

Current arrangements for international standard setting, which encompass a combination of public and private sector roles,¹ provide a structure and process that operate and are seen to operate in the public interest, in a context in which there are needs for legitimacy, independence, transparency, performance (encompassing technical competence, responsiveness and efficiency) and accountability.

INTRODUCTION

This paper outlines the rationale for the regulatory arrangements put in place for setting international standards for auditing and assurance, ethics, and accounting education; arrangements in which responsibility is shared between the public sector and the private sector.

While the IFAC policy position paper on regulation of the accounting profession² addresses regulatory issues at the national level, the focus of this paper is on standard-setting arrangements at the international level.

CONTEXT

In the past ten years, following several major corporate collapses around the globe, there has been considerable regulatory reform (e.g., the introduction of the Sarbanes-Oxley Act in the US in 2002) which has impacted the accountancy profession. Arrangements for international standard setting described in this paper were designed and implemented in the context of this environment and have been subject to subsequent enhancements and review. This period has been typified by an ongoing and significant shift in regulatory systems whereby public sector regulatory organizations play a greater role in standard setting and oversight—both internationally and at a national level.

In 2010 the Monitoring Group (MG) completed a review of oversight arrangements that were in operation since 2005. The review noted that virtually all of the changes proposed in the IFAC Reforms (see below) had been implemented, and recognized the numerous achievements with respect to their implementation. All participants in the international standard-setting arrangements recognize that standard setting in the public interest is a challenge that requires ongoing continuous improvement.

Notable milestones over the last decade include:

- 2000-2002: Significant enhancements were made to the transparency of the due process of standard-setting boards. Also, there was a change of title from the International Auditing Practices Committee (IAPC) to the International Auditing and Assurance Standards Board (IAASB). Similar enhancements were later put in place, and changes of title made, for the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB).
- 2002-2005: The “IFAC Reforms” (sometimes referred to as the “2003 Reforms”)—which centered on enhancing the governance arrangements of the independent standard-setting boards—were developed and implemented from 2003, with the PIOB commencing 2005. These arrangements included the establishment of the MG, PIOB and CAGs to strengthen the standard-setting processes in the public interest. In addition to implementing the reforms outlined in

¹ Defined public sector roles are the responsibility of the Monitoring Group (MG), the Public Interest Oversight Board (PIOB), the Consultative Advisory Groups (CAGs), and through observer roles on the standard-setting boards—refer Appendix 2 for a description of the composition and responsibilities of these groups. The private sector roles are the responsibility of the independent standard-setting boards supported by the International Federation of Accountants (IFAC) and through the membership on the standard-setting boards of representatives of IFAC member bodies and of the Forum of Firms (FoF).

² Regulation of the Accountancy Profession, IFAC, September 2011.

the terms of the agreement between IFAC and key stakeholders, IFAC introduced additional reforms that were consistent with the overall objective of enhancing governance arrangements.

- 2005–continuing: Independent standard-setting boards operate under the reformed governance and oversight arrangements.
- 2010–2011: MG review identified a number of near-term actions for IFAC and the standard-setting boards it supports focused on further enhancing diversity, transparency, and accountability. IFAC and the MG agreed on the implementation of the recommendations made in the MG review.
- 2011–continuing: The IFAC Board is considering amendments to the governance process of the International Public Sector Accounting Standards Board, including public oversight. Currently the IPSASB is not subject to oversight by the PIOB.

OBJECTIVES IN DESIGNING THE ARRANGEMENTS FOR SHARED RESPONSIBILITY FOR INTERNATIONAL STANDARD SETTING

There are three key aspects of the arrangements for the system for international standard setting:

- First, the overriding objective in the design of the standard-setting process is to ensure that the institutional arrangements are, and are seen to be, properly responsive to the public interest³ at a global level.
- Second, a key issue for the public interest is the legitimacy and independence of the standard-setting process, in order to increase public confidence in the standard-setting arrangements and, ultimately, to strengthen financial reporting. Key elements of the arrangements to increase legitimacy and independence are an external process for monitoring and oversight of standard setting, and increased transparency.
- Third, it is important to maintain the technical competence of the standard-setting process while ensuring that there is a sufficiently strong element of public oversight to achieve the first two objectives above.

These arrangements are “also designed to contribute to the achievement of global convergence to high-quality standards,”⁴ recognizing the importance to the global economy of achieving convergence.

PUBLIC INTEREST

The arrangements established for standard setting are based on the premise that unless appropriate structures and processes for governance and oversight and appropriate levels of transparency are instituted, the public interest would not be protected.⁵

Central to these arrangements is the PIOB (refer to Box 1 for a description of several examples of PIOB oversight responsibilities), whose responsibility is to maintain oversight of the standard-setting activities carried out by the IAASB, the IESBA, and the IAESB and of the activities of the Compliance Advisory Panel (CAP).⁶

BOX 1: PIOB OVERSIGHT RESPONSIBILITIES

The PIOB has oversight of critical elements of the standard-setting processes, including:

- The Nominating Committee’s process for selection of the members and chairs of the standard-setting boards, whose

³ Refer IFAC’s Policy Position Paper 4 examining the public interest; forthcoming.

