



INTERNATIONAL FEDERATION
OF ACCOUNTANTS

2 0 0 5 A N N U A L R E P O R T

BUILDING AN INVESTMENT CLIMATE OF TRUST



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**

International Federation of Accountants 2005 Annual Report

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Building an Investment Climate of Trust

Since my election as President of the International Federation of Accountants (IFAC) in November 2004, the international accountancy profession and IFAC itself have experienced unprecedented change — change that has strengthened our profession and enabled IFAC to sharpen its focus on protecting the public interest. Some change, certainly, was the result of external forces, including environmental, economic and regulatory developments. But a great part of the change resulted from initiatives by the accountancy profession to enhance the quality of our work, to redefine and strengthen our commitment to high ethical standards, and better to understand and address investor perspectives. IFAC has been at the forefront of these initiatives.

Putting the Public Interest First

I speak on behalf of IFAC's boards, committees, member bodies and regional accountancy organizations when I say that, as leaders of the accountancy profession, we fully recognize our overriding public interest responsibility to the global community in which our profession operates. Professional accountants play a key role in protecting the public good, encouraging transparency and achieving economic growth and stability. To carry out this role, we must work each and every day to earn the public's trust. That trust is vital to building investor confidence and to contributing to the prosperity of nations in every part of the world.

To create an investment climate of trust, IFAC, together with its independent standard-setting boards, has, over the past year, focused on three critical areas:

- Developing high quality international standards and vigorously promoting their adoption;
- Embracing and participating in regulatory arrangements that demonstrate our commitment to these standards; and
- Forming alliances with those who share our concerns for strengthening financial infrastructures, enhancing the profession, and raising the quality of life for citizens.

This annual report describes our initiatives in each of these areas. I would like to highlight some of them.

First, however, I want to comment on one of the most significant developments in the history of the international profession: the establishment of the Public Interest Oversight Board (PIOB), chaired by Professor Stavros

Thomadakis. Established in February 2005, through the initiative of global regulators with the support and encouragement of IFAC, the PIOB oversees IFAC's auditing, assurance, education and ethics standard setting, and the IFAC Member Body Compliance Program. The PIOB provides the independent assessment that we are, indeed, fulfilling our public interest mandate.

Achieving Economic Stability

We are determined that our strong standard setting, independently overseen, will contribute to economic stability and growth worldwide. During 2005, each of IFAC's standard-setting boards — the International Auditing and Assurance Standards Board, the International Accounting Education Standards Board, the International Ethics Standards Board for Accountants, and the International Public Sector Accounting Standards Board — continued to enhance the transparency of their standard-setting processes. Public members now serve on all of these boards and consultative advisory groups provide further public-interest input. The PIOB approved the due process, working procedures and the appointment of new members for the three boards it oversees: the auditing, ethics, and education standard-setting boards. This is a critical stamp of approval, demonstrating that the processes of these boards are right.

Outreach to regulators, standard setters, investors and other international groups is another important part of IFAC's work. To act in the public interest, we need to hear and understand public-interest perspectives. We accomplished this through the work of IFAC's Regulatory Liaison Group; meetings with politicians, regulators and leaders of investment and corporate



governance groups; participation at international conferences and seminars; and by holding international forums on key accounting, auditing and ethical issues.

As an international standard setter with global convergence as an objective, IFAC needs to address the concerns of developing economies and of small and medium enterprises (SMEs). In 2005 we created two new committees: the Small and Medium Practices (SMP) Committee and the Developing Nations Committee. Among other things, these committees ensure that international standard setters are made aware of issues from the perspectives of SMPs, SMEs, and emerging economies. To support worldwide efforts to build accountancy capacity, we also developed good practice guidance for professional bodies in developing countries.

IFAC has also worked to build an investment climate of trust by supporting professional accountants in business, who are often at the forefront of the decision-making processes that affect investors worldwide. Our *Code of Ethics for Professional Accountants* has been updated for this constituency, and, through the work of the Professional Accountants in Business Committee, we are developing guidance on key issues, such as enterprise governance.

Strengthening the Profession

Building investor trust and confidence in the financial and other information released by companies and governments worldwide, is, of course, not only the responsibility of our profession. It is, however, our responsibility to keep others in the financial reporting

supply chain alert to their critical roles in protecting the public interest and to establish the alliances necessary to bring about effective change. IFAC is doing just this. We have met with international regulatory bodies and are working closely with the World Bank and the United Nations Conference on Trade and Development. We have also built closer relationships with funding and development agencies, so that together we can address economic development issues and mitigate — if not arrest — poverty in the neediest areas of the world.

IFAC's member bodies and regional accountancy organizations have also played a critical role in strengthening the profession and supporting economic development. I thank them for their unwavering support of IFAC's Member Body Compliance Program, which seeks to encourage adherence to international standards and enhance the quality of accountants' performance.

I also thank the IFAC Board for their commitment to furthering the development of our profession. They have, most assuredly, demonstrated their commitment to the values of IFAC: integrity, transparency and expertise. Their leadership, and that of IFAC Chief Executive Ian Ball and his staff, have enabled us to achieve meaningful changes that position our profession better to fulfill its mission of serving the public interest and contributing to economic growth and stability.



IFAC 2005 Board Members

Back row (from left to right): Sunil Goyal, William Nabum, Angelo Casò, Ian Ball (Chief Executive), Graham Ward (President), Fermín del Valle (Deputy President), Göran Tidström, Ignatius Seboole, Ofer Minirav. Front row (from left to right): Ernest Kan, Eric Li, Ndung'u Gathinji, David Leonard, Guy Almeida Andrade, Sylvie Voghel, Shozo Yamazaki, Charles Tilley, Chuck Horstmann, Pat Barrett. Not pictured: Yugui Chen, Rolf Nonnenmacher, Abdul Samad, David Smith.

Achieving Progress through Knowledge

It's been said that "true progress is to know more, to be more, and to do more." Based on this definition, the International Federation of Accountants has achieved significant progress over the past year. As an organization, IFAC most certainly knows more.

- By organizing global forums on issues such as independence and the clarity of international standards, we learned more about the challenges faced by professional accountants and the concerns of regulators and standard setters.
- A consultative conference on developing nation and small- and medium-enterprise issues resulted in an increased awareness of the needs of these specific constituencies.
- Input from member body leadership at the annual chief executives meeting provided national perspectives that have helped to shape our strategy and its implementation.
- And consultative advisory groups to IFAC standard-setting boards have provided valuable insight as to perspectives, interests and needs of investors, regulators, auditors-general and other key stakeholders.

Armed with this knowledge, IFAC and its boards, committees and staff were positioned to be more and to do more not only for the profession, but most importantly, to protect the public interest. Our efforts centered on four fundamental activities: the development of standards and guidance; promotion of quality performance by accountants worldwide; international collaboration activities; and representation of the accountancy profession in the public interest. The Service Delivery section of this report, which begins on page 16, delineates IFAC services in detail.

I will highlight a few of the more significant activities which, I believe, are indicative of IFAC's

ongoing commitment to encourage quality performance by accountancy professionals, support the development of the profession, and thus help to generate economic growth and stability worldwide.

Standards and Guidance

Quality and clarity are the driving principles in the development of IFAC standards and guidance.

During 2005, IFAC's independent standard-setting boards issued three final standards, 18 exposure drafts (EDs) of proposed standards, and, along with IFAC's committees, released nine other final publications, including Spanish and French translations of the 2005 *Handbook of International Public Sector Accounting Pronouncements*. These documents provide guidance to accountants in practice, in business, industry, academia, and the public sector. The pronouncements and publications focused on topics that are significant from a public interest perspective and on areas where the profession itself was in need of additional guidance.

The standards and exposure drafts addressed a wide range of issues, including audit documentation, review of interim financial information, competence requirements for audit professionals, and independence and other ethical issues — all central to the delivery of high quality audits. In addition, the International Auditing and Assurance Standards Board (IAASB) initiated a project on clarity, which involved developing a new drafting style for its pronouncements to enhance their overall clarity and understandability and to facilitate convergence. This new style was used in four EDs issued in October. Comments



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One of the most significant demonstrations of the international profession's commitment to quality is the high level of member body participation in the IFAC Member Body Compliance Program.

on these EDs are being considered as the IAASB finalizes its new drafting conventions.

In keeping with its mandate, the International Public Sector Accounting Standards Board (IPSASB) remained focused on enhancing governmental accountability through the development of international standards on key issues for public sector accounting and financial reporting. Issues addressed in 2005 included budget reporting, disclosure of financial information, and disclosure requirements for recipients of external assistance.

In addition, to further its long-term objective of converging International Public Sector Accounting Standards (IPSASs), where appropriate, with International Financial Reporting Standards (IFRSs), the IPSASB proposed changes to 11 accrual basis IPSASs to better reflect developments in the equivalent IFRSs.

Developing the Profession

To help ensure that all professional accountants throughout the world have access to high quality standards, ethical guidance, education and training, and information on best practice, in December IFAC's Developing Nations Committee released new guidance to assist accountancy bodies, development partners, governments and others in building accountancy capacity around the world. The guidance addresses a variety of situations, including those where a formal accountancy profession does not exist, those where accountants are working and there is a desire to establish a professional accountancy body, and those where an existing professional body requires further development and enhancement. We see this guidance as further demonstration of IFAC's and the international accountancy profession's commitment to assist developing nations in enhancing their financial management and reporting capabilities, thus leading to improved transparency and accountability.

Supporting Professional Accountants in Business

Recognizing the important role that professional accountants in business have in setting both the ethical tone and strategic direction within their organizations, IFAC's

Professional Accountants in Business (PAIB) Committee addressed issues including ethics, governance, and the role and value of professional accountants in business. To provide professional accountants with current information on best practices, the committee released its annual Articles of Merit, a collection of international articles on topics such as risk management, corporate social responsibility, and performance measurement for sustainability published in the journals of IFAC member bodies. The committee also released a new information paper designed to build awareness and understanding of the diverse roles, competencies and value of the professional accountant in business.

Promotion of Quality

Establishing high quality international standards and guidance is fundamental to promoting and achieving quality performance by accountants worldwide. Standard setting should, however, be supported by thorough and transparent due processes, a system of accountability, and the shared commitment of the profession. These dimensions of quality are all in place.

Enhancing IFAC Governance

Over the past year, IFAC continued to strengthen and enhance the transparency of its governance and standard-setting structures and processes. Following the lead of the IAASB and the IPSASB, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board opened their meetings to the public beginning in 2005.

The Consultative Advisory Groups (CAGs) to the Ethics and Education Standards Boards were also established in 2005, giving their respective stakeholders a means to provide their public interest input. The IAASB expanded its CAG, which focused on more clearly defining its role in the IAASB standard-setting process. So, too, did the Consultative Group to the IPSASB.

We also focused on enhancing the transparency of all IFAC operations, largely through the IFAC website. The site was substantially modified to communicate better the

roles of the standard-setting boards and their CAGs, to provide access to each board's work plan and projects, and to describe their standard-setting due process.

Regulatory Initiatives

The creation of the Public Interest Oversight Board (PIOB) in February 2005 represented the culmination of work by IFAC and international regulators to put in place the first international oversight body for the accountancy profession. Independent from IFAC and responsible for oversight of international auditing and assurance, ethics, and education standard setting, as well as the IFAC Member Body Compliance Program, the PIOB focused its initial work on meeting with IFAC's standard-setting boards and CAGs to better understand their projects, processes and priorities, and on observing the activity of the IFAC Nominating Committee. (See page 9 for a report by the PIOB Chair).

