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THE MONITORING GROUP'S REVIEW OF THE IFAC 2003 REFORMS

IFAC'S RESPONSE

November 25, 2009

Background

1. IFAC is pleased to submit to the Monitoring Group (MG) its assessment of the success of the IFAC reforms of 2003 when measured against the criteria set out by the Monitoring Group. This paper combines the views of IFAC and its Public Interest Activity Committees (PIACs).¹
2. While the independent Consultative Advisory Groups (CAGs) are entitled (and may choose) to submit their own views directly to the MG the assessments in this report will include IFAC staff's understanding of the relevant discussions and comments of CAG members to the extent they were shared in the private meetings of the respective CAGs.
3. Strong international standards of accounting, auditing, education and professional ethics support effective and efficient capital markets leading to lower costs of capital, higher investment, greater innovation and more job opportunities. Continuous improvements by professional accountancy organizations in their support and adoption of these standards leads to more competent accountants around the world better able to provide the services expected by the global markets. IFAC welcomes its shared responsibility with the Monitoring Group members and others interested in improving the financial reporting infrastructure. Success requires the concerted efforts of all parties working together in a spirit of cooperation to achieve a common goal. IFAC welcomes this assessment of the application of the 2003 reforms in the context of its joint responsibility with others in creating a sound financial reporting infrastructure for the years ahead.
4. This assessment took place between April and October 2009.

The Criteria

5. The Monitoring Group (MG) Approach Paper of July 15, 2009 (Approach Paper) sets out infrastructure and operational issues that should be addressed with the purpose of assessing whether the 2003 reforms remain appropriate in the light of changing circumstances and the extent to which the IFAC reforms as designed have been implemented..

¹ PIACs is the generic name for the International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB) and the Compliance Advisory Panel (CAP).

6. Our response addresses the issues laid out in the Approach Paper and sets out our evaluation on the objectives defined in that paper.

IFAC's responses to the 2003 Reform Proposals

7. The IFAC Officers and Board have held an unwavering position since the publication of the 2003 Reforms Paper that IFAC will consistently and continuously work to meeting and exceeding the reforms called for in the Paper. This paper addresses those reforms that are directly relevant to the matters subject to review at this time.
8. The IFAC annual report has addressed actions taken in the adoption of the reforms each year and, since 2006, the annual report of the PIOB has also commented on the PIOB's perception of IFAC actions from its public interest perspective. There have been many positive suggestions, recommendations and requests from the PIOB along with no negative reactions with respect to the various steps initiated by IFAC over the years in its efforts to meet or exceed the reforms called for in the Paper.

The Work of the Nominating Committee

9. From 2005 to the present, the Nominating Committee implemented numerous reforms under the PIOB's oversight to improve the quality of transparency, due diligence and governance in IFAC's nominations process. These reforms categorically addressed each measure specified in the 2003 Reforms, and in some cases, provided additional procedures and mechanisms to ensure higher standards of transparency, due diligence and good governance:

Establishment of Oversight:

- The PIOB was granted permanent observer status with speaking rights for all sections of the Nominating Committee meetings dealing with matters under the oversight of the PIOB. In practice the PIOB observer normally attends the whole meeting. This has proved efficient since the conversations around nominations related to IFAC activities not falling under PIOB oversight sometimes reflect on decisions taken relevant to those that are subject to oversight.
- The PIOB was granted full access to all documents pertaining to the nominations process and the Nominating Committee's procedures.
- The PIOB was asked to approve the quality of candidate selection processes, interviewing techniques, and the creation of new Nominating Committee procedures and internal documents.

Improvement of Transparency:

- The Nominating Committee makes public via the IFAC website its terms of reference and operating procedures.
- The Nominating Committee issues via the IFAC website a detailed annual Call for Nominations two months before the closure of the nominations process detailing the qualifications, representational attributes and professional skill sets it seeks for candidates of all boards and committees of IFAC.

- In order to provide additional time for nominating organizations to consider candidate selection, the Nominating Committee issues an annual Notice of Forthcoming Call for Nominations three months prior to the issuance of the Call for Nominations.
- The Nominating Committee provides the IFAC Board, and Council, and ultimately the PIOB to enable it to conduct its oversight process, with more detailed information on the candidate selection process through use of visuals (charts, graphs and tables) to demonstrate accountability for its decisions.

Due Diligence and Good Governance:

- The Nominating Committee was granted the authority to recommend to the IFAC Board the removal of chairs or members of PIACs for non-performance or other good cause, with the Board requesting the PIOB's approval in relation to any recommendation for dismissal of a chair or member.
 - Consistent with the "best person for the job principle," the Nominating Committee gave due consideration toward achieving more balanced representation in terms of profession, geographic region, size of organization, and gender on all boards and committees of IFAC.
 - All candidates for positions on IFAC boards and committees signed a declaration that they will act in the public interest and with integrity in discharging their future roles.
 - In consultation with the PIOB, the Nominating Committee implemented a Performance Evaluation program for all IFAC Board and Committee members and chairs.
 - The Nominating Committee improved and expanded upon the online candidate information system, which now requests a wider range of information from which to evaluate the qualifications of candidates.
10. During 2007, IFAC completed implementation of the element of the reform program initiated in 2003, which called for a balance of 50 percent practitioners and 50 percent non-practitioners on all of the standard setting boards. At the request of the PIOB, the Forum of Firms began providing multiple nominations to the Nominating Committee in 2007 for open positions on standard setting boards reserved for Forum nominees.
 11. The arrangements put in place with respect to international standards for auditing and assurance, ethics and accounting education reflect a combination of public and private sector roles, providing a sound solution in a context in which there are needs for legitimacy, independence, technical competence, responsiveness, efficiency and accountability in the standard-setting process. The good governance, talent and hard work of the members of these boards, including their CAGs and the PIOB, are reflected in the high quality results of the standard-setting activities.
 12. The annual call for nominations has undergone constant improvement. The 2010 call can be found at http://web.ifac.org/download/2_Call_for_Nominations_2010.pdf.

13. The IESBA now has three public members. The Nominating Committee is aware of the need for at least one of the public members to be a specialist in business ethics. As the terms of the current public members are completed, the Nominating Committee will seek to identify new candidates that display this competence.

The Consultative Advisory Groups (CAGs)

14. In 2003, only the IAASB had a CAG. Between 2003 and 2005 CAGs were formed for IESBA and IAESB. The members of each CAG elected a Chair from within their membership. Each Chair has now served one term in office and in each case was reappointed for a second term by acclamation by their respective CAG members.
15. The three Chairs are:
 - (a) IAASB – David Damant, United Kingdom. Mr. Damant, an experienced leader in the global investment community. Mr. Damant has held a wide range of leadership positions within the international investment and accounting communities. He is a fellow and former chairman of the United Kingdom Society of Investment Professionals (UKSIP) as well as chairman of the UKSIP Accounting Advocacy Committee and of the sub-committee on UKSIP Headline Earnings.
 - (b) IESBA – Richard Fleck, United Kingdom. Mr. Fleck CBE, is an experienced leader in the international legal and auditing standards communities. Active in standard setting since 1986, Mr. Fleck is currently a member of the UK Financial Reporting Council and Chairman of the UK Auditing Practices Board. He has also acted as an inspector appointed by The Bank of England under the Banking Act of 1986 was responsible for the report on The Responsibilities of Senior Management, published by the UK Securities and Investments Board.
 - (c) IAESB – Prof. Charles Calhoun, United States. Prof. Calhoun represents the National Association of State Boards of Accountancy in the United States. He is a Professor and Chair at the department of Accounting and Finance at the University of North Florida, Jacksonville, Florida.
16. The objective of each Consultative Advisory Group is to provide input to the standard setting board through consultation with representatives of organizations interested in the development of the standards and guidance of the respective board. The CAG provides:
 - Views on the Board’s agenda and project timetable (work program) including project priorities,
 - Technical advice on projects, and
 - Views on other matters of relevance to the activities of Board
17. Between 2003 and June 2009 membership of the IAASB CAG has grown from 25 to 31 organizations and membership of the IESBA and IAESB CAGs stands at 19 and 14 respectively. Recommendations for membership are made to the PIOB by membership panels made up of members from each CAG together with senior IFAC staff. Appointment of first representatives from each member organization is approved by the PIOB with replacement representatives being approved by the membership panels. A complete list of the organizations in each CAG is set out in Appendix 2.