⁴ IFAC Reform Proposals, Page 3, IFAC 2003.

⁵ See Appendix 1, “Standard-Setting Boards’ Oversight and Consultation” and “International Standard-setting Process.” These diagrams have been extracted from the PIOB website: <http://www.ipiob.org/>.

⁶ The CAP oversees the implementation and operation of IFAC’s Compliance Program, which is a developmental program designed to achieve the long-term development of the accountancy profession through IFAC’s member bodies taking action to enhance their compliance with Statements of Member Obligations (SMOs). This paper does not address the arrangements for achieving compliance with standards; instead it focuses only on standard setting.

appointments must be approved by the PIOB.

- Terms of Reference for the standard-setting boards, which must be approved by the PIOB.
- Due process in relation to standard setting, which must be approved by the PIOB.
- Compliance with due process having been followed for each new standard, with PIOB sign-off before the standard can be issued.

While the PIOB is not the only mechanism established to protect the public interest, it is a vital component without which other elements would not be perceived as sufficiently robust to protect adequately the public interest.

Protection of the public interest is given effect through the governance arrangements in place for the standard-setting boards supported by IFAC. These arrangements include clearly defined responsibilities for different components of the governance structure. Responsibility for external public accountability rests with the MG, which monitors the overall standard-setting arrangements, including the work of the PIOB. While the PIOB has responsibility for the oversight of the standard-setting boards' due processes and operations, the IFAC Board is responsible for the management and administrative functions of the boards. The boards themselves are focused on standard setting.

LEGITIMACY

Legitimacy is achieved when the standard-setting arrangements, both in structure and process, give the standards the level of authority necessary, in an international setting, to generate confidence in the standards of auditing and assurance, ethics, and accounting education, and through those, confidence in financial reporting.

Legitimacy is achieved, in part, through independence in the structure and decision making of the standard-setting boards, which is critical. However, for there to be legitimacy, there must also be high levels of transparency, appropriate levels of performance from the standard setter, and accountability of the standard setter to stakeholders, especially the international regulatory community. In other words, legitimacy cannot be achieved unless all these elements are present. Unless the arrangements are seen as being legitimate, there will not be confidence that the public interest is being served.

Legitimacy is also achieved through representation in the standard-setting process. One key element of representation relates to geographic or regional representation (refer to Box 2).

BOX 2: REPRESENTATION ON STANDARD-SETTING BOARDS – GEOGRAPHIC OR REGIONAL

The system for international standard setting is designed to facilitate participation from nations at different stages of economic development and across diverse cultures.

In 2006, the IFAC Nominating Committee established a regional classification system that organizes its member bodies into six geographical areas: Africa/Middle East, Asia, Australasia/Oceania, Europe, Latin America and the Caribbean, and North America. In order to maintain geographical balance, the committee seeks to appoint individuals from each area on the standard-setting boards.

IFAC has also established a program to subsidize the travel expenses of members from developing nations on all of the boards and committees it supports. This measure aims to improve participation in the standard-setting process from countries in the developing world.

A second element of representation derives from the notion that those who agree to abide by a set of rules have the greatest stake in the efficacy of those rules, as well as the strongest incentive to set appropriate and proportionate rules. In this sense, standards have greater legitimacy if there is an appropriate representation on the standard-setting boards of jurisdictions that do, or intend to, apply those rules (refer to Box 3).

BOX 3: REPRESENTATION ON STANDARD-SETTING BOARDS – JURISDICTIONS APPLYING STANDARDS

For the IAASB there is a requirement, negotiated between IFAC, the European Commission (EC), and the Monitoring Group (MG),⁷ that the majority of members must come from jurisdictions that apply, or intend to apply, the International Standards on Auditing (ISAs).

While legitimacy is a test that standard-setting arrangements must meet if the standards are to be widely adopted, there is an additional, critical point to be considered when considering the protection of the public interest in a specific national jurisdiction. The adoption of the standards in any jurisdiction is ultimately a matter that has to be decided by the legislative or regulatory authorities in that country. Hence, each jurisdiction has the ultimate safeguard of not adopting the standards if they perceive that the standards are contrary to the national interest in that country, irrespective of the extent to which the standards are adopted elsewhere and are perceived to be legitimate.

Nevertheless, to the extent that adoption or endorsement of standards signals general acceptance and is a reflection of their legitimacy, it is helpful in the context of this paper to outline the position with respect to adoption and endorsement of standards that have been issued by the independent standard-setting boards supported by IFAC. This is outlined in summary form in Appendix 3 of this paper.

INDEPENDENCE

In order to be seen as legitimate, independence is essential to a standard setter. Independence, in the standard-setting context, refers to freedom from inappropriate pressure, from whatever source, in decision making.

The international standard-setting arrangements have a number of elements designed to ensure and protect independence. The first of these is a formal, independent public interest oversight arrangement (the PIOB) that has authority over the key elements of the standard-setting structure and process (such as the authority to approve appointment of individuals to the standard-setting boards and to approve their terms of reference and due process). High levels of transparency are also critical in all aspects of the standard-setting process from agenda-setting to development and approval of standards.

