews).	Coordination is noted.
Quality at Network level should be addressed in ISQM 1	
Investors and those who use audit services from a global "branded firm" should receive uniform quality from that brand. ISQM 1 should contemplate coordinating at network level all those aspects that affect the AQ of that brand.	The provisions in the standard have been enhanced by introducing considerations of networks at different levels, as well as a requirement to obtain information about how network requirements have been appropriately implemented across the network firms.
Transparency Reports (TR) or other forms of external communication should be required in ISQM 1	
Communicating externally the firm's quality management system is in the public interest. The minimum content of TR (or alternative reporting) should be indicated in the standard, and include a description of the firms' quality management system, deficiencies found, and measures taken to remediate them.	The PIOB welcomes the requirements introduced for audit firms: 1) to communicate to Those Charged with Governance (TCWG) when performing an audit of financial statements of listed entities about the system of quality management (e.g. results of the monitoring activities and remediation actions); 2) to establish policies and procedures that address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management. TRs are provided as an example of external communication in ISQM 1 in the Application Material.

Public interest issues raised by the PIOB with regard to QMS and PIOB's analysis of the IAASB response cont.

Description of the PIOB's public interest issues	PIOB's analysis of SSB disposition
Complexity and scalability of the standard should be addressed	
The length and complexity of the standard are major concerns, as they may impede the ability of smaller firms to implement the standard.	Scalability examples have been provided throughout the standard.
ISQM 2	
Engagement Quality Reviews (EQRs) should be required for all PIEs	
EQRs should be required for all PIEs. ISQM 2 requires EQRs in the following cases: audits of financial statements of listed entities; audits or other engagements for which EQRs are required by law or regulation; audits or other engagements for which the firm determines that an EQR is an appropriate response to address quality risks.	The PIOB acknowledges that the ISAs use the concept of "listed entities", rather than the concept of PIEs and that the issue has been taken forward into the IESBA's project on the definition of PIEs and listed entities, currently under development by the IESBA and coordinated with the IAASB, to ensure consistency and alignment between the ISAs and the Code of Ethics. The PIOB looks forward to the outcome of that project.
Coordination with the IESBA on aspects related to ethical requirements	
The PIOB welcomes and supports the ongoing coordination between the IAASB and the IESBA on topics overlapping with the Code of Ethics (e.g., auditor independence, objectivity, engagement quality reviews, cooling-off period for Engagement Quality Reviewers, definition of PIEs).	Coordination occurred.
The requirements for the Engagement Quality Reviewers' performance should be strengthened	
According to IFIAR's Inspections Report in 2019, one of the most important findings on engagement performance and quality continues being related to the "insufficient depth/extent of engagement quality reviews." EQRs should be performed as the audit is being performed ("continuous quality control through the audit"), not at the end of the audit or after the auditor's report has been issued.	The PIOB notes that ISQM 2 requires the engagement quality reviewer to review the audit documentation at appropriate points in time, throughout all the stages of the engagement and on or before the date of the engagement report.
ISA 220	
The objective of a Quality Management System should focus on Audit Quality (AQ)	
The standard should state clearly that the objective of the quality management system at engagement level is to produce high-quality audits, not just compliance with standards and legal requirements.	While the PIOB notes that the final text includes an objective which continues to be compliance oriented, the standard explicitly states that the engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement as well as a stand-back requirement in this regard, prior to dating the auditor's report.
Engagement Partner's Responsibilities	
The Engagement Partner needs to be satisfied not only that the firm's policies and procedures have been complied with, but compliance is also applicable to rules and regulations. If necessary, the engagement may need to be discontinued.	The standard makes a reference to the applicable legal and relevant ethical requirements, as well as the possibility to withdraw from the engagement.

Ongoing projects of the IAASB

1.Group audits (ISA 600)

Group audits affect major economic operators, including the most systemically important entities. A crucial aspect in group audits is the cooperation and communication between the group auditor and the component auditors. Stronger requirements regarding that interaction and the documentation, introduced in the exposure draft, are an improvement over the current standard.

The IAASB project to revise ISA 600 is expected to be finalized by the end of 2021 and will have to address aspects such as the scope and applicability of the standard, the risk-based approach, including the involvement of component auditors, the definition of component, and the definition of engagement team. The definition of engagement team, already revised in ISA 220, has an impact on independence issues, which is a theme that the IESBA is exploring as well.

