

OVERSIGHT OF INTERNATIONAL STANDARD SETTING FOR
AUDIT, ETHICS AND ACCOUNTANT EDUCATION: RESULTS
AND FUTURE WORK

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It is a privilege and pleasure to meet with the Basel Committee and have an opportunity to briefly present the activities and progress of the Public Interest Oversight Board. Naturally, I fully realize that the Basel Committee has been a protagonist in international standard setting in the area of banking supervision. There is much in your experience that can be helpful to the PIOB. Furthermore, I must say that I consider this as part of an accountability exercise, as the Basel Committee has been one of the staunch supporters of reform of the International Federation of Accountants (IFAC) and creation of the PIOB. You have also sponsored the not-for-profit foundation that we have formed in Spain as the legal entity under which the PIOB operates. I want to extend the thanks of all my PIOB colleagues and myself for your support.

As you will recall, the PIOB was launched two years ago in March 2005. Its mission is to provide independent oversight in the public interest over standard setting and compliance activities that take place under the auspices of IFAC. The scope of these activities covers the International Audit and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), the International Accountant Education Standards Board (IAESB) and the Compliance Advisory Panel (CAP).

We issued our first public report ten months ago in May 2006. We are now preparing to issue our second public report. Our public reporting is the major way in which we disseminate widely the results, conclusions and recommendations from our oversight activity. It is also our only form of enforcement, when the collaborative methods of bringing about change have been exhausted.

We started our work at a time when the activities that we were to oversee were already long underway and going at full speed. The PIOB had to

assert its oversight authority without disorienting the ongoing activities of standard setting. One of the first decisions we came to was the establishment of a program of full monitoring of activities under our oversight. That was both a learning exercise for us, centered on the details of standard-setting work and on the process followed, and a visibility exercise for the relevant Boards to feel that oversight was present and vigilant. It became clear from very early on that the chairs and members of the standard setting committees made adjustments to their behavior as an agent of oversight became a regular presence in their process.

Another early action was to place under review the terms of reference and the definition of due process of the boards that we were charged to oversee. This was a valuable exercise for three reasons. First, it pushed for a clear description of work process that was tacitly accepted before but now had to become explicit. Secondly, it pushed for a general improvement through making standard practice what was previously considered preferred good practice. Thirdly, it pushed for a clarification of roles.

Let me give examples of early outcomes of PIOB activities in this area:

- due process rules on items as draft exposure times, re-exposure, transparency, ‘basis for conclusions’ statements.
- clear separation of the role of board chairman from chairman of Consultative Advisory Groups
- standardization of due process rules across boards

An important area of our mission is oversight of nominations for the renewal of membership of the standard setting boards. Here we supervised the process closely and encouraged a number of changes, all of which have been accepted. First of all a clear elaboration of selection

criteria was needed. This was important as what both IFAC reform intended, and we pressed for, was greater diversity in the composition of the boards. The presence of non-practitioners, regional and cultural diversity, gender balance, professional diversity among practitioners (e.g. from both small and large practices) were primary objectives.

Criteria adopted made clear that quality and expertise are foremost but must be coupled with other parameters of diversity if any board which sets standards is to have credibility around the world. Additionally, we supervised the nomination process itself and witnessed the implementation of these criteria towards a decidedly better balanced composition of standard setting boards, without serious compromise of quality and expertise. Thirdly, we encouraged the tapping of alternative sources of expertise, especially in the case of the board setting ISAs, such as from public sector audit experts, academics, national standard setters. Again we have seen some positive steps in that direction. For example, parity of practitioners and non-practitioners has been established in the IESBA and the IAESB and near parity is already present in the IAASB.

Beside the other activities I mentioned, I must tell you that we came into our second year much better equipped to make our monitoring more focused on looking out for the public interest in the conduct of meetings, the management of exposure drafts and comment letters, the responsiveness to comments and the final evaluation of due process on a standard-by-standard basis before definitive issuance of a standard. (We have devoted considerable portion of our attention to ISAs and the Clarity Project in this regard. The Clarity Project seeks to rewrite standards in a new and more effective format, which states objectives, requirements and guidance). We have done all this by paying attention both to improved practice within each board, and to alignment of practice across boards.

In our second year we also undertook initiatives to raise awareness among a variety of our stakeholders about our mission and our work. Not only have we been visiting our principals and presenting an account of what we have been doing. We have also made presentations to accounting bodies around the world, regional groupings and, of importance, individual and groups of audit regulators. We feel that, inasmuch as we oversee international standard setting and audit regulators are in charge of standards implementation, our paths run on parallel but distinct tracks and we should maintain close links with them in order to better orient and enrich our international public interest agenda.

One important area of work that we have started in our second year and will pursue vigorously is the future planning of the standard setting boards. We have initiated an agreement with IFAC for implementation of a process of putting together future plans and priorities, based both on the extensive experience of the standard setters themselves and on wide consultation and stakeholder input. Priorities for the future can and must reflect priorities of users of standards, new and emerging needs, and requirements for readjustment of existing standards. To put all this in the context of a specific work plan is a valuable exercise which should be carefully crafted and on which considerable emphasis will now be placed.

Another area which will draw considerable attention from the PIOB is compliance. We are only beginning to delve into this. This is a complex area, not only because compliance with international standards may be difficult for some regulatory environments or audit practices but also because sometimes compliance in name may not amount to compliance in fact. The CAP that IFAC has put together, and that we oversee, has just finished the first phase of an exercise to collect self assessments of IFAC

member bodies from many jurisdictions. The next phase, evaluating these results what action plans may be needed, deserves close PIOB attention and will be an important task in our third year and beyond.

I believe that standard setting under the aegis of IFAC is now includes many safeguards for the public interest. The collaboration we have received from IFAC and the standard setting bodies has been outstanding, constructive and sincere. The public members as well as the non – practitioner members of standard setting boards offer a considerable diversity of views. The Consultative Advisory Groups have grown into fora for independent consultation where many stakeholders participate. Due process is closely inspected by the PIOB on a standard by standard basis.

We at the PIOB have come to realize that what matters is not only the quality of standards. The credibility of standard setters and the standard setting process are also paramount, especially if these standards are to be globally adopted or accepted as a goal of convergence. While our work and our mission do not extend to the determination of the content of standards, they ensure that the conditions for high credibility of the standard setters and the standard setting process are fulfilled. We are committed to this goal and we ask for your continued support.