For the public interest oversight arrangements themselves to be seen to be properly independent, the composition of the oversight body must be selected and approved outside the standard-setting organization itself (in the case of independent standard-setting boards supported by IFAC, this responsibility rests with the MG) (refer to Box 4).

BOX 4: MEMBERSHIP OF THE PIOB

All ten members of the PIOB are appointed by the Nominating Committee of the MG with IFAC having no voice in the appointment decisions, thus ensuring political accountability for the standard-setting process of the standard-setting boards.

The members are nominated by the International Organization of Securities Commissions (IOSCO) (four members), the International Association of Insurance Supervisors (IAIS) (one member), the Basel Committee (one member), the World Bank (one member) and the EC (two members). The final member is selected by the MG Nominating Committee from IFAC nominations.

The PIOB members all meet the requirements of the EC for appointment to governance positions of audit oversight bodies.⁸

⁷ Established through the IFAC Reforms of 2003, the MG consists of international regulatory organizations and governmental authorities responsible for protecting and advancing the public interest and committed to supporting the development of high quality international auditing and assurance standards. The MG consists of the Basel Committee on Banking Supervision, the EC, the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), and the World Bank, as well as two observers: the Financial Stability Forum (FSF) and the International Forum of Independent Audit Regulators (IFIAR).

⁸ See Chapter VIII, Article 32, Principles of Public Oversight, clause 3, and Chapter 1, Article 2, Definitions, clause 15, of the Directive 2006/43/EC of the European Parliament and the Council on Statutory Audits of Annual Accounts and Consolidated Accounts (EC Eighth Directive).

Additionally, the oversight body must be free from independence threats associated with its financing (refer to Box 5), which could in some circumstances enable funders to exert undue or improper influence over the decisions and actions of the body.

BOX 5: FUNDING OF THE PIOB

IFAC has given the MG a funding guarantee for the PIOB. The current agreement includes provisions for increases associated with inflationary changes and a process for agreeing to an increase up to the agreed funding cap. This ensures the ongoing operations of the PIOB until 2015. Funding of the PIOB has been assisted by a funding commitment from the EC, and the MG's willingness to arrange for additional external funding. The PIOB is accountable to the MG in relation to its budget and the use of the budget, and IFAC does not participate in that process.

In addition to the oversight arrangements, threats to the independence of the standard-setting boards are safeguarded by three other aspects of the process. The first is a formally approved and highly transparent due process (refer to Box 6 for a description of the due process arrangements for the standard-setting boards).

BOX 6: DUE PROCESS OF STANDARD-SETTING BOARDS

Each of the standard-setting boards has a formal due process, approved by the PIOB. The due process for each board covers, *inter alia*, project proposals, issues papers, consultation papers (where appropriate), exposure drafts (with sufficient comment period), comment letters posted to the website, final standards being approved only after extensive consideration of comments, and a stated basis for conclusions.

Before any standard is issued, the PIOB must approve that due process has been followed, based on a declaration from the Executive Director – Professional Standards and from its independent observations, dialogues, internal reviews and deliberations, etc.

The PIOB has the right, which it exercises, to observe meetings of the standard-setting boards.

The standard-setting process is highly transparent. The meetings are open to the public, with the full package of agenda materials available to the public before meetings and minutes available after meetings.

The meetings of the IAASB are recorded and the audio tape is published on the IFAC website.

The second safeguard is the involvement of a Consultative Advisory Group (CAG) (refer to Box 7) and Observers (refer to Box 8) in the standard-setting process.

BOX 7: CONSULTATIVE ADVISORY GROUP

The CAGs are a key element of the standard-setting arrangements. They enable the standard-setting boards to receive technical advice, as well as advice regarding agendas, from interested external public sector and private sector institutions. Features of the CAGs are the following:

- The CAG elects its own Chair.
- The Chair of the CAG is an Observer to the standard-setting board with the right of the floor.
- The CAG can appoint a member to sit on the Steering Committee of the standard-setting board.
- The CAG has the power to hear and to reach conclusions on matters relating to the due process of the standard-setting board and can, if it thinks appropriate, refer a matter of due process to the PIOB.

BOX 8: OBSERVERS

In the case of the IAASB, meetings are attended by non-voting Observers, currently from the Public Company Accounting Oversight Board (PCAOB), the EC, and the Japanese Financial Services Agency (JFSA). For the IESBA,

meetings are attended by non-voting Observers from the EC and JFSA.

These Observers have the right of the floor and ensure that key regulatory organizations are closely involved in the standard-setting process. They can raise issues and present arguments during all stages of the standard-setting process.

Finally, to protect against threats to independence there is the requirement that members of the standard-setting boards sign declarations that they will act in the public interest and not be subject to any improper pressure. Members of all IFAC boards and committees are required to sign such declarations annually, as are members of the IFAC Board whose responsibility it is to appoint members of the standard-setting boards after PIOB approval. Also, from November 2008, the organization nominating the member of a standard-setting board must declare that they will not inappropriately influence that member.