IFAC continued to address regulatory issues and, in particular, audit quality, by ensuring effective dialogue with the PIOB and the Monitoring Group of international regulatory organizations and their individual members.

One of the most significant demonstrations of the international profession's commitment to quality is the

level of member body participation in the IFAC Member Body Compliance Program. Part 1 of the program, *The Assessment of the Regulatory and Standard Setting Framework*, was launched in 2004 and completed in 2005. Responses from 97 percent of members and associates have been completed and substantially all of them are posted on the IFAC website. These responses provide meaningful insight into the roles and responsibilities of national regulators and professional bodies as well as the mechanisms in place to ensure quality performance by the profession.

Part 2 of the program, the SMO Self-Assessment Questionnaire, introduced to IFAC members and associates in December 2005, focuses on the specific requirements of the IFAC Statements of Membership Obligations (SMOs; see inset). One of the main goals of this part of the program is to seek to understand whether the member or associate has incorporated international standards, and, if so, the approach used for incorporating those standards. Responses to Part 2 are due in mid-2006 and some are already in the process of being reviewed. A third part of the program, the development of action plans, will take effect in 2006 and 2007, once assessments of Part 2 are completed and actions to be taken by members and associates to meet SMOs are identified.

IFAC Statements of Membership Obligations (SMOs)

- SMO 1 – Quality Assurance
- SMO 2 – International Education Standards for Professional Accountants and Other Education Committee* Guidance
- SMO 3 – International Standards, Related Practice Statements and Other Papers issued by the International Auditing and Assurance Standards Board
- SMO 4 – IFAC Code of Ethics for Professional Accountants
- SMO 5 – International Public Sector Accounting Standards and other PSC** Guidance
- SMO 6 – Investigation and Discipline
- SMO 7 – International Financial Reporting Standards

* Now the International Accounting Education Standards Board

** Now the International Public Sector Accounting Standards Board

Quality initiatives were also undertaken at the firm level. The Transnational Auditors Committee (TAC), the executive arm of the Forum of Firms, continued to engage in dialogue with international regulators to discuss such topics as monitoring quality for the audit and assurance practice across global networks, governance and management of the global network and other audit quality issues. At the same time, the Forum of Firms worked on revising its constitution and, in particular, its membership obligations, to better reflect the commitment of transnational audit firms to audit quality.

International Collaboration

Collaboration with members, with regional accountancy organizations, with national standard setters, and with other international groups that share IFAC's goals of promoting quality, protecting the public interest, and contributing to economic growth and stability worldwide has strengthened our ability to deliver the most relevant and timely information and services. For example, IFAC released guidance on environmental

management accounting entitled *International Guidance Document on Environmental Management Accounting*, which was prepared by the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs.

As part of its efforts to achieve convergence of standards, the IAASB hosts an annual meeting with national standard setters. In some instances, where the national standard setter has a special expertise, the IAASB may engage in a joint project. This type of collaboration occurred with the United Kingdom Auditing Practices Board in developing guidance on the audit of accounting estimates and audit materiality, and with the Australian Auditing and Assurance Standards Board in the development of guidance on communications with those charged with governance.

IFAC also seeks endorsement of international standards on auditing, assurance and ethics by the International Organization of Securities Commissions and key regulators with influence over major stock exchanges. In addition, we have focused on building our relationships with the International Organization of



IFAC Management Team

(Left to right) James Sylph, Technical Director; Stephen Walker, Director of Operations; and Russell Guthrie, Director of the Transnational Auditors Committee and Compliance. (Inset photo) Paul Sutcliffe, Technical Director, International Public Sector Accounting Standards Board.

I am confident that our commitment to the development of high quality standards, public interest oversight, and increased transparency will strengthen the international profession.

Supreme Audit Institutions, with the Global Reporting Initiative and with the Financial Stability Forum, among others.

Through collaboration with member bodies that have expertise in serving professional accountants in business and under the leadership of the PAIB Committee, we have made significant progress on a major new initiative: the development of a collaborative web-based resource center for professional accountants in business. The web-based resource was configured and tested in 2005 and will be launched in the second half of 2006. Subsequently, it will be expanded to meet the needs of accountants in small and medium practices and other accountants around the world.

Representing the Accounting Profession in the Public Interest

The diversity of the issues that IFAC has addressed over the past year reflects the diversity of the global profession.

Recognizing the large proportion of members in small and medium practices and the unique needs of this group, IFAC's Small and Medium Practices Committee presented its perspectives to both the International Accounting Standards Board and IAASB. If we are to achieve quality performance, we must ensure that we are providing accountants at all levels with the right tools and guidance to deliver that quality. Our goal is to ensure that their burden of responsibility and accountability is fair and proportionate, given the nature of their role and their clients.

As we strive to build accountancy capacity worldwide, IFAC's Board and the Developing Nations Committee have also provided leadership and direction on how to build a quality profession, with the appropriate foundation of education, training and licensing. Our goal is to have an IFAC member body in every country of the world. This is something that can be accomplished only with the support and involvement of international development and funding agencies. I am happy to report

that we have developed stronger and more productive ties in these areas.

In addition to increasing dialogue with funding institutions, the IFAC President, Deputy President, and management team have substantially increased their contacts with member bodies and potential member bodies; with national and regional associations; with regional accountancy organizations and networks; with firms of all sizes; with national and international regulators; and with various international business and investor groups. We have met with and made presentations to more than 90 organizations in nearly 40 countries. We have done so in order to better understand the perceptions and expectations of the profession and to more clearly communicate the role of IFAC and the international profession both in supporting the profession and in protecting the public interest. Achieving these objectives requires a great deal of listening and a willingness "to be more and to do more."

All that we have accomplished over the past year was made possible through the active involvement and leadership of the IFAC Board and President Graham Ward; through the dedication of hundreds of volunteers serving on IFAC committees; and through the hard work of a fully supportive and committed staff.

As I look ahead, I am confident that our commitment to the development of high quality standards, public interest oversight, and increased transparency will strengthen the international profession. We recognize that IFAC's continued dedication to "do more" to protect the public interest is vital to the contribution the accountancy profession can make to achieving economic growth and stability.

I very much welcome your comments on this report as well as on any of the activities described here.



PIOB Chairman's Message

The Public Interest Oversight Board has completed its first year of operations and has just published its first Public Report. I urge you all to read it.

The formation of the PIOB on February 28, 2005 was the crowning event in IFAC's program of reforms. This event also marked the beginning of a new and untested process — the independent oversight of IFAC's public interest activities.

Our first year has been one of hard work. As members of the PIOB, we did not come from the world of IFAC and thus needed to acquaint ourselves with the intricate functioning of international standard setting, compliance, and nominations. We engaged in active monitoring throughout the year and, in the process, laid a firm foundation for our future oversight work.

We also recognized from the outset that our mission was delicate. Because we were expected to establish an oversight regime for pre-existing activities, it was clear that we needed to avoid any interference that would destabilize these activities, while at the same time asserting our authority in an appropriate manner and intervening with questions, suggestions and proposals as required. I believe we managed these twin challenges effectively.

The Drive for High Quality Standards

Most of us, having no earlier knowledge of IFAC and its processes, were eager to see how transparent and professional its decisions would be and to assess IFAC's level of commitment to the public interest. Based on this first year of observation, we are satisfied that IFAC's

commitment is high, and that it has the resolve and resources to further strengthen this commitment. In practice this will be continuously validated by the independence, the professional quality, the balanced composition of, and the due process followed by the standard-setting boards, especially the IAASB whose critical role we all recognize.

The Importance of Compliance and Convergence

I strongly believe in the importance of compliance by IFAC member bodies with international standards. In this regard, IFAC's compliance monitoring activities and programs of compliance assistance to less developed jurisdictions are both commendable. Taken together, this commitment to broad-based, consistent and rigorous implementation of high quality standards will foster national and international stability and development. I also believe that these efforts will help to promote worldwide convergence to a common set of standards.

In closing, I wish to thank the leadership, the board and committee members and the member bodies of IFAC for their honest and confident acceptance of our oversight role during the year. My colleagues and I look forward to working with all of you in the future.

Stavros B. Thomadakis



IFAC 2005 Board and Committee Members

IFAC Board Members — November 2004 to November 2005

Graham Ward, President
Juan José Fermín del Valle,
Deputy President, *Argentina*
Guy Almeida Andrade, *Brazil*
Patrick Barrett, *Australia*
Angelo Casò, *Italy*
Yugui Chen, *China*
Ndung'u Gathinji, *Kenya*

Sunil Goyal, *India*
Charles Horstmann, *United States*
Yaw Kiong Ernest Kan, *Singapore*
David Leonard, *United Kingdom*
Eric Ka-Cheung Li, *Hong Kong*
Ofer Minirav, *Israel*
William Nahum, *France*
Rolf Nonnenmacher, *Germany*

Haji Alias Abdul Samad, *Malaysia*
Ignatius Sehoole, *South Africa*
David Smith, *Canada*
Göran Tidström, *Nordic Federation*
Charles Tilley, *United Kingdom*
Sylvie Voghel, *Canada*
Shozo Yamazaki, *Japan*

Members of IFAC Standard-Setting Boards

International Accounting Education Standards Board

*(formerly the Education
Committee)*

Henry Saville, Chair, *Ireland*
W. Steve Albrecht, *United States*
Yoseph Asmelash, *Switzerland*
Melvin Berg, *Canada*
Ramanathan Bupathy, *India*
Alain Burlaud, *France*
Jose Echenique, *Mexico*
David Hunt, *United Kingdom*
Ulrich Maas, *Germany*
Steve McGregor, *South Africa*
Enock Fanyana Mchiza,
South Africa
Dato' Ab. Him bin Mohyiddin,
Malaysia
Brion Smoker, *United States*
Abdul Rahim Suriya, *Pakistan*
Hans Verkruijsse, *Netherlands*
Rod West, *United Kingdom*
Anne Wickham, *United Kingdom*
Peter Wolnizer, *Australia*

International Auditing and Assurance Standards Board

John Kellas, Chair,
United Kingdom
Denise Esdon, Deputy Chair,
United Kingdom
Inga-Britt Ahlenius,
Serbia and Montenegro
Philip Ashton, *United Kingdom*
Craig Crawford, *United States*
Sukanta Dutt, *Malaysia*
Josef Ferlings, *Germany*
John Fogarty, *United States*
Rogério Gollo, *Brazil*
Jan Bo Hansen, *Denmark*
Gen Ikegami, *Japan*
Ian McPhee, *Australia*
Will Rainey, *United Kingdom*
Bodo Richardt, *Germany*
Roger Simnett, *Australia*
Roberto Tizzano, *Italy*
Gérard Trémolière, *France*
Mowafak Al Yafi, *Lebanon*

International Ethics Standards Board for Accountants

(formerly the Ethics Committee)

Richard George, Chair, *Ireland*
Jean-François Cats, Deputy Chair,
Belgium
Frank Attwood, *United Kingdom*
Christian Aubin, *France*
Ken Dakdduk, *United States*
David Devlin, *Ireland*
Mark Fong, *Hong Kong*
Akira Hattori, *Japan*
Geoffrey Hopper, *United States*
Thierry Karcher, *France*
Neil Lerner, *United Kingdom*
Pekka Luoma, *Finland*
Wim Moleveld, *Netherlands*
Russell Philp, *Australia*
Volker Röhrich, *Germany*
Jean Rothbarth, *United States*
David Winetroub, *United States*
Donald Wray, *Canada*

