



International Federation  
of Accountants

2006 Annual Report



*Leading the Global Profession*

*Thirty Years of Progress*



**International Federation  
of Accountants**

**1977 - 2007**

*Thirty Years of Progress*



## **Our Mission**

*To serve the public interest, IFAC will continue to strengthen the accountancy profession worldwide and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.*

INTERNATIONAL FEDERATION OF ACCOUNTANTS  
2006 ANNUAL REPORT

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CONTENTS

Message from Graham Ward, CBE, President, 2004 – 2006	2
Message from Ian Ball, Chief Executive Officer	4
Message from Stavros B. Thomadakis, PIOB Chair	8
Looking Back — IFAC’s Leadership and Membership	9
Board and Committee Members	10
Members and Associates	12
Service Delivery	16
Standards and Guidance	
Promoting Quality	
International Collaboration Activities	
Representation of the Accountancy Profession in the Public Interest	
Information Services	
Financial Highlights	29
Financial Statements	30
Independent Auditors’ Report	48

## MESSAGE FROM GRAHAM WARD, CBE, PRESIDENT, 2004 – 2006

### CONTRIBUTING TO ECONOMIC GROWTH AND STABILITY WORLDWIDE

In 2005 IFAC developed a guiding strategy that emphasized our commitment to the public interest, our mandate to build an investment climate of trust, and our role in contributing to economic growth and stability. Throughout 2006, this strategy was the beacon for our leadership and our members and enabled many of our goals to be realized. The Chief Executive Officer's message sets out these achievements in detail. In this message, I will highlight some key strategic themes.

#### Architect of the Global Profession

Having a strong accountancy profession is key to having a strong financial infrastructure in a country and relates to the ability of that country as a whole, and of individual companies within it, to raise capital at a favorable cost. Without professional accountants committed to IFAC's values of integrity, transparency and expertise, without reliable and credible financial information that is independently attested, growth in almost any country would be stymied and fair markets would not exist. Thus, where our profession flourishes, so too, does the potential for real and meaningful economic growth. Through our compliance program, IFAC supports the development of a high quality accountancy profession throughout the world. In particular, we work with emerging countries as they strive to overcome the challenges of the past and to build a better life for their citizens. And we do so with the help of regional accountancy organizations and our member bodies located in nearly 120 countries around the globe.

Over the past year, we extended our outreach to donor agencies to determine where IFAC can most effectively and efficiently collaborate on the development of our profession. A key area of focus was Africa, the continent currently suffering from some of the worst poverty in the world. Together with the African Development Bank and the World Bank, we sponsored a learning workshop for government and private sector leaders and members of the accountancy profession to learn how we can best meet the



needs of this constituency and to let them know how IFAC can support them. This workshop generated a firm common commitment to action; important seeds of growth were sown and we will nurture them.

#### High Quality Standards and Convergence

Both achieving economic growth and sustaining fair markets require high quality standards and guidance. Our work as an international standard setter in the areas of auditing, ethics, education, and public sector accounting is now highly respected, resulting in greater convergence to our international standards. This work is boosted by the solid commitment of implementers, for example, the Forum of Firms.

To operate effectively in a global world, we need to follow global standards. The globalization of economic activity has resulted in an increased demand for high quality, internationally comparable financial information. By reducing differences in financial reporting requirements for participants in international capital markets, we can remove barriers to international capital flows and facilitate cross border investment, which is critical to economic growth. IFAC's standard-setting boards, therefore, increased their efforts to pursue international convergence. And, I am happy to report, we are meeting with success.

The movement to use international, rather than national, standards has gathered momentum. So far, more than 100 countries worldwide, up from 70 countries just a few years ago, are using or plan to use International Standards on Auditing (ISAs) as the basis for national auditing standards. In addition, the World Federation of Exchanges has announced its endorsement of the ISA standard-setting process. IFAC's *Code of Ethics for Professional Accountants* is also increasingly being adopted or integrated into member body codes. Our Education Standards are the internationally accepted benchmark. So, too, are IFAC's International Public Sector Accounting Standards (IPSASs). In 2006, the United Nations General

Assembly approved a package of financial management reforms that called for UN agencies to use IPSASs for their financial statements. The United Nations joins various governments and public sector organizations around the world — such as the Organisation for Economic Co-operation and Development, the European Commission, the North Atlantic Treaty Organisation and IFAC — that have adopted IPSASs as their financial reporting standards.

### Embracing All Accounting Professionals

When I became President, I made a commitment to ensure that IFAC gave a voice to all members of the profession, including those in small- and medium-sized firms and those working in business and industry. Through our initiatives with professional accountants in business (PAIBs) and small and medium practices (SMPs), this commitment has become a reality. Input from these groups led to the development of critical new services and guidance. In particular, a new global search engine — IFACnet.com — was developed to provide PAIBs with access to relevant and high quality resources from accountancy bodies worldwide. Recently expanded to include more information for SMPs, IFACnet has already attracted thousands of visitors from over 190 countries. In the coming months IFAC will be producing additional services for SMPs, including a new

guide on implementing ISAs — a fundamental tool for facilitating efficient convergence.

### Outreach and Growth

In promoting economic development and stability worldwide, we have engaged in ongoing cooperation and collaboration with governments, regulators and international organizations. I have continually communicated the importance of working with our profession: in meetings with heads of state, prime ministers and other government ministers, as well as with donor agencies, around the globe; and with international regulators who help to ensure that our profession is responsive to the public interest. I am deeply grateful to all of these individuals and organizations for their support, to the Public Interest Oversight Board, strongly led by its Chair, Professor Stavros Thomadakis, for its dedication to ensuring that IFAC standard setting is of the highest quality, to fellow IFAC Board and Committee members, and to IFAC Chief Executive Officer Ian Ball and his staff for their dedication. When we all work together, our profession thrives and the public benefits.



### IFAC 2006 Board Members



Back row (left to right): Kamlesh Vikamsey, Ofer Minirav, Abdul Samad, David Smith, Charles Tilley, William Nahum, Roberto D'Imperio, and Ignatius Schoole. Center row (left to right): Eric Li, Chuck Horstmann, Ndung'u Gathinji, Guy Almeida Andrade, David Leonard, Joycelyn Morton, Gen Ikegami, and Göran Tidström. Front row (left to right): Sylvie Voghel, Fermín del Valle (Deputy President), Graham Ward (President), Ian Ball (Chief Executive Officer), and Robert Bunting. Not pictured: Yuguí Chen and Bernadette McGrory-Farrell.



## MESSAGE FROM IAN BALL, CHIEF EXECUTIVE OFFICER

### A HISTORY OF PROMOTING CHANGE, QUALITY AND ACCOUNTABILITY

This year, 2007, IFAC celebrates its 30th anniversary. It is a milestone that should be recognized for what it conveys about the profession's growth, value, and influence in contributing to international financial stability.

#### IFAC's Development

IFAC entered the world stage in 1977, a time when globalization was just beginning to make an impact on accounting and auditing. Accounting firms were exploring the use of new technologies, and corporations were transforming themselves to meet the challenge of heightened competition across all markets. IFAC's development from an organization of 63 members to one with more than 150 members and associates coincided with the growth of technology, with the expansion of corporations and multinational entities, and with the monumental increase in the total value and trading volume of the world's capital markets. As more and more countries sought to strengthen their financial architecture through adoption of international standards, IFAC's role gained importance in both the developed and developing worlds as an international standard setter.

The development of the international profession over the past 30 years has not always been smooth. In the last decade, the failures of Enron, WorldCom and other global entities and the associated accounting failures resulted in increased scrutiny of the profession. At the same time, however, it brought increased recognition of the value of the profession to national and global economies. Over the past five years alone the profession has experienced unprecedented change — change brought about



not only by governments and regulators, but also by IFAC, by accounting firms, and by national accountancy bodies. These changes focused on enhancing the quality of financial information and ensuring greater accountability by the profession. They also emphasized the need for a recommitment to the highest ethical standards. The most significant of these changes for IFAC was the formation of the international Public Interest Oversight Board (PIOB). On page 8 of this report, Professor Stavros

Thomadakis, chair of the PIOB, outlines the PIOB's activities to ensure that IFAC's standard-setting processes operate in the public interest.

#### IFAC Today

Today, the international accountancy profession is 2.5 million members strong with a presence around the globe. IFAC and its members strive to support this growing constituency of professional accountants in business, public practice, government and academe in providing the highest quality performance and information.

This report describes our services and key achievements over the past year and looks at some of our future priorities. IFAC's output during 2006 is detailed in the "Service Delivery" section of this report (see page 16).

#### Standard Setting

Our international standard-setting activities over the past year focused on such significant issues as auditor responsibilities, auditor communications and auditor competency; independence; and government financial disclosures. IFAC's four independent standard-setting boards — the International Auditing and Assurance Standards Board (IAASB), International

#### A Look Back . . .

*Munich, Germany was the site of the signing of IFAC's first Constitution on Friday, October 7, 1977. On this date, 63 professional accountancy bodies agreed to establish and support IFAC.*

Accounting Education Standards Board (IAESB), International Ethics Standards Board for Accountants (IESBA) and International Public Sector Accounting Standards Board (IPSASB) — led the way in developing new guidance, and in encouraging convergence to international standards.

The IAASB's primary focus over the past year was on enhancing the clarity of its International Standards on Auditing (ISAs), so auditors may more easily understand and apply them. Four new standards and ten exposure drafts in the clarity format were issued in 2006. The IAASB plans to complete revisions of ISAs in the new clarity format by the end of 2008. It is also ensuring that it receives the input of SMPs on this and other standard-setting initiatives. This input was largely provided by IFAC's Small and Medium Practices (SMP) Committee.

The IAASB is continuing to take initiatives to promote convergence. It issued guidelines for national standard setters outlining convergence criteria and facilitated the translation of the standards into French, Dutch and Portuguese.

The IESBA took a major step in enhancing the rigor and relevance of the *Code of Ethics for Professional Accountants* by proposing modifications to its independence rules, which are currently open for public comment. As the IESBA looks ahead, it is planning to assist professional accountants, including those employed in business or industry, by developing guidance on "whistle blowing."

This past year, ethics was also a major area of focus for the IAESB. The IAESB issued an information paper addressing the approaches to the development and maintenance of professional values and ethics in accounting programs and made significant progress on an ethics education toolkit. To help ensure that audit professionals remain qualified to carry out their responsibilities, the IAESB also issued an International Education Standard prescribing the competence requirements for audit professionals.

Enhancing financial management and accountability by public sector entities is another priority for IFAC. During

### A Look Back . . .

*The first International Auditing Practices Committee (IAPC, the predecessor of the IAASB) meeting was held in March 1978 in London. Over a year later, in October 1979, the IAPC released the first definitive International Auditing Guideline, "Objective and Scope of the Audit of Financial Statements."*

2006, the IPSASB issued significant new International Public Sector Accounting Standards (IPSASs) on matters specific to the public sector: non-exchange revenue and budget reporting. Also, it focused on updating IPSASs to achieve greater consistency with International Financial Reporting Standards.

To devote more expertise to this area, we have expanded the IPSASB staff. I am grateful to the Governments of Canada and of the People's Republic of China, as

well as the Canadian Institute of Chartered Accountants, for the financial and staff resources they have committed to the development of public sector accounting standards. Thanks to their support and that of existing grantors, the IPSASB is better positioned to address the important challenge of improving governmental financial reporting.

### Promoting Quality

All IFAC initiatives are designed to promote quality in the work of professional accountants worldwide. At the center of our efforts to promote quality is our Member Body Compliance Program. Receiving more member support than any other program in IFAC's history, this program clearly demonstrates member bodies' willingness to do what is necessary to strengthen the profession and the performance of its members. During the past year, over 140 members and associates responded to a questionnaire on the extent to which they are meeting IFAC Statements of Membership Obligations, which include promoting convergence of international standards and practices, and ensuring that appropriate quality assurance and disciplinary processes are in place. Responses to this questionnaire are posted on the IFAC website as they are finalized, along with responses to the Part 1 Questionnaire, "Assessment of the Regulatory and Standard-Setting Framework." Together, these responses provide an important snapshot of the state of the profession around the world.

Other quality initiatives were undertaken by the Transnational Auditors Committee in 2006. Key among them was the development of guidelines which firms can



### **A Look Back . . .**

*The first Ethics Committee (now the IESBA) draft of “Professional Ethics for the Accountancy Profession” was submitted to the IFAC Council (now Board) and approved as an exposure draft in May 1979 and as a final document in May 1980.*

use to assess their compliance with Forum of Firms membership obligations. These obligations include a commitment by firms to conduct regular, globally coordinated, internal quality assurance reviews and to have policies and methodologies which conform to the IFAC *Code of Ethics*.

To support professional accountants in business in delivering high quality financial information and in facilitating ethical decision-making, the Professional Accountants in Business Committee developed new guidance addressing practices in internal controls, corporate codes of conduct, sustainability, and business planning.

To encourage quality performance we need, of course, not only to issue guidance and policies, but also to promote that guidance and to communicate the necessity for high quality performance by accountants. We relayed this message through meetings, electronic media, press releases, speeches, newsletters, and special publications.

### **International Collaboration**

IFAC expanded its collaborative activities over the past year. We strengthened our relationships with member bodies through the establishment of a Member Relations Department and more proactive outreach to developing nations. We have made a commitment to reach out in a similar way to regional accountancy organizations.

Similarly, we are working more closely with development agencies, regulators, standard setters and various international organizations that share our commitment to developing the profession. Standard-setting boards continue to ensure that the input of their Consultative Advisory Groups is influential in shaping both standards and agendas. The results of our substantial collaborative initiatives have been threefold:

- The insights and public interest perspectives of many of these groups have provided important direction to our independent standard-setting boards and our strategic planning process, ensuring that our work is relevant and timely;
- We have been able to deliver a broader range of publications and services, including the new global search engine IFACnet.com; and
- We have more successfully reached out to small and medium practices and those working in developing nations to better involve them in the activities of the international profession.

Through collaboration, we are able not only to do more as an organization, but also to do it better and more cost-effectively.

