# **INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**



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# THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

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

The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high-quality standards dealing with auditing, review, other assurance, quality control, and related services, and by facilitating the convergence of national and international standards. This objective contributes to enhanced quality and consistency of practice in these areas throughout the world, and strengthened public confidence in financial reporting.

The IAASB consists of a full-time chairman and 17 volunteer members from around the world. It comprises an equal number of members in public practice with significant experience in the field of auditing and other assurance

services, and individuals who are not in public practice ("non-practitioners"), including three public members. All board members are required to sign an annual statement declaring that they will act in the public interest and with integrity in discharging their responsibilities. Members are appointed by the IFAC Board, based on recommendations from the IFAC Nominating Committee. Member appointments are subject to the approval of the PIOB. At present, the IAASB meets four times a year.

The IAASB is supported financially by IFAC, which itself is funded by membership dues from 159 members and associates in 124 countries and jurisdictions and by contributions from the Forum of Firms. The Forum of Firms is an organization of public accounting firms that share the objective of promoting consistently high-quality standards of financial reporting and auditing worldwide in the interests of the public and users of the profession's services. Funding includes staff costs, the costs of the Chairman, the travel costs of the public members of the IAASB, and a contribution towards the travel costs of the other members. The IAASB is a component of the overall IFAC reporting entity and, accordingly, its financial results are included within IFAC's audited financial statements. These financial statements are published as part of IFAC's Annual Report, which is available at www.ifac.org.



Back row (left to right): Tomokazu Sekiguchi, Ashif Sadrudin Kassam, Cédric Gélard, Craig W. Crawford, Prof. William R. Kinney Jr., Abdullah Yusuf, Phil Cowperthwaite, David Swanney, Jon Grant, Dan Montgomery and Josef Ferlings. Front row (left to right): Susan Jones, Diana Hillier, Prof. Arnold Schilder (Chairman), John A. Fogarty (Deputy Chair) and Caithlin Mc Cabe. Not pictured: Jianhua Tang and Steen Bernt Jensen.

# REPORT OF THE CHAIRMAN OF THE IAASB

# **Uncertainty and Challenges**

The year 2009 will be remembered as being marked by global economic turbulence brought about by the worst financial crisis since the Great Depression. At times of financial instability, investors and others look to reduce the level of uncertainty in their decisions by seeking information they know to be reliable as a basis for those decisions. This demand for reliable information is at the heart of the IAASB's man-



Prof. Arnold Schilder, Chairman

date to strengthen public confidence in financial reporting through assurance services that enhance the degree of confidence in the information and, thereby, contribute positively to the quality of financial decisions. Auditors, as part of the broader accountancy profession, have experienced new challenges in responding to these uncertain economic conditions. Those challenges stem from greater uncertainty throughout the financial reporting supply chain as a result of the deterioration of confidence in markets generally, and resultant questioning of aspects of financial reporting and of auditing, assurance, and related services.

The IAASB's mandate to set high-quality international auditing and assurance standards, and to facilitate the convergence of national and international standards, positioned the board well to respond and take action during this challenging time. We focused our efforts even more on understanding and responding to the needs of the markets for assurance services. Through monitoring and supporting the implementation of global standards and embracing innovation where needed, the IAASB has delivered practical guidance and services on a range of standards. In doing so, the work of the IAASB, with the contributions by the public through its consultative process, helps to restore and maintain public confidence in information used for decision making. This has required diligent adherence by the IAASB to its public interest mandate, which is now well entrenched in how the IAASB operates.

## **Delivering on New Strategic Areas**

The year 2009 was the first year of implementation of the *LASB Strategy and Work Program*, 2009–2011.<sup>1</sup> Developed

after extensive consultation, it has provided a framework for the IAASB's focus after completing work to clarify its suite of International Standards on Auditing (ISAs).

The IAASB strategy and work program focuses on three areas:

- Developing standards, in particular those that facilitate the effective operation of the world's capital markets, and meet the needs of small- and medium-sized entities (SMEs) and small- and medium-sized practices (SMPs);
- Monitoring and facilitating adoption of those standards; and
- Responding to concerns about the implementation of the standards through activities designed to improve the consistency with which they are applied in practice.

Delivering on our strategy this year has meant promoting the adoption of the Clarity ISAs and supporting implementation through the development of new guidance, as well as shifting our attention to areas where there is a demand for new and innovative assurance services.

The IAASB has been pleased with the momentum behind global adoption of the ISAs. With the Clarity Project having been finalized, the IAASB has stayed true to its commitment to not issue any additional ISAs that would become effective before 2011. However, to ensure that it remained alert to stakeholder needs and to maintain relevance to the profession, the IAASB has endeavored to stay at the forefront of current issues. This includes an awareness of the fact that there is a wide range of information beyond historical financial information that is used for decision making and upon which users seek assurance. Accordingly, a considerable amount of the standard-setting effort during 2009 was directed towards standards for assurance on this broader range of information.

Equally important, however, has been the need for the IAASB to maintain its capacity to be flexible and responsive on financial statement auditing issues. The IAASB has demonstrated this capacity during 2009 with timely action on a number of matters not specifically identified in its work program. Some of these actions include our new initiatives on ISA Modules, strengthening how we liaise with the International Accounting Standards Board (IASB), and commissioning staff publications on contemporary matters, such as going concern in the current eco-

 $<sup>1\</sup> web. if ac. org/download/IAASB\_Strategy\_and\_Work\_Program\_2009-2011.pdf$ 

nomic environment,<sup>2</sup> the use of external confirmations,<sup>3</sup> and applying the ISAs proportionately with the size and complexity of entities.<sup>4</sup>

# **IMPLEMENTING THE CLARITY ISAs**

Starting in 2003 with a review of the drafting conventions used in its standards, the IAASB's Clarity Project came to fruition in March 2009, when the Public Interest Oversight Board (PIOB) approved the final ISAs that complete the IAASB's suite of up-to-date auditing and quality control standards. The aim of the Clarity Project was to enhance the understandability of the ISAs, and thereby their consistent application.

#### **Endorsement and Adoption of the Clarity ISAs**

The successful completion of the Clarity Project was welcomed by many external parties, including the World Bank, the Basel Committee, the United Nations Conference on Trade and Development, the World Federation of Exchanges, and the Forum of Firms. Significantly, the International Organization of Securities Commissions (IOSCO) greeted the clarified ISAs by issuing a statement encouraging securities regulators around the world to accept ISA audits for cross-border offerings and listings, while recognizing that such decisions are subject to jurisdictional factors and circumstances. The statement of IOSCO in support of the ISAs is something the IAASB has sought for many years. The IAASB considers achievement of IOSCO recognition of its efforts on the completion of the Clarity Project is a testament to the rigor of that project in producing high-quality, enforceable standards that can be relied upon by the world's regulators.

Recent information gathered by the IFAC Member Body Compliance Program provides information about the adoption or use of ISAs in 126 jurisdictions around the world, and demonstrates strong momentum towards convergence with IAASB standards.<sup>5</sup>

Adoption of ISAs for statutory audits in the European Union (EU) under the European Commission's 8<sup>th</sup> Company Law Directive remains an important strategic objective. The IAASB has been engaging with key European Commission (EC) representatives when possible to prog-

RECENT INFORMATION GATHERED BY THE IFAC MEMBER BODY COMPLIANCE PROGRAM PROVIDES INFORMATION ABOUT THE ADOPTION OR USE OF ISAs IN 126 JURISDICTIONS AROUND THE WORLD, AND DEMONSTRATES STRONG MOMENTUM TOWARDS CONVERGENCE WITH IAASB STANDARDS.

ress this important initiative. This was given added impetus by the EC's publication during the year of the paper Consultation on the Adoption of International Standards on Auditing. That paper was accompanied by an independent study by the University of Duisburg-Essen analyzing the impact that adoption may have on audit firms, their clients, investors, and audit regulators.6 The study concluded that significant net benefits could be expected from ISA adoption, which, on balance, would contribute to the credibility and quality of financial statements and to audit quality, and to a greater acceptance of audit reports within and outside of the EU. A summary of responses received on the consultation that was released in early 2010 noted that the overwhelming majority of respondents favor adoption of the ISAs at the EU level, with a significant majority supporting application to the statutory audit of all companies.

