

INTERNATIONAL FEDERATION OF ACCOUNTANTS

CHARTING A NEW COURSE FOR THE FUTURE

2003 ANNUAL REPORT



International Federation of Accountants 2003 Annual Report

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International Federation of Accountants

Our Mission

The International Federation of Accountants (IFAC) is the worldwide organization for the accountancy profession. Its mission is to serve the public interest, strengthen the worldwide accountancy profession, 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.

Our Membership

IFAC comprises 156 member organizations in close to 120 countries. These organizations represent over two million accountants employed in public practice, government, academia, and business and commerce. IFAC works closely with regional accountancy bodies in serving this diverse membership.

Our Values

The international profession is united by a commitment to three common values: integrity, expertise, and transparency. These values are reflected in IFAC's strategic plan as well as in its professional standards. They guide IFAC's leadership in its decision-making processes.



MESSAGE FROM IFAC PRESIDENT RENÉ RICOL CHARTING A NEW COURSE TO GREATER CREDIBILITY



Public confidence in the accounting profession is key not only to the effectiveness of the profession but, more importantly, to the effective operations of businesses, both large and small, to the public sector, to capital market growth, and, ultimately, to economic stability worldwide. As the global representative of the international accounting profession, IFAC assumed the challenge of building credibility both in the profession and in the work accountants perform. During 2003, we met this challenge by charting a new course for our future in three key ways:

- By accepting the up-hill challenge to enhance credibility in the profession;
- By focusing on how we could better meet our public-interest responsibilities; and
- By promoting integrity as the core value of our profession.

As I look ahead, I am confident that the profession will be guided by an overall desire to do the right thing, to be guided by the principles of integrity, expertise, and transparency.

We took the road “up the hill.”

In remarks I made to the World Congress of Accountants in November 2002, I emphasized that accountants worldwide must

take the road “up the hill”— we must mobilize our strengths, work hard, and focus on rebuilding confidence in the profession and in financial markets in general. Thanks to a strong and dedicated IFAC Board, very active committee members and staff, and supportive member bodies, firms, and regional accountancy organizations, we have made progress on our climb up the hill.

During 2003, IFAC reconsidered its role in serving the public interest and changed its mission statement to better reflect this commitment. We moved forward on the development of quality control guidance at both the firm and individual engagement levels and became a visible and vocal spokesperson on corporate governance issues. We looked to further strengthen our own profession by changing, through IFAC, the way the international profession is governed and the way international standards are set. And we laid the foundation for a new member body compliance program.

We asked, “How can we do our job better?”

During 2003, IFAC leadership met with international regulators, standard setters, member bodies, firms, and financial institutions to seek their input on how the accounting profession could more effectively carry out its public-interest responsibilities and demonstrate the quality of its work to the public. Such input was vital in the development of IFAC’s



“Proposals for Reform” and represented a benchmark for the international profession. It demonstrated that when all those involved in the development, provision, and regulation of financial reporting work together, we can effect change that is in the best interests of the public.

IFAC’s reform proposals were unanimously approved by IFAC’s Council and supported by the Forum of Firms and international regulators. The proposals, which are in the process of being implemented, provide for a more transparent standard-setting process and greater public and regulatory input into that process. They also call for the establishment of a Public Interest Oversight Board. This is explained in more detail on pages eight and nine.

To carry out our responsibilities more effectively, IFAC leadership realized it was necessary to provide a means for the voices of all accountants to be heard. For this reason, task forces on developing nations and small and medium practices were actively involved in IFAC activities throughout 2003 and, in November, the Board agreed to establish permanent task forces in each of these areas. The input of these groups is critical to the achievement of some of IFAC’s most important goals, such as achieving convergence to international standards and supporting the development of national economies.

We made a recommitment to integrity.

I am a firm believer that integrity is at the heart of our professionalism and must guide us in all our decision-making. It is embraced in the IFAC *Code of Ethics for Professional Accountants*, which is applicable to all accountants. It is evident in the declaration that is now made by

IFAC leadership, committee chairs, and committee members to work in the best interests of the profession and the public. It is also embodied in the IFAC nominating process which seeks to identify individuals who exemplify integrity to serve on IFAC committees and boards.