2.Audits of less complex entities (LCEs)

The PIOB supports the need to explore ways to scale audit requirements for LCEs, as requested by multiple stakeholders. The IAASB decision to address those calls by developing a separate standard for Audits of LCEs needs to ensure that the scope of the separate standard is limited to the entities that are truly less complex. At the same time, the same level of reasonable assurance should be attained so that there is no impact on audit quality.

Based on feedback received on consultation and during outreach, the IAASB will also continue to explore how best to address CUSP (complexity, understandability, scalability, and proportionality) in the ISAs more broadly, including the development of drafting principles and guidelines as a primary action. The IAASB has also introduced the possibility of a narrow scope of amendments as part of its framework of activities.

The IAASB approved the project proposal of the separate standard in December 2020 and will at the same time be working on the drafting principles and guidelines relating to the ISAs more broadly.

3.Going concern

In light of corporate and audit failures in the past and the additional going concern risk placed on entities due to COVID-19, the PIOB believes that auditors have an important role to play in serving the public interest. The IAASB should explore how to implement an explicit statement in the audit report, which might include a conclusion, as to whether the going concern assumption applied in the preparation of the financial statements was appropriate.

The IAASB is in the information-gathering phase for this project and will be discussing the outcome of its public consultation and other outreach activities, as well as any actions to be taken.

4.Fraud

The PIOB stressed the importance of fraud and recommended giving it priority in the 2020–2023 IAASB Strategy and the 2020–2021 Work Plan. The PIOB looks forward to further progress in view of the information-gathering activities (review of academic research, roundtables, stakeholder outreach, and discussion paper) undertaken by the IAASB.

5.Audit evidence

The COVID-19 pandemic has introduced a high level of uncertainty that affects accounting estimates, requiring more work from auditors and the need to exercise professional skepticism, especially regarding evidence and evaluation of the risk of material misstatement. For this reason, the project on audit evidence has become even more important and needs to be timely. The interrelation with the Technology Project needs to be explored, as does coordination between the IAASB and IESBA.

The IAASB approved the project proposal in December 2020.

6.Technology

The PIOB recommended deeper and timely consideration of the Technology Project and looks forward to the initiatives undertaken by the IAASB. Standards should be revisited to reflect the impact of technology on the audit profession. Coordination with the IESBA should be sought, and information should be shared with the relevant technology task force.

7.Extended external reporting (EER)

The demand for environmental, social, and governance (ESG) reporting is gaining prominence in the international agenda. To address this need for special reporting, the IAASB issued in April 2021 a non-authoritative guidance on applying ISAE 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, to EER assurance engagements.

PIOB observation of the IAASB online meetings in 2020

Date	Observer
January 23	Markus Grund
February 11	Markus Grund
March 16–20	Markus Grund
April 1	Markus Grund
April 8	Markus Grund
April 14	Markus Grund
June 15-19	Karen Stothers
July 22	Karen Stothers
August 11	Markus Grund
September 14–18	Markus Grund
September 21	Karen Stothers
September 23	Karen Stothers
November 10	Karen Stothers
November 11	Karen Stothers
December 7–11	Karen Stothers

PIOB observation of the IAASB CAG meetings in 2020

Date	Observer
March 10-11	Shigeo Kashiwagi
September 8–9	Shigeo Kashiwagi
October 13	Shigeo Kashiwagi
December 1	Shigeo Kashiwagi

Oversight of the IESBA and its CAG

During 2020, the IESBA discussed and made progress on several projects within its Strategy and Work Plan for 2019–2023, achieving several milestones with the approvals of the Role and Mindset, Non-assurance Services, and Fees Projects. A description of the projects observed, including key public interest issues identified and IESBA response to those comments, follows.

Projects finalized by the IESBA and approved by the PIOB in 2020

Revisions to the Code of Ethics to promote the role and mindset expected of professional accountants (Role and Mindset revisions to the Code of Ethics)

The Role and Mindset revisions to the Code of Ethics are intended to ensure that the IESBA Code of Ethics promotes the role, mindset, and behavioral characteristics expected of all professional accountants when performing their professional activities, including requirements that all professional accountants act in the public interest, exercise professional judgment, and have an "inquiring mind" when applying the conceptual framework. The concept of "professional skepticism" is reserved for auditors when performing audits, reviews and other assurance engagements. The table on page 60 describes the public interest issues raised by the PIOB on the project and the PIOB's analysis of the IESBA response.