#### **Initiatives to Assist Implementation**

Once adopted, successful implementation of standards is vital to ensure professionals understand and apply those standards appropriately. A wide range of activities needs to be undertaken to facilitate implementation by jurisdictions and auditors, for example, communications, translation, revision of audit methodologies and quality control policies and procedures, audit software updates, and auditor training. In some cases, implementation involves amendment to, or development of, legislation or regulations where the ISAs or their national equivalents are to become legal requirements.

In recognition of the significant effort needed from various parties to successfully implement the clarified standards in numerous jurisdictions around the world, a range of tools and resources has been developed to assist

<sup>2</sup> Staff Audit Practice Alert, Audit Considerations in Respect of Going Concern in the Current Economic Environment

<sup>3</sup> Staff Audit Practice Alert, Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements

<sup>4</sup> Staff Questions & Answers, Applying ISAs Proportionately with the Size and Complexity of an Entity

<sup>5</sup> web.ifac.org/isa-adoption/chart

<sup>6</sup> Evaluation of the Possible Adoption of International Standards on Auditing in the EU

standard setters, educators, and auditors in their implementation activities. The Clarity Center website, established to provide ease of access to the clarified ISAs and other resources, reflects the broad range of user needs: video and presentation slides on individual ISAs; staff publications, including the Staff Q & A on applying ISAs proportionately to size and complexity; and technical support relating to translation initiatives.

# RESPONDING TO EMERGING NEEDS AND INNOVATION

To be able to meet new and emerging information needs by capital markets and others in the future, the IAASB work program needs to focus on projects that facilitate innovative new services, and innovative ways to ensure traditional services continue to satisfy stakeholder demands for high-quality, relevant, and reliable information. I describe some of the more significant of these innovative projects below. The Technical Director's Review of Activities contains further detail of these and other projects currently in the IAASB's work program, as it does on other matters addressed in my report.

#### **Broader Assurance Engagements**

During 2009, the IAASB completed its project on assurance reports on controls at a service organization when it approved International Standard on Assurance Engagements (ISAE) 3402, Assurance Reports on Controls at a Service Organization, at its September meeting. As well as delivering a standard that will promote consistency in the delivery of a highly demanded international assurance service, that project provided the IAASB with the opportunity to explore in detail the standard-setting implications of a number of the concepts embedded in the International Framework for Assurance Engagements and the overarching standard ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The experience gained during that project has been helpful in developing other assurance projects during 2009, in particular the revision of ISAE 3000 itself and proposed new ISAEs on greenhouse gas (GHG) statements and on the process to compile pro forma financial information included in prospectuses.

The proposed ISAE on GHG statements, which is being developed in an open, consultative way with the assistance of technical experts, has attracted much positive comment from stakeholders who see it as a way for the IAASB to make a significant contribution to the public interest in this relatively new, but highly important, field.

While each of these projects is expected to result in an exposure draft in 2010, it is likely that the development of standards and guidance for broader assurance engagements will continue to be a greater focus for the IAASB in future years.

## **Audit Quality**

At its December 2009 meeting, the IAASB began a discussion of "audit quality." While this term is widely used by a range of stakeholders, there is no commonly agreed understanding of exactly what it means, what its components are, or how it can be measured. This lack of common understanding presents the risk of a gap developing between what auditors believe they can and should deliver, and what stakeholders expect.

The IAASB's initial discussion noted the importance of considering this topic from the perspective of users of audits, and touched on many interrelated matters. Recognizing that extensive research on the topic has already been undertaken by others, the IAASB discussed the importance of broad dialogue with stakeholders and, in particular, the need to seek feedback from others, such as monitoring and inspection units. The IAASB also recognized that audit-



ing standards are only one input to audit quality and that the interaction of such factors as professional judgment and the role of regulators and those charged with governance are equally important, as are cost implications. A deeper understanding of many of these broader issues and how they relate to the needs of financial statement users is needed before deciding how, and indeed whether, to direct resources specifically at an audit quality project.

This topic will continue to be debated by the IAASB during 2010, with the shape of any specific project(s) and output(s) expected to emerge through that debate, coupled with the IAASB's continued liaison with many external stakeholders.

# SMPs/SMEs - Reviews, Compilations, and Alternative Services

A project of particular relevance in the SMP/SME context is the revision of International Standard on Review Engagements (ISRE) 2400, Engagements to Review Financial Statements, and International Standard on Related Services (ISRS) 4410, Engagements to Compile Financial Statements, neither of which was amended during the Clarity Project. In some countries, regulators have introduced exemptions from audit for entities based on their type, size, or other characteristics. While such entities may nevertheless seek to have audits on a voluntary basis, and the users of their financial statements (such as lending institutions) may request that audits be performed, this is by no means universal and there is a market demand for services that are capable of meeting the unique needs of SMEs and the users of their financial information. Updating ISRE 2400 and ISRS 4410 was, therefore, identified in the IAASB Strategy and Work Program, 2009-2011 as a priority, and the progress made during 2009 on this project is expected to result in exposure drafts of revised standards in 2010.

Further, some countries are currently considering the need for innovation in the traditional financial statement assurance and related services market by developing new services for SMEs that are a hybrid, along the spectrum of audits, reviews and compilations. Active liaison with representatives from these countries is being maintained during the revision of ISRE 2400 and ISRS 4410. Revision of these core standards is, however, seen as a necessary first step before the IAASB examines the broader question of whether additional assurance or related services might be developed to suit any special needs of SME financial statement users.

# The Audit Report

There is one other project that I would like to mention. It is the research that the IAASB commissioned jointly with the Auditing Standards Board of the American Institute of Certified Public Accountants to look at what, if any, improvements are needed to the standard unqualified auditor's report. The IAASB has had a preliminary discussion of the key findings from this research, details of which are included in the Technical Director's Review of Activities, and will continue in 2010 to liaise with interested parties.

#### Financial Statement Disclosures

An emerging theme during the year in a number of liaison meetings and informal stakeholder discussions was the increasing importance being attributed to financial statement disclosures, as evidenced by the fact that accounting standard setters are being encouraged to develop specific disclosure frameworks, and an increasing consideration being given to the auditor's role regarding the quality of those disclosures.

I expect this trend to be discussed by the IAASB in the coming year, in particular the challenges faced by auditors in considering the meaningfulness, completeness, adequacy, and understandability of disclosures, and in securing a common understanding of the judgments necessary in applying the concept of materiality to them. That discussion may lead to the IAASB placing further emphasis, in one form or another, on the auditor's responsibilities for auditing disclosures.

#### STAKEHOLDER ENGAGEMENT

I have mentioned above the IAASB's interaction with a number of its stakeholders. Stakeholder engagement is most important to the IAASB. Much effort is directed towards engagement with a full range of stakeholders in an effort to understand, from their differing perspectives, what it is that constitutes the public interest insofar as the IAASB's sphere of influence is concerned. During 2009, the IAASB has maintained dialogue, through the IAASB Consultative Advisory Group (CAG) and other mechanisms, with prudential supervisors, market regulators, investors, national standard setters, audit firms, and other stakeholders. Of particular note during 2009 was engagement with the International Forum of Independent Audit Regulators (IFIAR) and the IASB.