18. The CAGs meet for an average of two times a year with meetings ranging from one to two days in length. Many of the organizations represented on the IESBA CAG are also represented on the IAASB CAG. To minimize the time involvement and out of pocket costs for these organizations, the two CAGs have sought to meet back-to-back whenever their schedules permit.
19. Based on the experiences of the last five years the CAGs have expanded their memberships to obtain a broader base of geographical coverage and input. The operating processes of the CAGs have been modified by such additional procedures as developing a detailed report-back process for matters raised to each Board by its CAG. An outcome of these changes is the impact that the CAGs have on their respective Boards. Task force chairs and Board chairs have expressed appreciation of the input provided by CAG members. These are reported to the Boards for consideration during their deliberations, recorded in the minutes of Board meetings as appropriate. A system of report backs to the CAGs informs them of how the Boards responded to their recommendations
20. Amended terms of reference for each CAG recognizing the changes in process that had been developed over time were approved by the IFAC Board and submitted to the PIOB for its approval in December 2008.

The Standards Setting Boards

21. In responding to the issues set out in the Approach Paper, we believe it is important to emphasize the layers of independence delegated to the standard setting boards as set out in their respective terms of reference, The standard setting boards are entirely responsible for their own agendas and work programs which have been developed with full public input where appropriate. The approval of any particular exposure draft or standard is the sole responsibility of the respective standard setting board and is reported to the IFAC Board on a post completion basis for information purposes only. As the group charged with the fiduciary responsibility to ensure that the funds provided to the standard setting boards (and indeed the Compliance Advisory Panel) are managed soundly, the IFAC Board receives regular reports from the PIACs on their activities and financial management through their Chairs and staff. In the years 2003-2009, the IFAC Board has exercised its fiscal responsibilities by challenging the Board staff to be satisfied that each Board's activities are being managed on a cost efficient basis, At no time has the IFAC Board challenged the specific projects included in the standard setting board programs or denied funding that would prevent the Boards achieving their goals. A flow chart showing the relationship between the public interest activities of IFAC and the lines of reporting and responsibility is provided in Appendix 3.
22. Over the last five years the operating processes for the three standard setting boards have been strengthened. They have also been made consistent to the extent possible across all three.
23. Based on the experiences of the last five years the operating processes of the standard setting boards have been modified by such additional procedures as:
 - (a) Consulting broadly as each Board developed its strategic plan for the next period.

- (b) Creating a Basis of Conclusions issued with each final standard.
24. Each of these modifications has been overseen by the PIOB and amended due process and terms of reference for each standard setting board recognizing relevant changes in process that had been developed over time were approved by the IFAC Board and submitted to the PIOB for its approval in December 2008. The PIOB responded with comments and recommendations to the IFAC Triennial Review. In April 2009 the PIOB notified IFAC that the changes had been approved by the PIOB as presented, subject to certain changes set out in an Appendix attached to the letter which the PIOB viewed as necessary to fully clarify its role and related activities. The PIOB also concluded that due process was followed effectively and with proper regard for the public interest in developing and finalizing the Triennial Review change proposals. In the same letter, the PIOB provided additional observations which were presented to IFAC for further consideration, and asked IFAC to "report back" (in due course) on the final disposition of PIOB's contributions, comments and observations. The comments in the PIOB's response are being analyzed at this time in consultation with the standard setting boards and the IFAC Board intends to respond to the PIOB before the end of the year.
 25. Each standard setting board has had an ambitious program of work that is achieved through the Board members and their technical advisors who commonly meet in small task force groups between meetings of the full Board to advance projects that are subsequently discussed in full public meeting of the Boards. These task force meetings call equally on the time and expertise of public and non-practitioner members on the one hand, and the practitioner members on the other hand. These arrangements enabled the IAASB to complete its program to complete the Clarity ISAs on schedule in December 2008 and the IESBA issued an updated Code of Ethics for Professional Accountants (the Code) in July 2009. The IAESB is on schedule to publish its revised framework for international education standards in December 2009.
 26. IFAC was pleased to recognize the statement issued in June 2009 in which IOSCO "*endorses the replacement of the previous ISAs with the new standards, noting the improvements that have resulted from clarifying the ISA requirements.*"
 27. IOSCO also stated:

"... today many securities regulators accept audits performed in accordance with ISAs in their capital markets. As a result ISAs are able to play an important role in facilitating cross-border securities offerings and listings in those markets. IOSCO encourages securities regulators to accept audits performed and reported in accordance with the clarified ISAs for cross-border offerings and listings, recognizing that the decision whether to do so will depend on a number of factors and circumstances in their jurisdiction. Further, IOSCO notes the potential role of the clarified ISAs for purely domestic offerings and listings and thus encourages securities regulators and relevant authorities to consider the clarified ISAs when setting auditing standards for national purposes, recognizing that factors at the national and regional level will be relevant to their considerations."

28. We were pleased to receive this endorsement of the ISAs. We also recognize the letters of support received from the World Bank and the Basel Committee for Banking Supervision.
29. In June 2009 the Directorate General for Internal Market and Services within the European Commission issued a consultation on the adoption of ISAs.
30. The consultation document draws positive conclusions about the governance arrangements of IAASB. It states:

“The first condition set by the Audit Directive relates to the governance and due process surrounding the development of ISAs by the international standard setter – the IAASB. The governance is supported by the Public Interest Oversight Board (the PIOB) which oversees the standard setting process since 2005. The members of the PIOB are appointed by the international regulatory world which meets in the so called Monitoring Group. Members of this informal group include the International Organisation of Securities Commissions (IOSCO), the Basel Committee of Banking Supervision, the European Commission, the International Association of Insurance Supervisors, the World Bank, and the Financial Stability Board. The International Forum of Independent Audit Regulators currently acts as an observer.

In overall terms, the Commission services consider that the current governance of the IAASB has matured to a stage where it may be justifiable to adopt ISAs in the European Union. There are four reasons for this:

- *Since 2006, the European Commission regularly attends meetings of the IAASB as an observer and meetings of the Consultative Advisory Group as a member. It also sent nearly 30 comment letters on the exposure drafts of the Clarified standards which it prepared after discussions with audit regulators, representatives from the profession and companies under the umbrella of the European Group of Auditor Oversight Bodies (EGAOB). Therefore, it had time to test whether the due process actually works and whether the IAASB has been responsive to comments made;*
- *In March 2008, the European Commission decided to appoint two out of the ten members of the PIOB;*
- *In May 2009, the European Parliament and Council agreed - at political level – a decision providing a legal base for funding the PIOB from 2010 to 2013 up to a total of 1.2 million EUR;*
- *The current governance structure and the due process remains subject to regular effectiveness reviews by the Monitoring Group so that it can constantly be improved and adjusted to future needs.”*

Action 1

IFAC will encourage the standard setting boards to complete their current work on developing a comprehensive process for reviewing the effectiveness of standards.

Further improvements to The Standard Setting Boards processes

31. Since 2003 the IAASB and IESBA have been focused primarily on their major activities of revising the set of ISAs and the Code of Ethics. The new standards that have been introduced have effective dates still in the future. As a result there has been no feedback on the practical application of the new standards from oversight authorities, auditors or others. During development of these revised standards some commentary on the existing standards was received from public authorities and regulatory agencies and this feedback was considered as the new standards were developed.
32. With the introduction of the new ISAs and the Code, the respective Boards have begun work on a plan for an effectiveness review of their new standards. The details of this process are being developed initially by the IAASB and were discussed at the June 2009 IAASB meeting. They will be considered by the other standard setting boards and CAGs during 2009 and a final process is expected to be in place in 2010.

Recommendation 1

With agreement of the PIOB and other interested parties, the terms of reference of the standard setting boards should be amended to provide for the IAASB, IESBA and IAESB to each have the capability of inviting up to five non-voting observer members.