Public interest issues raised by the PIOB with regard to Role and Mindset revisions to the Code of Ethics and the PIOB's analysis of the IESBA response

Description of the PIOB's public interest issues	PIOB's analysis of SSB disposition
Exercise of professional skepticism (or other suitable term) required from all professional accountants	
Initially, the PIOB recommended that the IESBA to require the application of professional skepticism to all professional accountants (and not only to auditors). As a result of feedback received, the IESBA decided to limit the use of the term Professional Skepticism only to auditors. The IESBA supported the idea that some core values and behavioral characteristics should be expected from all professional accountants. Therefore, it started the Role and Mindset project to develop a suitable term ("inquiring mind", as finally used), applicable to all professional accountants. The PIOB adapted its recommendation accordingly and supported the approach in the Role and Mindset project. In addition, during the deliberation of comments received to the exposure draft, we also encouraged IESBA not to weaken the requirements as proposed in the exposure draft regarding the responsibility of professional accountants to act in the public interest.	The PIOB welcomed the final revisions to the Code of Ethics, including a requirement for all professional accountants to have an inquiring mind and to exercise professional judgment when applying the conceptual framework; drafting application material on the threat of "automation bias" and on the importance of firm "culture" with a reference to ISQM 1. Also, in the final text approved, IESBA retained the reference to the importance of the professional accountants "behaving in a manner consistent with the profession's responsibility to act in the public interest".

Projects finalized by the IESBA and approved by the PIOB in 2020

Revisions to the Code of Ethics addressing the objectivity of an engagement quality reviewer and other appropriate reviewers

The revisions develop guidance in the Code of Ethics to clarify how to apply the conceptual framework to address threats to the objectivity of an individual being considered for appointment as an engagement quality reviewer and recognizes that the guidance might also be applied to other appropriate reviewers in certain circumstances. The guidance identifies the implementation of a cooling-off period as an example of an appropriate safeguard to address threats to objectivity, for those who previously served on the engagement. It also includes a reference to the newly issued IAASB standard ISQM 2, which introduces a mandatory cooling-off period of two years for engagement partners moving into the role of engagement quality reviewer. The table on page 62 describes the public interest issues raised by the PIOB on the project and the PIOB's analysis of the IESBA response.

Public interest issues raised by the PIOB with regard to Revisions to the Code of Ethics addressing the objectivity of an engagement quality reviewer and other appropriate reviewers, and PIOB's analysis of the IESBA response