# International Forum of Independent Audit Regulators

IFIAR's primary purpose is to enable independent audit regulators to share among each other their knowledge and experiences, with a focus on inspections of auditors and audit firms. This is, of course, a vitally important function, and one that interacts substantially with the role of the IAASB. We participated in the September meeting of IFIAR, marking a successful start towards an enhanced relationship in the public interest, and leaving us well positioned to play a valuable role in developing a common understanding regarding compliance with ISAs.

# International Accounting Standards Board

The IAASB has begun to implement a new model for liaison with the IASB aimed at helping the IAASB better monitor the development of IASB projects. This will enable the IAASB to provide the IASB with timely comments on aspects of its proposed standards that may have potential verifiability or auditability issues, as well as keep the IAASB alert to trends in financial reporting that may have implications for its own projects and priorities. The liaison model developed offers an innovative and systematic approach to the way in which we liaise. IAASB members have organized into working groups on topics of interest and, for select IASB projects, provide feedback to an IASB liaison representative and staff. This not only leverages the resources of IAASB members, but importantly builds a depth of knowledge throughout the IAASB itself. Equally, it allows greater flexibility to provide input



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on matters without being constrained by scheduled meetings. I am pleased with the progress that has been made over a relatively short period of time.

#### **CONCLUDING REMARKS AND ACKNOWLEDGMENTS**

On a personal note, I would like to say that my first year as Chairman of the IAASB, while in no way relaxing—as one might have expected following completion of the Clarity Project—has been for me both exciting and intense, which leads me to the following heartfelt thanks.

I would like to thank all members, technical advisors, and observers of the IAASB for their welcoming and inclusive approach to me as their new Chairman, which has greatly eased my transition onto the IAASB. In particular, I would like to thank John Fogarty, Deputy Chair during 2009, who has retired after serving the IAASB since its inception in 2002, during which time all agree that his insight, clarity of thought, and ability to express that clarity have made his contribution to the deliberations of the IAASB a very significant one indeed. The other retiring IAASB member is Steen Jensen whom I would also like to acknowledge and thank for many positive contributions during his term as a member. Finally, I would like to thank the staff of the IAASB for their tireless and greatly effective efforts in support of the IAASB, and, in particular, James Gunn for his outstanding work since assuming the position of Technical Director in March 2009.

I look forward to another productive year in 2010 as the IAASB builds on its successes in 2009 and earlier years, and rises to the new challenges the future will inevitably bring. I am delighted that Diana Hillier, a member of the IAASB since 2006, has agreed to serve as Deputy Chair for 2010.

Prof. Arnold Schilder

mu Juride

Chairman

# TECHNICAL DIRECTOR'S REVIEW OF ACTIVITIES

tandard setters and policy-makers around the world began 2009 with the possibility of changes to their planned priorities to respond to challenges arising from the global financial crisis. The IAASB prepared for the possibility of change, while at the same time keeping its focus on the delivery of the first year of its *Strategy and Work Program*, 2009–2011. As a result, the IAASB had a productive year in transitioning from its past work on its Clarity



James L. Gunn
Technical Director

Project to new projects and strategic areas of focus, while maintaining responsiveness to emerging developments. In all its efforts the IAASB has continued to place emphasis on public consultation and obtaining relevant input to its standard-setting activities—matters always of central importance.

My review sets out the highlights of the IAASB's activities during the year.

#### **THE CLARITY ISAs**

In March 2009, the IAASB released the full suite of clarified standards in final form, following approval of due process by the Public Interest Oversight Board (PIOB). This brought to a successful close the IAASB Clarity Project, an endeavor that had occupied most of the IAASB's agenda over the preceding five years.<sup>7</sup>

Following this, the IAASB looked at the question of how best to support effective implementation of the clarified International Standards on Auditing (ISAs). Four general principles have governed our approach to this important consideration—availability, accessibility, awareness, and acceptance. Key features of the IAASB's 2009 efforts in this regard have, therefore, included the establishment of the Clarity Center,<sup>8</sup> the timely issuance of relevant staff publications, and the monitoring of Clarity ISA implementation.

## The Clarity Center

A new web-based Clarity Center was developed to serve as a repository of information about the IAASB's Clarity Project and the clarified ISAs, as well as information relevant to adoption and implementation. The material in the Clarity Center includes: an overview of the Clarity Project; an explanation of the structure of the clarified ISAs; highlights of the IAASB's work to monitor implementation of the clarified ISAs; and frequently asked questions, including those on implementation and the effective date of the clarified standards.

Raising awareness of the key principles of, and major changes in, individual ISAs arising from the Clarity Project has been of particular focus. Our challenge has been to achieve maximum outreach—to get information in the hands of auditors in the field, trainers, and those responsible for promoting adoption and implementation of the clarified ISAs—in a way that communicates effectively. The response was our new ISA Modules, a package for select ISAs, comprising a short video presentation

ISA Modules produced during 2009 include:

- Introduction to the Clarity Project
- The Clarified ISAs, Audit Documentation, and Small- and Medium-Sized Entity (SME) Audit Considerations
- ISA 260, Communication with Those Charged with Governance
- ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
- ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- ISA 550, Related Parties
- ISA 600, Audits of Group Financial Statements

Further ISA Modules will be added during 2010.

from board members directly involved in developing the standards, together with a slide presentation and supporting notes that explain in more detail the key changes in the ISAs.

These non-authoritative modules are available free of charge from the Clarity Center. I am pleased they have

<sup>7</sup> Free access to electronic versions of all clarified ISAs, as well as Basis for Conclusions documents for each and material to assist with ongoing translation efforts, are available in the IAASB's Clarity Center.

<sup>8</sup> web.ifac.org/clarity-center/index

proven to be of particular interest, with more than 16,000 electronic downloads since their release. I am also pleased that the modules have served as a basis for local events in 2009 that have been undertaken to help energize national implementation efforts.

#### Proportionality in Applying Clarified ISAs

Questions about the applicability of international standards to differing sizes of entities have been raised over the last few years. An audit, whether of entities small or large, simple or complex, should be performed to the same high-quality standards. Recognizing the importance of the SME sector and the auditors who perform their audits, the IAASB sought to increase understanding of how ISAs can be efficiently applied to audits of SMEs.

The IAASB commissioned a staff publication to describe how the design of the ISAs enables them to be applied proportionately to specific characteristics of the entity subject to audit. Entitled *Applying ISAs Proportionately with the Size and Complexity of an Entity*, the publication is relevant in the context of any audit, but will be of particular help to those who audit, or oversee the audits of, SMEs. It answers questions relating to audit procedures, work effort, documentation, and professional judgment, and makes clear that a one-size-fits-all approach need not be taken in applying the ISAs effectively.

#### Clarity ISA Implementation Monitoring

At the end of its work on the Clarity Project, the IAASB committed to developing and implementing a process for assessing the effectiveness with which the clarified ISAs are implemented—in essence, a feedback mechanism to help inform the IAASB whether further refinement of those standards is needed.

In 2009 the IAASB began the first phase of this work: gathering information on lessons learned from those currently in the process of adopting and implementing the clarified ISAs. This will continue in 2010, with input being sought from, for example, regulators and oversight bodies, national standard setters, audit firms, the IFAC Small and Medium Practices (SMP) Committee, and the International Organization of Supreme Audit Institutions (INTOSAI). In the longer term, the process is envisioned to be further developed and to become a standing part of the IAASB's effort to seek continuous improvement in its standards.