33. In 2003 there was a mutual agreement that the standard setting boards should provide for three non-voting observer seats. In the case of the IAASB and IESBA these seats have been filled by the PCAOB, the EC and the Japanese Financial Services Agency. In addition, in the case of all boards, the chair of the CAG has also held a non-voting observer seat. It may not be clear whether the CAG Chair is considered to hold one of the three non-voting seats or is an additional member. To clarify this situation and to provide for flexibility in providing non-voting seats to organizations in the future, we recommend that the number of non-voting observer seats be increased to five. This body of seats would include the CAG Chair. While there is no intention to actively seek organizations that might wish to hold these seats we have received notice that the International Organization of Supreme Audit Institutions (INTOSAI) might prefer to hold a more permanent position on IAASB than can be assured under the current nomination process.

IPSASB and the PIOB

Recommendation 2

We recommend that the PIOB should assume responsibility for due process of the IPSASB in a manner that is determined to be most appropriate to reflect the needs of governments and other key stakeholders.

Action 2

IFAC will consult with governments and other key stakeholders to identify an acceptable model for oversight of the IPSASB.

34. The Approach Paper asks whether the scope of IFAC activities subject to PIOB oversight is appropriate. Our response is No.
35. In September 2008, the PIOB heard a presentation from the Chairman of the IFAC International Public Sector Accounting Standards Board (IPSASB) on the importance of the PIOB oversight process being extended to work of that Board. Over the past year we have seen governments around the world become increasingly exposed as they take ownership of institutions that are either bankrupt or under stress, toxic assets, provide guarantees and commit to contingent and actual liabilities and incur dramatic increases in current expenditures and their associated deficits. Based on the lack of knowledge in most countries about the level of equity on balance sheets of governments, the importance of governments producing financial statements consistent with IPSAS cannot be overstated. With a number of countries and international organizations such as the Government of Switzerland, the European Commission, the United Nations, OECD and Interpol already adopting IPSAS, it is critical that others follow suit to enable citizens and taxpayers to see clearly the consequences of government actions.
36. Credibility of the IPSAS would be enhanced if the PIOB were able to give public support to the quality of the due process used in setting those IPSAS, as it has done for the work of the other standard setting boards.
37. The PIOB's Fourth Public Report effectively provides a framework for assessing its suitability to take on a role in relation to public sector accounting standards. It concludes:

"...transparency, credibility, expertise and independence remain the pillars of the international public interest and will continue to guide the practice of public interest oversight."
38. The key question is therefore whether PIOB, as currently composed, can bring these four 'pillars' to bear in exercising oversight of public sector accounting standard setting. While *transparency* and *independence* present no obvious difficulties the PIOB will need to assess its ability to meet the other two criteria: *credibility* and *expertise*. The two criteria are, of course, linked. Expertise – together with transparency and independence – influences credibility. Credibility is the ultimate test. To pass this test public oversight arrangements must be capable of standing up to exacting scrutiny and challenge in the most strained of circumstances.
39. It may be unrealistic to assume that PIOB could assume responsibility for IPSASB oversight without any additional cost or without any consideration of the need to extend its membership or modify its procedures to take account of the unique interests of governments in both developed and developing countries, preparers, auditors and users. National securities regulators should have a keen interest in the quality of governmental financial reporting given the size of the government bond markets within their individual jurisdictions. The International Monetary Fund and the World Bank are strong supporters of the use of IPSAS in various parts of the world and it so organizations like the IMF, and indeed INTOSAI, may be appropriate groups to consider in any expansion of membership of the Monitoring Group.

40. IFAC stands ready to consult with governments, MG members and other stakeholders to develop a model that enables oversight of public sector accounting standards to benefit from close links with PIOB's other oversight responsibilities. IPSASB's oversight would therefore benefit from and contribute to the ongoing development of PIOB's oversight model and practice. While the MG formulates its own views on this issue, IFAC will begin exploratory discussions with key governments to establish views on the extent of any change to current PIOB due process that such stakeholders might seek,

The Compliance Advisory Panel (CAP) – Introduction

41. The IFAC Member Body Compliance Program (“the Program”) was launched in 2004 as an integral part of the 2003 reforms. It is a staff driven program reporting directly to the IFAC Chief Executive overseen by a small advisory panel of highly experienced professionals, one from each of six distinct geographic regions of the world. The primary emphasis of the Program is to encourage continuous improvement by professional accountancy organizations through an ongoing assessment of their commitment to use best endeavors to adopt and support implementation of international financial reporting, auditing, ethical, education, and public sector accounting standards as well as to operate or otherwise support robust quality assurance and investigation and disciplinary mechanisms.

Core Elements

Statement of Membership Obligations

42. The foundation of the Program are seven Statements of Membership Obligations (“SMOs”), ratified by the IFAC Council in 2004 as part of the 2003 reforms. Participation is mandatory for the 157 IFAC members and associates in over 120 countries. Five of the seven SMOs cross reference to the five sets of international standards established by the four IFAC standard setting boards and the International Accounting Standards Board. The other two establish best practice for Quality Assurance Reviews and Investigation and Disciplinary Processes. All IFAC members are required to use their “best endeavors” to adopt and support implementation of these international standards and best practices within their countries, recognizing that in many jurisdictions the authority to establish standards and practices does not exist within the member but in some other regulatory body.

Part 1 – Assessment of the Standard-Setting and Regulatory Framework

Action 3

The CAP will initiate a review of the SMOs commencing in 2010.

43. Beginning early in 2010, the CAP will initiate a review to consider revisions to existing SMOs as well as the addition of new SMOs to make sure the IFAC membership obligations are clearly stated and meet the needs of the current environment.
44. The implementation of the Program has been conducted in three distinct phases. Part 1, launched in 2004, was a fact-gathering exercise using a lengthy questionnaire that provided details of the legal, regulatory and standard setting arrangements in each jurisdiction represented by an IFAC member body. Completion of the questionnaire proved to be a significant challenge to many member bodies. It took all of 2004 and well into 2005 until

ultimately completed. Along the way, 12 member bodies (almost 10% of total membership) had to be temporarily suspended and, in the end, 5 member bodies were expelled for failure to satisfactorily participate while a sixth body resigned its membership. These were the first suspension and expulsion actions by IFAC for reasons other than failure to pay membership dues and, therefore, sent an important message both internally and externally that IFAC was transforming itself into a strongly focused organization willing to regulate its membership.

Part 2 – SMO Self-Assessment

45. Part 2 was launched in 2005 using specialized software that moved individual respondents through a self-assessment questionnaire to increasingly specific questions depending on their answers to previous questions. During this phase, members and associates self-assessed their level of compliance with the specific requirements of the 7 SMOs as well as the status of their convergence with the underlying international standards and best practices. While this was a self-assessment, the IFAC staff was able to perform selected validation by:

- Probing further where responses seemed questionable or internally inconsistent;
- Comparing responses from different member bodies where there is more than one member body in a particular country;
- Comparing the responses received to the approximately 75 ROSC Accounting & Auditing reports published by the World Bank as well as inquiring about specific matters with the World Bank staff and other knowledgeable parties.

Part 3 – Action Plans

46. Part 3 was launched in late 2007 and, is itself, being carried out in two phases. The first phase involved the preparation by the Compliance staff of broad Policy Recommendations based on the staff's analysis of the gaps in compliance identified during the Part 2 Self-Assessments. Member bodies were given 3 months to consider the recommendations, not only at a staff level but also by appropriate committees of volunteers, and then confirm them (with clarifications, if necessary) at the governing body level (e.g. their Board or Council). Once Policy Recommendations were agreed, members and associates were given another 6 months to prepare detailed Action Plans, including specific timelines and accountabilities, indicating how and when the recommended actions would be taken.

47. By January 2009, Policy Recommendations had been issued to all of the more than 120 developing member bodies. In addition, as a result of a successful pilot test with 10 developed member bodies during 2008, each of the approximately 35 developed bodies were requested to prepare an Action Plan, without the need for Policy Recommendations, with an emphasis on how they support implementation of the underlying standards and continuously monitor any changes in the standards.