### **Representation of the Profession in the Public Interest**

Over the past year, IFAC’s Nominations Committee continued to enhance the nominations process to ensure that the most qualified individuals serve on IFAC’s boards and committees. With access to such a diverse group of very talented and knowledgeable individuals, IFAC has been able to identify and address a host of public interest issues, including audit quality, the need to strengthen corporate governance and financial management in both the public and private sectors, and the profession’s role in an emerging nation’s economic development. We have also worked to clarify the role of the profession, especially in relation to the credibility and usefulness of financial reporting information, and communicated the value of convergence to international standards.

In the regulatory arena, we continue to support fully the Public Interest Oversight Board in carrying out its work. We restructured our Regulatory Liaison Group to provide for more frequent and effective communications with

### **A Look Back . . .**

*The first international public sector accounting standard was released in 1996, bringing with it an increased focus on the quality of government financial reporting.*

national and other regulators. We are committed to keeping these lines of communication open.

During 2006, President Graham Ward and I met with more than 60 member bodies. Our priority is to help our members, and where appropriate, their members, better understand IFAC's role and value and how accountancy bodies worldwide can work together to leverage each other's strengths and resources.

I value greatly, and am very grateful for, the leadership of the Board, the dedication of our enthusiastic boards and committees, and the very hard work of our management team and staff.

As Herbert Spencer, the English philosopher, said, "The wise man must remember that while he is a descendant of the past, he is a parent of the future." We can

### A Look Back . . .

*IFAC appointed full committees dedicated to serving the needs of SMPs and developing nations in 2005.*

learn much from the past 30 years; we must also take this knowledge and use it to shape the future. There is still very much more our profession can contribute to the development of economies, particularly with respect to supporting developing nations, promoting improved public sector accounting,

addressing the accounting needs of micro-entities, and enhancing the practice of accounting within organizations. We will continue to work in all of these areas and with ongoing input from our stakeholders and the support of our members, I am confident that we will continue to make progress in the coming years.



**IFAC Management Team** (left to right): Russell Guthrie, Director, Quality Assurance and Member Body Relations; Stephen Walker, Director of Operations; Ian Ball, Chief Executive Officer; James Sylph, Executive Director, Professional Standards; and Stephenie Fox, Technical Director, International Public Sector Accounting Standards Board. (Not pictured: Paul Sutcliffe, Technical Director, International Public Sector Accounting Standards Board, until August 2006.)



## MESSAGE FROM STAVROS B. THOMADAKIS, PIOB CHAIR

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The Public Interest Oversight Board (PIOB) has just completed its second year of monitoring specific public interest activities in standard-setting and compliance, which are carried out under the aegis of the International Federation of Accountants. As an independent body, the PIOB has the primary duty of keeping a close and critical watch over these activities as well as the nomination process for selection of new members of the related bodies. Based on what we have observed over this past year, IFAC has moved forward in its quest to strengthen its commitment to the public interest through making important strategic choices and committing the necessary resources to that purpose.

Global acceptance of the standards produced by IFAC-sponsored independent boards is a key public interest goal. To be accepted globally, these standards must be inspired by public interest objectives, demonstrate high quality and be capable of application around the world. An important aspect of acceptability is the level of user confidence — confidence in standard setters, in the standard-setting process and in the ability of that process to achieve well-balanced outcomes. We devoted significant effort and resources over the past year to promote improvements required to meet these conditions, and will continue to do so in the future.

The composition of standard-setting boards and the compliance panel is one important parameter of confidence. Several important changes to the standard-setting boards in the form of improved balance between practitioners and non-practitioners and broader geographic and regional representation have taken place. With the full cooperation of IFAC member bodies and the Forum of Firms, this important trend should continue.



Another critical parameter is the impact of our oversight program. After having approved an enhanced due process for application by all standard-setting bodies, we have begun to evaluate the adequacy of due process applied during the development of individual standards. Because the PIOB must give its approval before any standard can be published, we believe this new program will increase stakeholder confidence in the international standard-setting

process and its outputs.

The final parameter of public confidence is the ability of standard-setting boards to establish and manage their respective priorities and work programs in a manner that best reflects the public interest. To this end, we encouraged the adoption of a common, consultation-based strategic planning approach that is now being executed by the three boards we oversee. The results will be presented to us for approval later this year.

During our second year we also gave high priority to building public awareness of our own mission, activities and policies. We placed special emphasis on reaching out to world financial regulators, the new group of independent audit regulators, IFAC member bodies and regional organizations and official policymaking bodies in major jurisdictions. Establishing these links has also paved the way for essential international dialogue on the credibility of the international standard-setting process.

More information on our activities is included on the PIOB's website ([www.ipiob.org](http://www.ipiob.org)) and in the PIOB Second Public Report. I urge you to read it when it becomes available. It is my hope that our cooperative relationship with IFAC will continue, as this relationship furnishes an excellent foundation for our contributions to more orderly, transparent and stable world markets.

### **A Look Back . . .**

*The PIOB was formally established in February 2005 to oversee IFAC's auditing and assurance, ethics, and education standard-setting activities as well as its Member Body Compliance Program.*

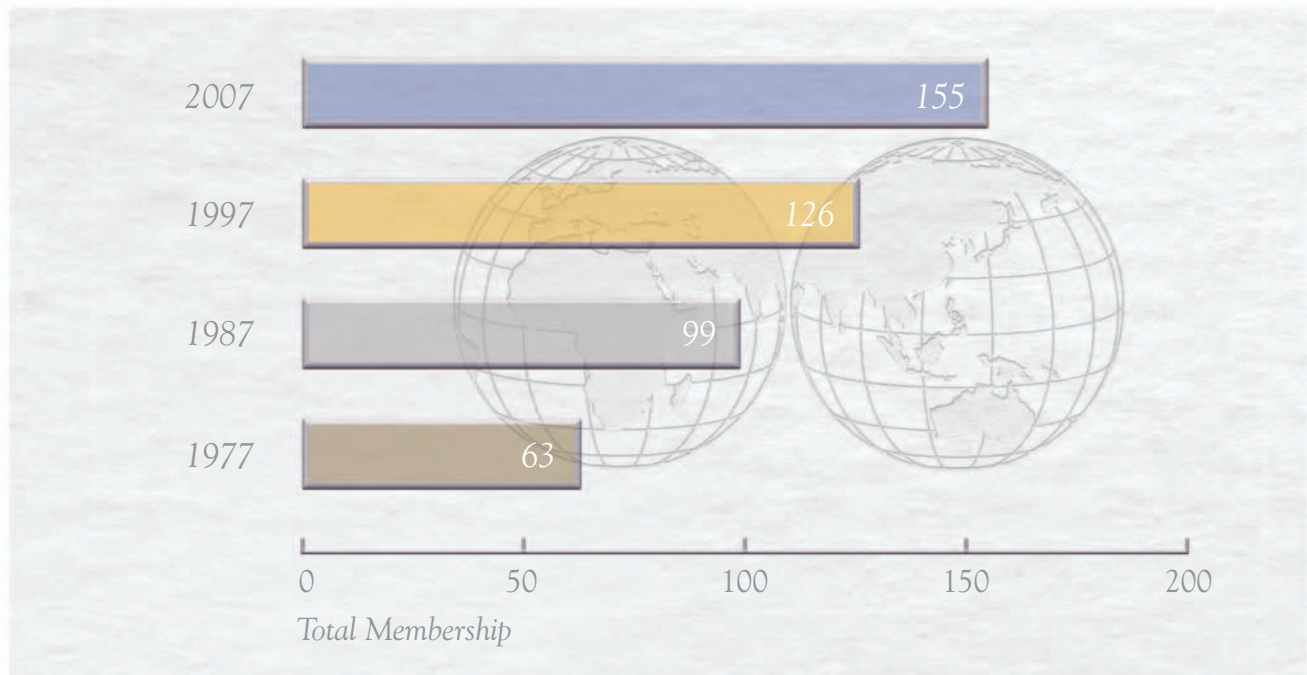
## LOOKING BACK — IFAC'S LEADERSHIP AND MEMBERSHIP

1977 - 2007 *Thirty Years of Progress*

### Past Presidents

1. Reinhard Goerdeler, Germany (1977 – 1980)
2. Gordon Cowperthwaite, Canada (1980 – 1982)
3. Washington SyCip, Philippines (1982 – 1985)
4. Robert May, United States (1985 – 1987)
5. Richard Wilkes, United Kingdom (1987 – 1990)
6. Bertil Edlund, Sweden (1990 – 1992)
7. Peter Agars, Australia (1992 – 1995)
8. Juan Herrera, Dominican Republic (1995 – 1997)
9. Frank Harding, United Kingdom (1997 – 2000)
10. Tsuguoki Fujinuma, Japan (2000 – 2002)
11. René Ricol, France (2002 – 2004)
12. Graham Ward, United Kingdom (2004 – 2006)

### Membership 1977 – 2007



## BOARD AND COMMITTEE MEMBERS

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### Board Members — November 2005 to November 2006

Graham Ward, CBE, President  
Fermín del Valle, Deputy President,  
*Argentina*  
Guy Almeida Andrade, *Brazil*  
Robert Bunting, *United States*  
Yugui Chen, *China*  
Roberto D'Imperio, *Italy*  
Ndung'u Gathinji, *Kenya*

Charles Horstmann, *United States*  
Gen Ikegami, *Japan*  
David Leonard, *United Kingdom*  
Eric Ka-Cheung Li, *Hong Kong*  
Bernadette McGrory-Farrell, *Ireland*  
Ofer Minirav, *Israel*  
Joycelyn Morton, *Australia*  
William Nahum, *France*

Abdul Samad Haji Alias, *Malaysia*  
Ignatius Schoole, *South Africa*  
David Smith, *Canada*  
Göran Tidström, *Nordic Federation*  
Charles Tilley, *United Kingdom*  
Kamlesh Vikamsey, *India*  
Sylvie Voghel, *Canada*

### Members of Standard-Setting Boards

#### International Accounting Education Standards Board

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Henry Saville, Chair, *Ireland*  
Melvin Berg, Deputy Chair,  
*Canada*  
Yoseph Asmelash, *Switzerland*  
Timothy Bell, *United States*  
Paule Bouchard, *Canada*  
Alain Burlaud, *France*  
Jose Echenique, *Mexico*  
Laura Ipacs, *Hungary*  
Ulrich Maas, *Germany*  
T.N. Manoharan, *India*  
Enock Fanyana Mchiza,  
*South Africa*  
Karen Pincus, *United States*  
Brion Smoker, *United States*  
Mark Spofforth,  
*United Kingdom*  
Abdul Rahim Suriya, *Pakistan*  
Hans Verkruisje, *Netherlands*  
Anne Wickham,  
*United Kingdom*  
Peter Wolnizer, *Australia*

#### International Auditing and Assurance Standards Board

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John Kellas, Chair,  
*United Kingdom*  
Denise Esdon, Deputy Chair,  
*United Kingdom*  
Phil Cowperthwaite, *Canada*  
Craig Crawford, *United States*  
Sukanta Dutt, *Malaysia*  
Josef Ferlings, *Germany*  
John Fogarty, *United States*  
Jan Bo Hansen, *Denmark*  
Diana Hillier, *United Kingdom*  
Kjell Larsson, *Sweden*  
Ian McPhee, *Australia*  
Marcel Pheijffer, *Netherlands*  
Will Rainey, *United Kingdom*  
Bodo Richardt, *Germany*  
Makoto Shinohara, *Japan*  
David Swanney, *United Kingdom*  
Roberto Tizzano, *Italy*  
Gérard Trémolière, *France*

#### International Ethics Standards Board for Accountants

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Richard George, Chair, *Ireland*  
Frank Attwood, Deputy Chair,  
*United Kingdom*  
Christian Aubin, *France*  
Ken Dakdduk, *United States*  
David Devlin, *Ireland*  
Mark Fong, *Hong Kong*  
Akira Hattori, *Japan*  
Geoffrey Hopper, *Hong Kong*  
Thierry Karcher, *France*  
Neil Lerner, *United Kingdom*  
Pekka Luoma, *Finland*  
Barbara Majoor, *Netherlands*  
Michael Niehues, *Germany*  
Russell Philp, *Australia*  
Volker Röhrich, *Germany*  
Jean Rothbarth, *United States*  
Robert Rutherford, *Canada*  
David Winetroub,  
*United States*

#### International Public Sector Accounting Standards Board

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Philippe Adhémar, Chair,  
*France*  
Mike Hathorn, Deputy Chair,  
*United Kingdom*  
Ron Alroy, *Israel*  
Andreas Bergmann, *Switzerland*  
J. Wayne Cameron, *Australia*  
Pankaj Jain, *India*  
Richard Neville, *Canada*  
Tom Henry Olsen, *Norway*  
Carmen Palladino, *Argentina*  
John Peace, *United States*  
Ronald Points, *United States*  
Stefano Pozzoli, *Italy*  
Alejandro Luna Rodriguez,  
*Mexico*  
Mohd. Salleh Bin Mahmud,  
*Malaysia*  
Greg Schollum, *New Zealand*  
Tadashi Sekikawa, *Japan*  
Erna Swart, *South Africa*  
Frans van Schaik, *Netherlands*

## Committee Members

### Compliance Advisory Panel

Robert Mednick, Chair,  
*United States*  
Norio Igarashi, *Japan*  
Japheth Katto, *Uganda*  
Tom Myhre, *Norway*  
Manuel Sanchez y Madrid,  
*Mexico*

### Developing Nations Committee

Ndung'u Gathinji, Chair, *Kenya*  
Abdeljelil Bouraoui, *Tunisia*  
Joan Carlos Cincotta, *Argentina*  
Shanti Lal Daga, *India*  
Asela Indrajith Fernando,  
*Sri Lanka*  
Francis Lalith Fonseka,  
*Sri Lanka*  
Laurie Gillow, *United Kingdom*  
Tony Hegarty, *United States*  
Paul Hurks, *Netherlands*  
Julio Cèsar Porteiro, *Uruguay*  
Nail Sanli, *Turkey*  
Ignatius Sehoole, *South Africa*  
Lebohang Thotanyana, *Lesotho*  
Deborah Williams,  
*United Kingdom*