International Public Sector Accounting Standards Board

Philippe Adhémar, Chair,
France
Mike Hathorn, Deputy Chair,
United Kingdom
Ron Alroy, *Israel*
J. Wayne Cameron, *Australia*
Pankaj Jain, *India*
Mohd. Salleh Bin Mahmud,
Malaysia
Rick Neville, *Canada*
Tom Henry Olsen, *Norway*
Carmen Palladino, *Argentina*
Ronald Points, *United States*
Alejandro Luna Rodriguez,
Mexico
Greg Schollum, *New Zealand*
Ryoko Shimizu, *Japan*
Erna Swart, *South Africa*
Norbert Vogelpoth, *Germany*

IFAC Committee Members

Compliance Advisory Panel

Robert Mednick, Chair,
United States
Daryl Benecke, *Zimbabwe*
Norio Igarashi, *Japan*
Tom Myhre, *Norway*
Manuel Sánchez y Madrid,
Mexico

Developing Nations Committee

(formerly the Developing Nations
Permanent Task Force)

Ndung'u Gathinji, Chair, *Kenya*
Abhijit Bandyopadhyay, *India*
Abdeljelil Bouraoui, *Tunisia*
Irina Buchatsky, *Moldova*
Juan Carlos Cincotta, *Argentina*
Zein El Borai, *Sudan*
Ferenc Eperjesi, *Hungary*
Mujahid Eshai, *Pakistan*
Laurie Gillow, *United Kingdom*
Anthony Hegarty, *World Bank*
Blandina Nyoni, *Tanzania*
Julio César Porteiro, *Uruguay*
Kanagarayar Pushpanathan,
Malaysia
Ignatius Sehoole, *South Africa*
Deborah Williams,
United Kingdom

Advisors

Aziz Dieye, *Senegal*
Abbas Ali Mirza, *Dubai*

Professional Accountants in Business Committee

William Connell, Chair,
United Kingdom
Rajkumar Adukia, *India*
Zbigniew Bak, *Poland*
William Brower Jr., *United States*
Edward Chow, *Hong Kong*
Robert Dye, *Canada*
Abolghasem Fakharian, *Iran*
Henri van Horn, *Netherlands*
Lee-seok Hwang, *Korea*
Brian Kearney, *Ireland*
Yeo Tek Ling, *Malaysia*
John Petty, *Australia*
Bashorun J. K. Randle, *Nigeria*
Patrick Rochet, *France*
Roger Tabor, *United Kingdom*

Small and Medium Practices Committee

(formerly the Small and Medium
Practices Permanent Task Force)

Angelo Casò, Chair, *Italy*
Lino De Vecchi, Deputy Chair,
Italy
Jean-Pierre Audy, *France*
Paul Chan, *Hong Kong*
Mohamed Ali Elaouani Cherif,
Tunisia
Dale Gislason, *Canada*
Alex Hilman, *Israel*
Robin Jarvis, *United Kingdom*
Harold Monk, *United States*
I.M. Osiyemi, *Nigeria*
Jens Poll, *Germany*
Khaliq-ur-Rahman, *Pakistan*
Joakim Rehn, *Finland*
Bernard Scicluna, *Malta*
Kamlesh Vikamsey, *India*

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, CBE, President
Juan José Fermín del Valle, Deputy President, *Argentina*
Charles Horstmann, *United States*
Manuel Sánchez y Madrid, *Mexico*
Hubert Graf von Treuberg, *Germany*
Shozo Yamazaki, *Japan*

Transnational Auditors Committee

Roger Dassen, Chair
Deloitte

John Archambault
*Grant Thornton
International*

Peter Chidgey
BDO International

Randy Fletchall
*Ernst & Young
International*

Paul Ginman
Baker Tilly International

Jean Louis Lebrun
MAZARS

Neil Lerner
KPMG International

David Morris
*PricewaterhouseCoopers
International*

Andrew Nicholl
*Moore Stephens
International*

Brion Smoker
INPACT International

Peter Stefanou
*Russell Bedford
International*

Alternates

Simon Hammerton
INPACT International

Charles Heeter
Deloitte

Gilles Hengoat
*Grant Thornton
International*

Wayne Kolins
BDO International

David Maxwell
RSM International

Marilyn Pendergast
*Urbach Hacker Young
International*

Jean Francois Serval
Constantin Group

Steve Todd
*Ernst & Young
International*

Mark Vaessen
KPMG International

Wes Williams
Horwath International

Peter Wyman
*PricewaterhouseCoopers
International*

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

El Salvador

- Instituto Salvadoreño de Contadores Públicos

Estonia

- Audiitorkogu

Federation of Republics of Serbia and Montenegro

- Serbian Association of Accountants and Auditors

Fiji

- Fiji Institute of Accountants

Finland

- HTM-tilintarkastajat GRM-revisorer ry
- 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

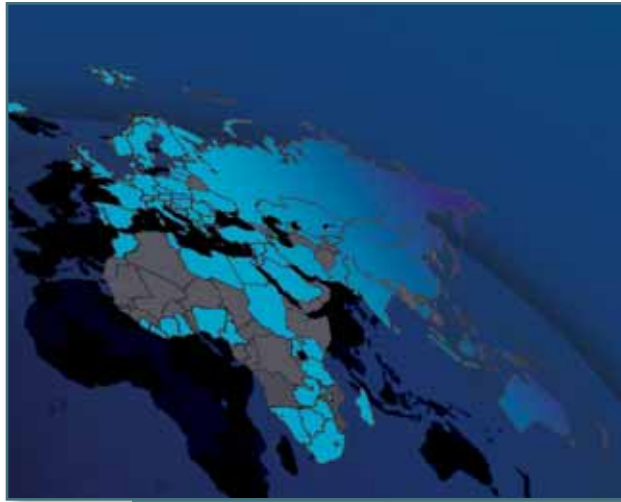
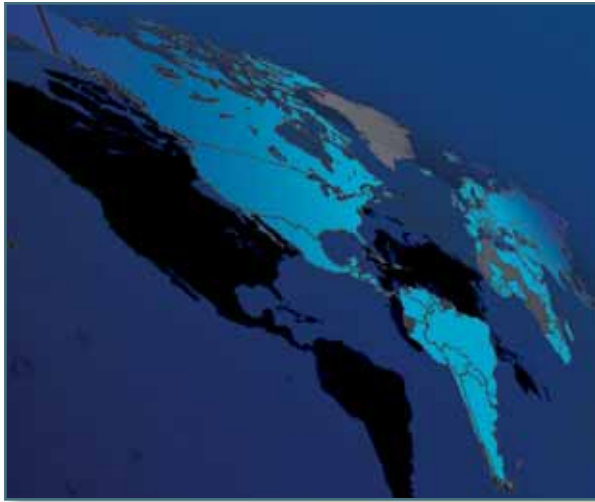
- The Institute of Chartered Accountants of Guyana

Haiti

- Ordre des Comptables Professionels Agrées d'Haiti

Honduras

- Colegio de Peritos Mercantiles y Contadores Públicos



IFAC membership is highlighted in blue.

Hong Kong

- Hong Kong Institute of Certified Public Accountants

Hungary

- Chamber of Hungarian Auditors

Iceland

- Félag löggiltra Endurskoðenda

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

- Association of Public Accountants and Auditors (Iraq)

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
- Middle East Society of Associated Accountants

Lesotho

- Lesotho Institute of Accountants

Liberia

- The Liberian Institute of Certified Public Accountants

Libya

- Libyan Certified and Public Accountants Union

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

Members (continued)

Netherlands

- Koninklijk Nederlands Instituut van Registeraccountants

New Zealand

- New Zealand Institute of Chartered Accountants

Nicaragua

- Colegio de Contadores Públicos de Nicaragua

Nigeria

- The Institute of Chartered Accountants of Nigeria

Norway

- Den norske Revisorforening

Pakistan

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

Philippines

- Philippine Institute of Certified Public Accountants

Poland

- National Board of Chartered 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

Saudi Arabia

- Saudi Organization for Certified Public Accountants

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

- Institute of Commercial and Financial Accountants of Southern Africa
- The South African Institute of Chartered 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

- Föreningen Auktoriserade Revisorer
- Svenska Revisorsamfundet SRS

Switzerland

- Treuhand-Kammer

Syria

- Association of Syrian Certified Accountants

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 national accountancy organizations that are at an earlier stage of development and are committed to working towards the requirements of full 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

Federation of Republics of Serbia and Montenegro

- Institute of Accountants and Auditors of Montenegro
- Society of Certified Accountants and Auditors of Kosovo

Iran

- Iranian Association of Certified Public Accountants

Ireland

- The Institute of Accounting Technicians in Ireland

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

Nepal

- The Institute of Chartered Accountants of Nepal

Pakistan

- Pakistan Institute of Public Finance Accountants

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 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 three 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
- 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

Standards & 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 also developed in other areas 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 and for 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.

Service Delivered

1. Standards

- 1.1 To ensure a level of quality in the development of standards, a due process is applied by each of the IFAC standard-setting groups¹. The following due process has been applied during 2005:
- Meetings are open to the public, with related agenda materials publicly available
 - Draft standards and statements are exposed for public review and comment
 - Consideration of comments received prior to finalization of the document
 - Task force and steering committee appointments include individuals who are not members of the IFAC standard-setting group
 - For the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB) (formerly the Education Committee) and the International Ethics Standards Board for Accountants (IESBA) (formerly the Ethics Committee), input was received from their respective Consultative Advisory Groups (CAGs) on specific issues
 - The inclusion of “public members”²
 - The IAASB and the International Public Sector Accounting Standards Board (IPSASB) include observers from external organizations³
- 1.2 Pronouncements issued by the IAASB:
- International Standard on Auditing (ISA) 230 (Revised), *Audit Documentation*, September
 - International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, June

¹ IFAC operates four standards-setting groups — the International Auditing and Assurance Standards Board, the International Accounting Education Standards Board (formerly the Education Committee), the International Ethics Standards Board for Accountants (formerly the Ethics Committee) and the International Public Sector Accounting Standards Board.

² Public members were included on all standard-setting boards with the exception of the International Public Sector Accounting Standards Board (IPSASB). Public members have been appointed to the IPSASB for the first time in 2006.

³ External organizations providing observers on the IAASB include the Japanese Financial Services Agency and the United States Public Company Accounting Oversight Board. External organizations providing observers on the IPSASB include the Asian Development Bank, the European Commission, the International Accounting Standards Board, the International Monetary Fund, the International Organization of Supreme Audit Institutions, the Organisation for Economic Co-operation and Development, the United Nations, the United Nations Development Programme, and the World Bank.