48. While the staff has prepared a detailed Guide on the Preparation of Action Plans, including templates and illustrative plans, it has been emphasized in a Background Note in published plans and elsewhere that such plans are prepared by member bodies for their own use and

reflect their specific national frameworks, priorities, processes and challenges. As a result, Action Plans vary in objective, content and level of detail. The key is that the member body takes full ownership of the plan which is the only way it can be successfully implemented.

49. The first six Action Plans, prepared by member bodies on four different continents, were posted to the IFAC website in July 2008 (Argentina, Botswana, China, Czech Republic, Kenya, and Romania). As of November 2009, a total of 70 plans have been published and over 40 drafts are currently under review. The Action Plan, however, is just the beginning of the process. The goal is actual change reflected by the completion of the action steps identified in the plan. As a result, the staff has begun the implementation of a Monitoring process for member bodies with published Action Plans. This process involves an informal assessment every 6 months by the staff and member body of the progress on planned activities. A formal progress report by each member body on completed actions as well as a comprehensive update to the Action Plan will be required at least once a year.

Part 4 - Transparency and Oversight

Action 4

The CAP will continue to reach out to relevant international organizations such as IOSCO and IFIAR to keep them informed of developments in the Compliance Program and coordinate common efforts and activities as appropriate.

50. From the outset of the program, a core element was a commitment to transparency. All Part 1 and 2 questionnaires, as well as the published Action Plans, are posted to a separate section of the IFAC website and are available to anyone who wants to review such information. Since the initial postings, over 1 million page views have been recorded in this portion of the website.
51. PIOB representatives have observed substantially all meetings of the CAP since April 2007 and have provided feedback on CAP processes as well as the public interest aspects of the CAP agenda.
52. In addition, during the past year, the CAP Chairman has met with members of IFIAR and the IOSCO Emerging Markets Committee and provided updates on the Compliance Program. Such outreach is important to keep key constituencies informed of ongoing progress, challenges and the valuable output of the Compliance Program.

Outcomes

Action 5

IFAC will work with the World Bank to deepen cooperation and develop a new initiative to establish a cooperative framework for building sustainable capacity for the accountancy profession in developing and emerging economies.

Recommendation 3

The Monitoring Group should support and encourage the G20 and other governments to

support the World Bank and IFAC to deepen cooperation and develop a new initiative to establish a cooperative framework for building sustainable capacity for the accountancy profession in developing and emerging economies.

53. Since its inception, the Program and its related activities have achieved a number of important outcomes:
54. Transformation – through the member body commitments contained in the SMOs, the Program has made a substantial contribution to transforming IFAC into a professional organization that is demonstrating its commitment to strengthen the accountancy profession around the world.
55. Recognition – the SMOs have become recognized as the international benchmarks for professional accountancy organizations; in particular, the World Bank ROSC A&A reports specifically refer to the SMOs as part of their Policy Recommendations to governments and professional accountancy organizations.
56. Regulatory Support – the Program may assist regulators and other key stakeholders in achieving their objectives by providing a transparent assessment of the current status of adoption of international standards and best practices in their jurisdictions (as well as other jurisdictions worldwide) and the planned activities of their national professional bodies to achieve convergence with these standards and practices.
57. Valuable Feedback – while the Program is designed to drive behavior and action at the individual member and associate level, extremely valuable information about the status of adoption of international standards across all jurisdictions is a supplementary global benefit. Such information is now being analyzed and organized by the Compliance staff and the first comprehensive assessment – Basis of ISA Adoption - was launched on the IFAC website in November 2009 (<http://web.ifac.org/isa-adoption/chart>). Additionally, the Compliance staff regularly provides feedback on adoption and implementation issues observed in the Program to the IFAC standard setting boards.
58. Influencing Action – as described above, the Program serves as an engine to drive behavior to achieve the successful adoption and implementation of international standards and best practices, either through the direct actions of IFAC members and associates or through their encouragement and advocacy to other stakeholders with the authority to initiate change in their jurisdictions. It is currently estimated that all initial Action Plans should be published by the end of 2010. However, it will take a considerable period of time before member bodies complete all required action steps. Nevertheless the Program has significantly impacted the agendas of professional accountancy organizations around the world, focusing more and more attention and resource on improving the quality of financial reporting and auditing.
59. Facilitating Funding for the Development of the Accountancy Profession – the required actions will not be easy. Moreover, the further the Program moves into the Action Plan phase the more obvious it becomes that developing member bodies will need significant assistance - both financial and technical - to get the job done. As a result, IFAC has been building relationships with development partners such as the World Bank, regional

development banks, bilateral donor agencies, and others to promote the funding of projects to help these developing bodies. At the July 2009 G-20 Accountancy Summit, the World Bank highlighted the urgent need to develop and strengthen the profession in developing and emerging economies as a key step in achieving financial stability and announced that it will work with IFAC to deepen cooperation and establish a framework for building sustainable capacity for the accountancy profession in such economies.

60. IFAC, through its Developing Nations Committee, has also strongly promoted mentoring relationships within regional organizations and by the most developed member bodies. Ultimately, the ability of developing accountancy bodies to meaningfully execute their Action Plans will significantly depend on 1) their ability to clearly communicate their challenges, required actions and need for assistance including resources and 2) the willingness of governments, donor agencies and developed professional bodies to provide assistance whenever possible.

Is the PIOB perceived to be at appropriate arm's length from the activities which it oversees?

61. PIOB representatives have observed almost all meetings of the standard setting boards (and CAGs) since 2005 and substantially all meetings of the CAP since April 2007. They have contributed to the discussions with advice on the public interest aspects of the matters being discussed while leaving decisions of the substance of standard setting boards' outputs to the appropriate voting members. The PIOB has reviewed due process for each individual authoritative pronouncement of the Standard setting boards and pronounced itself satisfied that due process procedures have been met. Its annual reports have expressed satisfaction with the consultation process employed to establish each Standard setting boards strategic plan and the PIOB has not (as it is entitled to do) seen the need to ask for any project to be added to a Board's agenda.
62. In the formative years of the reform processes we believe it has been mutually beneficial to the PIOB and the standard setting boards for there to be regular attendance at meetings. We have also been pleased that no standard setting board has had a designated PIOB member with specific responsibility for that board. We believe the standard setting boards have benefitted by:
 - (a) Being conscious of PIOB observers seeking evidence of public interest perspectives in the debates around the table;
 - (b) Receiving feedback from PIOB members at the end of meetings on whether they have observed any actions or interactions during the meeting that raised concerns about the priority of the public interest, the balance of interaction between practitioner, non-practitioner board members and technical advisors or other matters;
 - (c) Introducing a number of PIOB members to the agenda, technical issues and high level of public interest debate that accompanies all outputs.
63. We believe that the standard setting board members and technical advisors remain fully aware of their responsibilities to represent the public interest. Not only is that a clearly defined role in the call for nominations but it is also frequently reinforced by the Chair of the PIACs in his opening remarks at each meeting. The senior staff person supporting each

PIAC also reminds Board members, whenever considered appropriate, of their role to act in the public interest.

64. Later in this report we address more fully the question of funding for PIOB operations. We believe that addressing the issue of balanced funding will reduce the risk of any perception that the PIOB might be under inappropriate influence in performing its oversight activities.

Staffing and technical resources for the PIACs.

Standard Setting Boards

65. The total number of staff supporting the standard setting boards has remained relatively constant over the last five years. In 2009 there is a staff team of eight supporting the standard setting boards – six for IAASB and one each for IESBA and IAESB. Effective 2009, and in response to the recommendations of the IAASB internal review carried out in 2008, the IAASB has its own Technical Director. IFAC maintains a hard working and well qualified group of staff with broad global experience to assist the Board's in their work. Many of the staff has been working with their respective Boards for an extended period, creating strong institutional memory. Recent additions to the staff bring varied work experience from the United States SEC and the New Zealand Institute of Chartered Accountants. Budgets for 2010 include the addition of one staff position.
66. In addition to supporting their respective standard setting boards the staff also provides support to the CAGs. They develop the agendas for the CAGs in consultation with the CAG Chairs and prepare the agenda papers for the meetings. They attend the meetings as a technical resource to the CAGs and develop the minutes of those meetings for circulation to and approval by the CAG members.