### Advisors

Aziz Dieye, *Senegal*  
Tatiana Krylova, *Switzerland*  
Charles Muthuthi, *Tunisia*  
Kathleen Muktan, *Philippines*

### Professional Accountants in Business Committee

Bill Connell, Chair,  
*United Kingdom*  
Edward Chow, Deputy Chair,  
*Hong Kong*  
Rajkumar Adukia, *India*  
Lance Balcombe, *Australia*  
Zbigniew Bak, *Poland*  
Abolghasem Fakharian, *Iran*  
Lee-seok Hwang, *Korea*  
Bradley Kaplan, *United States*  
Brian Kearney, *Ireland*  
Bill Langdon, *Canada*  
Yeo Tek Ling, *Malaysia*  
Eileen Morrissey, *United States*  
Bashorun J.K. Randle, *Nigeria*  
Alfred Ramosedi, *South Africa*  
Patrick Rochet, *France*  
Roger Tabor, *United Kingdom*  
Henri van Horn, *Netherlands*

### Small and Medium Practices Committee

Sylvie Voghel, Chair, *Canada*  
Lino De Vecchi, Deputy Chair,  
*Italy*  
Hechmi Abdelwahed, *Tunisia*  
Jean-Pierre Audy, *France*  
Paul Chan, *Hong Kong*  
Dale Gislason, *Canada*  
Sunil Goyal, *India*  
Alex Hilman, *Israel*  
Robin Jarvis, *United Kingdom*  
Peter Lim Thiam Kee, *Malaysia*  
Harold Monk, *United States*  
Ibironke Mojisola Osiyemi,  
*Nigeria*  
Jens Poll, *Germany*  
Khaliq-ur-Rahman, *Pakistan*  
Joakim Rehn, *Finland*  
Bernard Scicluna, *Malta*  
Masum Turker, *Turkey*  
Ye Xin, *China*

### Nominating Committee

*The IFAC Nominating Committee makes recommendations regarding the composition of IFAC boards and committees. It is guided by the principle of choosing the candidate with the best qualifications to fill these volunteer roles.*

Graham Ward, President, *United Kingdom*  
Fermín del Valle, Deputy President, *Argentina*  
Hubert Graf von Treuberg, *Germany*  
Charles Horstmann, *United States*  
Manuel Sanchez y Madrid, *Mexico*  
Shozo Yamazaki, *Japan*

### Transnational Auditors Committee

#### Members

Roger Dassen, Chair, *Deloitte*  
John Archambault,  
*Grant Thornton International*  
Jean Luc Barlet, *Mazars*  
Peter Chidgey, *BDO International*  
Rod Devlin, *KPMG International*  
Paul Ginman,  
*Baker Tilly International*  
Andrew Nicholl,  
*Moore Stephens International*  
Marilyn Pendergast,  
*Urbach Hacker Young International*  
Jean Francois Serval,  
*Constantin Group*  
Stephen Todd,  
*Ernst & Young International*  
Peter Wyman,  
*PricewaterhouseCoopers International*

#### Alternates

Randy Fletchall,  
*Ernst & Young International*  
Charles Heeter, *Deloitte*  
Gilles Hengoat,  
*Grant Thornton International*  
Wayne Kolins, *BDO International*  
David Maxwell,  
*RSM International*  
Edelfried Schneider,  
*HLB International*  
Peter Stefanou,  
*Russell Bedford International*  
Theo Vermaak,  
*PKF International*  
Mark Vaessen,  
*KPMG International*  
Wes Williams,  
*Horwath International*



## MEMBERS AND ASSOCIATES

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### Members

#### Argentina

- Federación Argentina de Consejos Profesionales de Ciencias Económicas

#### Australia

- CPA Australia
- The Institute of Chartered Accountants in Australia
- National Institute of Accountants in Australia

#### Austria

- Institut Österreichischer Wirtschaftsprüfer
- Kammer der Wirtschaftstreuhänder

#### Bahamas

- The Bahamas Institute of Chartered Accountants

#### Bahrain

- Bahrain Accountants Association

#### Bangladesh

- The Institute of Chartered Accountants of Bangladesh
- The Institute of Cost and Management Accountants of Bangladesh

#### Barbados

- The Institute of Chartered Accountants of Barbados

#### Belgium

- Institut des Experts-comptables et des Conseils fiscaux
- Institut des Réviseurs d'Entreprises

#### Bolivia

- Colegio de Auditores de Bolivia

#### Botswana

- Botswana Institute of Accountants

#### Brazil

- Conselho Federal de Contabilidade
- Instituto dos Auditores Independentes do Brasil

#### Bulgaria

- Institute of Certified Public Accountants of Bulgaria

#### Cameroon

- The Institute of Chartered Accountants of Cameroon

#### Canada

- The Canadian Institute of Chartered Accountants
- Certified General Accountants' Association of Canada
- CMA Canada

#### Chile

- Colegio de Contadores de Chile

#### China

- The Chinese Institute of Certified Public Accountants

#### Chinese Taiwan

- Federation of CPA Associations of Chinese Taiwan

#### Colombia

- Instituto Nacional de Contadores Públicos de Colombia

#### Costa Rica

- Colegio de Contadores Públicos de Costa Rica

#### Croatia

- Croatian Association of Accountants and Financial Experts

#### Cyprus

- The Institute of Certified Public Accountants of Cyprus

#### Czech Republic

- Chamber of Auditors of the Czech Republic
- Union of Accountants of the Czech Republic

#### Denmark

- Foreningen af Statsautoriserede Revisorer
- Foreningen Registrerede Revisorer FRR

#### Dominican Republic

- Instituto de Contadores Públicos Autorizados de la República Dominicana

#### Egypt

- The Egyptian Society of Accountants & Auditors

#### Estonia

- Audiitorkogu

#### Fiji

- Fiji Institute of Accountants

#### Finland

- HTM-tilintarkastajat ry — GRM-revisorer rf
- KHT-yhdistys-Föreningen CGR ry

#### France

- Compagnie Nationale des Commissaires aux Comptes
- Conseil Supérieur de l'Ordre des Experts-Comptables

#### Georgia

- Georgian Federation of Professional Accountants and Auditors

#### Germany

- Institut der Wirtschaftsprüfer in Deutschland e.V.
- Wirtschaftsprüferkammer

#### Ghana

- The Institute of Chartered Accountants (Ghana)

#### Greece

- Institute of Certified Public Accountants of Greece

#### Guatemala

- Instituto Guatemalteco de Contadores Públicos y Auditores

#### Guyana

- The Institute of Chartered Accountants of Guyana

#### Haiti

- Ordre des Comptables Professionels Agrées d'Haiti

#### Honduras

- Colegio de Peritos Mercantiles y Contadores Públicos

#### Hong Kong

- Hong Kong Institute of Certified Public Accountants

#### Hungary

- Chamber of Hungarian Auditors

#### Iceland

- Félag löggiltra Endurskoðenda



*Countries in which IFAC members and associates are located appear in blue.*

**India**

- The Institute of Chartered Accountants of India
- The Institute of Cost and Works Accountants of India

**Indonesia**

- Indonesian Institute of Accountants

**Iran**

- The Iranian Institute of Certified Accountants

**Iraq**

- Iraqi Union of Accountants and Auditors

**Ireland**

- The Institute of Certified Public Accountants in Ireland
- The Institute of Chartered Accountants in Ireland

**Israel**

- Institute of Certified Public Accountants in Israel

**Italy**

- Consiglio Nazionale dei Dottori Commercialisti
- Consiglio Nazionale dei Ragionieri e Periti Commerciali

**Ivory Coast**

- Ordre des Experts Comptables et Comptables Agréés de Côte d'Ivoire

**Jamaica**

- The Institute of Chartered Accountants of Jamaica

**Japan**

- The Japanese Institute of Certified Public Accountants

**Jordan**

- Arab Society of Certified Accountants
- Jordanian Association of Certified Public Accountants

**Kazakhstan**

- Chamber of Auditors of the Republic of Kazakhstan

**Kenya**

- Institute of Certified Public Accountants of Kenya

**Korea**

- Korean Institute of Certified Public Accountants

**Kuwait**

- Kuwait Association of Accountants and Auditors

**Lebanon**

- Lebanese Association of Certified Public Accountants

**Lesotho**

- Lesotho Institute of Accountants

**Liberia**

- The Liberian Institute of Certified Public Accountants

**Luxembourg**

- Institut des Réviseurs d'Entreprises

**Madagascar**

- Ordre des Experts Comptables et Financiers de Madagascar

**Malawi**

- The Society of Accountants in Malawi

**Malaysia**

- Malaysian Institute of Accountants
- The Malaysian Institute of Certified Public Accountants

**Malta**

- The Malta Institute of Accountants

**Mexico**

- Instituto Mexicano de Contadores Públicos, A.C.

**Moldova (Republic of)**

- Association of Professional Accountants and Auditors of the Republic of Moldova

**Morocco**

- Ordre des Experts Comptables du Royaume du Maroc

**Namibia**

- Institute of Chartered Accountants of Namibia

**Netherlands**

- Koninklijk Nederlands Instituut van Registeraccountants

**New Zealand**

- New Zealand Institute of Chartered Accountants

**Nicaragua**

- Colegio de Contadores Públicos de Nicaragua



## MEMBERS AND ASSOCIATES

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### Members (continued)

#### Nigeria

- The Institute of Chartered Accountants of Nigeria

#### Norway

- Den norske Revisorforening

#### Pakistan

- The Institute of Chartered Accountants of Pakistan
- Institute of Cost and Management Accountants of Pakistan

#### Panama

- Colegio de Contadores Públicos Autorizados de Panamá

#### Paraguay

- Colegio de Contadores de Paraguay

#### Peru

- Junta de Decanos de Colegios de Contadores Públicos del Perú

#### Philippines

- Philippine Institute of Certified Public Accountants

#### Poland

- Accountants Association in Poland
- National Chamber of Statutory Auditors

#### Portugal

- Ordem dos Revisores Oficiais de Contas

#### Romania

- Corpul Expertilor Contabili si Contabililor Autorizati din Romania

#### Russia

- The Institute of Professional Accountants of Russia

#### Saudia Arabia

- Saudi Organization for Certified Public Accountants

#### Serbia (Republic of)

- Serbian Association of Accountants and Auditors

#### Sierra Leone

- The Institute of Chartered Accountants of Sierra Leone

#### Singapore

- Institute of Certified Public Accountants of Singapore

#### Slovakia

- Slovenska Komora Auditorov

#### Slovenia

- The Slovenian Institute of Auditors

#### South Africa

- The South African Institute of Chartered Accountants
- The South African Institute of Professional Accountants

#### Spain

- Instituto de Censores Jurados de Cuentas de España

#### Sri Lanka

- The Institute of Chartered Accountants of Sri Lanka

#### Swaziland

- Swaziland Institute of Accountants

#### Sweden

- FAR SRS

#### Switzerland

- Treuhand-Kammer

#### Tanzania

- National Board of Accountants and Auditors

#### Thailand

- Federation of Accounting Professions

#### Trinidad and Tobago

- The Institute of Chartered Accountants of Trinidad & Tobago

#### Tunisia

- Ordre des Experts Comptables de Tunisie

#### Turkey

- Expert Accountants' Association of Turkey
- Union of Chambers of Certified Public Accountants of Turkey

#### Uganda

- Institute of Certified Public Accountants of Uganda

#### United Kingdom

- The Association of Chartered Certified Accountants
- The Chartered Institute of Management Accountants
- The Chartered Institute of Public Finance and Accountancy
- The Institute of Chartered Accountants in England & Wales
- The Institute of Chartered Accountants of Scotland

#### United States

- American Institute of Certified Public Accountants
- Institute of Management Accountants
- National Association of State Boards of Accountancy

#### Uruguay

- Colegio de Contadores, Economistas y Administradores del Uruguay

#### Venezuela

- Federación de Colegios de Contadores Públicos de Venezuela

#### Vietnam

- Vietnam Accounting Association

#### Zambia

- Zambia Institute of Chartered Public Accountants

#### Zimbabwe

- The Institute of Chartered Accountants of Zimbabwe

## Associates

Associates are professional accountancy organizations that are at an earlier stage of development and are committed to working towards the requirements of IFAC membership.

### Albania

- Institute of Authorized Chartered Auditors of Albania

### Armenia (Republic of)

- Association of Accountants and Auditors in Armenia

### Azerbaijan Republic

- The Chamber of Auditors of Azerbaijan Republic

### Bosnia and Herzegovina

- Association of Accountants and Auditors of Republika Srpska

### Iran

- Iranian Association of Certified Public Accountants

### Ireland

- The Institute of Accounting Technicians in Ireland

### Kosovo (UNMIK)

- Society of Certified Accountants and Auditors of Kosovo

### Kyrgyzstan

- Union of Accountants and Auditors of Kyrgyzstan

### Latvia

- Latvian Association of Certified Auditors

### Lithuania

- Lithuanian Chamber of Auditors

### Mongolia

- Mongolian Institute of Certified Public Accountants

### Montenegro (Republic of)

- Institute of Accountants and Auditors of Montenegro

### Nepal

- The Institute of Chartered Accountants of Nepal

### Pakistan

- Pakistan Institute of Public Finance Accountants

### Papua New Guinea

- Certified Practising Accountants Papua New Guinea

### Romania

- The Chamber of Financial Auditors of Romania

### Russia

- Russian Collegium of Auditors

### Sri Lanka

- Association of Accounting Technicians of Sri Lanka

### Ukraine

- Ukrainian Federation of Professional Accountants and Auditors

### United Kingdom

- Association of Accounting Technicians

### Uzbekistan

- National Association of Professional Accountants and Auditors of Uzbekistan

## Regional Accountancy Organizations

Regional Accountancy Organizations are independent bodies which, in many cases, share IFAC's membership and have objectives similar to those of IFAC.

IFAC recognizes four Regional Organizations that contribute to the development of the international accountancy profession by supporting IFAC initiatives, promoting international convergence, and providing leadership in addressing regional accounting and auditing issues.

