

IAASB

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

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2010 IAASB ANNUAL REPORT



CLARITY, QUALITY, AND RELEVANCE

2010 ANNUAL

TABLE OF CONTENTS





TABLE OF CONTENTS

| | | |
|---|----|---|
| The International Auditing and Assurance Standards Board (IAASB) | 2 | — |
| Report of the Chairman of the IAASB | 3 | — |
| Report of the Technical Director of the IAASB | 6 | — |
| Appendices | | |
| ✦ IAASB Members, Technical Advisors, Observers, and Technical Staff | 11 | — |
| ✦ Communicating with Stakeholders | 12 | — |
| Report of the Chairman of the IAASB Consultative Advisory Group | 15 | — |
| Appendix | | |
| ✦ Consultative Advisory Group Members and Observers | 17 | — |



THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB, and the IAASB's Consultative Advisory Group (CAG), which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

The objective of the IAASB, as outlined in its **Terms of Reference**, is to serve the public interest by setting high-quality standards for auditing, review, other assurance, quality control, and related services, and by facilitating the convergence of national and international standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the auditing and assurance profession at the global and local levels.

The IAASB consists of a full-time chairman and 17 volunteer members from around the world. It comprises an equal number of members in public practice with significant experience in the field of auditing and other assurance services, and individuals who are not in public practice ("non-practitioners"), including three public members. The public members are individuals who satisfy the requirements of a non-practitioner and are also expected to reflect, and are seen to reflect, the wider public interest. All board members are required to sign an annual statement declaring that they will act in the public interest and with integrity in discharging their responsibilities. Members are appointed by the IFAC Board, based on recommendations from the IFAC Nominating Committee and with the approval of the PIOB.

The IAASB ordinarily meets four times a year. In developing its standards and practice statements, independently and under its own authority, the IAASB is required to be transparent in its activities, and to adhere to **due process** as approved by the PIOB.

The IAASB is supported financially by IFAC, which itself is funded by membership dues from 164 members and associates in 125 countries and jurisdictions and by contributions from the Forum of Firms. The Forum of Firms is an organization of public accounting firms that share the objective of promoting consistently high-quality financial reporting and auditing worldwide, in the interests of the public and users of the profession's services. The IAASB is a component of the overall IFAC reporting entity; accordingly, its financial results are included within IFAC's audited financial statements. These financial statements are published as part of IFAC's Annual Report, which is available at www.ifac.org.



Back row (left to right),
Craig W. Crawford,
Gert Jönsson,
John Archambault,
Prof. William R. Kinney Jr.,
Diana Hillier (Deputy Chair),
Prof. Arnold Schilder (Chairman),
Josef Ferlings,
Phil Cowperthwaite,
Dan Montgomery
and Jon Grant

Front row (left to right):
Cédric Gélard,
Tomokazu Sekiguchi,
M. Abdullah Yusuf,
Ashif Sadrudin Kassam
and David Swaney

Not pictured:
Caitlin Mc Cabe,
Jianhua Tang
and Valdir Renato Coscodai

REPORT OF THE CHAIRMAN OF THE IAASB

PROF. ARNOLD
SCHILDER
IAASB CHAIRMAN



TODAY'S CHALLENGES, TOMORROW'S OPPORTUNITIES

While 2010 saw some recovery from the events of the global financial crisis, its impact continues to be felt around the world. Many seek to evaluate the underlying causes of the financial crisis, identify lessons learned, and implement initiatives to promote financial stability and reform. The unparalleled stress on the global economy and markets resulting from the crisis has amplified financial reporting challenges and has led to heightened attention on the role of the audit and the broader accounting profession. The IAASB recognizes that, as an international standard setter, it has an important responsibility to ensure that its work remains relevant as debates in this area evolve.

HIGHLIGHTS OF OUR 2010 WORK PROGRAM

Our work in 2010 was guided by the priorities set forth in our *Strategy and Work Program, 2009–2011*. Delivering on this ambitious program has meant promoting the adoption of the clarified International Standards on Auditing (ISAs) and supporting implementation through the development of new guidance. In addition to our continuing efforts to enhance the ISAs, however, we have also focused on areas where there is demand for new and innovative assurance and related services other than audits of financial statements. Some of those projects address specific needs of small- and medium-sized entities (SMEs) and small and medium practices (SMPs). Others relate to demands for standards relevant to developments in corporate reporting, such as reporting on greenhouse gas statements. A number of projects underway are addressing issues that are at the forefront of our stakeholders' minds in light of the global financial crisis. Our efforts can be best summarized as a pursuit of three goals: clarity, quality, and relevance.

Clarity

An important goal of the Clarity Project was to promote greater understandability and consistency of application of the ISAs by establishing a new structure, convention, and obligations. By clarifying the obligations imposed on auditors by the ISAs' requirements and eliminating ambiguity about the requirements an auditor needs to fulfill, the IAASB aimed to enhance the quality of audits conducted worldwide.

Another goal of the Clarity Project was to enhance the quality of financial statement audits in areas that needed priority attention in order to align with the IAASB's risk assessment standards. The clarified ISAs are principles-based and emphasize the use of professional judgment. In particular, new and expanded requirements in relation to gathering and evaluating audit evidence in key areas such as fair value accounting estimates and related parties; materiality; communication with those charged with governance; and auditor reporting are aimed at ensuring that the work of auditors contributes to the credibility and quality of the financial statements on which they are reporting. In addition, the clarified ISAs emphasize the need for the auditor to plan and perform an audit with professional skepticism, in particular when critically assessing audit evidence—a point stressed by regulators and others as a result of the global financial crisis. While the clarified ISAs did not come into effect¹ until recently, the IAASB believes that their adoption and implementation will lead to added rigor in audits, thereby responding to issues raised by the global financial crisis.