Compliance Advisory Panel

67. The total number of staff supporting the CAP has steadily increased over the last five years as the three phases of the Compliance Program were implemented. In 2009 there is a staff team of eight supporting the Program and the Developing Nations initiative. The staff has broad global experience and possesses competence in a range of languages, including French, Spanish and Russian. The senior staff in this area also has significant continuity in their roles, also establishing significant institutional memory.

Obtain internationally representative public and regulatory input into the processes, including feedback on the standards in practice.

Recommendation 4

IFAC and the Monitoring Group should take individual and collective action to establish a closer working relationship with the Financial Stability Board, the International Monetary Fund and the International Forum of Independent Audit Regulators.

68. IFAC has found the current arrangements for obtaining input from public authorities and regulatory agencies to be essential to producing standards that will be acceptable to those groups. In some cases this input is gathered through direct representation as observers on

the standard setting boards. In other cases the appropriate groups have membership on the respective CAGs. In still other cases regulatory input is gained through meetings of national standard setters.

69. In some cases the Chairs and senior staff of the standard setting boards meet directly with staff of the public authorities and regulatory agencies to brief them on the work of the PIACs and to understand any concerns they may have with standards under development.
70. We have been particularly pleased to note increased interest from some regulatory agencies during the last five years. In particular, the International Association of Insurance Supervisors (IAIS) has begun to attend meetings of the IAASB CAGs on a regular basis.
71. The IAASB has established a formal contact with the IFIAR. The Chairman of IFIAR has indicated that at least an annual interaction between IAASB and IFIAR is desirable. The IAASB has agreed to meet whenever invited. IFAC intends to encourage the standard setting boards to seek ways to formalize this interaction in the coming period and, to encourage IFIAR to extend its interaction to include the IESBA
72. Given the recent statements from the G20, we believe it is also appropriate for IFAC to seek to extend its relationship with the Financial Stability Board (FSB) and the International Monetary Fund (IMF). The FSB has for some time included ISAs as one of the 12 key sets of standards and codes necessary for sound financial architecture. The IMF has been an active supporter of the IPSASB providing both financial and human capital to that Board's activities. In 2003 they withdrew from the IAASB CAG but we believe it is now appropriate to re-establish a relationship with them.

Recommendation 5

The Monitoring Group should encourage its members and other public authorities and regulatory agencies to take a greater interest in the work of the IAESB.

73. The 2003 Reform Proposals stated that *“International Education Standards have a high level of significance for the long-term global development of the accounting profession. These standards are significant both for their implications of the competence of accountants as well as they way they affect trade in accounting services. For these and other reasons the development of International Education Standards is a public interest activity and will be subject to PIOB oversight.”* We agree with the stated reasons.
74. Given the reasons stated above, we look for a more active participation from the MG in the coming years. We recognize that the initial focus of the respective bodies has been to the development of the clarity ISAs and the Code of Ethics for Professional Accountants. However, having now gained 5 years of experience with its published Standards, (six Standards prescribe “good practice” for the pre-qualification level of professional accounting education programs and two Standards have been issued in the post-qualification area, which cover requirements for continuing professional development and the competence of an audit professional) the IAESB is entering a cycle of revision and would benefit from the input of public authorities and regulatory agencies in ensuring that the Standards remain relevant to the public interest and reach out to a wider range of stakeholders in accounting education. We look for support from the appropriate public

authorities and regulatory agencies to the work of IAESB in the coming years. This could best be achieved by providing members to serve on the CAG.

The structures and systems put in place by IFAC provide for public interest oversight

Action 6

IFAC will take further actions to communicate the rationale of the 2003 reforms whereby a combination of public and private sector roles provide a standard setting structure and process that operate and are seen to operate in the public interest, in a context in which the needs for legitimacy, independence, transparency, performance and accountability are appropriately met

Recommendation 6

The Monitoring Group should take a proactive role in communicating that the work of the PIACs as independent standards setters involves both the accounting professions and other stakeholders, including regulators in a system of shared responsibility for standards setting that operates in the public interest through a carefully designed series of checks and balances that is overseen by an independent board accountable to the regulators.

75. The arrangements established for standard setting in 2003 were based on the premise that unless appropriate structures and processes for governance and oversight, and appropriate levels of transparency, were instituted, the public interest would not be protected
76. Central to these arrangements was the creation of the PIOB, with a responsibility to maintain oversight of the standard setting activities carried out by the IAASB, the IESBA and the IAESB and of the activities of the Member Body Compliance Program. While this 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.
77. IFAC has invested considerable time and resources in working with the PIOB to establish an effective and independent oversight regime. We are appreciative of the collaborative approach that has developed since 2005. The PIOB observes all stages of the nomination and standard setting processes. More recently, PIOB has begun to take a greater interest in the activities of the Compliance Advisory Panel (CAP).
78. In addition to the attendance of PIOB observers at all meetings of the Nominating Committee, PIACs and their CAGs and the CAP, the PIOB invites the IFAC Officers to participate in parts of most of their meetings and the standard setting boards and CAG Chairs and CAP Chair to meet with the full PIOB twice a year. These meetings provide a chance for the PIOB to discuss relevant matters with the volunteer leaders of the standard setting boards and CAP.
79. We have noted an expressed preference for these semi annual meetings to be face to face occasions. While the majority of the volunteers serving as Chairs of the groups subject to oversight are based in Europe there are others based in North America. Generally the

meetings of each individual Chair with the PIOB run for about an hour. Given the pressures on all the volunteers and the cost of travel to attend meetings in Madrid we would hope that the videoconference system in the PIOB offices could be upgraded so that the possibility of electing to hold meetings by videoconference when warranted could exist.

80. At the Monitoring Group meeting in October 2009, comment was made that the Independence section of the Code of Ethics for Professional Accountants was too important to be left in the hands of the profession. We concur with this view; however we do not accept the premise. The process by which the Code was developed between 2005 and 2009 has involved all of the elements of standard setting envisaged by the 2003 reforms. The interrelated combination of structural arrangements and process elements designed to ensure that standard setting operates in the public interest are set out in the IFAC Policy Position Paper 3 issued in December 2008. Not least of these arrangements is the composition of the standard setting boards that ensure not more than 50% of the members are practitioners while at the same time requiring that the approval of any standard calls for the affirmative vote of 75% of the members. In addition to this, there are a range of other mechanisms which ensure that the profession alone does not determine the independence standards. The transparency of the process, coupled with the role of CAG, and the approval by the PIOB of the Terms of reference of the IESBA, its due process and its composition, as well as the application of due process in the development of the Code, mean that while the profession has a role in determining the Code and providing input to ensure the resulting standards are workable at a practical level, the key decision making authority in no way rests with the profession
81. We believe it is incumbent on both IFAC and the MG to communicate clearly the rationale for the standard setting processes and the shared responsibility for standard setting that results from these processes.

The structures and systems put in place by IFAC provide for appropriate involvement of non-practitioners in the process.