1.3 Exposure drafts issued by the IAASB:

- International Standards on Auditing:
 - Proposed revised ISA 260, *The Auditor's Communication with Those Charged with Governance*, March
 - Proposed revised ISA 550, *Related Parties*, December
 - Proposed revised ISA 600, *The Audit of Group Financial Statements*, March
 - Proposed ISA 701, *The Independent Auditor's Report on Other Historical Financial Information*, June
 - Proposed ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, March
 - Proposed ISA 706, *Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report*, March
 - Proposed ISA 800, *The Auditor's Report on Summary Audited Financial Statements*, June
- Exposure drafts of ISAs redrafted under the Clarity drafting conventions:
 - Proposed ISA 240 (Redrafted), *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*, October
 - Proposed ISA 300 (Redrafted), *Planning an Audit of Financial Statements*, October
 - Proposed ISA 315 (Redrafted), *Obtaining an Understanding of the Entity and Its Environment and Assessing the Risks of Material Misstatement*, October
 - Proposed ISA 330 (Redrafted), *The Auditor's Procedures in Response to Assessed Risks*, October
- Other:
 - *Proposed Amendments to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services*, October

1.4 Progress has been made on the following auditing and assurance projects:

- Proposed ISA 200 (Redrafted), *Objective and General Principles Governing an Audit of Financial Statements*
- Proposed revised ISA 320, *Materiality in Planning and Performing an Audit*
- Proposed ISA on *Evaluation of Misstatements Identified During the Audit*
- Proposed ISA 500 (Redrafted), *Audit Evidence*
- Proposed revised ISA 505, *External Confirmations*
- Proposed revised ISA 540, *Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)*
- Proposed revised ISA 580, *Written Representations*
- Proposed revised ISA 620, *Using the Work of an Expert*

1.5 Exposure drafts issued by the IAESB:

- International Education Standard (IES) 8, *Competence Requirements for Audit Professionals*, April

1.6 Progress has been made on the following education projects:

- Guidance document to support the implementation of IES 4, *Professional Values, Ethics and Attitudes*
- An ethics tool kit for member bodies
- Proposed revision to International Education Guideline 11, *Information Technology for Professional Accountants*
- Discussion paper on output based approaches to continuing professional development

1.7 Pronouncements issued by the IESBA:

- *Code of Ethics for Professional Accountants*, June

1.8 Exposure drafts issued by the IESBA:

- Proposed revision to Code of Ethics Section 290, *Independence — Assurance Engagements*, June

- 1.9 Progress has been made on the following ethics projects:
- Ethical guidance for professional accountants in business when encountering fraud or illegal acts
 - Ethics guidance for professional accountants in government
- 1.10 Exposure drafts (EDs) issued by the IPSASB:
- Proposed International Public Sector Accounting Standard (IPSAS), ED 24, *Financial Reporting Under the Cash Basis of Accounting — Disclosure Requirements for Recipients of External Assistance*, February
 - Proposed IPSAS, ED 25, *Proposed Amendment to the Preface to the International Public Sector Accounting Standards — Equal Authority of Paragraphs in IPSASs*, September
 - Proposed IPSAS, ED 26, *Improvements to International Public Sector Accounting Standards*, September
 - Proposed IPSAS, ED 27, *Presentation of Budget Information in General Purpose Financial Statements*, October
 - Proposed IPSAS, ED 28, *Disclosure of Financial Information about the General Government Sector*, October
- 1.11 Progress has been made on the following public sector accounting projects:
- Proposed IPSAS, ED XX, *Accounting for Pension Arrangements (and Other Age Related Social Benefits)*
 - Proposed IPSAS, ED XX, *Accounting for Social Policies of Governments (excluding Pension Arrangements)*
 - Proposed IPSAS, ED XX, *Impairment of Cash Generating Assets*
 - Proposed IPSAS, ED XX, *Revenue from Non-Exchange Transactions (including Taxes and Transfers)*
 - Proposed information paper, *The Road to Accrual Accounting in the United States of America*
- 2. Translation of Pronouncements**
- 2.1 IFAC published translations of the *Preface to International Public Sector Accounting Standards*, IPSASs 1-21, the Cash Basis IPSAS and the Glossary of Defined Terms in IPSASs 1-21, in French and Spanish. In October, IFAC printed *Normes Comptables Internationales Pour Le Secteur Public 2005* and *Manual de Ponunciamientos Contables Internacionales Para el Sector Público, Edición 2005*, which are the French and Spanish translations of the 2005 edition of the *Handbook of International Public Sector Accounting Pronouncements*.
- 3. Guidance**
- 3.1 Guidance issued by the Developing Nations Committee (formerly the Developing Nations Permanent Task Force):
- *Establishing and Developing a Professional Accountancy Body*, November
- 3.2 Guidance issued by the IPSASB:
- Research report, *International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: an Analysis of Differences and Recommendations for Convergence*, January
- 3.3 Guidance issued by the Professional Accountants in Business Committee:
- Articles of Merit — 2005 Competition, August. The winning article was “Corporate Social Responsibility: Why Business Should Act Responsibly and Be Accountable” by Carol Adams and Ambiki Zutshi. It was first published in CPA Australia’s *Australian Accounting Review*
 - Information paper, *The Roles and Domain of the Professional Accountant in Business*, November
- 3.4 Guidance issued by IFAC:
- *International Guidance Document on Environmental Management Accounting*

Promoting Quality

Description

IFAC promotes the provision of high quality services by all members of the profession through implementation of the Member Body Compliance Program. In addition, IFAC undertakes initiatives aimed at improving audit quality, particularly those undertaken by members of the Forum of Firms.

Service Delivered

1. Compliance Program

- 1.1 During 2005, the IFAC Member Body Compliance Program published over 85 responses (135 published to date) from members and associates to the Part 1 — *Assessment of the Regulatory and Standard-Setting Framework* questionnaire. These responses reflect the responsibilities of IFAC members and others in developing and implementing audit, accounting, ethics and education standards. The information also reflects differences in regulatory structures and monitoring and enforcement mechanisms.
- 1.2 In December, the Part 2 — *Statements of Membership Obligations Self-Assessment* questionnaire was issued to all IFAC members and associates. The primary emphasis of Part 2 is to identify potential gaps between international standards and national standards and processes. Part 2 requires members and associates to complete a self-assessment questionnaire about the incorporation of international standards and the establishment of quality assurance and investigation and discipline programs. The Part 2 questionnaire also focuses on obtaining an understanding of the special conditions, challenges, and impediments that exist with regard to convergence.
- 1.3 IFAC's work on the Member Body Compliance Program is supported by the following recognized Regional Organizations:
 - Confederation of Asian and Pacific Accountants
 - Eastern Central and Southern African Federation of Accountants
 - Fédération des Experts Comptables Européens
 - Interamerican Accounting Association

2. Transnational Auditors Committee

- 2.1 During 2005, the Transnational Auditors Committee (TAC) continued its dialogue with the Public Interest Oversight Board and the Monitoring Group of regulators. Topics included monitoring quality across global networks, disclosures at the global network level relating to governance and quality control for the audit and assurance practice, and other audit quality issues. Additionally, the TAC provided technical input into the development of IFAC's audit, ethics and education standards.
- 2.2 The TAC and the Forum of Firms (the Forum) also substantially completed work on a new Constitution during 2005. The primary focus of this effort was to update and clarify the membership obligations for members of the Forum. The obligations include a commitment to promote International Standards on Auditing (ISAs) and to use ISAs as a basis for their audit policies and methodologies. Additionally, members of the Forum commit to apply the applicable sections of the IFAC *Code of Ethics for Professional Accountants* and the requirements of International Standard on Quality Control 1. These commitments are to be monitored through a network's globally coordinated internal quality assurance review.

International Collaboration Activities

Description

IFAC recognizes that in many areas related to the accountancy profession it may need to act in a collaborative or facilitative role or share the lead with another organization. These areas may cover a wide spectrum of topics and are considered complementary to IFAC standards and guidance services. IFAC actively facilitates the development of appropriate topics with interested member bodies and/or other groups, enters into collaborative arrangements, and/or develops information sharing networks.

Service Delivered

1. National Standard Setters

- 1.1 *National Auditing Standard Setters (NSSs)*. The International Auditing and Assurance Standards Board (IAASB) hosted its fifth meeting of the most active NSSs in February, attended by representatives from eleven countries. The meeting enabled the IAASB to obtain the views of the NSSs on various topics of direct relevance to its work, including the meaning of and path to international convergence, the clarity of IAASB standards, developments relating to reporting on internal control, performance measures for standard setters, and the need to explore a conceptual framework for assurance engagements. This close liaison with NSSs, though informal, is an essential contribution towards convergence.
- 1.2 Two NSSs continue to contribute directly to the IAASB's standard-setting work through their participation on three joint projects, namely: the audit of accounting estimates and audit materiality (United Kingdom Auditing Practices Board), and communication with those charged with governance (Australian Auditing and Assurance Standards Board). The experience from these joint projects will help the IAASB to refine how it works with national standard setters in the future.
- 1.3 *European National Auditing Standard Setters*. IAASB representatives attended meetings of the European Union (EU) national auditing standard setters hosted by the Fédération des Experts Comptables Européens (FEE) during the year. Considering that the EU is examining the possibility of adopting International Standards on Auditing (ISAs), which are already followed in a number of member states, the views of European standard setters are of particular importance to the IAASB. The discussions at these meetings enabled the IAASB to understand how some significant standard setters are attempting to deal with issues that may be more widely relevant.
- 1.4 *United States Public Company Accounting Oversight Board (PCAOB)*. The IAASB Chairman and staff attended three meetings of the PCAOB Standing Advisory Group during the year, which enabled them to provide the PCAOB with an international view on a number of topics on its agenda.
- 1.5 *Chinese Auditing Standards Board (CASB)*. During the year, China established the policy of converging its national auditing standards with the ISAs. It also reformed its standards system and planned a schedule for international convergence. Representatives of the CASB and the IAASB met to discuss the progress being made towards convergence. The IAASB Chairman signed a joint statement with the Vice-Minister of China's Ministry of Finance (who is also chairman of the CASB) to record the meeting and to recognize China's efforts in this direction.

2. Regional and International Organizations

Regional

- 2.1 *European Commission (EC)*. The IAASB Chairman met EC representatives during the year to provide updates on IAASB activities and to discuss matters relating to the revised Eighth Company Law Directive. The European Union's recent finalization of this Directive is a significant and welcome development for the IAASB. The revised Directive is expected to be effective early in 2006, when translation into the official languages of the EU is completed. EU member states then have two years to implement the Directive. This Directive requires the use of international standards on auditing for all statutory audits performed within the EU. No target date has been set but the EC has begun discussing adoption of the ISAs with oversight authorities. IAASB representatives will continue to monitor progress on the mechanism and timetable for the EC's endorsement of ISAs.
- 2.2 *Fédération des Experts Comptables Européens*. FEE has regularly issued discussion papers addressing topics that directly concern practitioners in the EU. The IAASB maintains a watching brief on FEE's work, and responds to FEE where such work may have wider relevance to or implication for the IAASB's standard-setting work program.
- 2.3 During the year, the IAASB task force addressing the auditor's involvement with comfort letters reviewed FEE's April discussion paper, *Comfort Letters Issued in Relation to Financial Information in a Prospectus*. The task force subsequently submitted a comment letter (which did not represent a formal IAASB response) to FEE.
- 2.4 In addition, the IAASB Steering Committee considered the March FEE discussion paper, *Risk Management and Internal Control in the EU*, and issued a general comment letter to FEE. Subsequently, in October, an IAASB representative had the opportunity to participate in a forum organized by FEE on the same subject. This enabled the IAASB to update the participants on the IAASB's new project on clarifying the meaning of material weaknesses in internal control.