Prior to finalization of the Clarity Project, IFAC's Compliance Program reported that **126 jurisdictions** around the world had adopted the extant ISAs or otherwise used them as the basis of their national standards. As the clarified ISAs are now

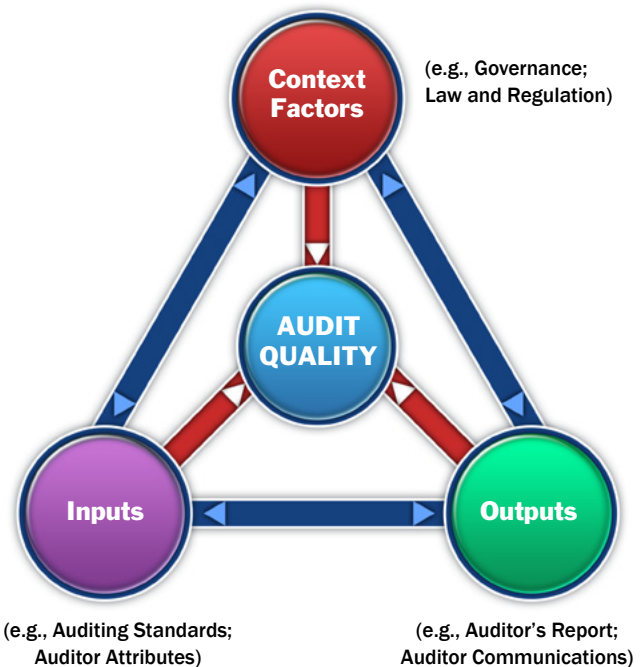
¹ The clarified ISAs are now effective for audits of financial statements for periods beginning on or after December 15, 2009.

effective, many of these jurisdictions are moving to adopt and implement them. While the manner in which these countries are adopting, or converging to, ISAs may differ due to national circumstances, the IAASB is pleased to note the positive momentum of global adoption and implementation efforts in all parts of the world.² In particular, the IAASB applauds those who have developed a formal adoption and implementation plan for the clarified ISAs, as this provides transparency and makes it easier for users of auditors' reports to understand the basis on which the audits have been conducted. Some countries adopting the clarified ISAs have made modifications to add requirements (frequently to include requirements related to particular national laws, but in some cases because the national auditing standard setter believes that certain existing national requirements should be retained). Such amendments are limited, however, and the IAASB remains committed to the view that the clarified ISAs, as issued, set an appropriate benchmark for high-quality audits of entities of all sizes and in all jurisdictions. Naturally, the IAASB remains focused on encouraging adoption and implementation by countries that have not yet announced plans to do so.

International Organization of Supreme Audit Institutions' (INTOSAI) recent endorsement of its International Standards of Supreme Audit Institutions (ISSAIs) for financial audit, which include the clarified ISAs along with supplemental guidance for public sector auditors, illustrates how ISAs can be applied across a wide range of entities. This milestone complements expressions of support for the ISAs previously received from the International Organization of Securities Commissions (IOSCO), the Financial Stability Board (FSB), the Basel Committee on Banking Supervision, the World Bank, the World Federation of Exchanges, and the United Nations Conference on Trade and Development.

The IAASB has also supported the successful adoption and implementation of the clarified ISAs through its ISA Implementation Monitoring Project and the development of new guidance and other resources during 2010. For example, recognizing the demand for material that provides practical assistance to auditors in implementing the ISAs and the need to promote good practice, the IAASB issued proposals relating to new auditing guidance dealing with complex financial instruments; and to help direct auditor's awareness of emerging issues and draw their attention to relevant provisions of the ISAs, IAASB Staff developed a Staff Question and Answer (Q&A) publication highlighting *Auditor Considerations Regarding Significant Unusual or Highly Complex Transactions*. In addition, the IAASB's belief that the clarified ISAs can be applied proportionally in the audits of SMEs has been further strengthened by resources developed by the IFAC SMP Committee. These initiatives are discussed further in the **Report of the Technical Director**.

Important Influences on Audit Quality



Quality

While the ISAs provide a foundation supporting high-quality audits, it is important that they be recognized and understood as only one of several components influencing audit quality. Other influences, including user perceptions, the skills and competencies of auditors, the actions of others in the financial reporting supply chain, and the legal, regulatory, and business environments, also play important roles in audit quality.

In 2010, the IAASB issued a publication to contribute to the debate on audit quality. *Audit Quality: An IAASB Perspective* highlights several important perspectives on audit quality, as a means to stimulate thoughts and discussions among stakeholders in the financial reporting process. The IAASB is considering pursuing a future project on audit quality.

Other projects on the IAASB's agenda are closely linked to audit quality, in particular the IAASB's work to explore demands for enhanced auditor communications. As an initial step, the IAASB has been working to understand what additional information users want and how it would be used as a basis for deciding how the form and content of the auditor's report might be improved. Broader discussions on the role of the auditor may also influence the nature and content of the auditor's report, and it will be critical during 2011 that the IAASB work collectively with interested parties to explore an innovative way forward.

² IAASB Staff has included in the Clarity Center a listing of countries that are already using the clarified ISAs, or have committed to do so in 2011 and beyond. This information can be accessed at web.ifac.org/clarity-center/support-and-guidance.

Relevance

In response to demands from a wide range of stakeholders, the IAASB saw a shift in its work program following the completion of the Clarity Project to work on the development of new standards and guidance for broader assurance and related services engagements. Our ambitious 2010 agenda resulted in the issuance of a number of proposals in key areas, including:

- ✦ the revision of the IAASB's standards on review and compilation engagements, which are of particular relevance to SMEs and SMPs;
- ✦ the development of a new assurance standard to report on the process to compile pro forma financial information included in a prospectus; and
- ✦ the development of a new standard on assurance engagements on greenhouse gas statements.

While these and other projects will be covered in more detail in the **Report of the Technical Director**, it is important to recognize how embarking on new areas has challenged the IAASB. In many cases, the requirements and requests for assurance in these areas continue to evolve and, accordingly, wider consultation becomes more critical to ensure the public interest is being met. For this reason, the IAASB has considered how best to gather input at earlier stages of the development or revision of a standard, by expanding its use of consultation and discussion papers, subject matter experts, project advisory panels, and one-on-one

interaction with investors, users, and preparers. Although this may lengthen the timetable for the development or revision of a particular standard, doing so allows the board to ensure that challenging issues are explored fully and the proposals it issues are of the highest quality.