Many of the elements described above also act to protect against an independence threat to the standard-setting boards associated with their resourcing (refer to Box 9). For example, the role of the CAGs in providing technical input to the standard-setting process, and the role of the PIOB in ensuring that such comments are appropriately dealt with as part of the due process, provide safeguards against decisions that might not reflect the public interest—that is, decisions which may be perceived as being influenced by those associated with financing the boards.

BOX 9: RESOURCING THE STANDARD-SETTING BOARDS

Resourcing is provided by way of funding from IFAC, IFAC member bodies, and the FoF, as well as volunteer resources from a range of sources, including member bodies, firms, regulatory organizations and others. The PIOB is responsible for evaluating the adequacy of funding provided to support the standard-setting boards.

TRANSPARENCY

Transparency is identified above as a critical element of due process which promotes independence. Transparency also contributes to legitimacy and accountability. For this reason, transparency is central to the functioning of the standard-setting boards, and is reflected in many elements of the structure and process of the standard-setting boards, including those in Box 6, titled “Due process of standard setting bodies.”

PERFORMANCE

In recognizing the importance of independence—including independence from the accounting profession—it is also important that the standard setter has the capability to perform in order to ensure that the standards meet the objectives they are intended to achieve. In the context of a standard-setting board this “capability to perform” might be achieved through technical knowledge and hands-on experience.

It is important that robust and transparent arrangements exist for nominating and appointing members to standard-setting boards, which includes effective public interest oversight (refer to Box 10).

BOX 10: NOMINATIONS PROCESS

IFAC develops the nomination process for each standard-setting board, including the composition of such boards, the qualifications of members, the number of members, and the make-up of the IFAC Nominating Committee.

This process is approved by the PIOB, which also provides final approval of the chairs and other members of boards selected by the IFAC Nominating Committee. The PIOB has authority to approve or reject any or all proposed members of boards for good cause, stating its reasons should it choose to reject one or more members. Also, the PIOB has authority to request the removal of the chair of any board for good cause, explaining its reasons for doing so, should it choose to invoke this authority.

The performance of the standard-setting board is enhanced if there is an appropriate representation of those with current or recent technical knowledge and those with hands-on experience in the implementation and application of the standards (refer to Box 11). Non-practitioners contribute to the performance of the boards, especially the IESBA and IAESB,

through the expertise and knowledge from the particular fields they bring to the standard-setting process. In doing so, they represent a range of perspectives and the broader public interest.

BOX 11: COMPOSITION OF STANDARD-SETTING BOARDS

The composition of each of the standard-setting boards is 18 members, including the Chair (who in the case of the IAASB is full-time; and in the case of IESBA, from 2013, is part-time). Ten members are nominated by IFAC member bodies, five by the FoF⁹, and three are public members. The public members may be nominated by any organization or individual; however, they must be individuals who are, and will be seen to be, capable of representing the broad public interest.

All members of the standard-setting boards are unpaid, part-time members, except for the full-time paid chair of the IAASB (and from 2013 the part-time paid chair of the IESBA).

Half of the members of the standard-setting boards (including the public members) are non-practitioners, based on a definition of “non-practitioner” agreed by the MG. While individuals classified as “non-practitioners”—whose independence from audit practice firms satisfies a strict test—are not practicing within an audit practice firm, there is nevertheless an expectation that they will have the knowledge and experience to participate fully in the standard-setting process.

This composition achieves an appropriate combination of independence and technical competence and thereby helps the standard-setting boards to set standards that are in the public interest.

Competence includes current technical knowledge and skills, and knowledge of practical issues through hands-on experience in the implementation and application of the standards. All board members must be considered competent to sit on a standard-setting board. The role of competent practitioner board members is important in ensuring that boards are fully aware of the likely impact on practice of new and revised standards (refer Box 12).

BOX 12: ROLE OF COMPETENT PRACTITIONERS ON STANDARD-SETTING BOARDS

The practitioner members of the standard-setting boards, including those nominated by the FoF⁸, bring to the boards expert knowledge of audit and professional practice and make the boards fully aware of the likely impact in practice of changes to the standards.

This keeps the standard-setting processes grounded in the reality of current practice and reduces the possibility of the standard-setting boards acting in an “ivory tower” manner.

The involvement of practitioners in the standard-setting process also contributes to the legitimacy and acceptance of the standards, especially in the eyes of those who must implement them.

Performance also refers, in a standard-setting context, to responsiveness and efficiency.

Responsiveness relates to the requirement that the process must enable new standards, or revised standards, to be produced in a timely fashion in the event of changed circumstances. It also refers to the need to listen and respond appropriately to concerns by stakeholders and others affected by the standard-setting process (refer to Box 13).

BOX 13: RECEIVING STAKEHOLDER INPUT

The standard-setting boards receive technical input in relation to specific standards and in relation to its work plan from a CAG, the members and chair of which are selected independently of the standard-setting boards and IFAC, and who

⁹ In 2011, as part of the MG review, agreement was reached to change the practice of reserving seats on the IAASB and IESBA for nominees of the FoF and IFAC member bodies. Relevant governance documents are in the process of being updated, and will have effect from 2013, subject to approval by the IFAC Council. From that time, any organization or individual would be able to nominate candidates for all positions on the standard-setting boards.

largely represent regulatory and stakeholder organizations.