Description of the PIOB's public interest issues	PIOB's analysis of SSB disposition
Clarify interaction of cooling-off period addressing Objectivity of the engagement quality reviewer with cooling-off in Long Association provisions (Section 540)	
The PIOB requested that IESBA clarify that the cooling-off period addressing threats to objectivity of an engagement partner, when moving to the role of an engagement quality reviewer, is different from and does not substitute the cooling-off period required in the Long Association provisions (Section 540), addressing independence and familiarity threats from an audit client. In addition, the PIOB suggested that Section 540 should explain the implications of the cooling-off period addressing threats to objectivity on the seven-year "time-on" allowed with an audit client. Restrictions on the different Key Audit Partners' roles allowed during that time of service should be clarified.	The PIOB welcomed the revisions and the guidance included in the final revisions to the Code of Ethics. The final provisions clarified that the cooling-off period in ISQM 2 is distinct from, and does not modify, the partner rotation requirements in Section 540 of the Code of Ethics and vice versa. The IESBA also concluded to commission IESBA staff Frequently Asked Questions to provide further examples and clarification on the interplay between the two types of cooling-off.
Cooling-off requirements should be explicit in the Code of Ethics	
Identifying threats to the objectivity of the engagement quality reviewer and applying safeguards to address those threats are ethical matters that should be dealt with comprehensively within the Code of Ethics. While the PIOB agrees that the Code should remain principles-based whenever possible, certain significant matters that impact the public interest may require more prescriptiveness. An extant example is the cooling-off period included in Long Association in the Code. The requirement of a cooling-off period for an engagement partner moving to an engagement quality reviewer role, which in the exposure draft was proposed to be only included in ISQM 2, is a significant requirement that should be established as a requirement within the Code of Ethics to ensure consistency of both sets of standards (ISAs and the Code) and within the Code. Scalability of these requirements should be duly considered and, in particular, the implications on the applicability by Small and Medium Practice firms (SMP).	The PIOB acknowledged the guidance included in Section 325 of the Code that includes a cross-reference to ISQM 2 and that explicitly recognizes that the cooling-off requirement in ISQM 2 serves a dual compliance purpose, with ethical principles and quality management requirements. While this additional guidance may not entirely meet the recommendation made by the PIOB, it adds clarity and enhances the new provisions in the Code, enabling users to better comply with the Conceptual Framework in respect of threats to objectivity of the Engagement Quality Reviewer.
Coordination needed between IESBA and IAASB in relation to the scope of application of a cooling-off requirement	
The scope of the cooling-off requirement in ISQM 2 should be fully aligned with the Code of Ethics, especially in relation to applicability to PIEs vs. other types of entities (e.g. listed entities). The PIOB acknowledges the coordination between IESBA and IAASB in developing this project. However, further coordination should be sought to ensure that there is consistent application of requirements across the universe of entities. Given the different level of adoption of ISAs vs. the Code, the implications on the application of the requirements to different types of entities should be carefully considered.	The PIOB notes that the IESBA´s review of the definition of PIE, and the consideration of its application under the ISAs by the IAASB are ongoing projects, and therefore, the scope of application of the two sets of standards will be followed up and assessed once the PIE definition project is completed (see below for further details on this project).

Projects finalized by IESBA in 2020, approved by the PIOB in 2021

The PIOB followed the development of the Non-Assurance Services (NAS) and Fees Projects and raised some public interest issues that have been addressed by the IESBA, as described below. The PIOB assessed the responsiveness to the public interest of the final NAS and Fees provisions and provided its approval in April 2021.

Non-assurance services (NAS)

The NAS Project revised the independence standards in the Code of Ethics related to the provision of NAS by auditors to audit clients, clarifying the circumstances in which audit firms (and their network firms) may be permitted or precluded from providing NAS to audit clients. The table on page 65 describes the public interest issues raised by the PIOB on the project and the PIOB's analysis of the IESBA response.

Public interest issues raised by the PIOB with regard to NAS and PIOB's analysis of the IESBA response

Description of the PIOB's public interest issues	PIOB's analysis of SSB disposition
Significant revision of NAS expected, ultimately addressing independence issues	
At the outset of the project, the PIOB conveyed to the IESBA its expectation of a significant revision of the provision of NAS to address independence issues.	The PIOB welcomes the revision of the provision of NAS to address independence issues. In particular, the PIOB welcomes the final IESBA provisions to prohibit firms and network firms from providing NAS to audit clients that are PIEs "if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion". The provision that elevates to a requirement the assessment of a self-review threat strengthens these provisions. The PIOB also welcomes the prohibition for audit firms and networks to provide certain NAS, such as bookkeeping and accounting services, to audit clients that are PIEs. The PIOB notes the exceptions established to address specific and practical issues, which allow firms and networks to prepare statutory financial statements for certain related entities of the PIE, under very limited and precise circumstances. The requirement for audit firms to obtain agreement from those charged with governance (TCWG) before providing NAS to audit clients that are PIEs is an appropriate measure, responsive to stakeholders and the PIOB's suggestions. The final text approved by the IESBA, clarifying the application of the requirement to the audit client and its related entities, improves the understandability of the Code.
During the discussion of proposed provisions, the PIOB also recommended the IESBA to consider the comments that stricter provisions for PIEs are already applicable in several jurisdictions, including where NAS provided to PIEs are prohibited in all instances; and that a Code that is less strict in respect of NAS requirements than current regulations in many jurisdictions would risk becoming redundant and would hinder global adoption and comparability.	As NAS provisions vary across jurisdictions, including where providing NAS to PIEs is prohibited in all instances, the IESBA could use the Benchmarking initiative to compare the independence requirements in major jurisdictions with the new NAS provisions, to assess whether the Code of Ethics would be still robust.
Assessment of threats for NAS provided to related entities of PIEs	
The PIOB noted that the proposed provisions on the self-review threat prohibition and the communication with TCWG in relation to NAS provided to related entities of a PIE need to be clearly addressed in the Code, either by the NAS or Fees task forces, and applied consistently to all PIEs (whether listed or not) to achieve certainty.	The final requirements related to communication to TCWG when providing NAS to related entities of a PIE audit client have been clarified in the final text.
Sufficiency of certain safeguards that involve using other teams or appropriate reviewers	
The PIOB recommended that the IESBA consider the sufficiency and effectiveness of using professionals who are not members of the audit team to perform NAS or appropriate reviewers who are not involved in the engagement as a safeguard for addressing threats arising from the provision of NAS. It should also consider whether additional safeguards and alternatives can be applied whenever an appropriate reviewer is not a safeguard available or not scalable (e.g., in SMPs there may not be sufficient staff available).	The PIOB notes the IESBA conclusion that safeguards in the Code are sufficient but encourages it to monitor the implementation of the provisions and to assess whether they should be reviewed in the future.
Provisions on Tax Services, within NAS	
The initial proposals, within the NAS provisions, set the bar too low in allowing tax services. The PIOB requested a revision of the text in R 604.4, which could have had unintended consequences and be read as promoting aggressive tax planning rather than reasonable conservatism, as expected from the audit profession.	The IESBA revised and enhanced the text. The final threshold used to determine whether the provision of tax services is allowable ("the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail") provides more clarity.