- Confederation of Asian and Pacific Accountants
- Eastern Central and Southern African Federation of Accountants
- Fédération des Experts Comptables Européens
- Interamerican Accounting Association

There are four Acknowledged Regional Groupings that support the objectives and pronouncements of IFAC and support the advancement of the accountancy profession in their region.

- Association of Accountancy Bodies in West Africa
- Eurasia Council of Certified Accountants and Auditors
- Institute of Chartered Accountants of the Caribbean
- South Asian Federation of Accountants

## Affiliates

Affiliates are organizations that have as an objective the development of the accountancy profession.

### Bahrain

- Accounting and Auditing Organization for Islamic Financial Institutions

### France

- Fédération Internationale des Experts Comptables Francophones

### United States

- Information Systems Audit & Control Association
- The Institute of Internal Auditors



## SERVICE DELIVERY

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In support of its Strategic Themes and Objectives, IFAC delivers specific services in each of its activity areas. The services delivered to various IFAC stakeholders during 2006 are categorized in five Service Areas:

- Standards and Guidance;
- Promoting Quality;
- International Collaboration Activities;
- Representation of the Accountancy Profession in the Public Interest; and
- Information Services.

The services delivered have been described from a quantitative and, where possible, qualitative perspective.

### STANDARDS AND GUIDANCE

#### Description

The standards developed cover the areas of auditing and assurance, educational and ethical requirements for professional accountants, and governmental (public sector) accounting and financial reporting. Guidance is developed in these areas as well as others such as the development of the profession, the provision of services by small- and medium-sized practices, and the role of professional accountants operating in business. The level of authority associated with the guidance and publications materials is intended to be less than that associated with IFAC standards, although these materials may provide illustrations of best or good practices. The standards listed here have been developed through the application of the due process outlined in the shaded box on page 18.

#### Services Delivered

##### 1.1 Pronouncements issued by the International Auditing and Assurance Standards Board (IAASB)

###### Final Documents Approved

- |  |           |
|--|-----------|
| • International Standard on Auditing (ISA) 240 (Redrafted), <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>  | October   |
| • ISA 300 (Redrafted), <i>Planning an Audit of Financial Statements</i>  | September |
| • ISA 315 (Redrafted), <i>Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment</i>  | September |
| • ISA 330 (Redrafted), <i>The Auditor's Responses to Assessed Risks</i>  | September |
| • Amendments under the clarity convention to the <i>Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services</i>  | September |
| • Policy Statement, <i>Modifications to International Standards of the International Auditing and Assurance Standards Board (IAASB) — A Guide for National Standard Setters that Adopt the IAASB's International Standards but Find It Necessary to Make Limited Modifications</i> | July      |

###### Approved for Public Exposure

- |  |          |
|--|----------|
| • Proposed ISA 230 (Redrafted), <i>Audit Documentation</i>   | December |
| • Proposed ISA 260 (Revised and Redrafted), <i>Communication with Those Charged with Governance</i>  | October  |
| • Proposed ISA 320 (Revised and Redrafted), <i>Materiality in Planning and Performing an Audit</i>   | October  |
| • Proposed ISA 450 (Revised and Redrafted), <i>Evaluation of Misstatements Identified during the Audit</i>   | October  |
| • Proposed ISA 540 (Revised and Redrafted), <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> | December |
| • Proposed ISA 560 (Redrafted), <i>Subsequent Events</i>   | December |
| • Proposed ISA 580 (Revised and Redrafted), <i>Written Representations</i>   | December |
| • Proposed ISA 600 (Revised and Redrafted), <i>The Audit of Group Financial Statements</i>   | March    |
| • Proposed ISA 610 (Redrafted), <i>The Auditor's Consideration of the Internal Audit Function</i>  | December |

- Proposed ISA 720 (Redrafted), *The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements* December

Approved for Close-off under the Old Drafting Conventions

(These ISAs will be redrafted under the clarity conventions and reissued for exposure in the future.)

- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report* July
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report* July
- ISA 800 (Revised), *Special Considerations — Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, and related amendments to ISA 200, *Objective and General Principles Governing an Audit of Financial Statements*, ISA 210, *Terms of Audit Engagements*, and ISA 700 (Revised), *The Independent Auditor’s Report on General Purpose Financial Statements* October
- ISA 805 (Revised), *Special Considerations When Reporting on Summary Financial Statements* December

## 1.2 Pronouncements issued by the International Accounting Education Standards Board (IAESB)

Final Documents Approved

- International Education Standard 8, *Competence Requirements for Audit Professionals* July

Approved for Public Exposure

- Proposed International Education Practice Statement XX, *Approaches to Developing and Maintaining Professional Values, Ethics and Attitudes* September
- Proposed International Education Practice Statement 2.1, *Information Technology for Professional Accountants* August
- Proposed Strategic and Operational Plan, 2007 – 2009 December

## 1.3 Guidance issued by the IAESB

- Information paper, *Approaches to the Development and Maintenance of Professional Values, Ethics and Attitudes in Accounting Education Programs* August

## 1.4 Pronouncements issued by the International Ethics Standards Board for Accountants (IESBA)

Final Documents Approved

- Revision of “Network Firms” portion of Section 290 of the IFAC *Code of Ethics for Professional Accountants* June

Approved for Public Exposure

- Proposed revised Section 290, *Independence — Audit and Review Engagements*, and proposed Section 291, *Independence — Other Assurance Engagements* of the IFAC *Code of Ethics for Professional Accountants* December

## 1.5 Pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB)

Final Documents Approved

- International Public Sector Accounting Standard (IPSAS) 22, *Disclosure of Financial Information About the General Government Sector* December
- IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* December
- IPSAS 24, *Presentation of Budget Information in Financial Statements* December

Approved for Public Exposure

- Proposed amendment to IPSAS, *Financial Reporting under the Cash Basis of Accounting — Disclosure Requirements for Recipients of External Assistance* November
- Proposed IPSAS, *Employee Benefits* October
- Proposed IPSAS, *Impairment of Cash-Generating Assets* October
- Proposed IPSAS, *Revenue from Non-Exchange Transactions (including Taxes and Transfers)* January



## SERVICE DELIVERY

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- 1.6 Guidance issued by the IPSASB**
- Information paper, *The Road to Accrual Accounting in the United States of America* March
  - Consultation paper, *Accounting for Heritage Assets under the Accrual Basis of Accounting* February
- 1.7 Guidance issued by the Professional Accountants in Business (PAIB) Committee**
- Final Documents Approved
- Information paper, *Articles of Merit 2006* August
  - Information paper, *Business Planning Guide: Practical Application for SMEs* May
  - Information paper, *Internal Controls — A Review of Current Developments* August
  - Information paper, *Professional Accountants in Business — At the Heart of Sustainability?* August
  - Information paper, *Why Sustainability Counts for Professional Accountants in Business* August
- Approved for Public Exposure
- Proposed Good Practice Guidance, *Defining and Developing an Effective Code of Conduct* November
- 1.8 Guidance issued by the Small and Medium Practices (SMP) Committee**
- Information paper, *Micro-Entity Financial Reporting: Perspectives of Preparers and Users* December
- 1.9 Statements of Membership Obligations (SMOs) issued by the IFAC Board**
- Various amendments were made to SMOs 2–5 November

### Due Process

To ensure consistent high quality in the pronouncements issued by the Public Interest Activity Committees, a clearly defined rigorous due process is followed by each of IFAC's four independent standard-setting boards. For the three boards that fall under its mandate, this due process has been approved and compliance with it is monitored by the Public Interest Oversight Board (PIOB). Key elements of the due process include:

- Meetings to discuss the development, and to approve the issue, of International Standards and Practice Statements are open to the public.
- Meeting agenda papers, including issues papers and draft International Standards or Practice Statements prepared for the Board's review and debate, are published on the IFAC website in advance of each meeting.
- Draft International Standards and Practice Statements are exposed for public comment. Exposure drafts are placed on the IFAC website where they can be accessed free-of-charge by the general public. The exposure period is 90 – 120 days.
- Comments made by respondents to an exposure draft are a matter of public record and are posted on the board's website after the end of the exposure period.
- All comments received are considered prior to the finalization of the document, and the disposition of those comments is reviewed and monitored by the chair of the relevant board.
- Before public release of any document issued by a standard-setting board subject to its oversight, the PIOB satisfies itself that stated due process has been followed.
- For each International Standard, the board issues a separate document explaining its basis of conclusions with respect to comments received on an exposure draft.
- Membership of each board includes public members.
- Each board's Consultative Advisory Group provides input on technical issues at appropriate stages for each standard.

## PROMOTING QUALITY

### Description

IFAC promotes the provision of high quality services by all members of the profession through implementation of a Member Body Compliance Program, initiatives aimed at improving audit quality and issuance of good practice guidance. IFAC's communications support these quality initiatives.

### Services Delivered

#### 2.1 Compliance Program

IFAC's Member Body Compliance Program promotes high quality services through the development and support of IFAC members and associates worldwide. In support of its ongoing objectives, the Compliance Program has implemented a three part iterative process designed to promote adherence to the IFAC Statements of Membership Obligations.

- During 2006, the Compliance Program focused on completion of Part 2 — *Statements of Membership Obligations Self-Assessment Questionnaire*.
- By August 2006, all 155 responses to Part 1 — *Assessment of the Regulatory and Standard-Setting Framework* were published on the IFAC website.
- By December 31, 143 responses to Part 2 were completed, of which 76 were published on the IFAC website.
- In September, the Compliance Program staff began work on the methodology for implementing Part 3 — *Action Plans*.

#### 2.2 Transnational Auditors Committee

- Development began on guidelines for the self-assessment of Forum of Firms members' compliance with the Forum of Firms membership obligations.
- Various amendments to the Forum of Firms Constitution were approved in February.

#### 2.3 IFAC Communications

- Speeches (see page 23) presented by IFAC's leadership highlighted IFAC's quality initiatives and publicized IFAC standards and guidance that support professional accountants in delivering high quality service.
- The Audit Quality Issues Briefing, issued in February, explains the role of ISAs in promoting audit quality.

#### A Look Back . . .

*The Member Body Compliance Program was established by the IFAC Council in November 2003, marking the first time in IFAC's history that a means was created for gauging members' efforts to promote international standards.*



## SERVICE DELIVERY

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### INTERNATIONAL COLLABORATION ACTIVITIES

#### Description

*IFAC recognizes that in many areas related to the accountancy profession, it may need to act in a collaboration or facilitation role or to share the lead with other organizations. IFAC undertakes collaboration activities in an effort to encourage convergence to high quality international standards, to develop the broader profession in all economies, and to enhance and assure the quality, accuracy, and reliability of information.*

*These activities cover a wide spectrum of topics and are complementary to IFAC standards and guidance services. IFAC will actively facilitate the development of appropriate topics with interested member bodies and/or other groups, enter into collaborative arrangements, and/or develop information sharing networks.*

#### Services Delivered

##### 3.1 National Standard Setters

- 3.1.1 In March, the IAASB hosted its 6th annual meeting of the most active national standards setters in Brussels. Twelve countries were represented, including China for the first time. Topics under consideration included international convergence and how the national standard setters can work with the IAASB toward convergence; the IAASB's clarity project; documentation requirements in the audit of smaller entities; regulatory impact assessments; XBRL; and developing standards for assurance engagements.
- 3.1.2 The importance and value of the input from this group has been reflected in a Statement of Purpose agreed by the participants in March regarding the purpose for liaison with the IAASB. The Statement of Purpose has been published on the IFAC website.
- 3.1.3 Representatives of the IAASB attended several meetings with European auditing standards setters in 2006. These meetings, organized by the Fédération des Experts Comptables Européens (FEE), highlighted the efforts of participants to implement ISAs and offered the opportunity to outline the work of the SMP Committee in relation to the development of an ISA implementation guide for the audit of small- and medium-sized entities (SMEs).
- 3.1.4 In February, the Chair of the IAASB, along with IFAC's President and Chief Executive Officer, spoke at a ceremony in Beijing at which the Chinese Ministry of Finance released new accounting and auditing standards that more closely conform to international standards.
- 3.1.5 The IPSASB has had strong consultation and interaction with national standard setters. During 2006, IPSASB representatives met with national standard setters and similar organizations from Argentina, Australia, Canada, France, Israel, Italy, Malaysia, the Netherlands, New Zealand, South Africa, Spain, Switzerland, the United Kingdom, and the United States. As a result of this collaboration, some national standard setters and similar organizations will be providing resources directly to the IPSASB to contribute to the development of the public sector conceptual framework as well as to developing standards to address public-private partnerships (service concessions).

### 3.2 National, Regional and International Organizations

- 3.2.1 Representatives of the IPSASB participated in the Task Force on Harmonization of Public Sector Accounting. This project provided input to the 2008 revision of the United Nations' System of National Accounts and was completed during the second quarter of 2006. IFAC has also begun providing support to the United Nations as it adopts International Public Sector Accounting Standards.
- 3.2.2 In July in Hong Kong, the SMP Committee co-hosted the IFAC Small and Medium Practices Forum with the Hong Kong Institute of Certified Public Accountants and the Confederation of Asian and Pacific Accountants.
- 3.2.3 In September, IFAC co-hosted the Africa Region Learning Workshop in Nairobi, Kenya with the African Development Bank, World Bank, Eastern Central and Southern African Federation of Accountants, Fédération Internationale des Experts-Comptables Francophones, and the United Nations Conference on Trade and Development. Presentations were made by representatives of the Compliance Advisory Panel, the Developing Nations Committee, the SMP Committee and the IAESB. Approximately 230 delegates from 37 African nations attended the conference and agreed a Terms of Reference for the establishment of an Africa Focus Group. During the Africa Region Learning Workshop, the majority of national professional bodies in attendance agreed and signed the "Nairobi Declaration" confirming their intent to cooperate and work together on a pan-African basis to promote and address issues related to financial reporting.
- 3.2.4 In October, IFAC and 13 of its members launched IFACnet, the KnowledgeNet for Professional Accountants in Business. This global search engine provides professional accountants with access to a wide range of articles, management tools and good practice guidance. In 2007, IFAC plans to expand the KnowledgeNet, first for small and medium practices, and eventually for all professional accountants. (See page 28 for statistics on IFACnet usage from October to December.)
- 3.2.5 Also during 2006, IFAC representatives met and shared information and insights with:
- Staff of the World Bank's Reports on the Observance of Standards and Codes — Accounting and Auditing Program, Washington, D.C., United States, May; and
  - Representatives from the Inter-American Development Bank, Washington, D.C., United States, May and October.
- 3.2.6 IFAC co-organized and made multiple presentations at the 17th World Congress of Accountants (November in Istanbul, Turkey).