#### **DEVELOPMENT OF STANDARDS**

The year 2009 saw the development of virtually an entirely new agenda for the IAASB. That agenda covers projects addressing not only auditing standards, but also other assurance and related services standards relevant to the operation of the both the world's capital markets and the essential SME sector of national economies.

#### ISAs and Related Guidance

Using the Work of Internal Auditors

In 2009 the IAASB commenced the revision of ISA 610, its standard on using the work of internal auditors. Because a strong and effective interaction between the external auditor and internal auditors offers the potential to benefit the external audit, the aim of this project is to consider how best to enhance that interaction while balancing the need for the external auditor to make appropriate judgments about using the work of the internal audit function and safeguard against undue reliance. Amongst other issues, the project will consider the question of guidance on direct assistance by internal auditors to the external auditor, a matter on which the existing ISA is silent.

Discussions with regulators, auditors, the Institute of Internal Auditors, and others have helped inform the direction of this project. An exposure draft of the proposed revised ISA is expected to be released during 2010.

Other Information in Documents
Containing Audited Financial Statements

The extent and range of information now being included in annual reports and other similar documents containing audited financial statements have increased significantly over the years. Such information is becoming more qualitative in nature, and greater importance is being attached to it by financial statement users. Accordingly, in 2009 the IAASB commenced the revision of ISA 720, its standard that addresses the topic, with the objective to ensure that the ISA continues to be capable of enhancing the credibility of financial statements through specifying appropriate auditor responsibilities.

While originally scheduled for consideration in 2010, the IAASB accelerated this project in light of its importance in today's environment. The project will consider, among other issues, the types of other information that should be covered by the scope of the ISA, and the nature and extent of the auditor's responsibilities relating to the range of other information being presented concurrently with audited financial statements.

#### Guidance on Auditing Financial Instruments

The IAASB's strategy recognizes the significant demand from auditors and preparers for further guidance on auditing fair values. The deteriorating global financial markets and the presence of illiquid markets amplified this demand. In early 2009, the IAASB responded by commencing a new project to revise International Auditing Practice Statement 1012 to update and expand it to address broader issues relevant to auditing financial instruments.

The IAASB faced two key challenges, however: what should be done to raise awareness around the issues faced in auditing financial instruments and encourage best practice for the 2010 audit season; and how best to inform and accelerate the longer-term program to revise the Practice Statement. Both these challenges were addressed through the release of the October 2009 Consultation Paper on the topic. That paper leveraged the significant progress made by the U.K.'s Auditing Practices Board on the same topic, enabling us to put relevant guidance in the hands of auditors as quickly as possible. At the same time, it afforded the IAASB the opportunity to ask questions about how that guidance might be adapted or supplemented for application in the international context. The IAASB will use the feedback from the consultation in the revision of its Practice Statement, on which an exposure draft is expected during 2010.

# The Auditor's Report

Financial statements are one of the most important sources of information that investors and others use in making economic decisions. It is therefore critical that the auditor's report—the primary means by which auditors communicate to users of financial statements—conveys appropriate information in a way that facilitates audit quality, is understandable to users, and meets their information needs.

In 2009 the IAASB began its discussion on the findings from four academic research projects, 9 commissioned jointly by the IAASB and the Auditing Standards Board of the American Institute of Certified Public Accountants. This research examined the nature of user perceptions regarding the financial statement audit and the auditor's report among various classes of financial statement and audit report users in international settings. The purpose of commissioning this research was to help inform whether the standard auditor's report needs to be improved and, if so, how.

The research findings stimulated good debate, and it was clear that there is continuing demand for enhanced auditor communications that are relevant and meaningful to user needs. Similar messages were noted in the IAASB's discussions on studies and consultations carried out by others in recent years, and in its consideration of auditor reporting models used in the United Kingdom, France, and Japan.

THE IAASB'S STRATEGY PLACES HIGH PRIORITY

ON ADDRESSING THE NEEDS OF SMES,

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APPROPRIATE FOR SUCH ENTITIES.

The IAASB will continue its discussion in 2010, including consideration of possible future courses of action. In this regard, we note the International Organization of Securities Commissions (IOSCO) Technical Committee's Consultation Report on Auditor Communications, which we believe will provide a further important source of information. We look forward to considering how best to take account of the current efforts of the Technical Committee in the deliberations of the IAASB.

# Revision of Standards on Review and Compilation Engagements

The IAASB's strategy places high priority on addressing the needs of SMEs, recognizing that the IAASB has a leading role to play in exploring standards for services other than the financial statement audit that may be appropriate for such entities. In part, this focus has arisen as some jurisdictions consider whether an audit is the most appropriate level of service for all entities subject to their jurisdictional requirements and, in some cases, are now introducing exemptions from financial statement audit requirements for certain entities. While such entities may seek to have audits on a voluntary basis, and the users of their financial statements (such as lending institutions) may request

<sup>9</sup> All four research reports are available on the IAASB website at www.ifac.org/IAASB/ProjectHistory.php?ProjID=0095.

that audits be performed, the implication is clear—there is a market demand for services that are capable of meeting the unique needs of SMEs and the users of their financial information.

In 2009 the IAASB commenced work to develop international engagement standards for financial statement services other than audits. As its first step, the IAASB is focusing its efforts on revising two existing standards: International Standard on Related Services (ISRS) 4410<sup>10</sup> in relation to financial statement compilation engagements; and International Standard on Review Engagements (ISRE) 2400<sup>11</sup> in relation to financial statement review engagements.

Although development of entirely new services might be possible, input during the early stages of this project supported a focus on addressing these two services with several advantages being identified:

- Expediency, through leveraging existing standards;
- Experience, through capitalizing on national experience where review and compilation services have been provided for a number of years; and
- Relevance, through making use of knowledge about market acceptance of these services in countries as an important input to establishing a platform of services practitioners may provide to address entities' diverse financial reporting needs.

While the existing standards provide a basis for discussion, the IAASB nevertheless is approaching the revision of these standards from first-principles. Further, the IAASB understands that these standards need to be considered in terms of how they can be used in combination with other standards for other services to meet user needs. As part of its public consultation on the revised standards for compilations and reviews currently under development, I anticipate that the IAASB will seek input on the question of whether the proposed standards fulfill user needs, and whether there are remaining needs that those standards do not address.

The IAASB recognizes that time is of the essence: this project is of public significance, and progress at an international level is essential as individual countries contemplate domestic initiatives. However, high-quality international standards take time to develop and adherence to due pro-

cess is essential. While significant deliberations still remain to be held, the IAASB is on schedule to issue proposed standards for public comment during 2010.

# Standards and Pronouncements for Other Assurance Engagements

Assurance Reports on Controls at a Service Organization The year 2009 saw the approval of the new International Standard on Assurance Engagements (ISAE) 3402 on this topic. Because services provided by a single service organization can have direct relevance to the quality of financial reports prepared by many entities around the globe, effective controls for delivering such services are essential. This new standard sets a global benchmark for assurance reporting on controls at a service organization, thereby helping to fulfill the needs of those who use such services and their auditors under the ISAs.

Work on this ISAE had begun in tandem with the revision of the ISAs as part of the Clarity Project, but was completed only in 2009 to ensure that it aligned to the maximum extent possible with the recently revised U.S. equivalent standard, thereby promoting convergence in this important area.

ISAE 3402 is effective for service auditor's assurance reports covering periods ending on or after June 15, 2011. With ISAE 3402 being the first new assurance standard, other than the ISAs, developed under the IAASB's *International Framework for Assurance Engagements*, the IAASB has decided to actively seek feedback in 2013 on the experiences of service auditors and others with its implementation.