This ensures that a regulatory perspective on technical issues is presented to the standard-setting boards on an ongoing basis. The CAGs also provide advice on the standard-setting boards work programs and priorities. There is a report-back process to the CAG on how the standard-setting boards have responded to issues raised by the CAGs.

Efficiency refers both to economic efficiency in relation to standards (benefits exceed costs) and productive efficiency in the process itself.

Given their global application, it is critical that the standards generate net benefits—that is, benefits from a new or enhanced standard will exceed the economic costs of developing and implementing that standard (refer to Box 14). Implicit in this is that standards do not impose excessive costs on the parties who must comply with the standards.

BOX 14: STANDARDS GENERATING NET BENEFITS

The extensive process of consultation, along with the transparency of the standard-setting processes, act to limit the risk of disproportionate action or excessive compliance costs.

The standard-setting boards utilize web-based procedures and protocols to disseminate exposure drafts and collect comments in order to strengthen and facilitate the consultation process.

In the case of the IAASB, there is a consistent stream of input from IFAC's Small and Medium Practices (SMP) Committee to ensure that an SMP perspective (where compliance costs often fall disproportionately) is considered. There is SMP representation on the IAASB.

Efficiency also refers to the productive efficiency of the standard-setting process itself, which is the relationship between resources used in, and the output of, the standard-setting process. In this context efficiency needs to be distinguished from effectiveness in fulfilling the function of the standard-setting board. This distinction is important because in some circumstances greater productive efficiency could be achieved but at the expense of effectiveness. The standard-setting process should be as efficient as possible without compromising its effectiveness.

Further, the standard-setting process needs to be economical. The use of highly qualified volunteers is a means of achieving economy in the process and also ensures that standards are set by competent individuals with knowledge of the practical implications of the standards.

ACCOUNTABILITY

There must be clearly established mechanisms to hold the standard-setting boards accountable, both as board members individually and collectively as a board (refer to Box 15 for a description of these mechanisms).

BOX 15: ACCOUNTABILITY OF BOARDS AND BOARD MEMBERS

The IFAC Annual Report includes a section reporting the services produced by each of the standard-setting boards and describes what has been achieved during the period. The service delivery report is subject to independent assurance from IFAC's independent external auditors.¹⁰

The IAASB produces an annual report on its activities for the previous period. The other standard-setting boards report within the IFAC Annual Report.

The accountability of standard-setting board members is through annual performance monitoring by the IFAC Nominating Committee, subject to PIOB oversight.

The PIOB has authority to request IFAC to remove a member or Chair if it believes there is valid cause.

¹⁰ The International Federation of Accountants, 2007 IFAC Annual Report, Independence Assurance Report on Service Delivery, p. 39.

There must also be appropriate accountability arrangements for other parts of the process, such as the oversight body (refer to Box 16).

BOX 16: ACCOUNTABILITY OF THE PIOB

The PIOB produces an annual report on its oversight activities, and is accountable to the MG for its budget and spending.

A BALANCED SYSTEM

The features previously described—*independence, transparency, performance and accountability*—should not be seen in isolation. The key underlying objective is overall system performance, which involves a trade-off among these features, given that some features may work in opposition to others. For example, independence from sectional interests or inappropriate political pressure is desirable; however, independence from any concern for regulatory efficiency (such as due consideration of compliance costs) is undesirable. Similarly, due process is essential to legitimacy; however, this must be balanced with responsiveness, in that the process itself must enable a response to “events” in a timely fashion.

Further, this need for trade-offs carries implications for the allocation of functions within the overall structure. It implies that a key design feature is the allocation of functions between public and private sectors. For example, while oversight might desirably be in the public sector for reasons of political legitimacy, standard setting may require the involvement of private sector practitioners for reasons of competence and responsiveness.

Other examples of the need to balance potentially opposing features include:

- There is a need within the elements of the system for balance between technical and non-technical inputs. This balance is achieved in the elements of the standard-setting structure that are external to IFAC through the non-technical role of the PIOB and the technical role of the CAGs. Internally, the same balance is demonstrated through the role of FoF members and public members and the notion of parity between practitioners and non-practitioners.
- It is also desirable to achieve balance and consistency between formal structures and processes on the one hand and the manner in which they are given operational effect, on the other. The formal mechanisms include IFAC’s Constitution and Bylaws, the terms of reference of the standard-setting boards, and their due process. The formal elements of structure and process are reinforced through the means by which they are operationalized. The operational aspects include the fact that the PIOB has a presence at most IFAC Board, Nominating Committee, and standard-setting board meetings. In addition, IFAC’s officers and directors, and the chairs of the standard-setting boards and the CAGs are periodically invited to parts of the PIOB meetings to report on their activities. These interactions result in an ongoing process of consultation and communication that supports, strengthens, and provides input to the formal deliberative processes of the PIOB, the CAGs, and the standard-setting boards. With respect to the PIOB, these operational elements of the standard-setting process have two positive results:
 - Open communication reduces the risk of miscommunication and misunderstandings between IFAC and the standard-setting boards on the one hand and the PIOB on the other.
 - The PIOB observes all proceedings as they occur, eliminating delays in communication of actions and decisions.