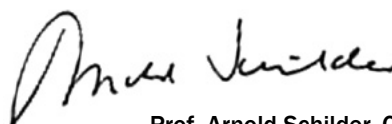
Developments in Financial Reporting

Keeping abreast of developments in accounting standard-setting is also fundamental to the IAASB maintaining its relevance, in particular to the extent that developments in financial reporting standards shape the need for new or revised auditing standards or guidance. For example, in light of trends in the role and importance of financial statement disclosures, questions have arisen about how auditors should apply auditing concepts in obtaining sufficient appropriate audit evidence about financial statement disclosures to support their opinion on the financial statements as a whole. Recognizing this, the IAASB has issued a Discussion Paper designed to help gain a robust understanding of views and perspectives on issues relevant to auditing disclosures in a financial statement audit by posing specific questions to preparers; investors, lenders, and other creditors; regulators; and auditors.

In addition, the IAASB continued to provide input to the International Accounting Standards Board (IASB) on aspects of its proposed standards that may have potential verifiability or auditability issues, which has been well-received by the IASB.

LOOKING FORWARD

There is much to be done to bring our current work program to completion in the next two years, and 2011 will no doubt be demanding as we receive responses to the proposals I have discussed above and work towards finalizing them. At the same time, the IAASB is also beginning to develop its future strategy and work program, having recently issued a consultation paper on the *Strategy and Work Program 2012–2014*. Accordingly, I would like to thank all members, technical advisors, and observers of the IAASB for their unwavering commitment to the IAASB's work and their significant efforts to progress our important initiatives during 2010. In particular, I would like to thank retiring IAASB members Craig W. Crawford, Josef Ferlings, and Jianhua Tang. Finally, I would like to congratulate James Gunn and his technical staff for their continuing productivity and dedication.



Prof. Arnold Schilder, Chairman



REPORT OF THE TECHNICAL DIRECTOR OF THE IAASB

JAMES L. GUNN
TECHNICAL
DIRECTOR



OUR EFFORTS IN 2010

Year two of implementation of the IAASB's *Strategy and Work Program, 2009–2011* saw noteworthy progress on a number of key initiatives. During 2010 the IAASB had 14 active projects underway, and met on six occasions. These efforts resulted in the issuance of seven exposure drafts, consultation on financial statement disclosures, and a publication on audit quality, as well as a series of staff publications and tools. The range of IAASB's activities—from its ongoing commitment to the clarified International Standards on Auditing (ISAs) and their successful implementation, to its exploration of new standards for assurance services in areas where significant demand is emerging—demonstrated clearly the board's tireless efforts to serve the public interest.

My report summarizes the IAASB's 2010 outputs and activities. It also includes highlights of the IAASB's efforts to continue to engage with a broad range of its key stakeholders, as well as its interactions with the Public Interest Oversight Board (PIOB) and the IAASB Consultative Advisory Group (CAG).

INITIATIVES RELATING TO THE FINANCIAL STATEMENT AUDIT

Although the clarified ISAs are now effective and being used in audits in many jurisdictions around the world, the IAASB's focus on ISAs and the financial statement audit did not end with the completion of the Clarity Project. The IAASB's efforts in 2010 centered not only on supporting the implementation of the clarified ISAs, but also on ensuring that it maintains a set of up-to-date, high-quality auditing standards and, where necessary, relevant guidance to support their application, in order to strengthen practice and respond to developments in the current environment.

In 2010 the IAASB continued to emphasize the importance of effective implementation of the clarified ISAs, and the initiative to develop non-authoritative ISA modules has been very well-received by auditors in the field, trainers, and those responsible for promoting adoption and implementation of the clarified ISAs. Nearly 33,000 total downloads occurred during 2010, including over 7,000 downloads of the five modules released in November 2010.

While these modules and other IAASB staff publications are likely of use to all auditors, I believe auditors of small- and medium-sized entities (SMEs) will continue to find the module *The Clarified ISAs, Audit Documentation, and SME Audit Considerations*, along with the 2009 Staff Question and Answer (Q&A) publication, *Applying ISAs Proportionately with the Size and Complexity of an Entity*, particularly relevant. The IAASB Chairman and I also have been especially pleased to be able to draw attention to material developed by IFAC's Small and Medium Practices (SMP) Committee to help auditors of SMEs—in particular the Committee's two-volume second edition of the *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities*, and its second edition of the *Guide to Quality Control for Small- and Medium-Sized Practices* that is intended to help SMPs understand and efficiently apply clarified International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

The IAASB's broader initiatives on audit quality, auditor reporting, and financial statement disclosures demonstrate its commitment to forward-thinking on matters of contemporary interest, and are all related to some degree. While it is too early to tell where the IAASB's discussions in these areas may lead, I anticipate the IAASB's work in these areas in 2011 and beyond will likely have a profound effect on the auditing profession.