Commencing with the release of this ISAE, IAASB staff now provide a brief overview of new or revised standards alongside the standard itself and the staff-prepared Basis for Conclusions document. The non-authoritative staff overview for ISAE 3402, available on the IAASB website, summarizes key features of the new standard, provides a brief background to the project, and discusses implications for practice.

#### Assurance on a Greenhouse Gas Statement

While progress towards a coordinated global approach to greenhouse gas (GHG) reduction appears to have faltered at the December talks in Copenhagen, many governments remain committed to reducing the emissions

<sup>10</sup> International Standard on Related Services (ISRS) 4410, Engagements to Compile Financial Statements

<sup>11</sup> International Standard on Review Engagements (ISRE) 2400, Engagements to Review Financial Statements

THE AIM OF THE PROPOSED STANDARD IS TO ENHANCE THE CONSISTENCY AND QUALITY OF PERFORMANCE BY PRACTITIONERS ON ASSURANCE ENGAGEMENTS TO REPORT ON GHG STATEMENTS, WHETHER PRODUCED FOR REGULATORS, LEGISLATORS, INVESTORS, OR OTHER INTERESTED PARTIES.

of entities in their jurisdictions through developments such as new carbon trad-ing schemes, requirements for public disclosure of emissions, and other actions. Regardless of the mechanism, virtually any serious program of GHG reduction requires quantification of emissions, and assurance thereon is crucial to enhance confidence about the credibility of emissions reporting.

During 2009 the IAASB consolidated the knowledge it had gleaned from the roundtables it conducted in 2008 on this topic and considered a proposed draft ISAE. The aim of the proposed standard is to enhance the consistency and quality of performance by practitioners on assurance engagements to report on GHG statements, whether produced for regulators, legislators, investors, or other interested parties.

As expected, there were many challenging issues to resolve given this new and evolving field: the form of assurance report that users would find most useful; the nature and extent of requirements; how best to address the necessary multi-disciplinary teams required for such engagements; and technical aspects of applying the assurance process to GHG emissions. The IAASB decided that due process would be best served through seeking further external input prior to exposure. Accordingly, in October the IAASB issued a Consultation Paper on the topic, with a working draft of the proposed standard as an appendix. The IAASB will use the feedback from the consultation to develop an exposure draft for release in 2010.

Pro Forma Financial Information Included in Prospectuses

During 2009 the IAASB made significant progress in developing a proposed new ISAE on assurance reports on the process to compile pro forma financial information, a project which commenced in early 2008. While the

Prospectus Directive<sup>12</sup> in the European Economic Area (EEA) provided the initial impetus to this project, through its clear need for a common assurance standard throughout the EEA, a key consideration was the development of a framework-neutral, internationally accepted standard for such assurance engagements.

In early 2009, the IAASB considered relevant aspects of the European Union (EU) prospectus regime on pro forma financial information included in prospectuses, as well as the results of a survey of 19 non-EU jurisdictions regarding their regulatory requirements and any related national assurance standards and guidance. The results suggested that indeed a standard on the topic would be relevant and feasible in a global context.

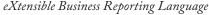
During the year, the IAASB deliberated many technical issues, including the nature and extent of the practitioner's work when the source of information included in the pro forma information has not been audited or reviewed, and the appropriate wording for the conclusion expressed in the practitioner's report. The IAASB resolved these issues and approved an exposure draft at its March 2010 meeting.

Assurance Engagements Other than Audits or Reviews of Historical Financial Information

Abrief survey conducted by staff in 2008 identified extensive and growing use of ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, by both national standard setters, who use ISAE 3000 as a base document when developing local standards for assurance services on particular subject matters, and professional accountants in public practice, who refer to ISAE 3000 in assurance reports where no subject matterspecific standard exists. ISAE 3000 is also being used by regulators and others to guide development of regulations and guidelines for particular types of engagements.

Consistent with the commitment made when ISAE 3000 was first released in 2004, the IAASB has commenced revision of ISAE 3000 to address opportunities to improve its effectiveness in light of the experience gained with its use. This work also takes account of the critical role ISAE 3000 plays as the basis for topic-specific ISAEs, such as those under development for reporting on pro forma financial information and GHG emissions.

<sup>12</sup> Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC



Regulators and other national authorities have begun to permit or require financial statements and other information to be filed electronically using eXtensible Business Reporting Language (XBRL). The IAASB's strategy recognizes the need for further guidance for auditors in this area, in particular on the approach to be followed when XBRL financial statements are to be filed together with the auditor's report.

In 2009 the IAASB approved a project to explore how best to address the performance and reporting expectations of the auditor in connection with audited financial statements that are accompanied by XBRL data. However, this is an area where it will be necessary for the IAASB to proceed cautiously: any pronouncement must be in response to a clear need; the XBRL landscape is one that continues to evolve; and the perceptions of users need to be considered. Accordingly, the IAASB has agreed that the first phase of its work should focus on informal consultation with jurisdictions that are moving forward earnestly with XBRL, and stakeholders who have undertaken related initiatives. Public consultation will be considered after this initial phase, when the IAASB will be in a reasonable position to present its initial views as to what type of pronouncement is most needed.

## **Impact Analysis**

In 2009 the IFAC Board approved an initiative to develop an impact analysis process that can be incorporated in the due process for the IAASB when developing future pronouncements. The overall purpose is to provide a uniform and consistent approach to the analysis of impacts that will help preparers, users, and regulators understand the factors considered and conclusions reached when developing

## Staff publications include:

- Staff Audit Practice Alert, Audit Considerations in Respect of Going Concern in the Current Economic Environment – January 2009
- Staff Q&A, Applying ISAs Proportionately with the Size and Complexity of an Entity – August 2009
- Staff Audit Practice Alert, Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements – November 2009
- Staff Q&A, XBRL: The Emerging Landscape January 2010

standards. During the year, the IAASB agreed to pilot test this process on its project to revise ISA 610 and to consider how it might be applied to other IAASB projects.

#### **RESPONDING TO EMERGING DEVELOPMENTS**

In 2009 the IAASB staff continued to develop a variety of publications to respond to current issues. Released were Staff Audit Practice Alerts addressing audit considerations in respect of going concern in the current economic environment, and emerging practice issues regarding the use of external confirmations in an audit of financial statements. These alerts are designed to help raise practitioners' awareness in a timely manner of significant new or emerging issues or other noteworthy circumstances, to direct their attention to relevant provisions of IAASB pronouncements, or to provide clarification to emerging questions by referring to existing pronouncements or other material. They do not amend or override the pronouncements to which they relate.

We also expanded this effort to include the development of Staff Question and Answer (Q&A) publications. In addition to the Staff Q&A publication on proportionate application of ISAs noted earlier, we developed the Staff Q&A entitled XBRL: The Emerging Landscape, which raises awareness about how XBRL-tagged data is prepared and how it may affect financial reporting. This was published in January 2010.

Such non-authoritative publications remain the responsibility of staff, and they need to be undertaken with care and attention to quality. In 2009 the board established parameters around their development: Staff publications are commissioned by the IAASB, which advises staff on matters relevant to their development; a small group of IAASB members, and others as appropriate, is appointed to advise staff on the development of the publication; all IAASB members are provided an opportunity to consider whether the proposed publication is consistent with, and does not extend beyond, the authoritative pronouncement to which it relates; and release is subject to approval by the IAASB Chairman and myself.

## Rapid Response Mechanism

The IAASB needs to maintain its capacity to be flexible and responsive. This is in the public interest in light of the ever-changing, and often unpredictable, global environment. During 2009 the IAASB was able to respond appropriately to changing circumstances without the need for a

formal rapid response mechanism. This may not, however, always be so. The IAASB has therefore discussed, and supports the direction of, staff proposals for such a mechanism to be used in special circumstances to respond to emerging and urgent issues in a timely manner. Work is continuing on identifying the key factors that determine whether a rapid response is appropriate in the circumstances and suitable options to affect that response.