TRANSFORMING PRINCIPLES INTO PRACTICE

An effective system of shared responsibility for standard setting must be able to bridge the divide between principles and practice. In this respect, it is necessary that there be internal policies and procedures to ensure that the principles upon which the system is designed are reflected in the way the system actually operates and that cooperation between the private and public sector components of the system of shared responsibility is consistent and highly functional (refer to Box 17).

BOX 17: INTERNAL POLICIES AND PROCEDURES

There are many mechanisms, both structural and operational, through which IFAC has given effect to its role in the shared arrangements and has sought to put into practice the spirit as well as the letter of the shared system of responsibility for standard setting. The structural mechanisms include the following:

- The IFAC Constitution and Bylaws clearly delineate the powers and roles of the IFAC Council and Board with respect to the standard-setting boards, and also confirm IFAC's obligations to the PIOB.
- IFAC has defined the types of documents that the standard-setting boards issue. These document types are followed to ensure consistency and legitimacy. Examples include standards, good practice guidance, and exposure drafts.
- The Terms of Reference for each of the standard-setting boards provide a consistent articulation of the mission of each board, general meeting procedures, and rules.
 - Roles and responsibilities for chairs of the standard-setting boards are outlined in separate documents.
 - The above-mentioned documents, plus agenda and meeting minutes, are publicly available on the IFAC website.
 - The standard-setting boards utilize the same web-based procedures (IFAC website) and protocols to disseminate exposure drafts, collect comments, and publish documents.
 - The annual Call for Nominations for IFAC Boards and Committees outlines the Nominating Committee's targets for qualifications and regional and professional representation. Publication of this document ensures transparency and consistency in the nominations process.

Operational mechanisms include, amongst others, the internal culture of the organization, which emphasizes the public interest, and the performance management system. These mechanisms link individual performance to the elements of the Strategic Plan, which itself reflects the public interest.

CONCLUSION

The combination of structural arrangements and process elements, and in particular the role of the PIOB, is designed to ensure that international standard setting operates in the public interest. This paper explains the principles which are considered in the design of an international standard-setting structure and the accompanying processes. It has also outlined how the present system of shared responsibility for standard setting has evolved, and seeks to give effect to those principles.

However, it must be recognized that shared responsibility for international standard setting is still evolving, and current arrangements can be expected to further evolve and develop with experience in their operation. It is useful to be clear on the principles that should govern further development.

This Policy Position has been prepared by IFAC. The approved text of this Policy Position is published in the English language.

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IFAC'S MISSION

IFAC's mission is to serve the public interest by:

- Contributing to the development, adoption and implementation of high-quality international standards and guidance
- Contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants
- Promoting the value of professional accountants worldwide
- Speaking out on public interest issues where the accountancy profession's expertise is most relevant