| INITIATIVE | 2010 OUTPUT OR ACTIVITY |
|--|---|
| Audit quality | Publication, <i>Audit Quality: An IAASB Perspective</i> |
| Auditor reporting | Deliberation on user perceptions of the auditor's report, the nature of additional information being called for by users, and how it might be provided |
| Complex financial instruments | Exposure Draft of proposed International Auditing Practice Statement (IAPS), <i>Special Considerations in Auditing Complex Financial Instruments</i> |
| Financial statement disclosures | Discussion Paper, <i>The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications</i> |
| Implementation monitoring and support for the clarified ISAs | <p>Progress report on the ISA Implementation Monitoring project, <i>Implementation of the Clarified International Standards on Auditing (ISAs)</i></p> <p>Five new non-authoritative ISA modules, for a total of twelve ISA modules:</p> <ul style="list-style-type: none"> ⊛ ISA 580, <i>Written Representations</i> ⊛ ISA 620, <i>Using the Work of an Auditor's Expert</i> ⊛ Materiality, Misstatements and Reporting – Part I ⊛ Materiality, Misstatements and Reporting – Part II ⊛ Materiality, Misstatements and Reporting – Part III <p>Staff Q&A publication, <i>Auditor Considerations Regarding Significant Unusual or Highly Complex Transactions</i></p> <p>Staff publication, <i>The Clarified ISAs: An Overview and Guide to Resources</i></p> <p>Staff Frequently Asked Questions</p> <p>Staff publication explaining why ISAs are right for the public sector</p> |
| Internal audit | Exposure Draft of proposed revised ISA 610, <i>Using the Work of Internal Auditors</i> , including proposed revised ISA 315, <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i> |
| Other information in documents containing audited financial statements | Deliberation on proposed revision of ISA 720, <i>The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i> |
| Status and Authority of International Auditing Practice Statements (IAPSS) | Exposure Draft of proposals relating to IAPSSs , including clarification of the status and authority of new IAPSSs, and the resultant withdrawal of existing IAPSSs |
| XBRL | Staff Q&A publication, <i>XBRL: The Emerging Landscape</i> |

The Clarity Center, www.iaasb.org/clarity-center, serves as a comprehensive resource for auditors and others interested in the clarified ISAs. For an overview and guide to the resources that have been developed to support implementation of the clarified ISAs, visit web.ifac.org/download/IAASB_Clarify_Resources_Brochure.pdf.



INITIATIVES RELATING TO OTHER ASSURANCE AND RELATED SERVICES

The IAASB's work in this area relates to both assurance and related services on historical financial information, and assurance on other types of financial and non-financial information beyond financial statements. The IAASB's efforts have resulted in proposals for new and revised standards aimed at equipping practitioners to meet emerging demands.

Audit is not the only service that can be provided on financial statements, a point recognized in the Strategy and Work Program, 2009–2011. The IAASB's focus in 2010 has been to continue to establish the right platform of standards for other assurance and related services on financial statements, in light of increasing demand for choice in circumstances where an audit is not required and entities do not elect to have an audit. During the year the IAASB successfully progressed one of its key initiatives: to enhance its standards addressing review and compilation engagements.

In addition, the IAASB has learned much in its work to develop topic-specific standards relating to assurance in emerging areas. For example, in developing proposed new standards on greenhouse gas (GHG) engagements and engagements to report on the process to compile pro forma financial information, the IAASB has had to grapple with how requirements should be articulated in relation to different assurance engagements, and how the standards should require the practitioner to report on particular engagements to best communicate to users of assurance reports.

As the IAASB continues to explore other areas on which assurance may be required or requested, its ongoing work to revise ISAE 3000 will provide a strengthened framework under which both reasonable and limited assurance engagements can be conducted.

| INITIATIVE | 2010 OUTPUT OR ACTIVITY |
|--|--|
| Assurance engagements other than audits or reviews of historical financial information | Deliberation on proposed revision of International Standard on Assurance Engagements (ISAE) 3000, <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> |
| Assurance on financial statements other than audits | Exposure Draft of proposed revised International Standard on Review Engagements (ISRE) 2400, <i>Engagements to Review Historical Financial Statements</i> Staff publication, <i>Meeting Diverse Needs</i> |
| Greenhouse gases | Exposure Draft of proposed new ISAE 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i> |
| Pro forma financial information | Exposure Draft of proposed new ISAE 3420, <i>Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus</i> |
| Related services on financial statements other than audits | Exposure Draft of proposed revised International Standard on Related Services (ISRS) 4410, <i>Compilation Engagements</i> |



Looking Forward to 2011 and Beyond

The IAASB's debates on its standard-setting proposals are likely to evolve during 2011 as responses to its proposals are received. At the same time, the IAASB is aware it needs to continually gauge the environment and identify early emerging trends that may be pertinent to its future priorities. To this end, in January 2011 the IAASB released the Consultation Paper, *Proposed IAASB Future Strategy and Work Program for 2012–2014*, to obtain views on where the IAASB's time and resources should be spent to best meet its public interest mandate. I encourage all stakeholders to consider and comment on this important consultation.

FOCUS ON OUTREACH, COLLABORATION, AND LIASION WITH KEY STAKEHOLDERS

The IAASB members and staff maintained an active schedule of meetings, presentations, speeches, and other exchanges with a wide group of stakeholders during 2010. While such outreach and communication initiatives keep stakeholders informed of the IAASB's activities and promote the adoption and implementation of its standards, they also enable the IAASB to learn of relevant developments and hear important perspectives regarding its standards and their implementation in practice.

A list of events, meetings, and forums in which IAASB representatives participated is provided in the Appendix under the heading, **Communicating with Stakeholders**.

Highlights of interactions with stakeholders included:

- ✦ Hosting the 10th meeting of national auditing standard setters from 13 nations to obtain feedback on key IAASB projects, allow for the sharing of significant developments or issues on national agendas that are of international relevance, and explore opportunities for collaboration and convergence.
- ✦ Continuing to partner with the International Organization of Supreme Audit Institutions (INTOSAI), which has culminated in the endorsement of the International Standards of Supreme Audit Institutions (ISSAIs) for financial audits at its November 2010 Congress. The ISSAIs for financial audits include the clarified ISAs, along with supplemental guidance referred to as Practice Notes for each of the 36 clarified ISAs, as developed by INTOSAI's Financial Audit Subcommittee of the Professional Standards Committee.
- ✦ Strengthening our relationship with the International Forum of Independent Audit Regulators (IFIAR), including exploring mechanisms by which IFIAR, or its members, can share information and perspectives that will assist the IAASB in improving its auditing standards and, hence, audit quality.
- ✦ Liaising with the International Organization of Securities Commissions (IOSCO) on auditing developments at both its Technical Committee and Standing Committee No. 1 on Multinational Disclosure and Accounting.
- ✦ **Responding to the European Commission's (EC Green Paper, *Audit Policy: Lessons from the Crisis***, and continuing to engage with EC representatives to encourage the adoption of the clarified ISAs for statutory audits in Europe.