### 3.3 Consultative Advisory Groups

- 3.3.1 Each of IFAC's standard-setting boards seeks advice and input from a Consultative Advisory Group (CAG) composed of representatives from organizations with a technical and public interest perspective on the standards. During 2006, IFAC organized the following CAG meetings:
- IAASB CAG, Paris, France, May and Toronto, Canada, September;
  - IAESB CAG, New York, United States, February and Brussels, Belgium, September; and
  - IESBA CAG, New York, United States, April and Toronto, Canada, September.
- 3.3.2 In addition, the IPSASB held roundtable discussions with its consultative group alongside its meetings in Tokyo, Japan in March; Paris, France in July; and Norwalk, United States in November.

#### A Look Back . . .

*IFAC began focusing on the needs of professional accountants in business (PAIBs) in 1978, when it held the first meeting of the Management Accounting Committee. The committee was renamed the Financial and Management Accounting Committee in 1982 and the PAIB Committee in 2002, in recognition of the broadening scope of professional accountants working in organizations.*



## SERVICE DELIVERY

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### REPRESENTATION OF THE ACCOUNTANCY PROFESSION IN THE PUBLIC INTEREST

#### Description

IFAC represents the public interest when commenting on material published by other international and regional organizations that directly relates to the accountancy profession, accounting or auditing matters; developing and maintaining relationships with other international and regional organizations as appropriate; participating in global, regional and national forums; and when developing reports that address the role of IFAC and the accountancy profession.

#### Services Delivered

##### 4.1 Regulatory and Public Policy Activities

- 4.1.1 Four meetings of the PIOB were held, and IFAC representatives presented at each. The PIOB considered the Terms of Reference for each of the Public Interest Activity Committees (PIACs) and approved the process by which IFAC's standards are developed.
- 4.1.2 After hearing representations by IFAC and its standard-setting boards, the PIOB took the following actions:
- Considered the due process applied to proposed standards and gave approval to 14 new and updated standards;
  - Approved the appointment of 21 volunteers to the PIACs, including Deputy Chairs of the IAESB and IESBA; and
  - Approved the reappointment of the Chair of the IAASB, ensuring consistency in the full-time leadership of the IAASB over the coming two years.
- 4.1.3 During the year, IFAC's Chief Executive Officer participated in meetings of the Standards Advisory Council of the International Accounting Standards Board.
- 4.1.4 IFAC maintains a close relationship with a number of national regulators and oversight bodies. During 2006, IFAC continued its relationships with the following international and regional organizations:
- African Development Bank
  - Asian Development Bank
  - Basel Committee on Banking Supervision
  - European Commission
  - Financial Stability Forum
  - Inter-American Development Bank
  - International Accounting Standards Board (IASB)
  - International Accounting Standards Committee Foundation
  - International Forum of Independent Audit Regulators
  - International Monetary Fund (IMF)
  - International Organization of Securities Commissions (IOSCO)
  - International Organization of Supreme Audit Institutions
  - Organisation for Economic Co-operation and Development (OECD)
  - United Nations
  - United Nations Conference on Trade and Development (UNCTAD)
  - United Nations Development Program
  - United Nations Environment Program
  - World Bank

## 4.2 Submissions to External Organizations

4.2.1 Various submissions were made by IFAC and its boards and committees.

- IFAC submitted a report regarding standard-setting processes to the Financial Stability Forum, March.
- The PAIB Committee provided a comment letter to the IASB regarding its Discussion Paper on *Management Commentary*, May.
- The IAASB provided comments to the IASB on its Discussion Paper, *Preliminary Views on an Improved Conceptual Framework for Financial Reporting*, November.
- IFAC provided comments to the IMF on a proposed revision to the Fiscal Transparency Code, December.

## 4.3 Spokesperson Activities

4.3.1 The IFAC President, Deputy President and Chief Executive Officer made presentations to and liaised with the following organizations:

### January

- Institute of Chartered Accountants of Sri Lanka, Colombo, Sri Lanka
- Sri Lanka Accounting and Auditing Standards Monitoring Board, Colombo, Sri Lanka
- Chartered Institute of Management Accountants Sri Lanka Division Council Meeting, Colombo, Sri Lanka
- Institute of Chartered Accountants of India (ICAI) Conference, Chennai, India
- ICAI Conference, Kolkata, India
- ICAI International Conference, Mumbai, India
- Auditing and Assurance Standards Board (India), Mumbai, India
- South Asian Federation of Accountants Assembly, Mumbai, India

### February

- Institute of Chartered Accountants of Pakistan Council, Karachi, Pakistan
- Institute of Chartered Accountants in England & Wales (ICAEW) International Firms Networks Meeting, London, United Kingdom
- Chinese Institute of Certified Public Accountants (CICPA), Beijing, China
- Chinese Ministry of Finance, Beijing, China
- IASB Standards Advisory Council, London, United Kingdom
- Financial Stability Forum Roundtable on Financial Reporting and Auditing, Paris, France

### March

- Consiglio Nazionale dei Ragionieri e Periti Commerciali 100th Anniversary Conference, Rome, Italy
- Chartered Institute of Management Accountants Council Meeting, London, United Kingdom
- Instituto de Censores Jurados de Cuentas de España, Madrid, Spain
- Instituto Mexicano de Contadores Públicos, A.C., Mexico City, Mexico
- Financial Stability Forum Meeting, Sydney, Australia

### April

- Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA), Amsterdam, Netherlands
- ICAI, New Delhi, India
- Monitoring Group of Regulators, Toronto, Canada

### May

- Institute of Management Accountants International Conference, Dubai, United Arab Emirates
- Malta Institute of Accountants Annual Dinner, Ta' Xbiex, Malta
- CICPA CPA Forum, Beijing, China
- European Commission, Brussels, Belgium
- Association of Chartered Certified Accountants Annual Conference, Singapore
- Malaysian Institute of Accountants, Kuala Lumpur, Malaysia

### June

- Institute of Chartered Accountants of the Caribbean Annual Conference, Barbados
- Institute of Management Accountants Annual Conference, Las Vegas, Nevada, United States



## SERVICE DELIVERY

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### July

- Ordre des Experts Comptables de Tunisie, Tunis, Tunisia
- Ordre des Experts Comptables du Royaume du Maroc, Casablanca, Morocco
- Ordre des Experts Comptables et des Comptables Agréés, Dakar, Senegal
- Colegio de Contadores de Chile Seminar, Santiago, Chile

### September

- IMF and World Bank Annual Conference, Singapore
- IOSCO Emerging Markets Committee, Shanghai, China
- European Commission Annual Meeting of National Audit Authorities, Warsaw, Poland
- Accounting Association in Poland, Warsaw, Poland
- Eastern Central and Southern African Federation of Accountants 7th Congress, Mangochi, Malawi
- Africa Region Learning Workshop, Nairobi, Kenya

### October

- UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting 23rd Session, Geneva, Switzerland
- United Nations Controllers and Senior Finance Officials, Geneva, Switzerland
- Deloitte Global New Partner Seminar, Buenos Aires, Argentina
- Bodo Graduate School Accounting Seminar, Bodo, Norway
- Institute of Certified Public Accountants in Ireland President's Dinner, Dublin, Ireland
- Instituto de Censores Jurados de Cuentas de España 15th National Congress, Bilbao, Spain
- SC International 20th Anniversary Annual Conference, Vienna, Austria
- 16th National Congress of Professionals in Economic Sciences, Rosario, Argentina
- United Kingdom Department for International Development, London, United Kingdom

### November

- Le Conseil National de l'Ordre des Experts Comptables National Congress, Algiers, Algeria
- Global Public Policy Symposium, Paris, France
- Confederation of Asian and Pacific Accountants Annual General Meeting, Istanbul, Turkey
- 17th World Congress of Accountants, Istanbul, Turkey
- Royal NIVRA Annual Congress, Amsterdam, Netherlands

### December

- 14th XBRL International Conference, Philadelphia, Pennsylvania, United States
- FEE Annual Assembly, Brussels, Belgium
- United Nations Senior Finance Officials, Glen Cove, New York, United States

#### 4.4 IFAC boards and committees engaged in the following speaking and liaison activities:

##### 4.4.1 International Auditing and Assurance Standards Board

- American Accounting Association, Auditing and International Sections Mid-Year Meeting, Los Angeles, California, United States, January
- University of Arizona Masters Class and Faculty, Tucson, Arizona, United States, January
- University of Bergen Masters Class in Auditing, Bergen, Norway, January
- World Bank Advanced Program in Accounting and Auditing Regulation (REPARIS) Program, London, United Kingdom, January
- Chinese Ministry of Finance, Beijing, China, February
- European Federation of Accountants and Auditors for SMEs, Brussels, Belgium, February
- Financial Stability Forum Roundtable on Financial Reporting and Auditing, Paris, France, February
- Financial Stability Institute, Basel, Switzerland, February
- Hong Kong Institute of Certified Public Accountants' Auditing and Assurance Standards Committee, Hong Kong, China, March

- KPMG Roundtable: The Role of the Professional Organizations of Auditors in the Russian Federation, Moscow, Russia, March
- Kansas University Symposium on Auditing Problems, Lawrence, Kansas, United States, April
- American Institute of Certified Public Accountants Meeting on International Strategy and Planning, New York, New York, United States, May
- Meeting with IOSCO's Standing Committee No. 1, Paris, France, June
- Colegio de Contadores de Chile, Santiago, Chile, July
- American Accounting Association, Auditing and International Sections Annual Meeting, Washington, D.C., United States, August
- AGN International Congress, Montreal, Canada, September
- CPA Associates Annual Meeting, Las Vegas, Nevada, United States, October
- Fédération des Experts Comptables Européens — Conference on Audit Regulation and Roundtable on Assurance on Sustainability, Brussels, Belgium, October
- Global Reporting Initiative's Conference on Sustainability and Transparency, Amsterdam, Netherlands, October
- New York State Society of CPAs 2006 Auditing Conference, New York, New York, United States, October
- UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting Workshop, Geneva, Switzerland, October
- IMF Symposium on Integrity Supervision of Financial Sector Firms and Markets, Washington, D.C., United States, November
- Lithuanian Chamber of Auditors 10th Anniversary Conference, Vilnius, Lithuania, December

#### 4.4.2 International Accounting Education Standards Board

- European Accounting Association, Dublin, Ireland, March
- South European Partnership on Accountancy Development, Banja Luka, Republic of Srpska, April
- Chartered Institute of Public Finance and Accountancy, London, United Kingdom, May
- Chamber of Hungarian Auditors, Budapest, Hungary, May
- Co-organized Accounting Education Seminar with the Colegio de Contadores de Chile, Santiago, Chile, July
- European Federation of Accountants and Auditors for SMEs, Brussels, Belgium, July
- American Accounting Association, Washington, D.C., United States, August
- Annual Congress of the Corpul Expertilor Contabili si Contabililor Autorizati din Romania, Bucharest, Romania, September
- Africa Region Learning Workshop, Nairobi, Kenya, September
- 10th World Congress of Accounting Educators, Istanbul, Turkey, November
- International Association for Accounting Education and Research Globalization Roundtable, Istanbul, Turkey, November

#### 4.4.3 International Ethics Standards Board for Accountants

- World Bank REPARIS Program, Brussels, Belgium, March
- Participation in ICAEW Networks Group, London, United Kingdom, April
- Meetings with IOSCO, Washington, D.C., United States, June
- Chamber of Auditors of the Czech Republic and Union of Accountants of the Czech Republic, Prague, Czech Republic, June
- CPA Australia, Institute of Chartered Accountants in Australia and National Institute of Accountants, Sydney, Australia, October

#### 4.4.4 International Public Sector Accounting Standards Board

- Cambodia-Japan Cooperation Center, Phnom Penh, Cambodia, January
- State Parliament of Zurich, Zurich, Switzerland, January
- School of Accountants of Costa Rica, San José, Costa Rica, January
- National Accounting Office of Costa Rica, San José, Costa Rica, January
- Public Budget Association of Paraguay and Center of Mathematics and Financial High Studies of Paraguay, Concepción, Paraguay, January



## SERVICE DELIVERY

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- United Kingdom Consultative Committee of Accountancy Bodies Groups in Europe Professional Practices, Luxembourg, February
- World Bank Workshops, New Delhi, India and Dhaka, Bangladesh, February
- Chartered Institute of Public Finance and Accountancy Annual Local Authority Accounting Conference, Brighton, United Kingdom, March
- IPSASB and Japanese Institute of Certified Public Accountants Joint Seminar, Tokyo, Japan, March
- OECD Annual Senior Budget Officials Symposium on Accrual Accounting, Paris, France, March
- Task Force on Harmonization of Public Sector Accounting, Paris, France, March
- IPSASB and French Ministry of Finance Roundtable, Paris, France, July
- Public Sector Finance and Management Conference, Canberra, Australia, August
- European Commission and FEE Joint Conference on Modernizing Accounting in the Public Sector, Brussels, Belgium, September
- Treasury Board of Canada and United States Treasury Joint International Colloquium on Financial Management for National Governments, San Francisco, California, United States, October
- International Research Centre on the Management of Public Administration — University of Ferrara International Congress, Rome, Italy, October
- Meeting with World Bank on IPSAS Adoption, Baku, Azerbaijan, October
- Joint IPSASB, Governmental Accounting Standards Board and Federal Accounting Standards Advisory Board Roundtable, Norwalk, Connecticut, United States, November

### 4.4.5 Member Body Compliance Program

- Meeting with the Accountants and Auditors Association of the United Arab Emirates, Dubai, United Arab Emirates, January
- The World Bank's Road to Europe Program of Accounting Reform and Institutional Strengthening Workshop, Vienna, Austria, March
- World Bank's Reports on the Observance of Standards & Codes — Accounting and Auditing Program Dissemination Workshops, Dominican Republic, April; Jordan, May; Botswana, June; and Albania, December
- 10th Board Meeting of the Confederation of Asian and Pacific Accountants, Malaysia, May
- Meeting with the Colegio de Contadores Públicos de Costa Rica, San José, Costa Rica, June
- Africa Region Learning Workshop, Nairobi, Kenya, September
- Meeting with the Colegio de Contadores de Paraguay, Asunción, Paraguay, October
- Meeting with the Federación Argentina de Consejos Profesionales de Ciencias Económicas, Buenos Aires, Argentina, October

### 4.4.6 Developing Nations Committee

- Meeting with the Institute of Professional Accountants of Russia, Moscow, Russia, September
- Africa Region Learning Workshop, Nairobi, Kenya, September
- Meeting with the Ukrainian Federation of Professional Accountants and Auditors, Kiev, Ukraine, September
- Meeting with the Institute of Certified Auditors of the Republic of Macedonia, Skopje, Macedonia, November
- Meeting of the Multilateral Development Bank Harmonization Working Group, Manila, Philippines, December
- Meeting with the OECD Development Assistance Committee, Paris, France, December

### 4.4.7 Small and Medium Practices Committee

- Small and Medium Practices Forum, Hong Kong, July
- Second FEE/Arc Méditerranéen des Auditeurs SME/SMP Congress, Versailles, France, September
- Africa Region Learning Workshop, Nairobi, Kenya, September
- 14th Congress of the Romanian Accountancy Profession, Bucharest, Romania, September

## INFORMATION SERVICES

### DESCRIPTION

IFAC's information services are designed to support IFAC's overall strategy and are targeted to IFAC member bodies, regional organizations and various external audiences, including media, regulators, standard setters, international financial institutions and others.