82. Soon after its inception, the PIOB took an active role in the Nominating Committee process to identify non-practitioners to serve on the standard setting boards. It was mutually agreed by IFAC and the PIOB that the balancing of practitioner and non-practitioner members on the Board should be made as quickly as possible but not at the risk of severely disrupting the efficiency of any Board given the critical nature of their work programs. By 2007 the balance of practitioner and non-practitioner membership had been achieved on all Boards.
83. The calls for nominations published by IFAC each February clearly set out the number of vacancies that the Nominating Committee is seeking to fill and whether these are practitioner or non-practitioner positions. To date there has been no shortage of suitable candidates for either group.
84. It has been observed that the balancing of membership on the Boards in this way has impacted the balance of debate – particularly on the IAASB and IESBA. The practitioners who are experts in the subject matter are naturally more familiar with the issues than the non-practitioner members. As a result the technical issues are generally debated by the practitioner members with the non-practitioners having generally (but not exclusively) a more passive role. In the case of the IAESB, however, it is often the non-practitioners

(academics, education directors of member bodies and others) who provide the education knowledge and experience to complements and inform the practitioner's viewpoint

85. Non-practitioner members have good attendance records at standard setting board meetings. It is sometimes more difficult to get them involved in additional task force meetings on specific projects. Notwithstanding this, the Boards all recognize the importance of having non-practitioners participating in task forces and bringing their perspective to debates on key issues.
86. In our view the involvement of non-practitioners at the board level is working well. We note that the Chairs of the standard setting boards make a conscious effort to ensure the views of non-practitioner members are sought during debates. All board members participate in task force and meeting debates which provide for not only the general direction of a project but also the detailed way in which the direction is phrased. Boards also invite both practitioners and non-practitioners with expertise relevant to a specific project to join the board's deliberations through participation in the task forces. As indicated in the call for nominations, the standard setting boards look for different contributions from practitioner and non-practitioner members.
87. We see no reason, and indeed a possible risk, to changing the current balance of practitioner, non-practitioner mix.

The structures and systems put in place by IFAC provide support for standards implementation on a global basis, taking account of the variety of contexts that exist internationally.

88. There are a number of well established initiatives which support standards implementation – the IFAC Member Body Compliance Program (discussed above), the Forum of Firms and the Small and Medium Practices Committee. Additionally, a new strategic theme regarding adoption and implementation support has been launched beginning in 2009.

Implementation Support – Forum of Firms

89. The 22 international networks comprising the Forum of Firms have committed to the use of ISAs and ISQC1 as a basis for their audit methodologies and internal quality control programs as well as to adhere to IFAC independence and educational standards. As these networks audit well over 90% of listed companies and a significant portion of public interest entities, the commitments of the Forum of Firms members represents a significant contribution to comprehensive and effective implementation of IFAC standards around the world.
90. The Forum of Firms also plays an important role in supporting the effective implementation of the IFAC reforms by nominating 5 members to each of the standard setting boards.

Implementation Support – Small and Medium Practices Committee (SMPC)

91. The SMPC has recently issued two comprehensive guides to support the implementation of ISAs and ISQC 1:
 - (a) *Guide to ISAs for Use in the Audit of SMEs* (Dec. 2007: update Q4 2009)

(b) *Guide to Quality Control for Use by Small- and Medium-sized Practices* (March 2009: update Q3 2010)

92. These guides have been widely disseminated, free of charge, and translated into multiple languages to assist small and medium practitioners around the world with the implementation of audit and quality standards.

Adoption and Implementation Support – A New Strategic Theme

Action 7

IFAC will increase resources for its current strategy and work program aimed at actively supporting the adoption of, and assisting in the implementation of, international standards.

93. At its meeting of November 2008 the IFAC Council approved the IFAC Strategic Plan 2009-2012 and the corresponding IFAC Operational Plan 2009-2012. These plans contain a new strategic theme that did not form part of the 2007-2010 plan, namely “to actively support the adoption of, and assist in, the implementation of international standards.”
94. The importance of this new theme, and in particular its crucial role in serving the public interest, should not be understated. Its importance is perhaps best evidenced by the Third Public Report issued by the Public Interest Oversight Board (PIOB) in May 2008 which states that: “International standards will deliver tangible benefits in the international public interest only if they are properly adopted and implemented.”
95. IFAC is already delivering services in support of this new strategic theme and most, if not all, activity areas plan to do more; however, there is a need going forward to develop a more cohesive approach across the organization.
96. The IFAC staff is currently developing an overall strategy and work program for this new strategic theme. Work to date has included:
- Preparation of a detailed inventory of current and planned activities across all activity areas that support this strategic theme.
 - Development of proposed definitions of “adoption” and “implementation” to provide for all parties a common understanding of the strategy and work program.
 - Development of a simple and coherent framework to describe activities in this area which can be applied to each set of IFAC standards.
97. The IFAC Board will be considering this strategy and work program over the next six months. Additionally, consultations are underway with each of the PIAC Chairs and staff to obtain their input and to promote a consistent understanding and approach to activities in this area.

The structures and systems put in place by IFAC provide for independent funding.

98. At the inception of the IFAC reforms, IFAC undertook to provide financial support to the PIOB. Initially, IFAC agreed to guarantee funding for a five-year period commencing in March 2005. The guarantee included an undertaking that IFAC would have no role in the budget development or management of the PIOB. The initial guaranteed funding was an

amount up to 1.5 million United States dollars plus annual inflation and foreign exchange adjustments. From January 2007, the denomination of the IFAC guaranteed funding was converted to Euros. The amount of guaranteed funding for 2007 was determined as the Euro equivalent of 1.5 million United States dollars after adjustment for inflation and exchange rate changes since January 2004. For the remainder of the first guarantee period, and for the second guarantee period (March 2010 to February 2015), the funding is the 2007 amount adjusted annually for the inflation rate in the Eurozone. Since 2005, IFAC provided the following funding:

2005: US \$478,289 (including funding support from World Bank and United States Federal Reserve Board (FRB))

2006: US \$1,047,363 (including funding support from World Bank and FRB)

2007: US \$1,562,243 (IFAC funding support only)

2008: US \$1,778,191 (IFAC funding support only)

99. IFAC is pleased to recognize the financial support provided by the World Bank and the Federal Reserve Board of the United States. Other members of the PIOB have provided “in kind support.” We have noted the recent proposals by the European Commission (EC) to support the work of the PIOB in the amount of €300,000 per annum commencing in 2010. We congratulate the EC on this leadership and hope that other members of the Monitoring Group will be able to find mechanisms to provide their own financial contribution.

The structures and systems put in place by IFAC are responsive to changing circumstances.

100. We believe that the response to this statement is a resounding “yes.” Comments in paragraph 23 indicate how the due process has been modified as circumstances and experience has demanded.

Action 8

The standard setting boards will continue development of a mechanism to provide for urgent amendments or additions to their authoritative pronouncements. This will involve full consultation with the Boards, their CAGs and the approval of the IFAC Board and the PIOB.

101. In the light of the economic crisis, each standard setting board took immediate steps to consider whether its priorities needed modification. In each case the respective CAG was consulted.
102. In the case of the IAASB, the Board concluded that a new non-authoritative publication was required that would remind auditors of their responsibilities in certain aspects of an audit. Two Staff Alerts have been issued. The first in October 2008 entitled Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment and the second in January 2009 called Audit Considerations in Respect of Going Concern in the Current Economic Environment.

103. The IAASB has instructed staff to develop a third alert before the end of 2009 addressing issues around audit confirmations.
104. One experience arising from observation of the reactions to the economic crisis is the need for each standard setting board to have the ability for a rapid response to an issue that requires authoritative guidance. The Standard setting boards are currently considering staff proposals that would set out a procedure to be followed in the rare cases when an urgent amendment or addition to standards is required. All of the standard setting boards are naturally sensitive to the credibility accorded to their standards because of the due process that has been put in place since the IFAC reforms. They are conscious that any acceleration of the development of an authoritative pronouncement can only be at the expense of some elements of the currently approved due process. As a result consultations are underway within the Standard setting boards and subsequently with their CAGs and PIOB. It is expected that a formal process can be approved by all parties by the end of 2009.
105. We support that due process must provide for such a rare situation to be addressed. Initial consultation with the standard setting boards and CAGs have raised significant concerns about when such circumstances are warranted and how much any such pronouncements will be accepted given the lack of transparent consultation. Notwithstanding these concerns, IFAC is supportive of a process being defined that will have general acceptance of all interested parties, provide some consultation time and have sufficient specific criteria surrounding its applicability that it cannot be used as a backdoor to the normal approved due process. The details of this process are being developed initially by the IAASB and were discussed at the June 2009 IAASB meeting. They have also been considered by the other standard setting boards and CAGs during 2009 and a final process is expected to be in place in 2010.
106. Other changes under consideration by the Standard setting boards to address changing circumstances are discussed in the section on due process later in this paper.
107. IFAC has taken its own steps to respond to changing circumstances resulting from the global financial crisis. A new section was added to the IFAC web site (<http://www.ifac.org/financial-crisis/>) to serve as an international clearinghouse of programs, articles, speeches, and other initiatives related to the global financial crisis undertaken by IFAC, its independent standard-setting boards, members and associates, and others that are relevant to professional accountants and to other stakeholders in the accountancy profession. This section of the web site is one of the most frequently visited.