Although there are many challenges that lie ahead, I look back with pride at the commitment of so many members of the international accountancy profession to put the public interest first, and as I look ahead, I am confident that the profession will be driven by an overall desire to do the right thing, to be guided by the principles of integrity, expertise, and transparency.

I firmly believe that integrity is at the heart of our professionalism and must guide us in all our decision-making.

I thank IFAC’s Board and committee members, IFAC’s Chief Executive Ian Ball, and the IFAC directors and staff for all they do every day to keep the international profession focused on these principles and for contributing their time and talents to the challenge of building credibility in our profession.

René Ricol

MESSAGE FROM IFAC CHIEF EXECUTIVE IAN BALL

DRIVING CHANGE AND ACCOUNTABILITY



For the international accountancy profession, 2003 was a year of challenge and change as members of the profession and those who regulate it looked for new ways to build trust in financial systems and in the information produced by those systems. IFAC, too, took a leadership role in building public trust by re-examining its mission, operations, and activities, and in seeking wide input from its many constituents and stakeholders.

Together with the leadership of accountancy bodies, firms, and regulators worldwide, IFAC developed a plan to build confidence in the

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accountancy profession and in financial reporting in general. This plan — “Proposals for Reform,” described in the President’s Message and elsewhere in this report — became our guidepost. It resulted in wide-ranging changes in IFAC’s governance, in how our committees operate, in the focus of our communications, and in staff and resource allocations. The changes are also reflected in IFAC’s new Strategic Plan for 2004–2007, approved by IFAC’s Council in November.

IFAC’s Constitution was changed to provide for more member body input through an expanded Board, as well as for public input through the inclusion of public members in our standard-setting processes. We also put in place a plan to review the standard-setting processes of our Public Interest Activity Committees (PIACs) — the Education Committee, Ethics Committee, and International Auditing and Assurance Standards Board (IAASB) — and appointed an external group to conduct a review of IFAC’s Public Sector Committee (PSC). The IFAC Member Body Compliance Program was formally established and its implementation accelerated. Our goal was simple: To assess how the processes and structures needed to be strengthened or modified to meet IFAC’s renewed public-interest commitment and regulatory responsibilities.

At the same time, we placed an increased focus on transparency. This focus resulted in increased communication with regulators, standard setters, and representatives of financial institutions and enabled the public to attend many IFAC committee meetings. It also resulted in greater public access, through IFAC’s Web site, to information about IFAC’s operations and committee programs and processes. In addition to making IFAC’s international standards and guidance freely accessible through the Web site, individuals also may download committee

agendas, minutes, and background papers and register to attend PIAC and PSC meetings.

IFAC also increased the budget for the Professional Accountants in Business Committee, which expanded the committee's collaborative role with member bodies. Further supporting and complementing IFAC's reform efforts, the committee focused on matters relating to corporate governance, ethics, and sustainability.

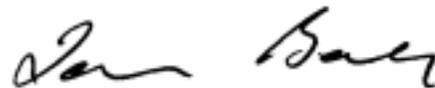
Additionally, IFAC increased staff to support two key areas: IAASB and compliance. Expanding IAASB resources was necessitated, in part, by the need to accelerate the standards-development process in light of the impending European adoption of International Standards on Auditing.

In early 2003, IFAC completed its move into new offices at 545 Fifth Avenue, which provide a more professional working environment and meeting room space.

I am confident that the reforms and the changes in process, focus, and structure that

occurred in 2003 will position IFAC to be increasingly supportive of member body needs and better meet future challenges.

The accomplishments of the last year would not have been possible without the leadership of President René Ricol, Deputy President Chuck Horstmann, and the IFAC Board. We also relied on the efforts of our many committee and task force volunteers, the support of member bodies and regional accountancy organizations, the commitment of the Forum of Firms, and the dedication of IFAC's management team and staff to meet challenges with enthusiasm and resolve. For this, I am very grateful.