#### Service Delivered

##### 5.1 IFAC Communications

IFAC communications encompass media relations, print and electronic communications, and spokesperson support.

###### 5.1.1 Media Relations

- IFAC responded to more than 100 inquiries from major business media and accountancy trade publications. As a result, more than 60 interviews were arranged with IFAC's President, Chief Executive Officer, Board members and other IFAC spokespeople.
- Nearly 60 press releases were issued on IFAC activities and issues of importance to the accountancy profession. Several releases were issued jointly with member bodies.
- IFAC representatives participated in seven media seminars to further educate the media about IFAC's work and recent initiatives.
- As a result of these activities, more than 975 articles were published on IFAC activities in nearly 300 major business newspaper and accountancy trade publications and websites. This included over 390 articles published in major business media and national daily newspapers as well as 585 articles in accountancy publications and websites and member body journals.

###### 5.1.2 Print and Electronic Publications

- In May, a President's Leadership Update on global issues and IFAC activities was issued to IFAC member and regional bodies as well as board and committee members.
- Five eNews updates covering IFAC general issues, the IAASB, and professional accountants in business were issued to more than 30,000 subscribers.
- Three issues of the IFAC newsletter were published in February, May and October.
- Three Public Sector (IPSASB) Updates were issued in English, French and Spanish.
- Eleven issues of the *IFAC Global Digest* were released. The *Global Digest* features excerpts of news items from the public websites of IFAC members, regional accountancy bodies and other relevant organizations.
- A brochure, *Developing Accountancy Capacity Worldwide*, was developed to educate donors about IFAC and its role in the development of the profession.
- A new issues briefing document was developed to better educate external stakeholders such as investors, regulators, the media, and others about key international issues that IFAC is addressing. In February, the first Issues Briefing, *Audit Quality and International Standards on Auditing*, was produced in conjunction with the IAASB.

###### 5.1.3 Spokesperson Support

- IFAC's President, Chief Executive Officer, Board members, and other leadership participated in nearly 110 major speaking engagements in over 35 countries.
- These speeches, when appropriate, and video recordings of the presentations, where available, are posted in the Media Center on the IFAC website.



## SERVICE DELIVERY

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### 5.2 IFAC Website

5.2.1 IFAC continued to enhance its public website and member and volunteer intranets by updating and expanding information in a number of areas.

- Information about IFAC's membership and its support for professional accountants in business was updated and expanded.
- New content related to the Member Body Compliance Program was posted to the website; this included member and associate responses to Part 2.
- The Developing Nations Committee home page was updated and expanded, and a new web page was developed for the Africa Region Learning Workshop.
- Additional information was added to the standard-setting boards' home pages.
- The speeches section of the Media Center was enhanced to enable visitors to search by date or topic.
- Communications information support materials along with IFAC resources were posted to the Leadership Intranet.

#### **A Look Back . . .**

*IFAC's website was first launched in 1996 with just 20 web pages. Today, it features nearly 20,000 web pages and attracts visitors from more than 200 countries.*

5.2.2 IFAC's website received the following usage during 2006:

- Nearly 533,000 individuals from 207 countries viewed close to three million web pages on the IFAC site.
- Individuals downloaded over 187,000 electronic publications and ordered more than 2,800 printed publications. In addition, more than 58,000 copies of IFAC exposure drafts were downloaded.
- Users most frequently accessed pages on IFAC standards and guidance, the IAASB, member body details, and exposure drafts.

5.2.3 The IFAC KnowledgeNet (IFACnet) achieved the following usage and reach between its launch in October and the end December:

- More than 24,000 individuals from 186 countries viewed over 233,000 web pages.
- Users accessed more than 10,400 documents.
- Nearly 90 websites worldwide linked to IFACnet, including 28 websites managed by IFAC and its member and regional bodies.
- As of December 31, 18 member bodies made their resources available through the KnowledgeNet.

## FINANCIAL HIGHLIGHTS

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As described in the Service Delivery section of this report, IFAC fulfills its role as the international organization for the accountancy profession by delivering a range of services including standard setting, international collaboration activities, promotion of audit quality, representation of the profession and as an information resource for the profession and others. To deliver these services IFAC needs, and receives, the financial support of its member organizations, the transnational accountancy firms and other funding providers, including various multilateral development agencies, and national and regional governmental entities.

Below are the financial highlights for 2006. For further information on IFAC's financial performance, financial position and cash flows for 2006, please refer to the financial statements provided on pages 30 to 47.

### **Continued Growth**

Total revenues and expenses continued to grow in 2006. Its total revenues grew by 20 percent to \$15.4 million and total expenses grew by 16 percent to \$15.4 million. This growth reflects an increased level of activity, which is detailed in the Service Delivery section of this report.

The deficit for the year of \$70,000 was due primarily to timing of the recognition of an item of external funding that is now anticipated in the first half of 2007.

### **Financial Position**

IFAC's financial position as at December 31, 2006 reflects slightly reduced total asset and liability positions from the prior year. These reductions, attributable mainly to a reduced cash position and a reduced pension liability, were offset by the acquisition and development of fixed assets and intellectual property.

The acquisition of fixed assets resulted from build-out of further office and meeting space that was completed in 2006. There will also be build-out costs incurred in the first half of 2007. The growth in intangible assets was the result of further development of the IFAC KnowledgeNet (refer to [www.IFACnet.com](http://www.IFACnet.com)) and the contracting with an external provider to develop intellectual property designed to assist small and medium practitioners in the implementation of International Standards on Auditing.

The equity position currently provides coverage for approximately one and a half months of activity.

### **Cash Flow**

IFAC's cash position at the end of 2006 was reduced from 2005 as a result of various outstanding receivables, the acquisition of fixed and intangible assets, and the deficit for the year.

### **Public Interest Oversight Board**

IFAC continued to provide financial and operational support to the Public Interest Oversight Board (PIOB) during 2006. In addition to the direct financial support provided by IFAC, the PIOB received financial support from the World Bank and the United States Federal Reserve Board. It also received in-kind support from the World Bank, La Comisión Nacional del Mercado de Valores and De Nederlandsche Bank NV.

### **Auditor**

IFAC's financial statements received an unqualified auditor's opinion from Citrin Cooperman & Company, LLP, which is provided on page 48.



## FINANCIAL STATEMENTS

### Statement of Financial Performance

For the year ended December 31, 2006

Amounts in U.S. Dollars

	Note	2006	2005
<b>Operating revenue</b>			
Membership dues, net		\$8,439,060	\$7,485,957
Forum of Firms — IFAC activities	19	4,761,933	3,954,791
External funding for the IPSASB	13	516,394	331,000
Forum of Firms — Transnational Auditors Committee	19	485,023	508,228
External funding for the Developing Nations Committee	21	261,819	—
World Congress of Accountants revenue		256,580	—
Publications		246,286	248,353
Interest income		155,909	73,467
External funding for the Public Interest Oversight Board	3	140,000	140,000
IFAC KnowledgeNet		45,000	65,000
External funding for the IAESB		35,045	—
Other operating revenue		15,879	230
<b>Total operating revenue</b>		<b>\$15,358,928</b>	<b>\$12,807,026</b>
<b>Operating expenses</b>			
Employee costs	4, 14	\$7,768,446	\$6,393,027
Travel and meeting costs		3,716,144	3,201,712
Funding provided to the Public Interest Oversight Board	2, 3	1,047,363	478,289
Communications and publicity		720,260	695,621
Occupancy		483,133	491,809
Printing and distribution		300,633	376,618
Recruitment and relocation costs		233,641	213,949
IT support		224,122	293,483
Depreciation and amortization	8, 9	189,964	139,009
Telephone		155,692	121,691
Legal and other professional fees		141,901	116,031
Auditor remuneration			
Auditing financial statements		41,382	33,039
Tax and other services		4,737	7,246
Loss on disposal of property, plant and equipment		3,375	5,785
Bad debt expense		(97,502)	291,655
Other operating expenses		496,625	460,355
<b>Total operating expenses</b>	2	<b>\$15,429,916</b>	<b>\$13,319,319</b>
<b>Deficit for the year</b>		<b>\$(70,988)</b>	<b>\$(512,293)</b>

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

## Statement of Changes in Equity

For the year ended December 31, 2006

Amounts in U.S. Dollars

	Note	2006	2005
Equity at beginning of year		\$2,215,481	\$2,727,774
Deficit for the year		(70,988)	(512,293)
Equity at end of year		<u>\$2,144,493</u>	<u>\$2,215,481</u>

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

## FINANCIAL STATEMENTS

### Statement of Financial Position

As at December 31, 2006

Amounts in U.S. Dollars

	Note	2006	2005
<b>Current assets</b>			
Cash and cash equivalents	5	\$1,011,947	\$1,717,261
Dues receivable, net	6	139,602	104,079
Receivable from the Forum of Firms	7	548,829	1,118,200
Other receivables		513,135	33,218
Other current assets		312,708	45,430
<b>Total current assets</b>		<b>\$2,526,221</b>	<b>\$3,018,188</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	8	\$666,417	\$623,590
Intangible assets, net	9	311,901	163,370
Non-current receivables	12, 18	222,781	209,595
<b>Total non-current assets</b>		<b>\$1,201,099</b>	<b>\$996,555</b>
<b>TOTAL ASSETS</b>		<b>\$3,727,320</b>	<b>\$4,014,743</b>
<b>Current liabilities</b>			
Accounts payable and accrued expenses		\$712,601	\$734,219
Employee entitlements	10	525,747	545,287
Revenue received in advance	11	65,286	110,089
<b>Total current liabilities</b>		<b>\$1,303,634</b>	<b>\$1,389,595</b>
<b>Non-current liabilities</b>			
Accrued pension costs	14, 4	\$138,341	\$282,757
Deferred rent		140,852	126,910
<b>Total non-current liabilities</b>		<b>\$279,193</b>	<b>\$409,667</b>
<b>TOTAL LIABILITIES</b>		<b>\$1,582,827</b>	<b>\$1,799,262</b>
<b>Equity</b>			
IFAC members		\$2,144,493	\$2,215,481
<b>Total equity</b>		<b>\$2,144,493</b>	<b>\$2,215,481</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$3,727,320</b>	<b>\$4,014,743</b>



Graham Ward – President  
(Nov. 2004 to Nov. 2006)



Fermín del Valle – President  
(Nov. 2006 to present)



Ian Ball – Chief Executive Officer

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

**Statement of Cash Flows**  
For the year ended December 31, 2006  
Amounts in U.S. Dollars

	Note	2006	2005
<b>Cash flows from operating activities</b>			
<i>Cash was provided from:</i>			
Membership dues		\$8,357,054	\$7,270,836
Forum of Firms		5,816,327	4,459,025
External funding for the IPSASB		347,436	331,000
Publications		246,286	248,353
External funding for the Developing Nations Committee		241,819	–
Interest received		155,909	73,467
External funding for the Public Interest Oversight Board		100,000	140,000
IFAC KnowledgeNet		45,000	65,000
External funding for the IAESB		35,045	–
Other receipts		21,500	58,518
		\$15,366,376	\$12,646,199
<i>Cash was applied to:</i>			
Employee costs		\$(7,932,402)	\$(6,164,772)
Other payments		(7,756,271)	(6,429,611)
		\$(15,688,673)	\$(12,594,383)
<b>Net cash inflow/(outflow) from operating activities</b>	15	<b>\$(322,297)</b>	<b>\$51,816</b>
<b>Cash flows from investing activities</b>			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		\$(209,647)	\$(194,712)
Purchase of intangible assets		(175,050)	(137,597)
<b>Net cash outflow from investing activities</b>		<b>\$(384,697)</b>	<b>\$(332,309)</b>
<b>Cash flows from financing activities</b>			
		–	–
<b>Net decrease in cash and cash equivalents</b>		<b>\$(706,994)</b>	<b>\$(280,493)</b>
Cash and cash equivalents at beginning of year		\$1,717,261	\$2,005,454
Effect of exchange rate change on foreign currency balance		1,680	(7,700)
<b>Balance of cash and cash equivalents at end of year</b>	5	<b>\$1,011,947</b>	<b>\$1,717,261</b>

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

# FINANCIAL STATEMENTS

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## Statement of Accounting Policies

For the year ended December 31, 2006

### **Basis of Preparation**

The International Federation of Accountants' (IFAC) financial statements have been prepared in accordance with International Public Sector Accounting Standards. Where an International Public Sector Accounting Standard does not address a particular issue, the appropriate International Financial Reporting Standard/International Accounting Standard has been applied.