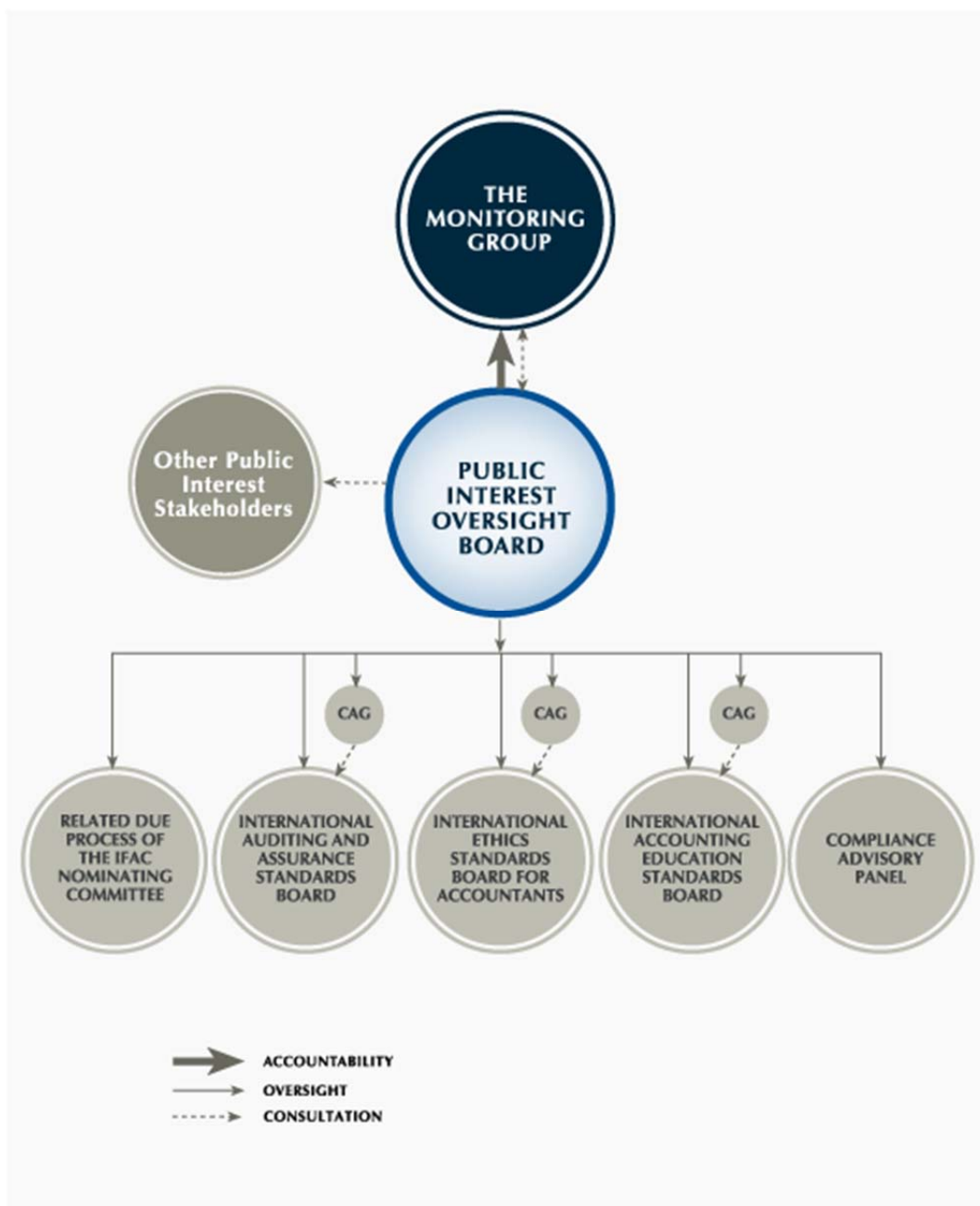


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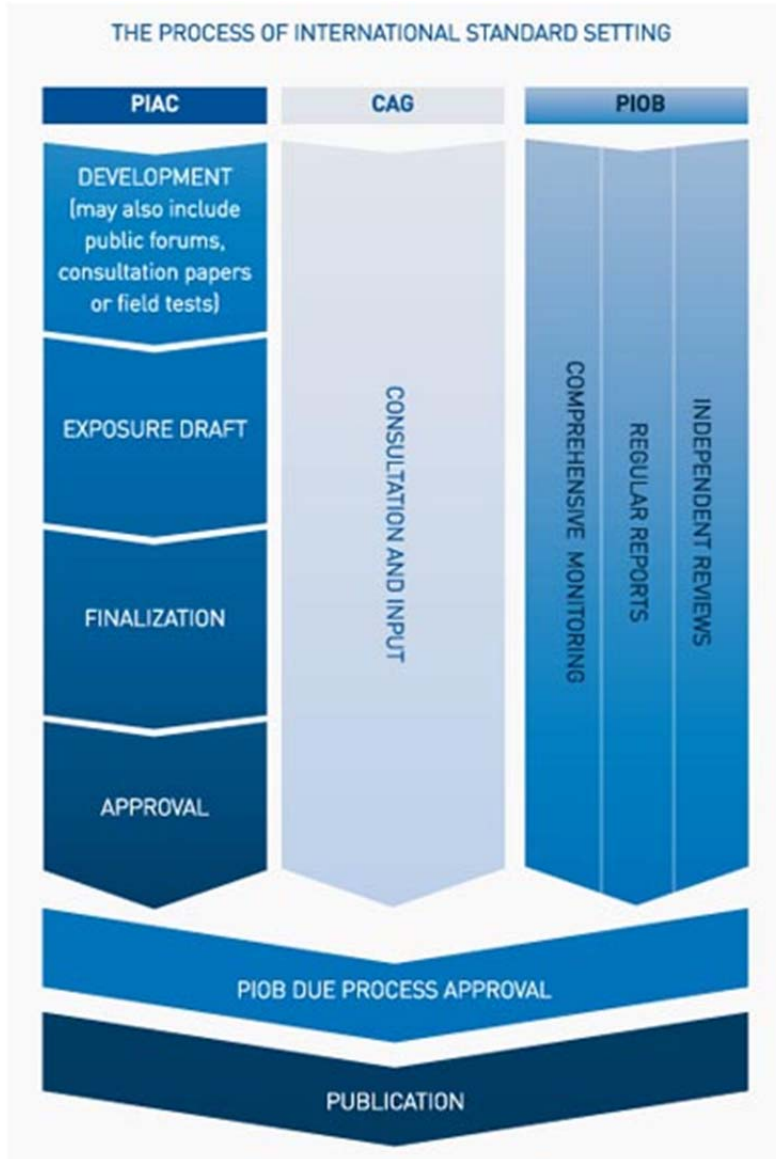
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APPENDIX 1: STANDARD-SETTING BOARDS' OVERSIGHT AND CONSULTATION



Source: PIOB website: <http://www.ipiob.org/>



Source: IOB website: <http://www.iob.org/>

APPENDIX 2: DESCRIPTIONS OF BODIES INVOLVED IN OVERSIGHT AND MONITORING OF STANDARD-SETTING ARRANGEMENTS**MONITORING GROUP (MG)**

The MG is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality. Members of the MG are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Organization of Securities Commissions, and the World Bank.