Ian Ball



IFAC Management Team

(Left to right) Jim Sylph, IAASB technical director; Russell Guthrie, director of the Transnational Auditors Committee and Compliance; Stephen Walker, director of operations; and Paul Sutcliffe, PSC technical director.



Charting a New Course for the Future

As the international accountancy profession confronted unprecedented challenges in 2003, the International Federation of Accountants took unprecedented action to help shape a future in which the public interest would be best served. Those actions, carried out by IFAC's Board and committees with input and support from IFAC's 156 member bodies and regional accountancy organizations, were focused on building credibility in financial reporting, strengthening standard setting, and enhancing IFAC's governance and role in encouraging quality performance by the world's accountants. As a result, 2003 could be characterized not only as a year of fundamental change, but also as one in which there was increased communications and outreach, greater involvement of member bodies, and a clear focus on quality at every level.

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Building Credibility

Recognizing that public confidence in financial information is vital to capital market growth and economic development, in late 2002, IFAC began laying the foundation for major reforms to build trust in the financial reporting process, and the accounting profession in general. In 2003, after extensive consultations with member bodies, regional accountancy organizations, firms, and international regulators, those reforms began to take shape. Unanimously adopted by IFAC's Council in November and with the support of worldwide regulators and the Forum of Firms, the reforms include the following:

- The establishment of a Public Interest Oversight Board to oversee IFAC's standard-setting and compliance regimes;
- Increased transparency with respect to IFAC governance and its international standard-setting activities;
- Broad-based public participation in IFAC standard-setting activities; and

IFAC Reform Overview — Key Groups

Public Interest Oversight Board (PIOB) — This board, comprising 10 members, will oversee IFAC standard-setting activities in the areas of audit performance standards, independence, and other ethical standards for auditors, audit quality control and assurance standards, and education standards. It will also oversee IFAC's Member Body Compliance Program. The Monitoring Group will select the members of the PIOB.

Monitoring Group (MG) — The MG comprises international regulators and related organizations including representatives of the International Organization of Securities Commissions, the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Forum, the International Association of Insurance Supervisors, and the World Bank. The MG will update the PIOB regarding significant events in the regulatory environment and, among other things, will be the vehicle for dialogue between regulators and the international accountancy profession.

IFAC Leadership Group (LG) — The LG includes the IFAC president, deputy president, chief executive, and the chairs of the IAASB, the Transnational Auditors Committee, and the Forum of Firms, as well as other members designated by the IFAC Board. It will work with the MG and address issues related to the regulation of the profession. The Board is proposing that the name of the IFAC Leadership Group be changed to the "IFAC Regulatory Liaison Group."

- A more formal process for maintaining ongoing dialogue with international regulators.

These reforms, to be put in place in 2004, are not the end but, rather, the beginning of an ongoing process of ensuring that IFAC is both attentive and responsive to public interest issues.

While IFAC recognizes that the accountancy profession has a critical role to play in building trust in the financial reporting process, an independent task force concluded that this is not a challenge to be addressed only by auditors. In its report, *Rebuilding Public Confidence in Financial Reporting* (Credibility Report), the special task force chaired by John Crow, former Governor of the Bank of Canada, emphasized that all those involved in financial reporting — including management, audit committees, boards of directors, financial analysts, lawyers, and others — need to be more active and responsible participants in the process. The report, issued in August 2003, features recommendations for strengthening



corporate governance, improving audit effectiveness, and raising the standard of regulation of issuers.

IFAC's member bodies have been considering the implications of the report's recommendations at the national level. In addition, the Professional Accountants in Business (PAIB) Committee is developing guidance for professional accountants in business on enterprise governance and other related areas.