The preparation of financial statements in conformity with generally accepted accounting practices requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The financial statements are prepared in United States dollars.

### **Measurement Base**

The accounting principles recognized as appropriate for the measurement and reporting of the financial performance, cash flows, and financial position on an accrual basis using historical cost are followed in the preparation of the financial statements.

### **Accounting Policies**

The following specific accounting policies that materially affect the measurement of financial performance and the financial position are applied:

(i) **Revenue Recognition**

*Membership dues revenue*

IFAC recognizes membership dues on a calendar year basis. Dues are payable by the member body on receipt of an invoice in January for that year. Membership dues revenue is reported net of any approved discounts.

*Forum of Firms revenue*

Revenue from the Forum of Firms (Forum) is provided as an annual financial contribution to IFAC for an agreed amount and for the full contribution for the Transnational Auditors Committee (TAC) activity, and is recognized as revenue when it is receivable.

*External funding*

Revenue from funding grants is recognized when earned or received (subject to restrictions imposed by the grantor).

*Publications revenue*

Revenue for printed publications is recognized when the publications are shipped.

*Donated services*

The work of IFAC is dependent on the voluntary services of many individuals. Donated services are not recognized in these financial statements due to difficulties in determining reliable estimates.

**(ii) Accounts Receivable**

Accounts receivable are recorded at their estimated realizable value after providing for doubtful and uncollectible debts.

**(iii) Employee Entitlements**

Employee entitlements to salaries, wages, annual vacation, pension costs, and other benefits are recognized when they are accrued to employees. Annual vacation and other leave has been calculated on an actual entitlement basis at current rates of pay.

The defined benefit pension plan liability is the present value of the defined benefit obligation at the balance date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of United States government securities, which have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses from experience adjustments, changes in actuarial assumptions and amendments to pension plans are recognized in the statement of financial performance over the average remaining service lives of the related employees.

IFAC contributes to an employee defined contribution retirement benefit plan. Payments to the defined contribution retirement benefit plan are recognized as expenses as they become due.

**(iv) Property, Plant and Equipment**

*Property, plant and equipment*

Property, plant and equipment are recorded at cost and are depreciated (as outlined below) at rates estimated to recognize the consumption of economic benefits of the property, plant and equipment over their useful lives.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price or its value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus/(deficit). Repairs and maintenance are charged to the statement of financial performance during the financial period in which they are incurred.

*Depreciation*

Depreciation is calculated on a straight-line basis to recognize the consumption of economic benefits of an asset over its useful life.

The estimated useful lives of property, plant and equipment are as follows:

Office equipment	3 to 5 years
Furniture & fittings	10 years
Leasehold alterations	Shorter of the life of the lease or useful life

## FINANCIAL STATEMENTS

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### (v) Intangible Assets

#### *Intangible assets*

Intangible assets are recorded at cost and are amortized (as outlined below) at rates estimated to recognize the consumption of economic benefits of the intangible assets over their useful lives.

Where the carrying amount of an intangible asset is greater than its estimated recoverable amount it is written down to its recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price or its value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus/(deficit).

#### *Amortization*

Amortization is calculated on a straight-line basis to recognize the consumption of economic benefits of an asset over its useful life.

The estimated useful lives of intangible assets are as follows:

Software licenses & development	3 to 5 years
Intellectual property	5 to 10 years

### (vi) Financial Instruments

IFAC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, certificates of deposit, accounts receivable and accounts payable.

All financial instruments are recognized in the statement of financial position at their fair values.

### (vii) Statement of Cash Flows

The following are definitions of the terms used in the statement of cash flows:

- Cash and cash equivalents comprise cash on hand, current bank balances and short-term deposits that can be converted to cash within two working days.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding, and disposal of fixed assets and investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes to the size and composition of IFAC's capital structure. This includes both equity and debt not falling within the definition of cash.

### (viii) Operating Lease Assets

Leases are classified as operating leases when a significant portion of the risks and rewards of ownership are retained by the lessor. Payments made under operating leases (net of any incentives received from the lessor) are recognized in the statement of financial performance on a straight line basis over the period of the lease.

### (ix) Taxation

The United States Internal Revenue Service has determined that IFAC is exempt from United States federal income tax under Section 501(c)(6) of the Internal Revenue Code. IFAC is also exempt from Swiss income taxes.

(x) **Foreign Currencies**

Transactions in foreign currencies are translated to United States dollars at the approximate rates of exchange prevailing at the date of the transactions. Assets and liabilities at the balance date, denominated in foreign currencies, are translated at the rates of exchange prevailing at that date. The resulting gains or losses are recognized in the statement of financial performance.

(xi) **Changes in Accounting Policies**

There were no changes in accounting policies in the current year.

# FINANCIAL STATEMENTS

## Notes to the Financial Statements

For the year ended December 31, 2006

Amounts in U.S. Dollars

**1. International Federation of Accountants**

The mission statement of IFAC is:

To serve the public interest, IFAC will continue to strengthen the accountancy profession worldwide and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.

IFAC is registered in Geneva, Switzerland under Articles 60 through 79 of the Swiss Civil Code. IFAC's primary base of operation is New York, United States of America.

**2. IFAC Expenses by Activity**

	2006	2005
International Auditing and Assurance Standards Board	\$3,450,672	\$3,294,224
International Public Sector Accounting Standards Board (refer to Note 13)	931,055	1,050,415
Developing Nations Committee	853,108	275,586
Compliance Program	742,980	822,317
Board and Council	668,893	760,958
Professional Accountants in Business Committee	624,936	380,659
International Ethics Standards Board for Accountants	539,752	397,428
Transnational Auditors Committee	485,023	508,228
International Accounting Education Standards Board	402,167	349,268
Representation of the Accountancy Profession in the Public Interest	309,033	484,647
Small and Medium Practices Committee	288,712	170,080
Nominating Committee	145,569	179,770
Other	2,219	3,813
<b>Total IFAC activities</b>	<b>\$9,444,119</b>	<b>\$8,677,393</b>
Funding provided to the Public Interest Oversight Board (refer to Note 3)	\$1,047,363	\$478,289
<b>Total activities expenses</b>	<b>\$10,491,482</b>	<b>\$9,155,682</b>
<b>Total general expenses</b>	<b>\$4,938,434</b>	<b>\$4,163,637</b>
<b>Total operating expenses</b>	<b>\$15,429,916</b>	<b>\$13,319,319</b>

**3. Public Interest Oversight Board**

The Public Interest Oversight Board (PIOB) for accountancy was formally established in February 2005 and is based in Madrid, Spain. It is legally constituted as a Spanish Foundation. The establishment of the PIOB is the result of a collaborative effort by the international financial regulatory community, working with IFAC, to ensure that the standards developed by IFAC's boards in the areas of auditing and assurance, education and ethics, and IFAC's Member Body Compliance Program are operated in a transparent manner that reflects the public interest.

In support of its oversight role, the PIOB receives monetary funding and in-kind support from several organizations, including IFAC, the World Bank, the United States Federal Reserve Board (FRB), La Comisión

Nacional del Mercado de Valores (CNMV), and De Nederlandsche Bank NV in the Netherlands. During 2006, the funding support provided by the World Bank and the FRB of \$140,000 (2005: \$140,000) was provided to IFAC expressly for the operation of the PIOB.

During 2006, the funding of \$1,047,363 (2005: \$478,289) provided to the PIOB reflects the funding support provided by IFAC, the World Bank and the FRB.

In addition, the in-kind support provided to the PIOB from CNMV, the World Bank and De Nederlandsche Bank NV in the Netherlands is related to occupancy and other office costs, travel costs, and stipend payments for two PIOB members.

#### 4. Employee Costs

	2006	2005
Employee costs	\$7,560,798	\$6,215,275
Retirement benefit plans (refer to Note 14)	207,648	177,752
<b>Total employee costs</b>	<b>\$7,768,446</b>	<b>\$6,393,027</b>

For 2006, the retirement benefit amount of \$207,648 (2005: \$177,752) comprises the net periodic pension expense of \$117,454 (2005: \$101,064) associated with the defined benefit plan and an employer contribution of \$90,194 (2005: \$76,688) associated with the defined contribution plan.

#### 5. Cash and Cash Equivalents

	2006	2005
Cash on hand and at bank	\$1,011,947	\$945,670
Short-term deposits	–	771,591
<b>Total cash and cash equivalents</b>	<b>\$1,011,947</b>	<b>\$1,717,261</b>

Of the cash and cash equivalents, there are restrictions on the use of \$78,414 (2005: \$25,725). For 2006 these restrictions relate to two cash reserves. The first reserve of \$14,586 (2005: \$25,725) is for specific use in relation to the Sempier Award, which is awarded in association with the World Congress of Accountants. The second cash reserve of \$63,828 (2005: \$nil) is designated for the use of the International Public Sector Accounting Standards Board in accordance with the funding agreements associated with its programs.

#### 6. Dues Receivable

	2006	2005
Dues receivable	\$200,369	\$409,907
Provision for uncollectible dues	(60,767)	(305,828)
<b>Net dues receivable</b>	<b>\$139,602</b>	<b>\$104,079</b>

#### 7. Receivable from the Forum of Firms

As at December 31, 2006, \$548,829 (2005: \$1,118,200) represents the remaining amount to be received from the Forum for contributions invoiced relating to 2006.

## FINANCIAL STATEMENTS

### 8. Property, Plant and Equipment

	Office Equipment		Furniture & Fittings		Leasehold Alterations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Opening net book amount	\$143,673	\$63,140	\$200,396	\$228,368	\$279,521	\$272,227	\$623,590	\$563,735
Additions	78,845	151,782	58,387	2,594	72,415	40,336	209,647	194,712
Disposals	2,594	8,735	781	–	–	–	3,375	8,735
Impairment losses	–	–	–	–	–	–	–	–
Depreciation	66,678	62,514	42,235	30,566	54,532	33,042	163,445	126,122
Closing net book amount	\$153,246	\$143,673	\$215,767	\$200,396	\$297,404	\$279,521	\$666,417	\$623,590
Cost	\$363,236	\$313,207	\$348,835	\$296,383	\$430,865	\$358,450	\$1,142,936	\$968,040
Accumulated depreciation	209,990	169,534	133,068	95,987	133,461	78,929	476,519	344,450
Net book amount	\$153,246	\$143,673	\$215,767	\$200,396	\$297,404	\$279,521	\$666,417	\$623,590

### 9. Intangible Assets

	Software Licenses & Development		Intellectual Property		Total	
	2006	2005	2006	2005	2006	2005
Opening net book amount	\$163,370	\$38,660	–	–	\$163,370	\$38,660
Additions	135,050	137,597	\$40,000	–	175,050	137,597
Disposals	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–
Amortization	26,519	12,887	–	–	26,519	12,887
Closing net book amount	\$271,901	\$163,370	\$40,000	–	\$311,901	\$163,370
Cost	\$311,307	\$176,257	\$40,000	–	\$351,307	\$176,257
Accumulated amortization	39,406	12,887	–	–	39,406	12,887
Net book amount	\$271,901	\$163,370	\$40,000	–	\$311,901	\$163,370

IFAC has three intangible assets at different stages of application. During 2006 IFAC's Member Body Compliance Program continued to use a database software program in relation to its Part 2 Compliance Questionnaire. The intangible asset is the license fee associated with this database software program and was amortized for the full year.

On October 2, 2006, IFAC launched the IFAC KnowledgeNet (refer to [www.IFACnet.com](http://www.IFACnet.com)). This is a specialized web search engine that is initially targeted at professional accountants in business. The costs incurred as part of the ongoing software development have been capitalized. Any further development costs associated with the IFAC KnowledgeNet that are incurred in 2007 will also be capitalized. Amortization commenced on October 1, 2006.

In addition, IFAC contracted with an external provider to develop intellectual property designed to assist in the implementation of the International Standards on Auditing on audits performed by small- and medium-sized practitioners. The contracted price of this development work will be capitalized. The useful life and associated amortization will be determined once the intellectual property has been completed.

**10. Employee Entitlements**

	2006	2005
Payroll accrual	\$375,237	\$284,846
Annual vacation and other leave provision	150,510	260,441
<b>Total employee entitlements</b>	<b>\$525,747</b>	<b>\$545,287</b>

**11. Revenue Received in Advance**

Revenue received in advance at December 31, 2006 of \$65,286 (2005: \$110,089) primarily represents external funding for the International Public Sector Accounting Standards Board paid in advance.

**12. Operating Lease Obligations**

IFAC entered into a 10-year operating lease for office space at 545 Fifth Avenue in December 2002, with the lease taking effect from May 1, 2003. IFAC's security deposit for its lease for office space at 545 Fifth Avenue is in the form of outstanding letters of credit. As at December 31, 2006, the total outstanding letter of credit was \$152,238 (2005: \$152,238). This amount is included in non-current receivables in the statement of financial position. During 2006, IFAC also negotiated a lease addendum for additional office space at 545 Fifth Avenue, with the lease taking effect February 1, 2007. The lease term for the additional office space is set to coincide with the original lease.

As at December 31, 2006, IFAC has operating leases outstanding for two copier machines. There are three years outstanding on these two operating leases.

Operating lease payments for the year ended December 31, 2006 were \$467,999 (2005: \$468,882). Future operating lease payments of \$4,858,635 at December 31, 2006 (2005: \$4,053,976) are payable as follows.