The structures and systems put in place by IFAC meet due process

108. There is no single definition of due process. The objective of the reform proposals of 2003 was to increase confidence that the public interest activities of IFAC (including the setting of standards by IFAC boards) are properly responsive to the public interest and lead to the establishment of high quality standards and practices. These proposals were designed to result in highly transparent standard setting processes with public and regulatory input, within a framework of regulatory monitoring and public interest oversight.
109. We believe that there is ample evidence of increased public and regulatory input over the last five years. IFAC has benefitted from extensive input at all phases of project

development from organizations such as members of the MG but also many other regulators who do or have indicated they intend to use the output of the standard setting boards. Formal and informal interaction with these become a standard operating procedure in the work of the Standard setting boards and it is particularly noticeable and beneficial at the early stages of a project when public and regulatory input has had a significant impact not only on the priorities of a standard setting board but also the direction a final standard has taken. Examples include the elevation to a high priority of the development of an audit standard on group audits at the urging of a regulatory authority and the reconsideration of independence in connection with internal audit services by a regulator.

110. Due process is not a static activity. It evolves with input from all interested parties. As mentioned earlier the standard setting boards are conscious that due process requires an effective mechanism to determine the effectiveness of the standards produced. We are actively monitoring the development of an appropriate process that can be applied consistently across the boards.

Action 9

IFAC will encourage the standard setting boards to develop a process for impact analysis of standards for consideration by the IFAC Board and ultimate approval by the PIOB in the event that changes in the terms of reference of the Boards is necessary.

111. An additional element of due process currently under consideration is how one might perform an effective impact assessment of a proposed standard on a global basis prior to the introduction of the new standard and how might relevant and supportive input be gathered. Many national and regional organizations are either required or choose to perform such assessments before legislation is introduced. We believe the results have shown mixed success. Most examples have been micro focused on the cost of implementation – for example the number of hours training that might be needed to achieve competency in a new procedure but with little evidence to support that either the cost estimates are valid or the benefit can be reasonably determined.
112. The standard setting boards, along with the IFAC Board and the PIOB, are seeking to develop a workable impact analysis process that can be applied during the development of a standard and as part of due process. We are firmly of the opinion that the final process needs to be cost effective in itself. We believe that public authorities and regulatory bodies will have a responsibility to make their own assessments during the development of a standard to determine their own view of the impact within their own community and constituency. We also believe that this process cannot unduly delay the process of issuing a standard. Draft proposals are under development. We hope to see them considered by the standard setting boards, their CAGs and the IFAC Board during 2009/10.

The Work of the IFAC Council and Board

Action 10

IFAC will invite each member of the Monitoring Group to send a representative to attend relevant parts of the Annual Council Meeting. In addition, the minutes of the meeting will be posted on the IFAC web site.

113. Since 2003, IFAC has invited individuals from Monitoring Group organizations to address the Council meeting. Jerry Edwards, representing the Basel Committee, has spoken at two Council meetings and John Hegarty, on behalf of the World Bank, has spoken at another. In addition, Stavros Thomadakis, as Chair of the IOB, has attended all Council meetings since his appointment.
114. Since the creation of IOB in 2005, a member of the IOB (usually the Chairman) has attended all IFAC Board meetings. The Board has had robust discussions around many items over the last 5 years and the public interest has been a focus of many of those discussions.
115. One of the proposals of the 2003 Reforms was that IFAC would ensure greater transparency in the operations of the IFAC Council, with the appropriate parts of the agenda and minutes to be in the public domain. We believe that participation by the individuals named above has been a major advance in meeting this goal. To provide greater transparency, IFAC will take further steps to make the operations of its Council open.

The Way Forward

116. The financial crisis of 2008 has emphasized the importance of global standards. IFAC has made submissions to the G20 during 2009 strongly encouraging the leaders of those countries to implement international accounting, auditing, public sector accounting and independence standards within their own jurisdictions to demonstrate their commitment to global adoption of these standards. We are encouraged by the G20's call for adoption of a single set of accounting standards as soon as possible.
117. The fact that the pronouncements following the G20 meetings in Pittsburgh and St. Andrews do not address the other sets of global standards is disappointing but clear evidence that the timelines for adoption of these various sets of global standards varies greatly. One criterion for the success of the standard setting activities for which IFAC shares responsibility with other stakeholders, including the regulatory community, will be evidence of the adoption of those standards at a global level. We accept that this is the ultimate goal. However, the timeline for such global acceptance is a function of many factors. While IFAC believes this should happen as quickly as possible, we equally recognize the obligation on regulators in any national jurisdiction not to seek the adoption of those standards until they believe them to be in the public interest.
118. Initial discussions with many of those with the legislative authority to adopt the output of the standard setting boards in their jurisdictions has indicated a willingness for this to be considered once the standard setting board has finalized its body of standards to a point where the authority have a clear picture of the content. The IAASB and IESBA finalized

their respective bodies of standards in 2009. The IAESB should reach this position within the time frame of its new strategic plan. (The IPSASB should reach a similar point in December 2009). IFAC considers that a key action for the standard setting boards, and IFAC itself, will be the development of clear strategies and programs for each group to work with all interested stakeholders towards development of action plans to address the steps needed and the timetables considered appropriate to achieve global acceptance of the standards. For example, the IESBA already has a strategy to begin consultations in 2010 with key national regulators to determine what impediments exist that would prevent adoption of the Independence provisions of the Code within individual jurisdictions and to consider how such impediments can best be addressed on a global basis.

119. This report outlines a number of housekeeping and forward looking actions that IFAC intends to progress actively. IFAC stands ready to modify the actions set out in this report as discussions with the Monitoring Group continue through 2010.

Conclusion

120. IFAC has worked hard to give effect to both the spirit as well as the letter of the reforms agreed in 2003. We believe the 2003 reforms, together with the additional changes already made and further changes proposed in this paper, result in a shared responsibility for standard setting that remains appropriate for 2010 and beyond. We refer you to the arguments of the benefits of shared responsibility for standard setting more fully discussed in the paper *International Standard Setting in the Public Interest* <http://www.ifac.org/Store/Details.tpl?SID=1229098401517900&Cart=124938675932989>.
121. Given our assessment set out in this paper, we believe the reforms have moved towards an effective shared responsibility for standard setting. Our aim is to continue to meet the needs of those who rely on the standards. We welcome the opportunity to work with the Monitoring Group to find ways in which this may be accomplished.

SUMMARY OF ACTIONS AND RECOMMENDATIONS

Actions and Recommendations

This report contains a number of Actions and Recommendations which are repeated here.

Actions are matters which IFAC can undertake on its own and do not require interaction with other bodies.

Action 1

IFAC will encourage the standard setting boards to complete their current work on developing a comprehensive process for reviewing the effectiveness of standards.

Action 2

IFAC will consult with governments and other key stakeholders to identify an acceptable model for oversight of the IPSASB.

Action 3

The CAP will initiate a review of the SMOs commencing in 2010.

Action 4

The CAP will continue to reach out to relevant international organizations such as IOSCO and IFIAR to keep them informed of developments in the Compliance Program and coordinate common efforts and activities as appropriate.

Action 5

IFAC will work with the World Bank to deepen cooperation and develop a new initiative to establish a cooperative framework for building sustainable capacity for the accountancy profession in developing and emerging economies.

Action 6

IFAC will take further actions to communicate the rationale of the 2003 reforms whereby a combination of public and private sector roles provide a standard setting structure and process that operate and are seen to operate in the public interest, in a context in which the needs for legitimacy, independence, transparency, performance and accountability are appropriately met

Action 7

IFAC will increase resources for its current strategy and work program aimed at actively supporting the adoption of, and assisting in the implementation of, international standards.