- ✦ Providing **input to the International Accounting Standards Board (IASB)** on aspects of its proposed standards that may have potential verifiability or auditability issues.
- ✦ Continuing to participate as an observer at the U.S. Public Company Accounting Oversight Board's (PCAOB) Standing Advisory Group (SAG), which complements the PCAOB's observer role at the IAASB CAG.

In addition, the IAASB recognizes the need to stay engaged with key stakeholders, in particular firms and national standard setters, to understand challenges that may arise as the clarified ISAs are being implemented. The IAASB is continuing discussions with stakeholders regarding how best to gather information about the way the clarified ISAs are being applied in practice, and will deliberate in 2011 the design of the process to collect and evaluate this information.

The IAASB's website includes a proposed timetable (www.iaasb.org/Projects.php) detailing current initiatives and the meetings at which these initiatives are expected to be discussed.

Those interested in following specific projects are encouraged to monitor their status by visiting the IAASB's website, where IAASB meeting agenda materials, meeting highlights, and project timetable are fully available. In addition, the IAASB publishes a quarterly eNews publication to keep its stakeholders informed of developments.³

³ To subscribe to IAASB eNews, visit web.ifac.org/news/subscribe.

OVERSIGHT AND ADVICE

Public Interest Oversight Board

The IAASB continues to benefit from its relationship with the PIOB, which seeks to ensure that our work is conducted following due process and in the public interest. The PIOB's observations at the IAASB and IAASB CAG meetings provide the IAASB with a valuable independent perspective on the manner in which the board has followed its stated due process and recognized the public interest in developing its standards.

IAASB Consultative Advisory Group

The IAASB CAG, an independent body, provides a forum in which representatives of its 30 member organizations—including regulators, preparers, and others with an interest in international auditing and assurance—provide advice on technical and public interest matters relating to drafts of IAASB standards and strategy. The advice of the CAG is particularly valuable as the IAASB's standard-setting activities move into new and emerging areas, as CAG members' expertise provides relevant perspectives on what users of practitioners' reports may expect from assurance and related services.

During 2010, the first independent Chairman of the IAASB CAG, David Damant, concluded his term. We are grateful for his counsel and advice. The IAASB was pleased to welcome the appointment of Linda de Beer as the CAG Chairman effective October 1, 2010. The Chairman of the CAG attends all IAASB meetings as an observer, with the privilege of the floor.

Further details on the CAG's activities during the year, as well as Ms. de Beer's biography, are set out in the Report of the Chairman of the IAASB Consultative Advisory Group.

IAASB MEMBERSHIP

The IAASB welcomes the following new appointments and re-appointments to the board, beginning January 1, 2011.

- ✪ John Archambault, United States (re-appointed)
- ✪ Jean Blascos, France
- ✪ Jianshen Chen, China
- ✪ Jon Grant, United Kingdom (re-appointed)
- ✪ Merran Kelsall, Australia
- ✪ Caithlin Mc Cabe, Australia (re-appointed)

ACKNOWLEDGEMENTS

I am particularly pleased to report that the PIOB has approved the IFAC Board's reappointment of Prof. Arnold Schilder to lead the IAASB for the period 2012–2014. This reappointment is testament to Arnold's strong leadership and commitment to expanding the IAASB's interactions with a wide variety of stakeholders. I thank him for all his efforts over the past year. I would also like to extend my gratitude to the board members, their technical advisors, the current and departing chairs of the IAASB CAG, and all those who have contributed to the work of the IAASB over what has proven to be a demanding year. I am also grateful to Jim Sylph, Executive Director, Professional Standards, for his continued leadership and counsel.

Finally, I would like to thank my team of staff. They continued their excellent service to the board and its public interest mandate by pressing onward with their individual projects with high regard to quality. I look forward to continuing to lead them through 2011.



James L. Gunn, Technical Director



IAASB Staff

Back row (left to right):

Tiffany Bland,

Brett James,

James M. Sylph
(Executive Director, Professional Standards),

James L. Gunn (Technical Director),

Ken Siong (Deputy Director),

and Dorothy Ofori

Front row (left to right):

Joanne Moores,

Michael Nugent,

and Jessie Wong

Not pictured: Kathleen Healy

IAASB MEMBERS, TECHNICAL ADVISORS, OBSERVERS, AND TECHNICAL STAFF

As of December 31, 2010

| BOARD MEMBERS | TERM ENDING | TECHNICAL ADVISORS |
|--|--|--|
| Prof. Arnold Schilder (Chairman), the Netherlands ⁺ | 2011 | |
| Nominated by IFAC Member Bodies | | |
| Valdir Renato Coscodai, Brazil | 2012 | Ricardo DeLellis |
| Philip Cowperthwaite, Canada | 2011 | Greg Shields |
| Josef Ferlings, Germany | 2010 | Wolfgang Böhm |
| Cédric Gélard, France | 2011 | Isabelle Tracq-Sengeissen |
| Jon Grant, United Kingdom* | 2010 | Marek Grabowski |
| Ashif Sadrudin Kassam, Kenya | 2011 | Jan Thijs Drupsteen |
| Professor William R. Kinney Jr., United States | 2012 | Chuck Landes |
| Jianhua Tang, China | 2010 | Len Jui |
| M. Abdullah Yusuf, Pakistan | 2012 | Pervez Muslim |
| Nominated by the IFAC Transnational Auditors Committee | | |
| Diana Hillier (Deputy Chair), United Kingdom | 2011 | Jon Rowden |
| Craig W. Crawford, United States | 2010 | Susan Jones |
| John Archambault, United States* | 2010 | Josephine Jackson |
| Caithlin Mc Cabe, Australia* | 2010 | Tania Sergott |
| Dan Montgomery, United States | 2011 | Denise Esdon |
| Public Members | | |
| Gert Jönsson, Sweden | 2012 | Jonas Hällström |
| Tomokazu Sekiguchi, Japan | 2011 | Sachiko Kai |
| David Swanney, United Kingdom | 2011 | |
| IAASB Technical Staff | | Observers |
| Executive Director, Professional Standards | James M. Sylph | Linda de Beer (IAASB CAG Chairman, South Africa) |
| Technical Director | James L. Gunn | Norio Igarashi (Financial Services Agency, Japan) |
| Deputy Director | Ken Siong | Jean-Philippe Rabine (European Commission, Belgium) |
| Senior Technical Managers | Kathleen Healy Joanne Moores | |
| Technical Managers | Brett James Michael Nugent Jessie Wong | |
| Executive Assistant | Dorothy Ofori | |
| Administrative Assistant | Tiffany Bland | |

⁺ Prof. Schilder was reappointed for a second term ending 2014.