# OUTREACH, COLLABORATION, AND LIAISON WITH KEY STAKEHOLDERS

The IAASB has maintained an active schedule of meetings and other exchanges with a wide group of stakeholders during 2009. The Chairman's Report addresses the IAASB's outreach with the European Commission, the International Forum of Independent Audit Regulators, and the International Accounting Standards Board in particular. Some of the IAASB's other important outreach and collaborative activities are highlighted here.

#### International Organization of Securities Commissions

In June 2009, IOSCO released a statement welcoming the achievement of the completion of the Clarity Project, noting the improvements that have been made as a result of clarifying the ISA requirements. In its statement, IOSCO recognized the important role that ISAs play in facilitating cross-border securities offerings and listings, and encouraged securities regulators to accept audits performed and reported in accordance with the clarified ISAs for cross-border offerings and listings, recognizing that such decisions are dependent on a variety of other factors.

This is an extremely important development, and I would like to acknowledge the efforts of IOSCO in supporting the work of the IAASB and in formulating this well-received statement. IOSCO's statement is consistent with the IAASB's long-held objective of developing and promoting adoption of a high-quality set of standards for use in all audits worldwide.

In July the IAASB Chairman and Jim Sylph, Executive Director, Professional Standards, met with IOSCO's Standing Committee No. 1 to express appreciation for this statement. IOSCO was also provided an update on the IAASB's activities, including its work to monitor Clarity ISA implementation and its project to revise the ISA on using the work of internal auditors in light of their regulatory importance.

IN JUNE 2009, IOSCO RELEASED A STATEMENT
WELCOMING THE ACHIEVEMENT OF THE
COMPLETION OF THE CLARITY PROJECT, NOTING
THE IMPROVEMENTS THAT HAVE BEEN MADE AS A
RESULT OF CLARIFYING THE ISA REQUIREMENTS.

#### International Organization of Supreme Audit Institutions

During the course of the Clarity Project, the IAASB and INTOSAI have been pursuing a mutually beneficial relationship that has seen INTOSAI assist the IAASB in developing the clarified ISAs by, for example, nominating INTOSAI volunteers as members of some IAASB task forces, and the IAASB assisting INTOSAI's Financial Audit Subcommittee (FAS) in developing Practice Notes that provide guidance on applying ISAs when auditing public sector entities.

I am pleased to note that in November 2009, the INTOSAI Governing Board approved 36 International Standards for Supreme Audit Institutions, collectively known as the INTOSAI Financial Audit Guidelines, each of which contains an ISA and a corresponding Practice Note. I congratulate INTOSAI's Professional Standards Committee, its FAS, and the volunteers from more than 90 public sector organizations who contributed to this significant achievement.

#### U.S. Public Company Accounting Oversight Board

Our observer status at the Public Company Accounting Oversight Board's (PCAOB) Standing Advisory Group (SAG) meetings allows us to keep in touch with PCAOB developments, and to provide the PCAOB with an international view on a number of its auditing standards projects. The SAG meets two or three times a year, and the IAASB Chairman represents the IAASB. This activity complements the PCAOB's observer role at the IAASB and the IAASB Consultative Advisory Group (CAG).

We continue to look for ways to work together with the PCAOB more closely. To that end, we note the PCAOB's consideration of the ISAs in developing its proposed risk assessment standards. Equally, I am pleased that the PCAOB accepted an invitation during the year to nominate a member of staff to the IAASB task force dealing with the project to develop guidance on auditing financial instruments.

# **National Auditing Standard Setters**

In 2009 we hosted the ninth meeting of the most active national auditing standard setters. Thirteen nations were represented at the meeting. Valuable inputs were received from the participants on the IAASB's work program, including viewpoints on the IAASB's work to develop standards for services on financial statements other than audits in the context of SMEs' and SMPs' needs. In addition, participants shared significant developments or issues on national agendas that are of international relevance, and considered opportunities for collaboration and convergence.

The IAASB Chairman and I also had the opportunity in 2009 to continue to engage with European national auditing standard setters at their regular meeting hosted by Fédération des Experts Comptables Européens.

#### Academia

Research is a fundamental input to high-quality standards. This is evidenced by the four commissioned academic research projects that are being used to help inform the IAASB's considerations on the auditor's report, as outlined above.

During 2009 the IAASB also collaborated with the International Association for Accounting Education and Research and the Association of Chartered Certified Accountants (ACCA) to commission four new research projects directed at informing the work of the IAASB. Research teams from Australia, Germany, the Netherlands, the United Kingdom, and United States will investigate such matters as the consistency in the application of ISAs; the implications of XBRL for financial statement audits; the audit methodology of smaller firms; and the nature of professional judgment in auditing. Funded by the ACCA, this initiative aligns with the IAASB's ongoing agenda for innovation within the field of auditing and assurance and our efforts to further our understanding of international developments and the needs of those using our standards.

#### **COMMUNICATIONS**

The IAASB's communication initiatives are aimed at keeping stakeholders informed of its activities, and promoting the adoption and implementation of its standards. They also enable the IAASB to become aware of recent developments in practice and regulation, and to hear concerns about the standards and their implementation in practice.

To this end, IAASB members and staff delivered a variety of presentations and speeches throughout the year, or were otherwise involved in meetings with stakeholders. A list of events or forums in which IAASB representatives participated is provided in the Appendix under the heading, "Communicating with Stakeholders."

In addition, the IAASB issues press releases and eNews communications, and further promotes its activities and publications through the IAASB website.<sup>13</sup>

#### **OVERSIGHT AND ADVICE**

# **Public Interest Oversight Board**

Our relationship with the Public Interest Oversight Board (PIOB) continues to ensure that our work is in the public interest. I am grateful to the PIOB members for working to approve the due process followed in developing the remaining clarified ISAs so that the full suite of clarified ISAs could be made available to auditors and others for implementation at the earliest opportunity. I am also grateful to the PIOB for its commitment to have PIOB representatives observe each of the IAASB and IAASB CAG meetings, and for the feedback those representatives have provided based on their observations of the deliberations at the meetings.

## IAASB Consultative Advisory Group

With the changing direction of the IAASB's work since completion of the Clarity Project, the diverse and expanding group of member organizations represented on the IAASB CAG has proven to be a solid base from which to obtain meaningful input to the development of IAASB's projects. Both the IAASB and the IAASB CAG continue to benefit from the leadership of the CAG Chairman, David Damant, who attended the IAASB's 2009 meetings as an observer with the privilege of the floor.

The CAG met in March and September 2009. In nearly all cases, the IAASB members that are chairing individual projects attended the relevant CAG meetings, in person or by teleconference. I believe this is an important practice as it provides the opportunity to share perspectives and hear views of CAG representatives firsthand. Further details on the activities of the CAG during the year are set out in the Report of the Chairman of the IAASB Consultative Advisory Group.

<sup>13</sup> All publications referred to in this Annual Report can be downloaded free of charge at web.ifac.org/publications/international-auditing-and-assurance-standards-board.

#### **IAASB MEMBERSHIP**

The IAASB welcomes the following new appointments and re-appointments to the board from January 1, 2010. *Nominated by IFAC Member Bodies* 

- Valdir Coscodai, Brazil
- Abdullah Yusuf, Pakistan (re-appointed)

Public Members

- Gert Jönsson, INTOSAI
- Professor William R. Kinney Jr., *United States* (re-appointed)

Nominated by the IFAC Transnational Auditors Committee

• Susan Jones (re-appointed)

#### **ACKNOWLEDGEMENTS**

I would like to thank the IAASB Chairman for his leadership and tireless public representation of the IAASB in many forums over the last year, and extend my appreciation to the board members, the Chairman of the IAASB CAG, and all those who have contributed to the work of the IAASB with tremendous dedication to its public interest mandate. I also would like to thank Jim Sylph for his continued leadership, support, and sound counsel.