A Renewed Focus on Ethics and Integrity

A critical finding in the Credibility Report is that integrity — both individual and institutional — is essential for building confidence in financial reporting, and, therefore, needs to be fostered more actively. Reinforcing integrity has been a major focus of the work of IFAC's Ethics Committee. IFAC had strengthened its Code of Ethics in 2001, updating its independence rules to provide "principles-based" guidance to public accountants. During 2003, the Ethics Committee developed an exposure draft (ED) extending that principles-based approach by establishing the fundamental principles of professional ethics for professional accountants and providing a conceptual framework for applying those principles. The



IFAC 2003 Board Members

Back row (from left to right): Fermín del Valle, Jean-François Cats, Pat Barrett, Wolfgang Fliess, Guy Almeida Andrade, Ndung'u Gathinji, Graham Ward, André Bindenga, Ian Ball (Chief Executive), Peter Wong. Front row (from left to right): Kesree Narongdej, Ignatius Sehoole, Chuck Horstmann (Deputy President) René Ricol (President) Guylaine Saucier, Shozo Yamazaki, Aki Fujinuma (Past President). Not pictured: Angelo Casò, N.D. Gupta.

conceptual framework requires all professional accountants to identify, evaluate, and address threats to fundamental principles.

The ED specifically expands guidance for all individual accountants by addressing integrity, objectivity, professional competence, confidentiality, and professional behavior. Additionally, the ED recommends that the Code be elevated from a “model code” on which to base national requirements to a “standard” requiring IFAC member body and firm compliance.

Focusing on Quality

Over the past year, IFAC also considered how to more effectively involve member bodies in influencing the quality of services provided by firms, and, as a result, undertook several “quality” initiatives. In July 2003, the Board unanimously approved an IFAC Member Body Compliance Program designed to support member bodies in their efforts to converge national standards with international standards and to assist them in developing workable action plans to make this occur. A key component of the compliance program is a requirement that each of IFAC’s 156 member organizations evaluate and report on the extent to which they are monitoring their members’ compliance with international standards through a quality assurance mechanism and an investigations and discipline process. The first phase of the program, “Assessment of the Regulatory and Standard-Setting Framework,” was scheduled for release in March 2004.

Seven Statements of Membership Obligations (SMOs), exposed for comment in 2003, will serve as the foundation of the compliance program. The SMOs outline IFAC membership obligations regarding quality assurance, investigations, and discipline, as well as member responsibilities for promoting and implementing international standards developed by IFAC and by the International Accounting Standards Board (IASB). These new statements are intended to go into effect in 2004 and 2005.

The Forum of Firms and Transnational Auditors Committee (TAC) also undertook a number of initiatives in 2003 to improve audit quality. These initiatives included:

- A study on the global application of International Financial Reporting Standards;
- A study on globally directed internal inspection programs — with the release of these studies scheduled for the first quarter of 2004;



Reinforcing integrity has been a major focus of the work of IFAC's Ethics Committee.

- Participation in various standard-setting initiatives, including standards on quality control;
- Development of a voluntary global inspection program for Forum members and successful completion of one Design Review in 2003; and
- Active participation in the development of the IFAC reforms.

Additionally, firms are undertaking projects in 2004 to increase transparency of their international structures, governance, and quality control practices.

Standard-Setting Initiatives

Approximately 40 international standards and exposure drafts were issued in 2003, with a particular focus on areas that most enhanced the competency and performance of the profession. In addition, those committees responsible for issuing standards — the International Auditing and Assurance Standards Board, Ethics Committee, Education Committee, and Public Sector Committee — took actions to increase public input into their standard-setting processes and to promote greater convergence.

Education Committee Issues First International Education Standards

An important achievement was the issuance of the first six International Education Standards (IESs) in October 2003 (see page 22). The standards are designed to promote consistency and convergence in the accounting education processes adopted throughout the world. It is anticipated that the new standards will support greater global mobility of competent professional accountants and contribute to greater mutual recognition and cooperation among professional accountancy bodies around the world.

IESs are a critical component of IFAC's overall efforts to ensure high-quality performance by professional accountants worldwide by providing the foundation to achieve convergence of technical and practice standards. Member bodies are expected to comply with the new standards beginning January 2005.

IAASB Focuses on Public Interest Issues

In 2003, IAASB standard setting focused on the revision and development of auditing standards for historical financial statements and on continuing efforts to achieve greater transparency and public input with respect to its standard-setting processes.