* These members were re-appointed after their terms ended at the end of 2010. For a full list of appointments effective January 1, 2011, see the Report of the Technical Director.

COMMUNICATING WITH STAKEHOLDERS

Accounting and Auditing Standard Setters Meetings and Events

Australian Auditing and Assurance Standards Board Meeting (AUAASB), Melbourne, Australia

AUAASB Public Lecture, Melbourne, Australia

Canadian Auditing and Assurance Standards Oversight Council, Toronto, Canada

Canadian Institute of Chartered Accountants Auditing and Assurance Standards Board Meeting, Toronto, Canada

European Financial Reporting Advisory Group Meetings on Disclosure Framework, Brussels, Belgium and via teleconference

Fédération des Experts Comptables Européens (FEE) Meeting with the European Auditing Standards Setters, Brussels, Belgium

International Accounting Standards Board (IASB) Expert Advisory Panel (EAP) Meetings on Impairment of Financial Assets, London, UK, Norwalk, USA and via teleconference

International Financial Reporting Standards Advisory Council Meetings, London, UK

Meetings with the IASB Chair, Sir David Tweedie, and other IASB representatives, London, UK

Meeting with the UK Auditing Practices Board, London, UK

Meetings with the United States Public Company Accounting Oversight Board (PCAOB), Washington, USA

New Zealand Professional Standards Board Meeting, Wellington, New Zealand

PCAOB Standing Advisory Group Meetings, Washington, USA

Regulators and Audit Oversight Bodies

Australian Financial Reporting Council Meeting, Melbourne, Australia

Bank for International Settlements / Financial Stability Institute Accounting and Auditing Seminar, Basel, Switzerland

Canadian Public Accountability Board Meeting, Toronto, Canada

German Regulators Roundtable, Mainz, Germany

International Forum of Independent Audit Regulators Plenary Meeting, Madrid, Spain

International Organization of Securities Commissions (IOSCO) Annual Conference, Montreal, Canada

IOSCO Standing Committee No. 1 on Multinational Disclosure and Accounting Meeting, Luxembourg, Luxembourg

IOSCO Technical Committee Meeting with industry stakeholders, Madrid, Spain

Meeting with representatives of the Financial Stability Board, via teleconference

Meeting with the Independent Regulatory Board for Auditors, Johannesburg, South Africa

Meeting with the UK Financial Services Agency, London, UK

Meeting with the UK Financial Reporting Council, London, UK

Regulators Roundtable, Paris, France

Preparers, Investors, Governance Organizations, and Others

Australian Stock Exchange Breakfast Forum, Sydney, Australia

Institute of Certified Financial Managers, Kyiv, Ukraine

International Corporate Governance Network Breakfast Meeting, Toronto, Canada

Meeting with Center for Audit Quality (CAQ) representatives, Washington, USA

Meeting with International Valuation Standards Council representatives, New York, USA

Meeting with the Johannesburg Stock Exchange, Johannesburg, South Africa

Meetings with investor representatives from Hermes Equity Ownership Services, Investment Management Association and Gartmore, London, UK

World Federation of Exchanges 50th Annual Meeting, Paris, France

Victoria University of Wellington Centre for Governance Public Seminar, Wellington, New Zealand

COMMUNICATING WITH STAKEHOLDERS

IFAC Member Bodies (Including Meetings, Conferences, and Other Events)

Association of Chartered Certified Accountants (ACCA) Council Meeting, London, UK

American Institute of Certified Public Accountants (AICPA) International Business, Accounting, Auditing, and Tax Conference, Washington, USA

Australian Joint Professional Bodies Luncheons, Melbourne and Sydney, Australia

Félag Löggiltra Endurskodenda, FLE Endurskodunardagur 2010, via videoconference

Hong Kong Institute of Certified Public Accountants Auditing and Assurance Standards Board Forum, Hong Kong, China

Institut der Wirtschaftsprüfer/Wirtschaftsprüferkammer (Chamber of Public Accountants) Seminar, Mainz, Germany

Instituto de Censores Jurados de Cuentas de España Education Seminar, Madrid, Spain

Institute of Chartered Accountants of Pakistan, Karachi, Pakistan

Malta Institute of Accountants 2010 Biennial Conference, St. Julians, Malta

Meeting with ACCA, London, UK

Meeting with AICPA, New York, USA

Meeting with Royal NIVRA, Amsterdam, the Netherlands

Meeting with the Institute of Chartered Accountants in England and Wales, London, UK

Meeting with the New Zealand Institute of Chartered Accountants, Wellington, New Zealand

Governments and Public Sector Organizations

European Union (EU) Conference on International Developments in Accounting and Auditing, Brussels, Belgium

Congress of the International Organization of Supreme Audit Institutions (INTOSAI), Johannesburg, South Africa

Meeting of the Financial Audit Subcommittee of the INTOSAI Professional Standards Committee (PSC), Sandhamn, Sweden

Meeting of the INTOSAI PSC, Johannesburg, South Africa

Meeting of the INTOSAI PSC Steering Committee, Copenhagen, Denmark

Meetings with INTOSAI leadership, Amsterdam, the Netherlands and Johannesburg, South Africa

Meeting with the European Commission's (EC) Head of Auditing Unit and other EC Representatives, Brussels, Belgium