Fees

The Fees Project has revised fee-related provisions in the Code of Ethics that affect, or are perceived to affect, auditor independence, including provisions regarding the level of audit fees and fees for other services as well as fee dependency on audit clients. The table on page 67 describes the public interest issues raised by the PIOB on the project and the PIOB's analysis of the IESBA response.

Public interest issues raised by the PIOB with regard to Fees and PIOB's analysis of the IESBA response

Description of the PIOB's public interest issues	PIOB's analysis of SSB disposition
Potential impact of fee levels and their significance on auditor independence	
As shown in several studies, the share of revenue from consulting services is increasing in relation to audit. Accountancy firms may devote fewer and lower-quality resources to audit activities. The relative level of fees in audit and in consulting, as well as overall revenues, should be considered from the perspective of ensuring high-quality audits.	The PIOB welcomes the revisions to the fee provisions in the Code to address the potential impact of fee levels on an auditor's independence and on audit quality. For audit clients that are PIEs, the PIOB acknowledges the requirement for audit firms to communicate fees to TCWG and to disclose fee-related information publicly. Transparency is fundamental to provide clarity and robust information for decision making on the assessment of independence. On fee dependency from a client, the final provisions require firms to disclose to TCWG whether the total fees from a PIE audit client exceed the threshold of 15% of the total fees received by the audit firm. The PIOB notes the requirement of ending the audit engagement if the total fees from a PIE audit client exceed the threshold of 15% for five consecutive years, subject to some limited exceptions for compelling reasons. These provisions set strict guidelines that are enforceable and can be applied consistently.
Sufficiency of appropriate reviewer safeguard	
The PIOB recommended that the IESBA consider revisiting the sufficiency and effectiveness of having one appropriate reviewer not involved in the engagement as a safeguard to address threats arising from fee dependency and whether additional safeguards and alternatives can be applied whenever the appropriate reviewer is not a safeguard available or not scalable (e.g., in SMPs there may not be sufficient staff available).	The PIOB notes the IESBA conclusion that safeguards in the Code are sufficient but encourages it to monitor the implementation of the provisions and to assess whether they should be reviewed in the future.
Enforceability and clarity of language	
The PIOB encouraged the IESBA to clarify certain terms used in the fee provisions of the Code, such as "large proportion of fees", "significance", etc., even if some of these terms have been used previously in other sections of the Code of Ethics, as they may not be clear or precise enough in the current context. The PIOB also noted the exceptions added to the disclosure of fee-related information to TCWG and to the public in certain circumstances. These exceptions add complexity, potentially giving rise to confusion, hindering understandability, and risking inconsistency in application.	The PIOB acknowledges the rationale and the conclusion reached by the IESBA that these exceptions are necessary to provide for disclosure that is relevant to the firm's independence and are intended to minimize duplication. The PIOB continues to encourage IESBA to use clear and enforceable terminology in the Code in future projects, minimizing the use of exceptions, in line with the public interest framework. Clarity, conciseness, and simplicity would help to ensure more consistency in the application of the provisions, making the Code more robust and enabling enforceability.