*Obligations payable after balance date on non-cancelable operating leases are as follows:*

	2006	2005
Not later than one year	\$624,070	\$489,282
Later than one year and not later than five years	2,982,081	2,095,314
Later than five years	1,252,484	1,469,380
<b>Total operating lease obligations</b>	<b>\$4,858,635</b>	<b>\$4,053,976</b>

**13. International Public Sector Accounting Standards Board**

The International Public Sector Accounting Standards Board (IPSASB) commenced its standards program in 1996. During 2006, the IPSASB continued its development of International Public Sector Accounting Standards (IPSASs) with an increasing focus on the development of IPSASs not addressed by International Accounting Standards/International Financial Reporting Standards developed by the International Accounting Standards

## FINANCIAL STATEMENTS

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Board. Multilateral development banks have provided a substantial amount of funding for this program since its inception, on the basis that the funding be applied to the development of IPSASs.

During 2006, the Board and Chief Executive Officer have focused on the urgent need for additional external funding to support the development of IPSASs. This effort has resulted in new funding sources being identified and funding agreements have been established or are in the process of finalization as at December 31, 2006. These new sources include funding from national and regional government entities, which is generally being provided as general funding or specific project funding. In addition, from October 2006 IFAC also received in-kind support from the Canadian Institute of Chartered Accountants for the IPSASB activity in the form of office space in its Toronto office.

The IFAC Board expects that the activities of the IPSASB in relation to the standards program will continue and that the funds provided for this purpose by the external funding agencies will be used on those activities.

For the year ended December 31, 2006, the IPSASB had received revenues from external sources and incurred expenses as follows, which are included in IFAC's financial statements:

	2006	2005
IPSASB Standards Program (external funding)	\$516,394	\$331,000
Other operating revenue	5,601	13,597
Total operating revenue	\$521,995	\$344,597
Employee costs	\$469,595	\$556,615
Travel and meeting costs	190,426	248,908
Consultants	196,035	64,759
Printing and distribution	30,170	121,109
Other operating expenses	44,829	59,024
Total operating expenses	\$931,055	\$1,050,415
<b>Deficit for the year (funded by IFAC)</b>	<b>\$(409,060)</b>	<b>\$(705,818)</b>

#### 14. Retirement Benefit Plans

##### Defined benefit plan

IFAC participates in the employee pension plan (the plan) of the American Institute of Certified Public Accountants (the AICPA). All employees of IFAC are eligible to participate at age 21. Contributions to the plan are made by IFAC. Pension benefits earned are generally based on years of service and compensation during active employment. Since 2001, separate accounting has been maintained by the AICPA on behalf of IFAC. As such, the plan is considered a multiple employer plan. All administrative costs are incurred by the AICPA. For 2006 and 2005, an estimate has been made to reflect the change in accrued pension costs between July 31 (the plan year end) and December 31, and the pension costs incurred up to December 31.

The amounts recognized in the statement of financial position are determined as follows:

	2006	2005
Present value of funded obligation at July 31	\$1,439,219	\$1,555,651
Fair value of plan assets at July 31	1,122,340	1,047,383
Funded status	<u>\$(316,879)</u>	<u>\$(508,268)</u>
Unrecognized net actuarial (gain)/loss	(5,593)	311,352
Unrecognized prior service cost	(24,894)	(27,117)
Accrued pension costs at July 31 (the plan year end)	\$347,366	\$224,033
Adjustment to reflect change in periodic pension expense to December 31	52,845	58,724
Employer contribution	(261,870)	—
<b>Accrued pension costs</b>	<b><u>\$138,341</u></b>	<b><u>\$282,757</u></b>

The amounts recognized in the statement of financial performance are as follows:

	2006	2005
Service cost — Benefits earned during the period	\$117,062	\$110,039
Interest cost	90,662	84,283
Expected return on plan assets	(91,949)	(94,088)
Amortization of prior service costs	(2,223)	(2,223)
Amortization of (gain)/loss	3,902	3,053
<b>Net periodic pension expense (refer to Note 4)</b>	<b><u>\$117,454</u></b>	<b><u>\$101,064</u></b>

The principal actuarial assumptions used were as follows:

	2006	2005
Discount rate	6.65%	5.90%
Expected long-term rate of return on plan assets	8.50%	8.50%
Weighted average rate of future compensation increases	4.00%	4.00%

#### **Defined contribution plan**

IFAC operates a defined contribution retirement benefit plan for all full-time employees who choose to participate in the plan. IFAC provides an agreed level of contribution relative to the level of each individual employee's contribution. All participating employees vest immediately in the plan. The plan is operated independently by CitiStreet Associates LLC. For 2006, the level of IFAC contributions that have been recognized as an expense are \$90,194 (2005: \$76,688). These expenses are included within employee costs in the statement of financial performance (refer also to Note 4).

## FINANCIAL STATEMENTS

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<b>15. Reconciliation of Net Deficit with Net Cash Inflow/(Outflow) from Operating Activities</b>		
	<b>2006</b>	<b>2005</b>
Net deficit for the period	\$(70,988)	\$(512,293)
<i>Add/(less) non-cash items:</i>		
Depreciation	189,964	139,009
Net (gain)/loss on disposal of property, plant and equipment	3,375	5,785
 <i>Add/(less) movements in working capital:</i>		
Dues receivable	(37,203)	212,509
Receivable from Forum of Firms	569,371	(3,994)
Other receivables	(479,917)	6,725
Other current assets	(267,278)	66,037
Non-current receivables	(13,186)	(11,524)
Accounts payable and accrued expenses	(7,676)	35,409
Employee entitlements	(19,540)	127,191
Revenue received in advance	(44,803)	(114,102)
Accrued pension costs	(144,416)	101,064
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>\$(322,297)</u></b>	<b><u>\$51,816</u></b>

**16. Employee Disclosure**

As at December 31, 2006, IFAC had 39 full-time employees (2005: 31 full-time employees) and 1 part-time employee (2005: 1 part-time employee). In addition to these employees, IFAC has 3 contracted personnel (2005: 5 contracted personnel), 2 secondees (2005: 1 secondees) and 1 intern (2005: nil interns).

**17. Financial Instruments**

All financial instruments to which IFAC is a party are recognized in the financial statements.

**Credit risk**

In the normal course of business, IFAC incurs credit risk from trade accounts receivable and transactions with banking institutions. IFAC manages its exposure to credit risk by:

- holding bank balances and short-term deposits with United States-registered banking institutions; and
- maintaining credit control procedures over trade accounts receivable.

As at December 31, 2006, a total of \$974,319 was held with JP Morgan Chase Bank (2005: \$1,566,201). This represented 39 percent of the total amount of bank balances, short-term deposits and receivables (2005: 52 percent). The maximum exposure as at December 31, 2006 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the statement of financial position. Receivables considered uncollectible have been adequately provided for.

For the year ended December 31, 2006 one member body accounted for 11 percent of total revenue (2005: 11 percent). There were no amounts due from this member as at December 31, 2006 (2005: \$nil).

IFAC does not require any collateral or security to support financial instruments and other receivables it holds due to the low risk associated with the realization of these instruments.

**Currency risk**

IFAC operates separate bank accounts in Australian currency. IFAC incurs currency risk as a result of the conversion of foreign currency balances held in these bank accounts to United States dollars at balance date. The currency risk associated with this balance is considered minimal and therefore IFAC does not hedge its foreign currency exposure.

Foreign currency transactions are translated to United States currency at exchange rates at the date of the transactions.

**Interest rate risk**

The interest rate risk on funds held is managed through the use of short-term investments held until maturity. The interest rate risk associated with short-term deposits is considered minimal.

**Fair values**

As at December 31, 2006, the carrying amounts approximate the fair values for all financial instruments held by IFAC (2005: carrying amounts approximate the fair values).

**18. Related Parties****Board**

Positions on the Board are voluntary and there is no honorarium paid for any position held. The following persons were members of the Board during the year:

<b>Board Member</b>	<b>Member Body Affiliation</b>
Fermín del Valle	President (November 2006 to present) Deputy President (November 2004 to November 2006) Federación Argentina de Consejos Profesionales de Ciencias Económicas, Argentina
Graham Ward, CBE*	President (November 2004 to November 2006)
Abdul Samad Haji Alias	Malaysian Institute of Accountants and The Malaysian Institute of Certified Public Accountants, Malaysia
Warren Allen <sup>#</sup>	New Zealand Institute of Chartered Accountants, New Zealand
Guy Almeida Andrade*	Instituto dos Auditores Independentes do Brasil and Conselho Federal de Contabilidade, Brazil
Robert Bunting	Deputy President (November 2006 to present) American Institute of Certified Public Accountants, United States of America
Yugui Chen	Chinese Institute of Certified Public Accountants, China
Kevin Dancey <sup>#</sup>	Canadian Institute of Chartered Accountants, Canada
Roberto D'Imperio	Consiglio Nazionale dei Dottori Commercialisti and Consiglio Nazionale dei Ragionieri e Periti Commerciali, Italy

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\* Completed their terms at the conclusion of the IFAC Council meeting, November 2006.

<sup>#</sup> Commenced their terms as Board members at the conclusion of the IFAC Council meeting, November 2006.

## FINANCIAL STATEMENTS

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<b>Board Member</b>	<b>Member Body Affiliation</b>
Ingrid Doerga <sup>#&gt;</sup>	Koninklijk Nederlands Instituut van Registeraccountants, Netherlands
Ndung'u Gathinji	Institute of Certified Public Accountants of Kenya, Kenya
Charles Horstmann	American Institute of Certified Public Accountants, United States of America
Gen Ikegami	Japanese Institute of Certified Public Accountants, Japan
David Leonard	Association of Chartered Certified Accountants, United Kingdom
Eric Ka-Cheung Li*	Hong Kong Institute of Certified Public Accountants, Hong Kong
Bernadette McGrory-Farrell <sup>&gt;</sup>	Institute of Certified Public Accountants in Ireland, Ireland
Ofer Minirav	Institute of Certified Public Accountants in Israel, Israel
Joycelyn Morton	CPA Australia and Institute of Chartered Accountants in Australia, Australia
William Nahum	Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables, France
Norbert Pfitzer <sup>#</sup>	Institut der Wirtschaftsprüfer in Deutschland e.V. and Wirtschaftsprüferkammer, Germany
Roberto Resa <sup>#&gt;</sup>	Instituto Mexicano de Contadores Públicos, A.C., Mexico
Ignatius Sehoole*	South African Institute of Chartered Accountants, South Africa
David Smith*	Canadian Institute of Chartered Accountants, Canada
Göran Tidström	Nordic Federation of Public Accountants
Charles Tilley	Chartered Institute of Management Accountants, United Kingdom
Kamlesh Vikamsey	Institute of Chartered Accountants of India, India
Sylvie Voghel	Certified General Accountants' Association of Canada, Canada

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\* Completed their terms at the conclusion of the IFAC Council meeting, November 2006.

# Commenced their terms as Board members at the conclusion of the IFAC Council meeting, November 2006.

> The membership of the IFAC Audit Committee as at December 31, 2006 is comprised of these three Board members.

### **IFAC representatives**

On occasion, IFAC Officers, Board members and other volunteers will be required to represent IFAC in a variety of capacities. When this is the case, IFAC reimburses these individuals for travel and other incidental expenses on an actual basis as per IFAC policies. These payments were not remuneration payments and occurred in the normal course of business.

### **IFAC member organizations**

The transactions between IFAC and its member organizations occurred in the normal course of business. Member organizations provide annual financial contributions (dues) to IFAC as determined by the basis of assessment approved by the IFAC Council.

### **Forum of Firms**

The Forum provides an annual financial contribution to IFAC for an agreed amount and full contribution for TAC related expenses. Refer also to Note 19.

### **IFAC employees**

As part of employee relocation packages included in individual employment contracts, IFAC offers to provide employees relocating from outside the United States a guarantee or deposit to secure rented residence in New York. As at December 31, 2006, the balance outstanding of employee receivables relating to residential security deposits was \$70,543 (2005: \$57,357). This amount is included in non-current receivables in the statement of financial position.

## **19. Forum of Firms**

The objective of the Forum and its relationship with IFAC are established by the Forum's Constitution. The Forum is legally registered in Geneva, Switzerland, under the Swiss Civil Code.

The executive committee of the Forum is the TAC, which by way of the Constitution is also a committee of IFAC. The TAC is effectively the operational body of the Forum, as it has executive authority and is currently staffed by one full-time and two part-time employees. The members of the TAC are selected by the Forum and are approved by the IFAC Nominating Committee and the IFAC Board.

For 2006, the IFAC financial statements reflect revenues from the Forum for amounts invoiced to the Forum for the agreed IFAC contributions totaling \$4,761,933 (2005: \$3,954,791) and for the full contribution for TAC related expenses totaling \$485,023 (2005: \$508,228). These amounts are paid to IFAC on a quarterly in arrears basis. Refer to Note 7 for the information relating to the receivable from the Forum.

## **20. Commitments and Contingencies**

As at December 31, 2006, IFAC had no outstanding commitments other than those lease obligations identified in Note 12 (2005: \$nil).

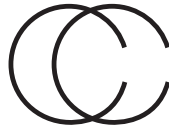
IFAC has no contingencies outstanding as at December 31, 2006 (2005: \$nil).

## **21. Developing Nations Committee**

During 2006, the IFAC Developing Nations Committee received funding from the African Development Bank and the World Bank of \$261,819 (2005: \$nil) specifically in relation to organizing the African Region Learning Workshop, held in Nairobi, Kenya in September 2006. The event included over 200 representatives from 37 African nations, coming from donor organizations, national governments, the accountancy profession and the private sector.

## **22. Line of Credit**

As at December 31, 2006, IFAC had an available line of credit with JP Morgan Chase Bank of \$1,000,000 (2005: \$1,000,000). IFAC did not use the line of credit during 2006 or 2005. The interest rate applied is the prime rate plus 0.75% (9.00% as at December 31, 2006). The line of credit is collateralized by substantially all of IFAC's assets.



# Citrin Cooperman & Company, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
International Federation of Accountants

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of International Federation of Accountants ("IFAC"), which comprise the statement of financial position as at December 31, 2006 and 2005, and the statements of financial performance, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Managements' Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of IFAC as of December 31, 2006 and 2005, and of its financial performance, changes in its equity, and its cash flows for the years then ended in accordance with International Public Sector Accounting Standards.

*Citrin Cooperman & Company, LLP*

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CERTIFIED PUBLIC ACCOUNTANTS

February 23, 2007



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