Meeting with the Representatives active in the EU marketplace on European Commission's ISAs Adoption, Brussels, Belgium

Meeting with the UK Government Department for Business Innovation & Skills, London, UK

Accounting Firms

Meeting of the Standards Working Group of the six largest accounting firms, London, UK

Meeting with the Ernst & Young Global Professional Practice, London, UK

Meeting with KPMG leadership, London, UK

Meeting with PwC leadership, London, UK

Academic and Research Organizations

American Accounting Association Annual and Mid-Year Auditing Section Conferences, San Francisco, USA and San Diego, USA

International Symposium on Audit Research Conference, Singapore, Singapore

Presentation to students of Aarhus Business School (Denmark), New York, USA

COMMUNICATING WITH STAKEHOLDERS

Regional Organizations and Events

Accounting and Accountability for Regional Economic Growth (CreCer) Annual Conference, Panama City, Panama

Annual Meeting of the Nordic Federation of Public Accountants, Reykjavik, Iceland

FEE Conference on Stakeholders' Expectations from Statutory Auditors, Brussels, Belgium

FEE / Consiglio Nazionale dei Dottori Commercialisti e Degli Esperti Contabili Small and Medium Practices and Small- and Medium-Sized Entities Congress, Venice, Italy

FEE XBRL Policy Statement Launch Event Roundtable, Brussels, Belgium

Fédération des Experts Comptables Méditerranéens Conference, Marseille, France

Conferences and Other Events

Ascend National Pan-Asian Business Leaders Forum 2010 Annual National Convention, New York, USA

CAQ Symposium, Audit Practice Meets Audit Research, San Francisco, USA

Global Reporting Initiative Conference, Amsterdam, the Netherlands

World Bank REPARIS Program, Brussels, Belgium

World Bank Fiduciary Forum Panel Session on Accounting and Auditing Standards, Washington, USA

World Congress of Accountants Conference, Kuala Lumpur, Malaysia

XBRL International Conference, Rome, Italy

Responses to Public Consultation

EC Green Paper, *Audit Policy: Lessons from the Crisis*

Financial Stability Board Thematic Peer Review on Risk Disclosures

IASB Exposure Draft (ED), *Measurement of Liabilities in International Accounting Standard (IAS) 37* (ED/2010/1)

IASB ED, *Revenue from Contracts with Customers* (ED/2010/6)

International Accounting Standards Committee Foundation ED, *IFRS Taxonomy 2010*

IOSCO Consultation Report, *Auditor Communications*



REPORT OF THE CHAIRMAN OF THE IAASB CONSULTATIVE ADVISORY GROUP

THE ROLE AND MEMBERSHIP OF THE CAG

The Consultative Advisory Group (CAG) was established in 1999 to act as a sounding board and advisor to the IAASB. Today it comprises a wide range of representative organizations with a keen interest in the strategy and the technical output of the IAASB. The CAG is by no means a governance or oversight structure—its function is purely advisory by nature. This is clarified in its **Terms of Reference**, which state that its objective is to provide input and assist the IAASB in the following three areas:

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

The CAG membership comprises regulators, investor groups, and other organizations with an interest in auditing, but does not include auditors. Under the leadership of my predecessor, David Damant, the CAG has evolved into a group with a prestigious and influential list of Member Organizations that are committed to providing their senior people to partake in the deliberations of the CAG. A list of **CAG Member Organizations** has been included at the end of this report.

We are delighted to have added the following organizations to our membership in 2010:

- ✦ The Associação Brasileira de Instituições Financeiras de Desenvolvimento (ABDE)
- ✦ The National Association of State Board of Accountancy (NASBA)
- ✦ The Organisation for Economic Cooperation and Development (OECD)

2010 – A YEAR OF CHANGE AND INTROSPECTION

The financial crisis resulted in introspection regarding roles, focus areas, what we do, what we know, and what we assume. The IAASB, the CAG, and its members were no exception. Even though there were no direct and spectacular audit failures, a crisis of such proportions can only beg the question regarding the relevance of every role-player in the reporting chain—including auditors. This introspection is certainly causing a mind shift in the thinking around important matters such as audit quality, what is or should be communicated in audit reports, and other aspects that might previously not necessarily have been considered or challenged.



LINDA DE BEER
IAASB CAG
CHAIRMAN

The CAG's agenda is mostly directed by the agenda of the IAASB. However, the CAG has played a role over the years to ensure that various important matters get elevated onto the IAASB agenda. There has also been a conscious effort to steer the CAG agenda away from more procedural and operational aspects of the standard-setting function in order for us to focus on matters of strategic importance to the quality of reporting and auditing.

All of this is resulting in us seeing matters of critical importance to investors, users of financial statements, boards of directors, regulators, and other recipients of the audit service on both the CAG and the IAASB agendas.

The CAG meetings in 2010 were held in Barcelona, Spain in March and London, UK in September. Some of the main themes in 2010 were around giving input into the future strategy and work plan of the IAASB for 2012–2014; to consider the IAASB's position on limited assurance across a number of proposed standards, including the standard addressing review engagements; and to consider the important aspect of auditing complex financial instruments.

As the CAG we also had to make the very difficult decision in 2010 of identifying a new chairman after the term of our previous chairman had come to an end. I took over the chairman position from David Damant with effect from October 1, 2010. Information on **my background** can be found on the IAASB CAG's web page.

I am honored, but certainly under no disillusion of the immenseness of the task.

As chair, I will continue to look for opportunities to further enhance the CAG's role, the quality of our input and our own governance structures and processes, and will do so with consideration of the recommendations of the Monitoring Group.⁴

WHAT LIES AHEAD IN 2011?

In our role to play a part in the quality of International Standards and Auditing (ISAs) and, hence, audit quality, the CAG, with its important membership base, will have to continue to challenge, question, and advise. We cannot expect to meet the challenges of today with yesterday's tools. That means that we will, in addition to advising on current projects, continue to lift our heads above the active agenda of the IAASB and also ask ourselves what is missing or what else needs attention.