Ongoing projects of the IESBA

IESBA International Ethics Standards Board for Accountants

1.Definitions of listed entity and public interest entity

The IESBA is reviewing the definitions of listed entity and PIE in the Code of Ethics. The definitions of these terms have significant public interest as they are used in the Code to prescribe differential, more stringent independence requirements for the auditors of entities meeting the definition. The project is coordinated with the IAASB, with a key objective being to achieve convergence between concepts in the Code and the ISAs. Transparency is key to ensuring that there is certainty in the rules applied to an entity and to achieving enhanced confidence in the audit of PIEs.

In December 2020, the IESBA approved an exposure draft that was issued in January 2021 and was open for public consultation until May 3, 2021.

2.Engagement team-group audits independence

The project seeks to align the definition of the term “engagement team” in the Code with the revised definition in the new QMS issued by the IAASB and to clarify the independence requirements applicable to the different individuals who are part of the engagement team. This project offers an opportunity, not only to improve the definitions in the Code, but also to strengthen the independence requirements, in particular, for component auditors who are not part of the audit firm’s network.

In addition, this project has highlighted the need to also address the independence requirements of external experts used in the audit. These experts currently are not subject to independence requirements in the Code of Ethics.

The IESBA aims to issue an exposure draft in the second half of 2021.

3.Technology

The Technology project is identifying the ethical implications of new technology and how these may affect the fundamental principles and independence standards of the Code of Ethics, and intends to propose responses to address them. A critical aspect of the project is to examine the independence requirements applicable to services provided through the technology owned by audit firms or licensed by audit firms to audit clients.

An exposure draft is expected to be approved in December 2021.

4.Tax planning and related services

This initiative is gathering information on regulatory and practice development in tax planning performed by professional accountants to identify and analyze the ethical implications of those developments. The PIOB expects that this project will be advanced further in 2021 given the impact that these activities can have on tax avoidance.

5.Other initiatives

The IESBA also made progress on other initiatives during 2020, such as the Benchmarking Initiative to compare the independence standards in the Code of Ethics to other independence standards applied in major jurisdictions, and the launch of an eCode, together with IFAC. These initiatives are also important to raise awareness on the Code of Ethics and serve the public interest.

PIOB observations of the IESBA CAG online meetings in 2020

Date	Observer
March 9	Shigeo Kashiwagi
September 1	Shigeo Kashiwagi
September 10	Shigeo Kashiwagi
October 13	Shigeo Kashiwagi

PIOB observations of the IESBA meetings in 2020

Date	Observer(s)
March 16	Gonzalo Ramos, Claudia Deodati, Nerea Lastras
March 17–18	Jules Muis
April 16	Jules Muis
June 8–12	Jules Muis
June 15	Jules Muis
July 22	Robert Buchanan
September 14–18	Robert Buchanan
September 21	Robert Buchanan
September 29	Robert Buchanan
October 1	Robert Buchanan
November 30	Aileen Pierce
December 1–4	Aileen Pierce
December 8–9	Aileen Pierce

9.FINANCIAL CAPITAL

Funding

In 2020, the PIOB received financial support from the following organizations:

- International Federation of Accountants
- European Union
- International Organization of Securities Commissions
- Bank for International Settlements on behalf of the Financial Stability Board, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors
- International Forum of Independent Audit Regulators
- Federal Audit Oversight Authority of Switzerland
- UK Financial Reporting Council.