International

- 2.5 *International Organization of Securities Commissions (IOSCO)*. IAASB representatives met members of IOSCO's Standing Committee No. 1 and Auditing Subcommittee to provide updates on the IAASB's activities. The discussions focused on developments arising from the IAASB's Clarity project, and the proposed enhancements to the IAASB's due process, in light of their regulatory importance. IAASB representatives continue to discuss with IOSCO the possibility of their formally endorsing ISAs, for example, for use on cross-border listings.
- 2.6 *Basel Committee on Banking Supervision*. During the year, the seminars for the Financial Stability Institute allowed IAASB representatives to broaden awareness of IAASB developments, through presentations of updates on IAASB agenda and activities to this international audience.
- 2.7 *International Organization of Supreme Audit Institutions (INTOSAI)*. The IAASB has further developed its relationship with INTOSAI's Professional Standards Committee to ensure that ISAs provide an appropriate basis for INTOSAI's Guidelines for Financial Audit. INTOSAI scheduled a meeting of their Auditing Standards Committee to coincide with the March IAASB meeting in Lima, Peru. While in Lima, representatives of INTOSAI had an opportunity to observe some of the public sessions of the IAASB meeting. To further strengthen the working relationship, IAASB has accepted an observer status role on the INTOSAI Professional Standards Committee. Five representatives of INTOSAI actively participate on IAASB projects.
- 2.8 The Small and Medium Practices Committee (formerly the Small and Medium Practices Permanent Task Force) and the Developing Nations Committee (formerly the Developing Nations Permanent Task Force) hosted the IFAC SMP/SME and Developing Nations Consultative Conference in Prague, Czech Republic in March. This event, supported by the Association of Chartered Certified Accountants, the Chamber of Auditors of the Czech Republic and the Union of Accountants of the Czech Republic, played host to 125 delegates from almost 50 countries and included representatives from the United Nations Conference on Trade and Development, the

World Bank, the World Trade Organization, the Interamerican Accounting Association and various IFAC member bodies. Members, technical advisors and staff of the Small and Medium Practices Committee and the Developing Nations Committee and an IAASB staff member made presentations at this event.

- 2.9 The International Ethics Standards Board for Accountants (IESBA) held a one-day forum to seek feedback on experience with implementing the *Code of Ethics for Professional Accountants* and to solicit input on the IESBA's project on independence. The forum was attended by approximately 150 people, including regulators, standard setters, leaders of accountancy organizations and members of the accounting profession.

3. Consultative Advisory Groups and Other Organizations

- 3.1 IAASB Consultative Advisory Group (CAG) meetings were held in June and November, during which the IAASB sought and obtained the CAG's advice on a number of IAASB projects.
- 3.2 The International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants held their first CAG meetings during 2005. The IAESB CAG met in March and September, and the IESBA CAG met in June and December.
- 3.3 The International Public Sector Accounting Standards Board (IPSASB) met with its Consultative Group in Oslo, Norway; New York, United States; and Cape Town, South Africa at the beginning of its meetings in those cities. The Consultative Group provided detailed comments on aspects of the IPSASB's work program being discussed at those meetings.
- 3.4 IFAC's member body in the Netherlands, Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA), issued two exposure drafts on sustainability assurance in January. An IAASB task force, with input from the IFAC Sustainability Experts Advisory Panel⁴, responded to the exposure drafts in July. While this was not a formal IAASB response, the IAASB considered it important to provide some input to the work of the Royal NIVRA, as the final Dutch standards may provide a basis for a future IAASB standard on sustainability assurance.
- 3.5 The IAASB liaised with the Global Reporting Initiative (GRI) to ensure its 2006 Guidelines are suitable as criteria for assurance engagements conducted in accordance with IAASB standards. Liaison with the GRI is largely via IFAC nominees on a number of GRI working groups. The GRI is an independent institution that develops guidance for sustainability reporting.
- 3.6 The Professional Accountants in Business (PAIB) Committee is currently developing a collaborative knowledge-based web resource center. The objective of the resource center is to create a knowledge bank for professional accountants combining information available from member body websites with other targeted resources. The concept has been proved to the satisfaction of major stakeholders in the project with expected full rollout of the project during 2006.

⁴ In 2004, the IAASB and the Professional Accountants in Business Committee established an advisory panel of 14 experts, chaired by Roger Simnett, a member of the IAASB, to monitor developments in the field of assurance on sustainability reports. One of the terms of reference of the panel is to collaborate with the GRI to identify aspects of the GRI Guidelines which can be made more suitable as criteria for assurance reporting. The panel provides an important source of input and guidance to the IAASB and the PAIB Committee as it considers various issues relating to sustainability reporting. The panel also monitors developments in this area.

Representation of the Accountancy Profession in the Public Interest

Description

IFAC represents the public interest when: commenting on material published by other international or regional organizations that directly relates to accounting or auditing; developing and maintaining relationships with other international or regional organizations as appropriate; participating in global, regional or national forums; and developing reports that address the role of IFAC and the accountancy profession. IFAC's communication program calls for the organization to strengthen communications and increase its spokespersonship role. The purpose of the program is threefold: to more clearly communicate IFAC and the international profession's role in serving the public interest, particularly with respect to the soundness of financial reporting; to promote the adoption of IFAC standards and best practices to achieve convergence; and to increase member body awareness of and involvement in IFAC activities.

Service Delivered

1. Regulatory and Public Policy Activities

- 1.1 IFAC representatives made presentations and provided input to the Public Interest Oversight Board (PIOB), which was officially established in February 2005. The input focused on IFAC's standard-setting activities in the areas of auditing and assurance, education and ethics, its Member Body Compliance Program, and its nominations process as it relates to these areas. In addition, IFAC provided operational support to the PIOB during 2005. The PIOB held four meetings in 2005: in February in Paris, April in New York, September in Madrid, and December in Washington, D.C.
- 1.2 The IFAC Regulatory Liaison Group met with the Monitoring Group of regulators in Washington, D.C., United States in June. In addition, there was a meeting between Monitoring Group of regulators and representatives of the IFAC Regulatory Liaison Group and of the large firms in Washington, D.C., United States in December.
- 1.3 During 2005 IFAC maintained its close relationships with the following organizations:
 - Asian Development Bank
 - Basel Committee on Banking Supervision
 - European Commission
 - Financial Stability Forum
 - International Accounting Standards Board (IASB)
 - International Accounting Standards Committee Foundation
 - International Monetary Fund
 - International Organization of Securities Commissions (IOSCO)
 - International Organization of Supreme Audit Institutions (INTOSAI)
 - Organisation for Economic Co-operation and Development (OECD)
 - United Kingdom Professional Oversight Board for Accountancy
 - United Nations
 - United Nations Conference on Trade and Development (UNCTAD)
 - United Nations Development Programme
 - United Nations Environment Program
 - United States Public Company Accounting Oversight Board
 - World Bank

- 1.4 IFAC has maintained formal dialogue with the IASB regarding IFAC's role in assisting with the development of accounting standards for small- and medium-sized entities (SMEs), including attendance at IASB meetings.

2. Submissions to External Organizations

- 2.1 IFAC provided submissions to the following organizations on specified topics:
- The International Public Sector Accounting Standards Board (IPSASB) provided a comment letter to the International Financial Reporting Interpretations Committee on its draft interpretations D12, D13 and D14 on service concession arrangements, May
 - IASB's staff questionnaire on possible modifications of the recognition and measurement principles in IFRSs for use in IASB standards for SMEs, June

3. Spokesperson Activities

- 3.1 The IFAC President, Deputy President and Chief Executive made presentations to and liaised with the following organizations:
- World Bank Panel, Washington, D.C., United States, February
 - Institute of Chartered Accountants of India, New Delhi, India, February
 - South African Institute of Chartered Accountants Briefings, Johannesburg and Cape Town, South Africa, March
 - Institute of Chartered Accountants in England and Wales Conference, Brussels, Belgium, April
 - Union of Chambers of Certified Public Accountants of Turkey Symposium, Istanbul, Turkey, April
 - South Asian Federation of Accountants Conference, via video presentation, April
 - Instituto Mexicano de Contadores Públicos, A.C., Mexico City, Mexico, May
 - Hallitusammattilaiset (Finnish Professional Board), Helsinki, Finland, May
 - Chinese Institute of Certified Public Accountants Forum, Hangzhou, China, May
 - Confederation of Asian and Pacific Accountants Meeting, Hangzhou, China, May
 - American Institute of Certified Public Accountants Council Meeting, Washington, D.C., United States, May
 - World Bank, Washington, D.C., United States, May
 - Eastern Central and Southern African Federation of Accountants, Mombassa, Kenya, May
 - United Nations Conference on Trade and Development and Institute of International Research, Dubai, United Arab Emirates, May
 - World Federation of Exchanges Forum, Beijing, China, June
 - Uruguay National Congress, Montevideo, Uruguay, June
 - Chartered Institute of Public Finance and Accountancy Conference, Manchester, United Kingdom, June
 - Institute of Chartered Accountants in England and Wales Conference, London, United Kingdom, June
 - Annual Israeli National Accounting Congress, Eilat, Israel, July
 - Association of Government Accountants Professional Development Conference, Orlando, United States, July
 - Association of Supervisors of Banks of the Americas VIII Annual Assembly, Mexico City, Mexico, September
 - Japanese Institute of Certified Public Accountants, Tokyo, Japan, September
 - Institute of Cost and Management Accountants of Pakistan Conference, via video presentation, September
 - Grant Thornton International Conference, Chicago, United States, September
 - North Atlantic Treaty Organisation Financial Controllers Meeting, Brussels, Belgium, October
 - Inter-American Development Bank Workshop, Buenos Aires, Argentina, October
 - Committee on Budgetary Control of the European Parliament, Brussels, Belgium, October
 - Congress of Public Sector Accountants in Argentina, Buenos Aires, Argentina, October
 - International Seminar — Argentine Stability Financial Center, Buenos Aires, Argentina, October
 - Global Public Policy Symposium, London, United Kingdom, October
 - Interamerican Accounting Association Conference, Salvador-Bahia, Brazil, October

- World Federation of Exchanges 2005 Annual Meeting, Mumbai, India, November
- Jeffreys Henry International Conference, Buenos Aires, Argentina, November
- National Institute of Accountants, Sydney, Australia, November
- New Zealand Institute of Chartered Accountants Seminar, Auckland, New Zealand, November
- Norwegian Institute of Public Accountants, Oslo, Norway, December
- Institute of Chartered Accountants of Jamaica, Kingston, Jamaica, December
- Institute of Chartered Accountants in England and Wales Conference, London, United Kingdom, December
- World Bank Advanced Program in Accounting and Auditing Regulation, London, United Kingdom, December

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

Compliance Program

- The Compliance Advisory Panel Chair and Compliance staff made presentations to and liaised with the following groups:
 - International Winter Congress of Accountants and Auditors, Moscow, Russia, January
 - Estonian Board of Auditors, Tallinn, Estonia, February
 - Confederation of Asian and Pacific Accountants, Hangzhou, China, May
 - World Bank, Washington, D.C., United States, June
 - International Symposium on Audit Research Conference, Singapore, June
 - South Eastern Partnership for Accountancy Development Regional Conference, Bucharest, Romania, August
 - World Bank Conference, Istanbul, Turkey, September
 - Inter-American Development Bank Workshop, Buenos Aires, Argentina, October
 - World Bank Reports of the Observance of Standards and Codes (ROSC) Conference, Belgrade, Serbia, October