The mission of the MG is to:

- cooperate in the interest of promoting high-quality international auditing and assurance, ethical and education standards for accountants;
- monitor the implementation and effectiveness of the IFAC Reforms, and in that connection, to undertake an effectiveness assessment of the IFAC Reforms and other aspects of IFAC's operations that involve the public interest;
- through its Nominating Committee, appoint the members of the Public Interest Oversight Board (PIOB);
- monitor the execution by the PIOB of its mandate;
- consult and advise the PIOB with respect to regulatory, legal and policy developments that are pertinent to the PIOB's public interest oversight; and
- convene to discuss issues and share views relating to international audit quality as well as to regulatory and market developments having an impact on auditing.

PUBLIC INTEREST OVERSIGHT BOARD (PIOB)

Members of the PIOB are appointed by the MG from nominations received from International Organization of Securities Commissions, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the World Bank, the European Commission, and IFAC.

The PIOB is an oversight body that provides enhanced credibility and legitimacy to the operation of the three independent international standard-setting boards that it oversees (the Public Interest Activity Committees (PIACs) supported by IFAC). These comprise the International Auditing and Assurance Standards Board (IAASB), International Accounting Education Standards Board (IAESB), International Ethics Standards Board for Accountants (IESBA), their respective Consultative Advisory Groups (CAGs), and the Compliance Advisory Panel (CAP).

Specifically, the PIOB:

- Reviews and approves Terms of Reference for these entities;
- Evaluates the Boards' due process procedures;
- Oversees the work of IFAC's Nominating Committee and approves the committee's nominations to the standard-setting Boards, the CAG's and the CAP;
- Oversees the Public Interest work of the CAP, and
- Suggests projects to be added to the boards' work programs.

The Chair of the PIOB also has the right to attend and to speak at IFAC Board meetings

The PIOB's ultimate responsibility to consider whether this due process has been applied effectively and with proper regards for the public interest

CONSULTATIVE ADVISORY GROUPS (CAGS)

CAGs are comprised of member organizations interested in the development and maintenance of high-quality international standards. Depending upon the board, membership provides a balance of geographical representation and a balance between regulators, international organizations, users and preparers of financial statements, and academics.

CAGs provide input to and assist the independent standard-setting boards through consultation with the CAG member organizations and their representatives at the CAG meetings, in order to obtain:

- Advice on the boards' agenda and project timetable (work program), including project priorities;
- Technical advice on projects; and
- Advice on other matters of relevance to the activities of the boards.

The CAG terms of reference are approved by the PIOB, which oversees the work of the CAG and approves the CAG operating procedures for reappointing member organizations and for appointing or reappointing the CAG Chair. The CAG Chair is expected to attend board meetings as an observer (or to appoint a representative to attend) where he/she has the privilege of the floor.

APPENDIX 3: ADOPTION OR ENDORSEMENT OF AUDITING, ETHICS, AND EDUCATION STANDARDS

Summary of the use of **International Standards on Auditing (ISAs)**:

1. 126 jurisdictions around the world have adopted the ISAs or otherwise use them as the basis of their national standards.
2. There is significant acceptance of the ISAs for audits of financial statements of foreign issuers among the world's largest stock markets.
3. In the United States, the Auditing Standards Board of the AICPA, which sets standards for unlisted companies in the United States, has issued revised standards which are based on ISAs.
4. The Financial Stability Boards identifies the ISAs as one of the 12 key international standards relevant to sound, stable, and well-functioning financial systems.
5. The International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision, the World Federation of Exchanges, the World Bank, and the United Nations Conference on Trade and Development have expressed their support for the ISAs.
6. The 22 largest firms' audit methodologies align with ISAs. The FoF promotes the consistent application of high quality audit practices worldwide, including the use of ISAs, and has expressed support for convergence of national audit standards with ISAs.
7. The International Organization of Supreme Audit Institutions (INTOSAI) Financial Audit Subcommittee (FAS) has developed INTOSAI guidelines based on the clarified ISAs, referred to as the International Standards of Supreme Audit Institutions (ISSAIs) for financial audit. An INTOSAI guideline consists of a Practice Note and the ISA it refers to, or of a newly written INTOSAI guideline and general guidance on public sector issues. In November 2010, the South African Declaration on ISSAIs was issued as part of the Johannesburg Accords summarizing the results of the 20th INCOSAI, the triennial Congress of INTOSAI. This important milestone for INTOSAI is evidence of the acceptance of ISAs for public sector audits, which has been a goal of the IAASB in partnering with INTOSAI.

The **Code of Ethics for Professional Accountants** is also adopted, endorsed or strongly supported in over 100 countries. The FoF membership obligations require that members have policies and methodologies that conform to the IFAC Code of Ethics. Additionally, the World Bank ROSC program uses the IFAC Code of Ethics as the benchmark for assessing a national code of ethics.

International Education Standards are used by IFAC member bodies and other professional accountancy organizations as a basis for determining their own education requirements, and through the Compliance Program are increasingly becoming the basis for the education of accountants and auditors. The World Bank ROSC program also uses the International Accounting Education Standards Board's International Education Standards as the benchmark for assessing national systems of accounting education.