Very difficult matters are being considered as the IAASB looks to its future work program, such as what is expected of auditors (audit quality), what should be included in an auditor's report and what other assurance may be required or requested on

areas such as sustainability reporting, corporate governance statements, and now also integrated reporting. Time will tell what the outcome of these deliberations will be. The CAG will however continue to advise and give strategic and technical input on these and other matters.

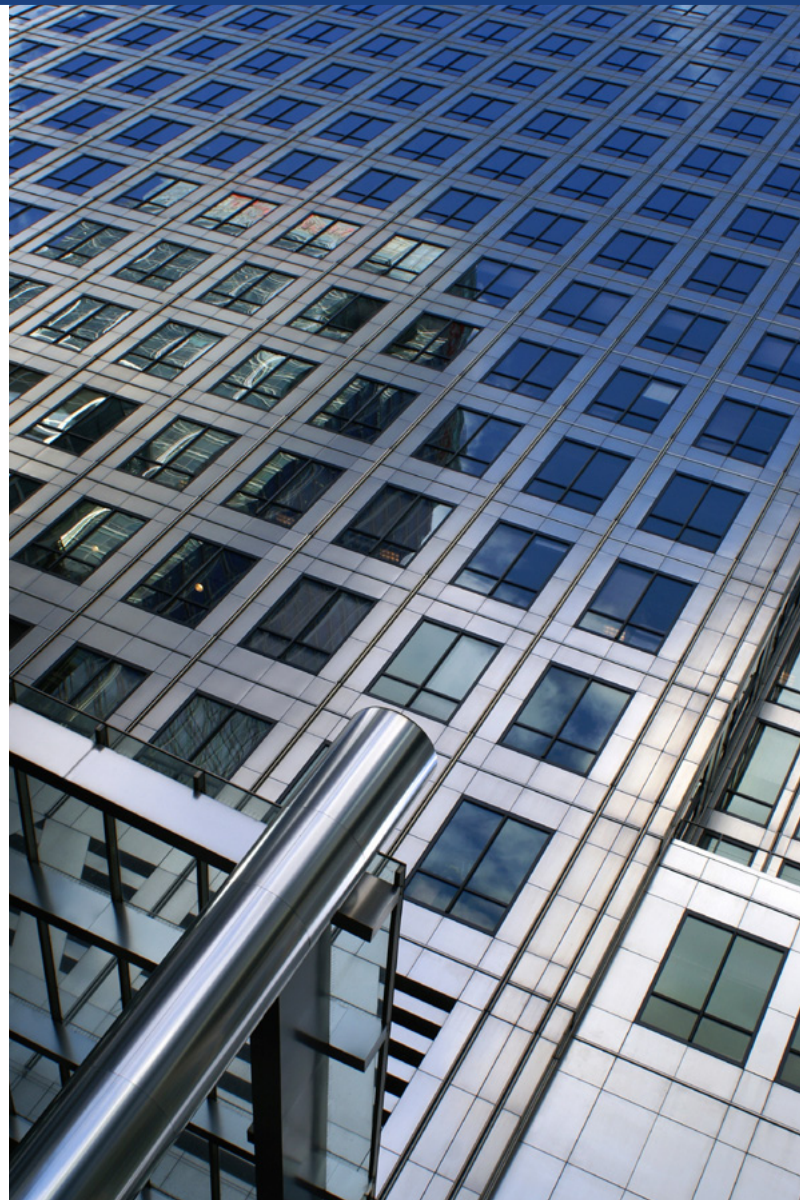
IN CONCLUSION

I would like to thank the members of the CAG and their organizations for their immense effort and for their vote of confidence by electing me as chairman. I also want to thank David Damant, on behalf of my CAG colleagues, for your immeasurable contribution not only to the CAG, but as a non-accountant, to the audit profession and the international standard-setting processes. Your leadership, wisdom, and commitment is an inspiration to us all!



Linda de Beer, CAG Chairman

⁴ In 2002, IFAC and a group of six international financial institutions—the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, and the World Bank (the Monitoring Group (MG))—began a dialogue about the importance of high-quality audits of financial statements and the need to restore and enhance public confidence in financial reporting and auditing. The result of this dialogue was the IFAC Reforms. The IFAC Reforms changed the structure and processes for the auditing, ethics, and education standard-setting boards supported by IFAC, and called for the MG to perform a five-year review of their implementation. In 2010, the MG issued its *Review of the IFAC Reforms—Final Report*, which states that virtually all of the changes called for by the IFAC Reforms have been implemented. It also acknowledges that the initial implementation of the IFAC Reforms has been a significant undertaking, and it recognizes the numerous achievements with respect to their implementation. Finally, the report identifies a number of near-term actions for IFAC and the standard-setting boards it supports, focused on further enhancing diversity, transparency, and accountability.



CONSULTATIVE ADVISORY GROUP MEMBERS AND OBSERVERS

MEMBER ORGANIZATIONS

Asian Financial Executives Institutes
 Associação Brasileira de Instituições Financeiras de Desenvolvimento
 Basel Committee on Banking Supervision
 BusinessEurope
 CFA Institute
 Dean of the Graduate School of Financial Management, Moscow
 European Commission
 European Federation of Accountants and Auditors for SMEs
 European Financial Executives Institutes
 Fédération des Experts Comptables Européens
 Gulf States Regulatory Authorities
 Information Systems Audit and Control Association
 Institute of Internal Auditors
 International Accounting Standards Board
 International Actuarial Association
 International Association of Insurance Supervisors
 International Bar Association

International Corporate Governance Network
 International Organization of Securities Commissions
 International Organization of Supreme Audit Institutions
 International Valuation Standards Council
 Islamic Financial Services Board
 Japan Securities Dealers Association
 National Association of State Boards of Accountancy
 North American Financial Executives Institutes
 Organisation for Economic Cooperation and Development
 Sri Lanka Accounting and Auditing Standards Monitoring Board
 United Nations Conference on Trade & Development
 World Bank
 World Federation of Exchanges

OBSERVERS

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

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IAASB website

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