

DEVELOPING GOVERNANCE OF AUDIT AND ETHICS STANDARDS AT  
GLOBAL LEVEL

Stavros B. Thomadakis

Chairman, Public Interest Oversight Board

Comments addressed to the FEE Conference on Audit Regulation

Brussels, October 12, 2006

Ladies and Gentlemen,

I want to thank FEE for organizing this important event and for inviting me to address the issues of governance of global standard setting. As you know the PIOB has been in operation for a year and a half now, and we have gathered experience and conclusions about the subject.

A. The making of global standards for audit, ethics and independence has many prerequisites:

- High technical quality and clarity
- Wide acceptance and applicability
- Responsiveness to emerging needs of investors, and market transparency
- Responsiveness to emerging trends in regulation, corporate governance, and market integration.

Who is really going to be the maker of these standards and be able to fill this very tall set of requirements? Certainly no self-enclosed set of experts, no matter how highly qualified, can match the prerequisites. The job really requires a combination of the best possible experts with a process of dynamic interaction with a host of stakeholders. The developing governance of global standard setting seeks to realize that combination.

B. The PIOB has been put together a year and a half ago as an international oversight body. This was part of a “reform platform” agreed between the International Federation of Accountants on one hand and four world regulatory entities and international institutions (IOSCO, Basel Committee, IAIS, World Bank) on the other. The Financial Stability Forum has placed this reform under its wing. The European Commission has also kept abreast of these developments and has appointed two observer members to the PIOB. The “reform” was indeed a plan to create a new governance for global standard setting. The PIOB has been working for this year and a half to implement and develop the “reform”.

This “reform” we are working to implement and develop involves the architecture, the process and the people who are engaged in the creation of standards. I will take up these subjects in turn, in the remainder of my comments.

C. The architecture is designed to in the “reform platform” so as to respond to a very important desideratum: the need for an open system which is well organized and functions efficiently. At the center of this system are the standard setting Boards, the IAASB, the IESBA. On the roof of the system, not as a governor but as an overseer, is the PIOB. On the sides of the system are the organized Consultative Advisory Groups (CAGs) that offer technical input and include a great diversity of stakeholders’ voices. Surrounding the system are stakeholders at large, regulators, auditors, professional bodies who are hopefully engaged in an orderly fashion in the working of the system. This brings me directly to process.

D. The process is both open and orderly. It is open in two senses: transparency and dialogue. Transparency has become a modus operandi of both standard setting Boards and their respective CAGs. Besides publicity, it also involves observers being present during deliberations of the standard setting Boards. Furthermore, the standard setting Boards engage in broad dialogue. For example, the IAASB, which is the more complex and also the more advanced, engages in dialogue with national standard setters, public sector standard setters, audit regulators and the accounting profession at large through a variety of methods, outreach initiatives, open fora. In addition, the standard setting Boards have to follow a PIOB – approved due process regarding exposure of draft standards, consultation, and response to public comment.

The Public Interest in an international process can be very precise in some instances but very elusive in others. Transparency, open dialogue, and well defined due process are very important safeguards that the Public Interest will not be overlooked or sacrificed. That has been in fact the reasoning underlying much of the PIOB’s review of both “due process” and “terms of reference” for both Boards and Consultative Advisory Groups. Much of the content of this work is commented explicitly in our first Public Report, circulated last May and available on our website ([www.ipiob.org](http://www.ipiob.org)).

E. The people who set the standards are of course at center stage. They are technical experts but not only that. They need to know (or imagine) the situation an auditor will face at normal times or at times of crisis. They have to write standards that are clear, fair, capable of application in different business and development contexts. They have to craft standards that are compatible with the exercise of professional judgment. They have to bridge principles with practice by offering readable, useful and inclusive guidance.

After a year and a half of monitoring standard setting work, we at the PIOB appreciate the delicacy and complexity of the task. We have come to an understanding of how technical expertise can be compatible with diversity of opinion and with how important it is for each Board to be able to craft a synthesis. On this count we have also been very conscious of the need to rebalance the composition of Boards in several ways: Practitioners and non-practitioners, geographic / regional diversity, gender balance. We have worked very well with IFAC , monitoring and approving nominations, and noting very positive steps towards rebalancing. The role of “public members” (three of which sit in each Board) is also very important and must be recognized, as they are explicitly charged with the articulation of public interest perspectives. It is our hope of course that the entire Boards will espouse and promote the public interest perspective. Ultimately that is the only way to produce globally acceptable standards that can prove sustainable over the long term.

The PIOB is committed to this goal and we need the community of all stakeholders to support our task.