Developing Nations Committee (formerly the Developing Nations Permanent Task Force)

- The Developing Nations Committee Chair, members and their technical advisors, and IFAC staff made presentations to and liaised with the following groups:
 - Institute of Chartered Accountants of India International Conference, Calcutta, India, October
 - Interamerician Accounting Association Conference, Salvador-Bahia, Brazil, October

International Accounting Education Standards Board

- The IAESB Chair, members and their technical advisors, and IFAC staff made presentations to and liaised with the following groups:
 - South Eastern European Partnership for Accountancy Development Seminar, Sinaia, Romania, February
 - Ukraine Accounting Reform Conference, Kyiv, Ukraine, February
 - Consultative Committee of Accountancy Bodies Seminar, London, United Kingdom, March
 - European Accounting Association Annual Congress, Gothenburg, Sweden, May
 - Hungarian Chamber of Auditors International Education Standards Workshop, Budapest, Hungary, May
 - American Accounting Association Annual Conference, San Francisco, United States, August
 - International Association for Accounting Education and Research Conference, Bordeaux, France, September
 - Malaysian Symposium on International Education Standards, Kuala Lumpur, Malaysia, October
 - Confederation of Asian and Pacific Accountants/Korean Institute of Certified Public Accountants Symposium, Seoul, Korea, November

International Auditing and Assurance Standards Board

- The IAASB Chair, members and their technical advisors, and IFAC staff made presentations to and liaised with the following groups:
 - American Accounting Association, New Orleans, United States, January
 - IOSCO Emerging Markets Regional Training Seminars, Taipei, Taiwan, February
 - Contadores Publicos del Peru Seminar, Lima, Peru, March
 - Fédération des Experts Comptables Européens Sustainability Working Party Meeting, Brussels, Belgium, April
 - Institute of Chartered Accountants in England and Wales Conference, Brussels, Belgium, April
 - International Consortium of Governmental Financial Management, Miami, United States, May
 - International Symposium on Audit Research Conference, Singapore, June
 - Society of Certified Accountants and Auditors of Kosovo, Pristina, Kosovo, June
 - Accounting Association of Australia and New Zealand Conference, Melbourne, Australia, July
 - Arab Federation of Certified Public Accountants Convention, Cairo, Egypt, September
 - Fédération des Experts Comptables Méditerranéens:
 - Annual Meeting, Cairo, Egypt, September
 - SME/SMP Seminar, Cairo, Egypt, September
 - Institute of Chartered Accountants in India Conference, New Delhi, India, September
 - World Bank ROSC Conference, Istanbul, Turkey, September
 - Canadian Public Accountability Board, Toronto, Canada, October
 - Fédération des Experts Comptables Européens:
 - European Auditing Standard-Setters Meeting, Brussels, Belgium, October
 - Forum on Risk Management and Internal Control in the EU, Brussels, Belgium, October
 - European Auditing Research Network, Amsterdam, Netherlands, October
 - Financial Stability Institute Seminar, Basel, Switzerland, October
 - Australian Institute of Social and Ethical Auditing Workshop, Sydney, Australia, November
 - New Zealand Institute of Chartered Accountants Seminars, Wellington and Auckland, New Zealand, November
 - Shanghai International Forum, Shanghai, China, November
 - Sustainability and Environmental Management Accounting Conference, Bangkok, Thailand, November
 - UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, Geneva, Switzerland, November
 - National Board of Accountants and Auditors of Tanzania Seminar, Dar es Salaam, Tanzania, December

International Ethics Standards Board for Accountants

- The IESBA Chair, members and their technical advisors, and IFAC staff made presentations to and liaised with the following groups:
 - IOSCO Auditing Subcommittee, Brussels, Belgium, July
 - Institute of Chartered Accountants in England and Wales, London, United Kingdom, September
 - Representatives of INTOSAI, Toronto, Canada, November

International Public Sector Accounting Standards Board

- The IPSASB Chair, members and their technical advisors, IPSASB observers, and IFAC staff made presentations to and liaised with the following groups:
 - United Nations Educational, Scientific and Cultural Organization, Paris, France, January
 - European Court of Auditors, Luxembourg, January
 - World Bank, Washington, D.C., United States, January
 - Institute of Certified Public Accountants in Israel, Tel Aviv, Israel, February
 - OECD Senior Budget Officers' Forum, Paris, France, February

- European Group of United Kingdom Qualified Accountants, Luxembourg, March
- Norwegian Institute of Public Accountants, Public Sector Conference, Oslo, Norway, March
- Comparative International Governmental Accounting Research, Poitiers, France, May
- Irish Institute of Public Administration, Dublin, Ireland, May
- Contemporary Accounting Problem Discussion Group, Melbourne, Australia, May
- International Seminar on Financial Information Standards, Caracas, Venezuela, August
- Technical Issues Group of United Kingdom Audit Commission, London, United Kingdom, September
- Interamerician Accounting Association Conference, Salvador-Bahia, Brazil, October
- Intergovernmental Colloquium on Financial Management, Halifax, Canada, October
- Task Force on Harmonization of Public Sector Accounting, Washington, D.C., United States, October
- Chartered Institute of Public Finance and Accountancy, London, United Kingdom, November
- Conseil Supérieur de l'Ordre des Experts-Comptables Press Conference, Paris, France, November
- South African Institute of Chartered Accountants Seminar, Pretoria, South Africa, November
- World Bank, Washington, D.C., United States, December

Professional Accountants in Business (PAIB) Committee

- The PAIB Committee Chair and members made presentations to and liaised with the following groups:
 - South African Institute of Chartered Accountants, Cape Town, South Africa, March
 - Hong Kong Institute of Certified Public Accountants, Hong Kong, April
 - Institute of Internal Auditors Malaysia, Sarawak, Malaysia, July
 - Chartered Institute of Public Finance and Accountancy, Warwick, United Kingdom, September
 - Chartered Institute of Public Finance and Accountancy, Dublin, Ireland, September
 - Institute of Chartered Accountants in Australia/Chartered Institute of Management Accountants, Brisbane and Sydney, Australia, November
 - Malaysian Institute of Accountants/Chartered Institute of Management Accountants, Kuala Lumpur, Malaysia, December

Small and Medium Practices Committee (formerly the Small and Medium Practices Permanent Task Force)

- The Small and Medium Practices Committee Chair, members and their technical advisors, and IFAC staff made presentations to and liaised with the following groups:
 - HTM-päivä 2005, Helsinki, Finland, February
 - IASB's SME Working Group Meeting, London, United Kingdom, June
 - Fédération des Experts Comptables Méditerranéens Seminar, Cairo, Egypt, September
 - IASB's Roundtable Meetings, London, United Kingdom, October
 - Interamerician Accounting Association Conference, Salvador-Bahia, Brazil, October
 - UNCTAD/Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting 22nd Session, Geneva, Switzerland, November
 - European Federation of Accountants and Auditors for SMEs, Brussels, Belgium, November
- The Small and Medium Practices Committee members and technical staff published articles on the committee's activities including:
 - Article in *MKBRA*dar, Koninklijk Nederlands Instituut van Registeraccountants, April
 - Article in *The Chartered Accountant*, Institute of Chartered Accountants of India, September
 - Article in *The Accountant*, The Malta Institute of Accountants, Autumn
- Two members served on the IASB's SME Working Group (formerly SME Advisory Panel), and another two IFAC nominees joined this group in April

Information Services

Description

IFAC information activities are designed to communicate and support IFAC's overall strategy and are targeted to IFAC member bodies and various external groups, including the media, regulators, standard setters, international financial institutions, and other stakeholders. IFAC achieves this through print and electronic communications, including continual enhancement of the IFAC website and intranets, media relations and support of those speaking out on IFAC's behalf.

Service Delivered

1. IFAC Communications

- 1.1 IFAC communications encompass print and electronic communications, media relations, and spokesperson support. The following initiatives were undertaken:
- Issued three President's Leadership Updates on global issues and IFAC activities to member and regional bodies and IFAC board and committee members.
 - Responded to over 100 inquiries from major business media and accountancy trade publications and arranged more than 50 interviews with IFAC's President, Chief Executive, Board members and other IFAC spokespeople.
 - Issued 40 press releases (including one in French and Spanish) on IFAC activities and issues of importance to the accountancy profession.
 - Issued six electronic news summaries (eNews) to over 27,300 subscribers.
 - Issued three IFAC newsletters (IFAC News).
 - Issued three Public Sector (IPSASB) Updates in English, French and Spanish.
 - Launched IFAC Global Digest, which features excerpts of news items from the public websites of IFAC member bodies and other international organizations. Beginning in August, five monthly Global Digests were issued to member and regional bodies and board and committee members.
 - Organized four media seminars to further educate the media about IFAC's work and recent initiatives.
 - Supported over 90 major speaking engagements in nearly 40 countries around the world undertaken by IFAC's President, Chief Executive, Board members and directors.

2. IFAC Website

- 2.1 IFAC has continued to enhance its public website and member and volunteer intranets through implementation of the following initiatives:
- Expanded website content regarding IFAC activities, structure and governance, and public interest oversight to increase transparency and provide easier access to standards, project histories, and committee meeting materials. Over 460,000 individuals from 168 countries viewed nearly three million web pages on the site. Individuals downloaded over 192,000 electronic publications and ordered more than 3,000 printed publications.
 - Developed new home pages for IFAC boards and committees. For the Public Interest Activity Committees, new home pages feature greater information about due process and working procedures, public interest oversight, standard-setting projects, and additional resources.
 - Launched a new home page for the IFAC Member Body Compliance Program featuring greater information on program components, materials for the Part 2 questionnaire, and member and associate responses to Part 1.
 - Launched a new member Intranet — the MemberNet — in February to facilitate increased communication between IFAC and its member and regional bodies and among those bodies. More than 14 times the number of visitors accessed the MemberNet in 2005 compared to the prior year.

IFAC 2005 Financial Highlights

As described in the Service Delivery section of this report, IFAC continues to enhance its role as the international organization for the accountancy profession, particularly in the areas of standard setting, international collaboration activities, promotion of audit quality, representation of the profession and as an information resource for the profession and others. In meeting its objectives, IFAC receives the financial support of its member organizations, the transnational accountancy firms and other funding providers, including various multilateral development agencies.

Provided below are the key financial highlights for 2005. For further information on IFAC's financial performance, financial position and cash flows for 2005, please refer to the financial statements provided on pages 30 to 47.

Continued Growth

- IFAC total revenues and expenses continued to grow in 2005. Its total revenues grew by seven percent to US\$12.8 million and total expenses grew by 21 percent to \$13.3 million. These increases reflect an increased level of activity, which is detailed in the Service Delivery section of this report.
- The resulting deficit for the year of \$0.5 million was anticipated and reflected a conscious decision to apply some of the surplus generated in 2004 against 2005 activities.

Maintained Financial Position

- IFAC's financial position as at December 31, 2005 reflects slightly reduced total asset and equity positions from the prior year. The total asset position included the purchase and development of equipment and intangible assets. The purchase of equipment strengthened IFAC's information technology infrastructure and the purchase and/or development of database and web-software assets enabled a greater use of technology solutions in achieving its objectives.
- The equity position at December 31, 2005 provides coverage for approximately two months of activity.

Cash Flows

- IFAC's cash flows were reduced during 2005, primarily resulting from the anticipated deficit and the purchase of non-current assets.