A special note of gratitude, however, goes to my staff team. The year 2009 had many challenges, and, in some ways, they were greater than those faced in the final years of the Clarity Project. Each of them rose to meet these challenges with energy, thoughtful consideration, and unwavering commitment to quality. I look forward to leading them through the challenges and opportunities of 2010.

James L. Gunn Technical Director



IAASB Technical Staff: Back row (left to right): Ken Siong, James L. Gunn (Technical Director), James M. Sylph (Executive Director, Professional Standards), Jessie Wong, and Joanne Moores. Front row (left to right): Dorothy Ofori and Kathleen Healy.



As at December 31, 2009

BOARD MEMBERS	TERM ENDING	TECHNICAL ADVISORS
Nominated by IFAC Member Bodies		
Prof. Arnold Schilder (Chairman), The Netherlands	2011	
John A. Fogarty (Deputy Chair), United States	2009	Chuck Landes
Phil Cowperthwaite, Canada	2011	Greg Shields
Josef Ferlings, Germany	2010	Wolfgang Böhm
Cédric Gélard, France	2011	Isabelle Tracq-Sengeissen
Jon Grant, United Kingdom	2010	
Ashif Sadrudin Kassam, Kenya	2011	
Professor William R. Kinney Jr., United States*	2009	Amarjit Chopra
Jianhua Tang, <i>China</i>	2010	Len Jui
Abdullah Yusuf, Pakistan*	2009	
Nominated by the IFAC Transnational Auditors Committee		
Craig W. Crawford, KPMG	2010	Sylvia Smith
Diana Hillier, PricewaterhouseCoopers	2011	Jon Rowden
Susan Jones, Grant Thornton*	2009	Josephine Jackson
Caithlin Mc Cabe, Deloitte Touche Tohmatsu	2010	Tania Sergott
Dan Montgomery, Ernst & Young	2011	Denise Esdon
Public Members		
Steen Bernt Jensen, Denmark	2009	Jonas Hällström
Tomokazu Sekiguchi, Japan	2011	Sachiko Kai
David Swanney, United Kingdom	2011	Valdir Coscodai

<sup>\*</sup> These members were re-appointed after their terms ended at the end of 2009. For a full list of appointments effective January 1, 2010, see the Technical Director's Review of Activities.

# **OBSERVERS**

David Damant (IAASB CAG Chairman, United Kingdom)

Norio Igarashi (Financial Services Agency, Japan)

Jennifer Rand (Public Company Accounting Oversight Board, United States)

Jean-Philippe Rabine (European Commission, Belgium)

IAASB Technical Staff	Administrative Office and Contact Information

Executive Director,		International Auditing and Assurance Standards Board
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	Joanne Moores	Tel: +1-212-286-9344
	Ken Siong	Fax: +1-212-286-9570
Technical Managers	Michael Nugent	
	Jessie Wong	
Executive Assistant	Dorothy Ofori	

# COMMUNICATING WITH STAKEHOLDERS

The following lists the most significant events in which IAASB members or staff participated, or organizations they met during the year.

- · Academic Club of University of Amsterdam Forum on Crisis and Accountants, Amsterdam, the Netherlands
- · Accounting and Accountability for Regional Economic Growth (CReCER) Annual Conference, São Paulo, Brazil
- American Accounting Association 2009 Annual Meeting, New York, New York, USA
- · Audit Quality Forum, London, United Kingdom
- British Academic Association National Auditing Conference, Exeter, United Kingdom
- · Chinese Institute of Certified Public Accountants Lecture, Beijing, China
- Consultative Committee of Accountancy Bodies Training Providers Forum 2009 on Clarified ISAs for Providers of Audit Software, Training & Methodologies, London, United Kingdom
- · Council of the Institute of Certified Public Accountants of Kenya, Nairobi, Kenya
- DeBrauw Blackstone Westbroek, Presentation on Fair Value and Going Concern Issues: Recent IAASB Staff Alerts with Relevance for Auditors, Management and Lawyers, Amsterdam, the Netherlands
- · Dutch Association of General Audit Offices, Amsterdam, the Netherlands
- European Union Parliament Symposium, Brussels, Belgium
- Financial Stability Institute Seminar for Banking Supervisors, Basel, Switzerland
- · Forum of Firms Symposium on Going Concern and Related Audit Considerations, London, United Kingdom
- HLB Audit and Financial Reporting Conference, Dublin, Ireland
- HTM-tilintarkastajat ry-GRM-revisorer rf ICongress, Porvoo, Finland
- IAASB and International Ethics Standards Board for Accountants CAG Seminar, Dubai, United Arab Emirates
- · IFAC Small and Medium Practices Forum, Berlin, Germany, and Beijing, China
- Institut des Réviseurs d'Enterprises training, Luxembourg
- · Institute of Chartered Accountants in Australia Audit Conferences, Sydney and Melbourne, Australia
- · Institute of Chartered Accountants in India Diamond Jubilee Agra Conference, Delhi, India
- Institute of Chartered Accountants in India USA Study Tour, New York, New York, USA
- Inter-American Accounting Conference, Cancún, Mexico
- International Symposium on Audit Research Conference Plenary Session, Maastricht, the Netherlands
- Krajowa Izba Biegłych Rewidentów 10th Annual Auditing Conference, Jachranka, Poland
- Meeting of the European Group of Audit Oversight Bodies, Brussels, Belgium
- Meeting of the Fédération des Experts Comptables Européens Council, Brussels, Belgium
- Meeting of the Financial Audit Subcommittee of the International Organization of Supreme Audit Institutions (INTOSAI), Luxembourg and London, United Kingdom
- Meetings of the Forum of Firms, London, United Kingdom, and New York, New York, USA
- · Meetings of the Global Reporting Initiative Technical Advisory Committee, Amsterdam, the Netherlands
- Meeting of the Institute of Internal Auditors Internal Audit Governance Standards Board, Washington, D.C., USA
- Meeting of the International Forum of Independent Audit Regulators, Singapore
- Meeting of the International Organization of Securities Commissions (IOSCO) Technical Committee, Madrid, Spain, and Basel, Switzerland
- Meeting of the IOSCO Standing Committee 1, Zürich, Switzerland
- · Meeting of the Korean Auditing and Assurance Standards Board, Seoul, South Korea
- · Meeting of the Steering Committee of the Professional Standards Committee of INTOSAI, Brasilia, Brazil
- Meeting with Institut der Wirtschaftsprüfer on the adoption of International Standards on Auditing in the European Union, Amsterdam, the Netherlands

- Meeting with representatives from the International Accounting Standards Board, London, United Kingdom
- Meeting with representatives of the European Commission, Brussels, Belgium
- Nyenrode Univeriteit, Breukelen, the Netherlands
- · Organisation for Economic Co-operation and Development Working Group on Bribery, London, United Kingdom
- Polaris International Annual Conference, Monaco
- Turkish Auditing Symposium, Istanbul, Turkey
- University of Amsterdam, Amsterdam Business School Accountancy Department, Amsterdam, the Netherlands
- University of Maryland Accounting Students, New York, New York, USA
- University of Texas Symposium, Austin, Texas, USA
- · Vrije Universiteit, Amsterdam, the Netherlands



# REPORT OF THE CHAIRMAN OF THE IAASB CONSULTATIVE ADVISORY GROUP

he Consultative Advisory Group (CAG) of the IAASB provides the forum in which the representatives of the various organizations and professions, and the different geographical areas, can provide technical input to the drafts of International Standards on Auditing (ISAs), and other pronouncements developed by the IAASB, and to the IAASB's strategy.