The identification and selection of standards for review or development placed priority on those that will together ultimately drive enhanced auditor performance, thereby improving the credibility of financial reporting. In general, the IAASB addressed standards in four main categories:

- Standards that underlie the overall performance of the audit;
- Standards that address how auditors report and communicate their responsibilities and findings;
- Standards that address considerations and procedures in areas of highest audit risk; and
- Standards that address quality control at both the firm level and the individual engagement level.

To serve the public interest, attention has also been placed on addressing the ever-increasing demand for other assurance services. This has been accomplished through a fundamental revision of IAASB's framework for assurance services and the issuance of standards and guidance on assurance engagements other than audits or reviews of historical financial information. In addition, the IAASB is evaluating ways in which the clarity of its standards can be improved to ensure that IAASB's standards are concise, definitive, and capable of consistent application, and to ensure their accurate translation. (For a complete listing of IAASB standards issued in 2003, see page 21.)

The IAASB has continued active and constructive dialogue with stakeholders, thereby strengthening working relationships. The IAASB chair, members, and staff have worked towards building trust within these relationships by ensuring continuity of contacts, by collaboratively exploring ways to move forward, and by attendance at relevant meetings of such organizations as the International Organization of Securities Commissions, the European Union Committee on Auditing (chaired by the European Commission), and the Basel Committee on Banking Supervision. In addition, the IAASB's relationship and close coordination with national auditing standard setters have also continued to strengthen. Through its semi-annual meeting with the ten most active national auditing standard setters, the IAASB and national auditing standard setters have enjoyed collaboration on three joint projects and coordination of work agendas.

Convergence to IAASB standards is expected to continue as the European Commission requirement for adherence to these standards in the 8th Directive provides further impetus to converge.

IESs are a critical component of IFAC's overall efforts to ensure high-quality performance by professional accountants worldwide.

PSC Invites Broader Public Input

In the public sector arena, IFAC's PSC continues to drive high quality financial reporting by governmental and other public sector entities worldwide through the development of International Public Sector Accounting Standards (IPSASs) and related guidance.

Global recognition of IPSASs continued to increase in 2003 with the World Bank's acceptance of the standards for purposes of preparing financial reports on Bank-financed activities.

In 2003, PSC developed guidance to assist accountants in migrating to the accrual basis of accounting and published an IPSAS dealing with financial reporting under the cash basis of accounting. The PSC also developed two Invitations to Comment: *Accounting for Social Policies of Governments* and *Revenue from Non-Exchange Transactions (including Taxes and Transfers)*. For a complete list of PSC guidance released in 2003, see page 23.

During 2003, the PSC increased the involvement of its various stakeholders in several significant ways:

- Through the involvement of steering committees for specific projects, such as accounting for social policies of governments and accounting for non-exchange revenue;
- Through the reestablishment of the PSC Consultative Group comprising representatives of governmental and other public sector entities; and
- By collaborating with other public sector standard-setting groups through a newly formed Task Force on the Harmonization of Public Sector Accounting.

This outreach to stakeholders will continue in 2004 as the PSC looks to strengthen its standard-setting processes. An external Review Group is examining the PSC's current processes to make recommendations ensuring that they are transparent, efficient, and inclusive of key interests.

Facilitating Involvement and Collaboration

In addition to its standard-setting role, IFAC seeks to strengthen the international profession by facilitating collaboration with member bodies and encouraging the active input and involvement of all professional accountants, especially professional accountants in business, those employed by small and medium practices and enterprises, and those working in developing nations and economies in transition.

Global recognition of IPSASs continued to increase in 2003.

The Professional Accountants in Business Committee (formerly the Financial and Management Accounting Committee) sought to clarify its focus and established its priorities based on a research study of member body interests and needs. It also engaged in discussion with member bodies and other related groups to determine how it could most effectively support their needs and collaborate for the mutual benefit of the profession. Among the issues addressed by the PAIB committee in 2003 were enterprise governance and sustainability.