Public Interest Oversight Board

- In addition to the provision of its own services during 2005, IFAC also provided financial and operational support to the Public Interest Oversight Board (PIOB). This year marked the first year of operation for the PIOB. In addition to the direct financial support provided by IFAC, the PIOB also received financial support from the World Bank and the United States Federal Reserve Board. It also received in-kind support from the World Bank, the International Organization of Securities Commissions and De Nederlandsche Bank NV.

Auditor

- IFAC engaged new auditors, Citrin Cooperman & Company, LLP, for the 2005 financial year. The unqualified auditors' opinion is provided at page 48.

2005 IFAC Financial Statements

Statement of Financial Performance

For the year ended December 31, 2005

Amounts in U.S. Dollars

	Note	2005	2004
Operating revenue			
Membership dues, net		\$7,485,957	\$6,826,632
Forum of Firms — IFAC Activities	19	3,954,791	3,995,821
Forum of Firms — Transnational Auditors Committee	19	508,228	458,473
External funding for the IPSASB Standards Program	13	331,000	407,000
Publications		248,353	217,853
External funding for the Public Interest Oversight Board	3	140,000	—
Interest income		73,467	32,914
Resource Center		65,000	—
Other operating revenue		230	50,224
Total operating revenue		\$12,807,026	\$11,988,917
Operating expenses			
Employee costs	4, 14	\$6,393,027	\$5,655,351
Travel and meeting costs		3,201,712	2,565,852
Communications and publicity		666,934	560,885
Occupancy		491,809	482,907
Funding provided to the Public Interest Oversight Board	3	478,289	7,277
Printing and distribution		376,618	346,844
IT Support		293,483	170,627
Bad debt expense		291,655	157,853
Recruitment and relocation costs		213,949	224,173
Depreciation and amortization		139,009	136,400
Telephone		121,691	116,747
Legal and other professional fees		116,031	84,612
Auditor remuneration			
Auditing financial statements		33,039	22,585
Tax and other services		7,246	12,631
Loss on disposal of property, plant and equipment		5,785	4,335
Other operating expenses		489,042	434,214
Total operating expenses	2	\$13,319,319	\$10,983,293
Surplus/(deficit) for the year		\$(512,293)	\$1,005,624

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, 2005

Amounts in U.S. Dollars

	Note	2005	2004
Equity at beginning of year		\$2,727,774	\$1,722,150
Surplus/(deficit) for the year		(512,293)	1,005,624
Equity at end of year		\$2,215,481	\$2,727,774

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

2005 IFAC Financial Statements

Statement of Financial Position

As at December 31, 2005

Amounts in U.S. Dollars

	Note	2005	2004
Current assets			
Cash and cash equivalents	5	\$1,717,261	\$2,005,454
Dues receivable, net	6	104,079	308,888
Receivable from the Forum of Firms	7	1,118,200	1,114,207
Other receivables		33,218	39,943
Other current assets		45,430	108,517
Total current assets		\$3,018,188	\$3,577,009
Non-current assets			
Property, plant and equipment, net	8	\$623,590	\$563,735
Intangible assets, net	9	163,370	38,660
Non-current receivables	12, 18	209,595	198,070
Total non-current assets		\$996,555	\$800,465
TOTAL ASSETS		\$4,014,743	\$4,377,474
Current liabilities			
Accounts payable and accrued expenses		\$861,129	\$825,720
Employee entitlements	10	545,287	418,096
Revenue received in advance	11	110,089	114,264
Total current liabilities		\$1,516,505	\$1,358,080
Non-current liabilities			
Accrued pension costs	14, 4	\$282,757	\$181,693
Revenue received in advance	11	—	109,927
Total non-current liabilities		\$282,757	\$291,620
TOTAL LIABILITIES		\$1,799,262	\$1,649,700
Equity			
IFAC members		\$2,215,481	\$2,433,944
IFAC IPSASB Standards Program		—	293,830
Total equity		\$2,215,481	\$2,727,774
TOTAL LIABILITIES AND EQUITY		\$4,014,743	\$4,377,474



Graham Ward — President



Ian Ball — Chief Executive

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, 2005

Amounts in U.S. Dollars

	Note	2005	2004
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Membership dues		\$7,270,836	\$6,163,453
Forum of Firms		4,459,025	4,318,804
External funding for the IPSASB Standards Program		331,000	407,000
Resource Center		65,000	–
External funding for the Public Interest Oversight Board		140,000	–
Publications		248,353	217,853
Interest received		73,467	32,914
Other receipts		58,518	37,995
		<hr/>	<hr/>
		\$12,646,199	\$11,178,019
<i>Cash was disbursed to:</i>			
Employee costs		\$(6,164,772)	\$(5,379,409)
Other payments		(6,429,611)	(4,980,265)
		<hr/>	<hr/>
		\$(12,594,383)	\$(10,359,674)
Net cash inflow from operating activities	15	<hr/>	<hr/>
		\$51,816	\$818,345
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		–	–
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		\$(194,712)	\$(95,270)
Purchase of intangible assets		(137,597)	(38,660)
		<hr/>	<hr/>
Net cash outflow from investing activities		\$(332,309)	\$(133,930)
		<hr/>	<hr/>
Cash flows from financing activities		–	–
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		\$ (280,493)	\$ 684,415
Cash and cash equivalents at beginning of year		\$2,005,454	\$1,308,810
Effect of exchange rate change on foreign currency balance		(7,700)	12,229
		<hr/>	<hr/>
Balance of cash and cash equivalents at end of year	5	\$1,717,261	\$2,005,454

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

2005 IFAC Financial Statements

Statement of Accounting Policies

For the year ended December 31, 2005

Amounts in U.S. Dollars

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 basis. Dues are payable by the member body on receipt of an invoice in January for each respective year. Membership dues revenue is reported net of any approved discounts.

Forum of Firms revenue

Revenue from the Forum of Firms (the 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 for the International Public Sector Accounting Standards Board Standards Program and the Public Interest Oversight Board

Revenue from grants is recognized as revenue when received.

Publications revenue

Revenue from sales of electronic subscriptions is recognized over the life of the subscription period. 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 leave, pension costs, and other benefits are recognized when they are accrued to employees. Annual leave has been calculated on an actual entitlement basis at current rates of pay.

The liability in respect of the defined benefit pension plan 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 provides contributions for an employee defined contribution retirement benefit plan. Payments to the defined contribution retirement benefit plan are recognized as expenses as they fall due.

(iv) Property, Plant and Equipment

Property, plant and equipment

Property, plant and equipment are recorded at cost and 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 and its value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus. 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

(v) Intangible Assets

Intangible assets

Intangible assets are recorded at cost and amortized, as outlined below, at rates estimated to recognize the consumption of economic benefits of the intangible asset 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 and its value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus.

2005 IFAC Financial Statements

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	3 years
Software development	3 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:

- (a) 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.
- (b) Operating activities include all transactions and other events that are not investing or financing activities.
- (c) 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.
- (d) 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 where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. 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 exempt from Swiss income taxes.

(x) Foreign Currencies

Transactions in foreign currencies are translated to United States currency 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 have been no changes in accounting policies in the current year.

Notes to the Financial Statements

For the year ended December 31, 2005

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

	2005	2004
International Auditing and Assurance Standards Board	\$3,294,224	\$2,736,769
Compliance Program	822,317	631,769
Board and Council	760,958	846,035
International Public Sector Accounting Standards Board Standards Program (refer to Note 13)	719,596	640,380
Transnational Auditors Committee	508,228	458,473
Representation of the Accountancy Profession in the Public Interest	484,647	321,000
International Ethics Standards Board for Accountants	397,428	239,687
Professional Accountants in Business Committee	380,659	343,364
International Accounting Education Standards Board	349,268	256,311
International Public Sector Accounting Standards Board	330,819	369,999
Developing Nations Committee	275,586	50,528
Nominating Committee	179,770	120,198
Small and Medium Practices Committee	170,080	156,846
Other	3,813	61,762
Total IFAC activities	\$8,677,393	\$7,233,121
Funding provided to the Public Interest Oversight Board (refer to Note 3)	\$478,289	\$7,277
Total activities expenses	\$9,155,682	\$7,240,398
Total general expenses	\$4,163,637	\$3,742,895
Total operating expenses	\$13,319,319	\$10,983,293

2005 IFAC Financial Statements

3. Public Interest Oversight Board

The Public Interest Oversight Board (PIOB) 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 IFAC's standard-setting 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), the International Organization of Securities Commissions (IOSCO) and De Nederlandsche Bank NV in the Netherlands. The funding support provided by the World Bank and the FRB of \$140,000 (2004: \$nil) was provided to IFAC expressly for the operation of the PIOB.

During 2005, the funding of \$478,289 (2004: \$7,277) 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 IOSCO, the World Bank and De Nederlandsche Bank NV in the Netherlands relates to occupancy and other office costs, and travel costs and stipend payments for two PIOB members.

4. Employee Costs

	2005	2004
Employee costs	\$6,215,275	\$5,526,891
Retirement benefit plans (refer to Note 14)	177,752	128,460
Total employee costs	\$6,393,027	\$5,655,351

5. Cash and Cash Equivalents

	2005	2004
Cash on hand and at bank	\$945,670	\$662,264
Short-term deposits	771,591	1,343,190
Total cash and cash equivalents	\$1,717,261	\$2,005,454

Of the cash and cash equivalents, there are restrictions on the use of \$25,725 (2004: \$490,471). For 2005 these restrictions relate to one cash reserve of \$25,725 (2004: \$24,752) for specific use in relation to the Sempier Award, which is awarded in association with the World Congress of Accountants. Prior to 2005 there was a second cash reserve for specific use of the IFAC International Public Sector Accounting Standards Board Standards Program in accordance with the funding agreements associated with the Standards Program.

There were no restricted cash reserves in relation to the Standards Program as at December 31, 2005 (2004: \$465,719).

6. Dues Receivable

	2005	2004
Dues receivable	\$409,907	\$575,293
Provision for uncollectible dues	(305,828)	(266,405)
Net dues receivable	\$104,079	\$308,888

7. Receivable from the Forum of Firms

As at December 31, 2005, \$1,118,200 (2004: \$1,114,207) represents the remaining amount to be received from the Forum for contributions invoiced relating to 2005.

8. Property, Plant and Equipment

	Office Equipment		Furniture & Fittings		Leasehold Alterations		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Opening net book amount	\$63,140	\$115,067	\$228,368	\$254,221	\$272,227	\$239,912	\$563,735	\$609,200
Additions	151,782	27,209	2,594	5,170	40,336	62,891	194,712	95,270
Disposals	8,735	4,335	—	—	—	—	8,735	4,335
Impairment losses	—	—	—	—	—	—	—	—
Depreciation	62,514	74,801	30,566	31,023	33,042	30,576	126,122	136,400
Closing net book amount	\$143,673	\$63,140	\$200,396	\$228,368	\$279,521	\$272,227	\$623,590	\$563,735
<hr/>								
Cost	\$313,207	\$263,122	\$296,383	\$293,789	\$358,450	\$318,114	\$968,040	\$875,025
Accumulated depreciation	169,534	199,982	95,987	65,421	78,929	45,887	344,450	311,290
Net book amount	\$143,673	\$63,140	\$200,396	\$228,368	\$279,521	\$272,227	\$623,590	\$563,735

9. Intangible Assets

	Software licenses		Software development		Total	
	2005	2004	2005	2004	2005	2004
Opening net book amount	\$38,660	—	—	—	\$38,660	—
Additions	—	\$38,660	\$137,597	—	137,597	\$38,660
Disposals	—	—	—	—	—	—
Impairment losses	—	—	—	—	—	—
Amortization	12,887	—	—	—	12,887	—
Closing net book amount	\$25,773	\$38,660	\$137,597	—	\$163,370	\$38,660
<hr/>						
Cost	\$38,660	\$38,660	\$137,597	—	\$176,257	\$38,660
Accumulated amortization	12,887	—	—	—	12,887	—
Net book amount	\$25,773	\$38,660	\$137,597	—	\$163,370	\$38,660

IFAC has two intangible assets at different stages of application. During 2005 IFAC's Member Body Compliance Program used a database software program to develop and launch its Part 2, SMO Self-Assessment Questionnaire. The intangible asset is the license fee associated with this database software program and was amortized for the full year.