The membership of the CAG, as at December 2009, is shown in the Appendix. It should be noted that membership is, in the large majority of cases, by organization. Representatives of the organizations attend the meetings of the CAG, but the significance of the views of the CAG is increased by the fact that, on substantial questions, it is the opinions of the organizations which can be brought to bear on the evolution of the ISAs. In my view, the CAG membership continues to represent a very adequate coverage of those organizations internationally, or within geographical areas, which represent those interested in auditing without, in most cases, being auditors or bodies representing auditors. We shall continue to work to include others in the membership of the CAG should any gaps appear in this regard.



David Damant Chairman

#### The CAG's Input to the IAASB

The Terms of Reference of the CAG state that the objective of the CAG is to provide input to and assist the IAASB in three areas:

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

These areas are covered in my report below.

#### **FULFILLING THE TERMS OF REFERENCE**

The completion of the Clarity Project has enabled the IAASB agenda to widen its scope, and a number of the CAG's priorities can now be addressed. Of those areas already in progress as a result of the last strategy review, I can mention that the CAG has always strongly supported the IAASB in meeting the needs of small- and mediumsized entities (SMEs), and has been closely involved in the revision of the IAASB's standards on reviews and compilations, International Standard on Review Engagements (ISRE) 240014 and International Standard on Related Services (ISRS) 4410,15 and more recently in the reassessment of International Standard on Assurance Engagements (ISAE) 300016 on assurance standards generally. The CAG, as well as the IAASB, has throughout been clear that "an audit is an audit," and cannot be diluted: but, where resources are constrained or legal requirements are less stringent a level of assurance less than the reasonable level which is required in an audit will be exactly relevant. The CAG took an active role in the discussion of the concept of "limited assurance."

The CAG supported the conclusion that the solution lay in the adoption of negative assurance, and that this is a free-standing concept, not tied by some proportional link with reasonable assurance. Contributions from CAG members who are themselves involved in the SME area were particularly valuable. The revision of these standards is therefore directly relevant to the needs of the SMEs, and when these revisions are complete the possibility of any further pronouncement relevant to SMEs can be considered.

For some time also the CAG has been concerned with the problems which may arise in auditing financial statements recording complex financial instruments. In this case, the issuance of the October 2009 Consultation Paper, *Auditing Complex Financial Instruments*, has been a development welcome to the CAG and the subject needs to be kept under review as the usage of complex instruments continues to grow. Other matters that have particularly interested the CAG include the proposed standard dealing with assurance on greenhouse gas (GHG) statements. This may be the first of several standards developed to meet the need for

<sup>14</sup> ISRE 2400, Engagements to Review Financial Statements

<sup>15</sup> ISRS 4410, Engagements to Compile Financial Statements

<sup>16</sup> ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Statements

audit guidance as environmental information in company reports increases. In this context, it is correct to address individual aspects of environmental reporting separately, as in the case of GHG, since very specific guidance can then be put forward within an area that is too often very wide ranging and unfocused.

The IAASB has in recent years sponsored four academic studies on the auditor's report—the report prepared by the auditor that is normally by far the most visible sign of the work of an auditor in carrying out an audit. This research, and the discussions that are now following, are therefore of central importance, whether or not ISA 700<sup>17</sup> is revised, or any conclusions otherwise promulgated. I have allocated very adequate time to these discussions at CAG meetings both past and in prospect as the breadth of experience of the CAG membership can provide relevant input. This experience will also be of value in advising the IAASB on the next stage of its work, as it is in commenting on the technical aspects of the IAASB's drafts.

#### **MEETINGS AND MEMBERSHIP**

The CAG meetings in 2009 were held in Dubai and Washington, D.C. In the case of Dubai, a seminar was also held, attended by invitees arranged by the Dubai International Financial Centre. Subsequently, the Dubai Financial Services Agency and the Abu Dhabi Securities and Commodities Authority joined the CAG as representatives under the title of the Gulf States Regulatory Authorities. In Washington, I arranged a session at which representatives of the U.S. Public Company Accounting Oversight Board (PCAOB) presented on the PCAOB's activities. The International Valuation Standards Council (which has a Memorandum of Understanding with IFAC) has also joined the CAG, a particularly important development in view of the rise in the use of fair values in financial statements. We will continue, as opportunities arise, to arrange contacts and discussions with other relevant organizations, whether they are candidates for CAG membership or alternatively valuable partners in an exchange of views or in joint activities.

The IAASB has strengthened how it liaises with the International Accounting Standards Board (IASB), as described in the Report of the Chairman of the IAASB. The relationship enables representatives of the IAASB to scruti-

nize drafts of financial reporting standards as they emerge, to judge the implications for auditing. Similarly, the IASB has for many years been represented on the CAG. The new constitution of the International Accounting Standards Committee Foundation encourages the development of ties of this kind, especially with other standard-setting bodies. This remains an important area for cooperation.

## **CONCLUSION**

This is my last report as the first independent Chairman of the CAG, having served since 2004. I take the opportunity of saying that the integrity and expertise of those involved in the work of the IAASB are of a commendable level. As someone coming from outside the auditing profession, I can observe that if there should be a subsequent scandal in the area of auditing, it will be extremely unlikely to be the result of any lack of quality in the standards on auditing and assurance, or the result of a lack of due process, or of a lack of attention paid to the public interest, in the setting of those standards. The Public Interest Oversight Board has, of course, played an important role in these last areas. No doubt, even so, improvements can always be made to the IAASB's output, especially as circumstances evolve, and the CAG is well placed to contribute to those improvements

After September 2010, this will be done under the leadership of my successor, elected by the CAG membership as Chair of the CAG, Ms. Linda de Beer, who currently represents the World Federation of Exchanges on the CAG, as a representative of the Johannesburg Stock Exchange. It is fortunate that a South African will accede to the Chair since that country bridges many differences, not least as between the developed and the developing world. Apart from the CAG, Ms. de Beer will inherit a truly professional and dedicated staff. I certainly have had tremendous support, especially from James Gunn and Kathy Healy, and from Jim Sylph over my term of office.

David Damant Chairman

Mamont

<sup>17</sup> ISA 700, Forming an Opinion and Reporting on Financial Statements

# CONSULTATIVE ADVISORY GROUP MEMBERS AND OBSERVERS

As at December 31, 2009

#### MEMBER ORGANIZATIONS

- · Asian Financial Executives Institutes
- Basel Committee on Banking Supervision
- BusinessEurope
- · CFA Institute
- · Dean of the Graduate School of Financial Management, Moscow
- European Commission
- European Federation of Accountants and Auditors for SMEs
- European Financial Executives Institutes
- · Fédération des Experts Comptables Européens
- Former Chairman of the Standards Advisory Council of the International Accounting Standards Board
- Gulf States Regulatory Authorities
- Information Systems Audit and Control Association
- Institute of Internal Auditors
- Institute of International Finance
- Instituto Brasileiro de Governança Corporativa
- · International Accounting Standards Board
- International Actuarial Association
- International Association of Insurance Supervisors
- International Bar Association
- International Corporate Governance Network
- International Organization of Securities Commissions
- International Organization of Supreme Audit Institutions
- International Valuation Standards Council
- · Islamic Financial Services Board
- Japan Securities Dealers Association
- North American Financial Executives Institutes
- Sri Lanka Accounting and Auditing Standards Monitoring Board
- United Nations Conference on Trade & Development
- · World Bank
- World Federation of Exchanges

## **OBSERVERS**

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

# IAASB Contact Information

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