The perspectives of SMPs and developing nations are also represented within IFAC. The establishment of these two permanent task forces was endorsed by the IFAC Council in November 2003 to ensure that these segments are represented in the development of various pronouncements and projects. The SMP Task Force has also completed guidance on the theme of controlling computers in business.

Serving as International Spokesperson

To support its varied constituencies and the publics they serve, spokespersonship is an IFAC priority. IFAC leadership and staff presented more than 200 presentations around the world over the course of the year and approximately 50 news items were released, including media releases, newsletters, and electronic news documents. The releases publicized IFAC's initiatives to increase public awareness of the international profession's role in the global economy and to call others to action in protecting the rights of investors and other key groups.

As IFAC looks to the future, its work will be driven by a combination of external forces and internal initiatives as outlined in its strategic plan. Through its various outreach efforts and dialogue with regulators and others, it will remain attuned to the needs of the public as well as to the needs of professional accountants who rely on IFAC's guidance. An ongoing self-assessment process will help to ensure that IFAC remains on the right course in building public confidence in the profession and its services.



IFAC Board Members — November 2002 to November 2003

René Ricol, President, *France*
Charles Horstmann, Deputy
President, *United States*
Guy Almeida Andrade, *Brazil*
Patrick Barrett, *Australia*
André Bindenga, *Netherlands*
Angelo Casò, *Italy*

Jean-François Cats, *Belgium*
Juan José Fermín del Valle, *Argentina*
Wolfgang Fliess, *Germany*
Ndung'u Gathinji, *Kenya*
N.D. Gupta, *India*
Kesree Narondej, *Thailand*
Guylaine Saucier, *Canada*

Ignatius Schoole, *South Africa*
Graham Ward, *United Kingdom*
Peter Wong, *Hong Kong*
Shozo Yamazaki, *Japan*

IFAC Committee Members

Compliance Advisory Panel (established in November 2003)

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

Compliance Committee (Compliance Committee disbanded in July 2003)

Wim de Bruijn, Chair, *Netherlands*
Mohammad Bin Abdullah, *Malaysia*
Lino De Vecchi, *Italy*
Bhavna Doshi, *India*
Ferenc Eperjesi, *Hungary*
Claire Patricia Hayle, *Jamaica*
Norio Igarashi, *Japan*
Peter Langard, *United Kingdom*
Vinicio Martins Presti, *Brazil*
Robert Mednick, *United States*
Yves Nicolas, *France*
Mustafa Ozyurek, *Turkey*
Mahesh Shah, *India*
Alvin Tak Wai Wong, *Hong Kong*

Education Committee

Warren Allen, Chair, *New Zealand*
Ramanathan Bupathy, *India*
Alain Burlaud, *France*
Yoram Eden, *Israel*
Gary Holstrum, *United States*
David Hunt, *United Kingdom*
Bohumil Král, *Czech Republic*
Shuang Li, *China*
Steve McGregor, *South Africa*
Dato' Ab. Halim bin Mohyiddin,
Malaysia
Héctor Carlos Ostengo, *Argentina*
Shirley Reilly, *Canada*
Henry Saville, *Ireland*
Abdul Rahim Suriya, *Pakistan*

Ethics Committee

Marilyn Pendergast, Chair,
United States
Christine Catasta, *Austria*
Francisco Papellás Filho, *Brazil*
Michael Foulds, *United Kingdom*
Richard George, *Ireland*
Akira Hattori, *Japan*
Thierry Karcher, *France*
Pekka Luoma, *Finland*
Wim Moleveld, *Netherlands*
Graf Von Treuberg, *Germany*
Donald Wray, *Canada*