2005 IFAC Financial Statements

In addition, IFAC has continued its development of a specialized web-based resource center targeted at professional accountants in business. The costs incurred as part of the ongoing software development have been capitalized on the basis of an IFAC Board decision in February 2006 to approve the full implementation of this resource center. Any further development costs associated with the resource center software that are incurred in 2006 will also be capitalized. Amortization will commence when the resource center is fully implemented during 2006.

10. Employee Entitlements

	2005	2004
Payroll accrual	\$285,846	\$241,082
Annual leave provision	260,441	177,014
Total employee entitlements	\$545,287	\$418,096

11. Revenue Received in Advance

Revenue received in advance at December 31, 2005 of \$110,089 (2004: \$224,191) represents membership dues paid in advance. For 2005, current revenue received in advance is \$110,089 (2004: \$114,264) and non-current revenue received in advance is \$nil (2004: \$109,927).

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, 2005, the total outstanding letter of credit was \$152,238 (2004: \$152,238). This amount is included in non-current receivables in the statement of financial position.

As at December 31, 2005, IFAC has an operating lease outstanding for two copier machines. There are three years outstanding on these two operating leases.

Operating lease payments for the year ended December 31, 2005 were \$468,882 (2004: \$445,454). Future operating lease payments of \$4,053,976 at December 31, 2005 are payable (2004: \$4,522,858), as follows:

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

	2005	2004
Not later than one year	\$489,282	\$468,882
Later than one year and not later than five years	2,095,314	2,036,748
Later than five years	1,469,380	2,017,228
Total operating lease obligations	\$4,053,976	\$4,522,858

13. International Public Sector Accounting Standards Board Standards Program

The International Public Sector Accounting Standards Board (IPSASB) Standards Program commenced in 1996. During 2005, 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 Board. Multi-lateral 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 2005, the Board and Chief Executive have focused on the urgent need for additional external funding to support the development of IPSASs. To assist in these efforts IFAC has used a professional fundraiser to identify and develop potential funding relationships and sources. 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, 2005, the IPSASB Standards Program had received revenues from external sources and incurred expenses as follows, which are included in IFAC's financial statements:

	2005	2004
IPSASB Standards Program (external funding)	\$331,000	\$407,000
Other operating revenue	13,597	22,060
Total operating revenue	\$344,597	429,060
Employee costs	\$404,973	\$278,781
Travel and meeting costs	117,597	102,545
Consultants	64,759	109,552
Printing and distribution	82,921	53,927
Other operating expenses	49,346	95,575
Total operating expenses	\$719,596	\$640,380
Deficit for the year	\$(374,999)	\$(211,320)

The deficit for 2005 was funded by remaining IPSASB Standards Program prior year reserves and by IFAC. The statement of financial position indicates that there is no equity balance remaining in relation to the IPSASB Standards Program (2004: \$293,830).

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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. Beginning in 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 2005 and 2004, an estimation 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:

	2005	2004
Present value of funded obligation at July 31, 2005	\$1,555,651	\$1,282,265
Fair value of plan assets at July 31, 2005	1,047,383	1,066,847
Funded status	(508,268)	(215,418)
Unrecognized net actuarial loss	311,352	104,932
Unrecognized prior service cost	(27,117)	(29,340)
Unrecognized transition obligation/(asset)	—	—
Accrued pension costs at July 31, 2005 (the plan year end)	224,033	139,826
Adjustment to reflect change in periodic pension expense to December 31, 2005	58,724	41,867
Accrued pension costs	\$282,757	\$181,693

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

	2005	2004
Service cost — Benefits earned during the period	\$110,039	\$92,998
Interest cost	84,283	74,260
Expected return on plan assets	(94,088)	(97,551)
Amortization of initial unrecognized net obligation of (net asset) as of May 1, 1985	(2,223)	(1,573)
Amortization of prior service costs	3,053	2,476
Amortization of (gain)/or loss	—	—
Net periodic pension expense	\$101,064	\$70,610

The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	5.90%	6.50%
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 that 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 2005, the level of IFAC contributions that have been recognized as an expense are \$76,688 (2004: \$57,850). These expenses are included within employee costs in the statement of financial performance.

15. Reconciliation of Net Surplus with Net Cash Inflow from Operating Activities

	2005	2004
Net surplus/(deficit) for the period	\$(512,293)	\$1,005,624
<i>Add/(less) non-cash items:</i>		
Depreciation	139,009	136,400
Net gain on foreign currency balance	7,700	(12,228)
Net (gain)/loss on disposal of property, plant and equipment	8,735	4,335
<i>Add/(less) movements in working capital:</i>		
Dues receivable	204,809	(133,572)
Receivable from Forum of Firms	(3,994)	(135,490)
Other receivables	6,725	76,867
Other current assets	63,087	(64,725)
Non-current receivables	(11,524)	52,351
Accounts payable and accrued expenses	35,409	142,448
Employee entitlements	127,191	205,332
Revenue received in advance	(114,102)	(529,607)
Accrued pension costs	101,064	70,610
Net cash inflow from operating activities	\$51,816	\$818,345

2005 IFAC Financial Statements

16. Employee Disclosure

As at December 31, 2005, IFAC had 32 full time employees (2004: 30 full-time employees) and 1 part-time employee (2004: 1 part-time employee). In addition to these employees IFAC has 4 contracted personnel (2004: 5 contracted personnel) and 1 secondee (2004: no secondees).

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, 2005, a total of \$1,573,392 was held with JP Morgan Chase Bank (2004: \$1,833,935). This represented 52 percent of the total amount of bank balances, short-term deposits and receivables (2004: 51 percent). The maximum exposure as at December 31, 2005 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.

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, 2005, the carrying amounts approximate the fair values for all financial instruments held by IFAC (2004: 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:

Graham Ward	President
Juan José Fermín del Valle	Deputy President, Federación Argentina de Consejos Profesionales de Ciencias Económicas, Argentina
Haji Abdul Samad Alias	Malaysian Institute of Accountants and The Malaysian Institute of Certified Public Accountants, Malaysia
Guy Almeida Andrade**	Instituto dos Auditores Independentes do Brasil and Conselho Federal de Contabilidade, Brazil
Patrick Barrett*	Institute of Chartered Accountants in Australia and CPA Australia, Australia
Robert L. Bunting#	American Institute of Certified Public Accountants, United States of America
Angelo Casò*	Consiglio Nazionale dei Dottori Commercialisti and Consiglio Nazionale dei Ragionieri e Periti Commerciali, Italy
Yugui Chen	Chinese Institute of Certified Public Accountants, China
Roberto D'Imperio#	Consiglio Nazionale dei Dottori Commercialisti and Consiglio Nazionale dei Ragionieri e Periti Commerciali, Italy
Ndung'u Gathinji	Institute of Certified Public Accountants of Kenya, Kenya
Sunil Goyal*	Institute of Chartered Accountants of India, India
Charles Horstmann	American Institute of Certified Public Accountants, United States of America
Gen Ikegami#	Japan Institute of Certified Public Accountants, Japan
Yaw Kiong Ernest Kan*	Institute of Certified Public Accountants of Singapore, Singapore
David Leonard	The Association of Chartered Certified Accountants, United Kingdom
Eric Ka-Cheung Li	Hong Kong Institute of Certified Public Accountants, Hong Kong
Bernadette McGrory-Farrell#	The Institute of Certified Public Accountants in Ireland, Ireland
Ofer Minirav	Institute of Certified Public Accountants in Israel, Israel
Joycelyn Morton#**	Institute of Chartered Accountants in Australia and CPA Australia, Australia
William Nahum	Compagnie Nationale des Commissaires aux Comptes and Ordre des Experts Comptables, France
Rolf Nonnenmacher##	Institut der Wirtschaftsprüfer in Deutschland e.V. and Wirtschaftsprüferkammer, Germany

* Completed their terms at the conclusion of the IFAC Council meeting, November 2005.

Commenced their terms as Board members at the conclusion of the IFAC Council meeting, November 2005.

** The membership of the IFAC Audit Committee as at December 31, 2005 is comprised of these three Board members.

These Board members submitted their resignations from the Board during 2005.

2005 IFAC Financial Statements

Ignatius Sehoole**	The South African Institute of Chartered Accountants, South Africa
David Smith	The Canadian Institute of Chartered Accountants, Canada
Göran Tidström	The 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
Shozo Yamazaki##	Japan Institute of Certified Public Accountants, Japan

Commenced their terms as Board members at the conclusion of the IFAC Council meeting, November 2005.

** The membership of the IFAC Audit Committee as at December 31, 2005 is comprised of these three Board members.

These Board members submitted their resignations from the Board during 2005.

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, 2005, the balance outstanding of employee receivables relating to residential security deposits was \$57,358 (2004: \$45,832). 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 Transnational Auditors Committee (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 employee. The members of the TAC are selected by the Forum and are approved by the IFAC Nominating Committee and the IFAC Board.

For 2005, the IFAC financial statements reflect revenues from the Forum for amounts invoiced to the Forum for the agreed IFAC contributions of \$3,954,791 (2004: \$3,995,821) and full contribution for TAC related expenses of \$508,228 (2004: \$458,473). 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, which has subsequently been received.

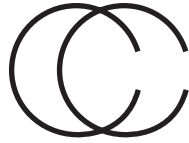
20. Commitments and Contingencies

As at December 31, 2005, IFAC had no outstanding commitments other than those lease obligations identified in Note 12. IFAC had a commitment in relation to the development of the web-based resource center of \$21,750 as at December 31, 2004.

IFAC has no contingencies outstanding as at December 31, 2005 (2004: \$nil).

21. Line of Credit

As at December 31, 2005, IFAC was in the process of renewing and increasing its available line of credit with JP Morgan Chase Bank from \$500,000 to \$1,000,000. IFAC did not use the line of credit during 2005. The interest rate applied is the prime rate plus 0.75% (8.00% as at December 31, 2005) and substantially all of IFAC's assets are collateralized by the line of credit. A line of credit for \$500,000 was in place as at December 31, 2004.



Citrin Cooperman & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS
INDEPENDENT AUDITORS' REPORT

To the Members of
International Federation of Accountants

We have audited the accompanying statement of financial position of the International Federation of Accountants ("IFAC") as of December 31, 2005, and the related statements of financial performance, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of IFAC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of IFAC as of December 31, 2004, were audited by another auditor whose report dated February 25, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Citrin Cooperman & Company, LLP

Citrin Cooperman & Company, LLP

February 20, 2006



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