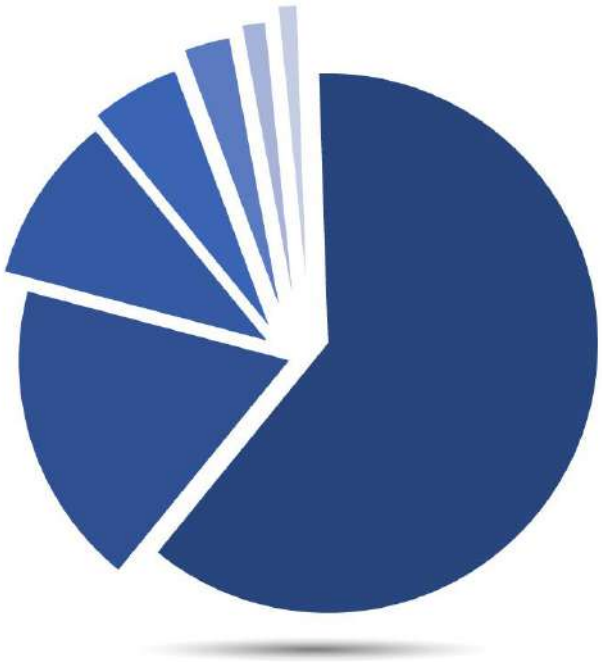
In addition, the PIOB received an in-kind contribution from the Spanish authorities.

PIOB Budget Diversification

FUNDING AND SUMMARY OF FINANCIAL STATEMENTS IN 2020

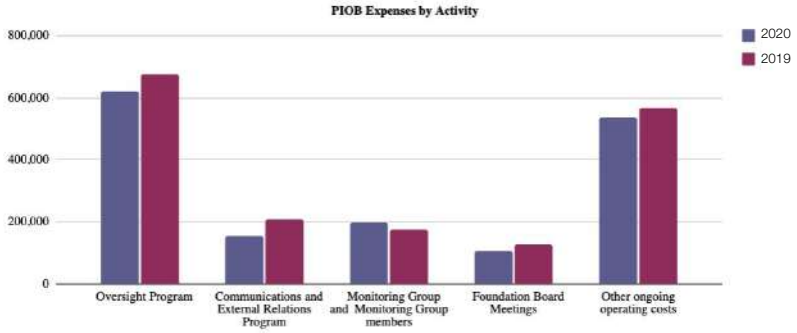
In 2012, the PIOB conducted a fundraising exercise in close coordination with the MG and IFAC. As a result, in 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020, the PIOB achieved a diversified funding base that includes sources other than IFAC. In 2020, the PIOB received monetary contributions that amounted 1,615,145 euros and an In-kind contribution from the Spanish authorities that amounted to 189,318 euros.

1,064,438	59%	International Federation of Accountants (IFAC)
345,000 €	19%	European Commission (EC)
189,318 €	10%	In-kind contribution from Spanish Government
100,000 €	6%	International Organization of Securities Commissions(IOSCO)
50,707 €	3%	International Forum of Independent Regulators
25,000 €	1%	Bank for International Settlements (BIS)
20,000 €	1%	Financial Reporting Council
10,000 €	1%	Federal Audit Oversight Authority



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

	2020	2019
TOTAL REVENUE (3)	1,804,463	1,858,346
EXPENSES		
Board-related operating costs		
Oversight Program	618,855	674,949
Communications & External Relations Program	155,024	208,976
Monitoring Group & Monitoring Group members	198,241	173,688
Foundation Board Meetings	106,850	124,690
Other ongoing operating costs	536,321	565,132
Total Expenses	**1,615,291**	**1,747,435**
Surplus	189,172	110,911



(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 monetary revenues for 2020 were contributed by the International Federation of Accountants (IFAC) in the amount of 1,064,438 Euros, the European Commission (EC) in the amount of 345,000 Euros, International Organization of Securities Commissions (IOSCO) in the amount of 100,000 Euros, the International Forum of Independent Regulators (IFIAR) in the amount of JPY 6,150,000 (equivalent to 50,707 Euros), Bank for International Settlements (BIS) in the amount of 25,000 Euros (*), Financial Reporting Council in the amount of 20,000 Euros and the Federal Audit Oversight Authority (FAOA) in the amount of 10,000 Euros. In addition, the PIOB receives an In-kind contribution from the Spanish Government to use free of charge its premises located in Oquendo 12, Madrid.

The right of use represents a non-monetary revenue of 189,318 euros in 2020 and 2019.

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 2020 and 2019, provided through FSB, BCBS and IAIS.

PIOB

Enhancing Public Interest

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