Action 8

The standard setting boards will continue development of a mechanism to provide for urgent amendments or additions to their authoritative pronouncements. This will involve full consultation with the Boards, their CAGs and the approval of the IFAC Board and the PIOB.

Action 9

IFAC will encourage the standard setting boards to develop a process for impact analysis of standards for consideration by the IFAC Board and ultimate approval by the PIOB in the event that changes in the terms of reference of the Boards is necessary.

Action 10

IFAC will invite each member of the Monitoring Group to send a representative to attend relevant parts of the Annual Council Meeting. In addition, the minutes of the meeting will be posted on the IFAC web site.

Recommendations require the active participation of other bodies. IFAC is willing to engage in steps to achieve these recommendations where appropriate.

Recommendation 1

With agreement of the PIOB and other interested parties, the terms of reference of the standard setting boards should be amended to provide for the IAASB, IESBA and IAESB to each have the capability of inviting up to five non-voting observer members.

Recommendation 2

We recommend that the PIOB should assume responsibility for due process of the IPSASB in a manner that is determined to be most appropriate to reflect the needs of governments and other key stakeholders.

Recommendation 3

The Monitoring Group should support and encourage the G20 and other governments to support the World Bank and IFAC to deepen cooperation and develop a new initiative to establish a cooperative framework for building sustainable capacity for the accountancy profession in developing and emerging economies.

Recommendation 4

IFAC and the Monitoring Group should take individual and collective action to establish a closer working relationship with the Financial Stability Board, the International Monetary Fund and the International Forum of Independent Audit Regulators.

Recommendation 5

The Monitoring Group should encourage its members and other public authorities and regulatory agencies to take a greater interest in the work of the IAESB

Recommendation 6

The Monitoring Group should take a proactive role in communicating that the work of the PIACs as independent standards setters involves both the accounting professions and other stakeholders, including regulators in a system of shared responsibility for standards setting that operates in the public interest through a carefully designed series of checks and balances that is overseen by an independent board accountable to the regulators

**Members and Observers of the Consultative Advisory Groups
as at June 30, 2009**

IAASB

Member Organizations

- Asian Financial Executives Institutes
- Basel Committee on Banking Supervision
- BusinessEurope
- CFA Institute
- Eastern Central and South African Federation of Accountants
- European Commission
- European Federation of Accountants and Auditors for SMEs
- European Financial Executives Institutes
- Fédération des Experts Comptables Européens
- Graduate School of Finances and Management, Moscow
- Gulf States Regulatory Authorities
- Information Systems Audit and Control Association
- Institute of Internal Auditors
- Institute of International Finance
- Instituto Brasileiro de Governanca Corporativa
- International Accounting Standards Board
- International Actuarial Association
- International association of Insurance Supervisors
- International Bar Association
- International Corporate Governance Network
- International Organization of Securities Commissions
- International Organization of Supreme Audit Institutions
- International Valuation Standards Council
- Islamic Financial Services Board
- Japan Securities Dealers Association

- North American Financial Executives Institutes
- Sri Lanka Accounting and Auditing Standards Monitoring Board
- United Nations Conference on Trade & Development
- World Bank
- World Federation of Exchanges

Observers

- Financial Services Agency, Japan
- U.S. Public Company Accounting Oversight Board

IESBA

Member Organizations

- Asian Financial Executives Institutes
- Basel Committee on Banking Supervision
- BusinessEurope
- CFA Institute
- Eastern Central and Southern African Federation of Accountants
- European Commission
- European Federation of Accountants and Auditors for SMEs
- European Financial Executives Institutes
- Fédération des Experts Comptables Européens
- Gulf States Regulatory Authorities
- Institute of Internal Auditors
- International Corporate Governance Network
- International Organization of Securities Commissions
- International Organization of Supreme Audit Institutions
- International Valuation Standards Council
- Islamic Financial Services Board
- North American Financial Executives Institutes
- World Bank
- World Federation of Exchanges

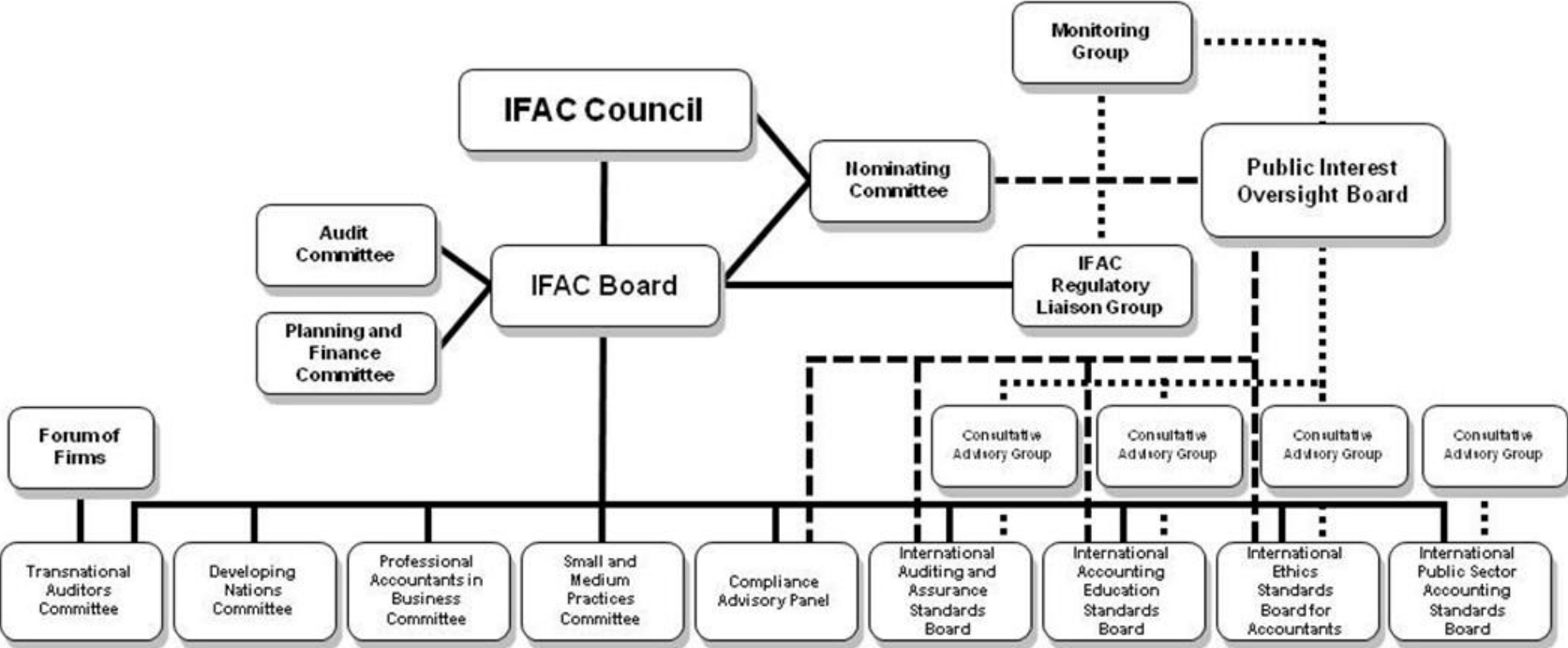
Observers

- U.S. Public Company Accounting Oversight Board

IAESB

Member Organizations

- Association to Advance Collegiate Schools of Business
- Accounting and Finance Association of Australia and New Zealand
- American Accounting Association
- Confederation of Asian and Pacific Accountants
- European Accounting Association
- European Association of Accountants and Auditors for SMEs
- Fédération des Experts Comptables Européens
- International Accounting Standards Committee Foundation
- South African Independent Regulatory Board for Auditors
- South Asian Federation of Accountants
- U.K. Professional Oversight Board
- U.S. National Association of State Boards of Accountancy
- U.S. Public Company Accounting Oversight Board
- U.S. Agency for International Development



KEY:	
ACCOUNTABILITY	————
OVERSIGHT	- - - -
CONSULTATION/ADVICE