International Auditing and Assurance Standards Board

Dietz Mertin, Chair, *Germany*
Denise Esdon, Vice Chair, *Canada*
John Archambault, *United States*
Philip Ashton, *United Kingdom*
Roger Dassen, *Netherlands*
Denis Desautels, *Canada*
Ana Maria Elorrieta, *Brazil*
Jan Bo Hansen, *Denmark*
Gen Ikegami, *Japan*
Suresh Kana, *South Africa*
John Kellas, *United Kingdom*
Ian McPhee, *Australia*
Edmund Noonan, *United States*
Ian Plaistowe, *United Kingdom*
Roger Simnett, *Australia*
Roberto Tizzano, *Italy*
Gérard Trémolière, *France*
Zhiguo Yang, *China*

Nominating Committee

René Ricol, President, *France*
Charles Horstmann, Deputy
President, *United States*
Ronald Cohen, *United States*
Wolfgang Fliess, *Germany*
Manuel Sanchez y Madrid, *Mexico*
Shozo Yamazaki, *Japan*

IFAC Committee Members (continued)

Professional Accountants in Business Committee

William Connell, Chair, *United Kingdom*
William L. Brower, Jr., *United States*
Edward Chow, *Hong Kong*
Pichai Chunhavajira, *Thailand*
Raymond Darke, *Canada*
Rodolfo Di Dato, *Italy*
Abolghasem Fakharian, *Iran*
Santiago Lazzati, *Argentina*
Yeo Tek Ling, *Malaysia*
Recep Pekdemir, *Turkey*
John Petty, *Australia*
Gerhard Prachner, *Austria*
Srinivasan Ramanathan, *India*
Patrick Rochet, *France*
Peter A.M. Sampers, *Netherlands*

Public Sector Committee

Ian Mackintosh, Chair, *Australia*
Philippe Adhémar, *France*
Peter Bartholomeus, *Netherlands*
Mike Hathorn, *United Kingdom*
Rick Neville, *Canada*
Terence Nombembe, *South Africa*
Tom Olsen, *Norway*
Carmen Giachino Palladino, *Argentina*
Ronald Points, *United States*
Javier Pérez Saavedra, *Mexico*
Kevin Simpkins, *New Zealand*
Norbert Vogelpoth, *Germany*

Transnational Auditors Committee

Robert Garland, Chair, *Deloitte Touche Tohmatsu*
John Archambault, *Grant Thornton, LLP*
Peter Chidgey, *BDO*
John Cox, *Moore Rowland*
Jean Pierre Crouzet, *RSM Salustro Reydel*
Randy Fletchall, *Ernst & Young*
Paul Ginman, *Baker Tilly International*
Julian Jacoby, *Horwath International*
Neil Lerner, *KPMG*
David Morris, *PricewaterhouseCoopers*
Andrew Nicholl, *Moore Stephens International Ltd.*

IFAC Task Force Members

Developing Nations Task Force

Ndung'u Gathinji, Chair, *Kenya*
Aziz Dieye, *Senegal*
Rached Fourati, *Tunisia*
Laurie Gillow, *United Kingdom*
Anthony Hegarty, *United States*
Tatiana Krylova, *Switzerland*
Ignatius Sehoole, *South Africa*

Small and Medium Practices Task Force

Angelo Casò, Chair, *Italy*
Paul M P Chan, *Hong Kong*
Ashok Chandak, *India*
Mohamed Ali Elaouani Cherif, *Tunisia*
Dale Gislason, *Canada*
Alex Hilman, *Israel*
Robin Jarvis, *United Kingdom*
Harold Monk, *United States*
Bernard Scicluna, *Malta*

Task Force on Rebuilding Public Confidence in Financial Reporting

John Crow, Chair, *Canada*
Christian Aubin, *France*
Olivia Kirtley, *United States*
Kosuke Nakahira, *Japan*
Ian Ramsay, *Australia*
Guylaine Saucier, *Canada*
Graham Ward, *United Kingdom*



Full Members

Argentina

- Federación Argentina de Consejos Profesionales de Ciencias Económicas

Australia

- CPA Australia
- Institute of Chartered Accountants in Australia

Austria

- Institut Österreichischer Wirtschaftsprüfer
- Kammer der Wirtschaftstrehänder

Bahamas

- Bahamas Institute of Chartered Accountants

Bahrain

- Bahrain Accountants Association

Bangladesh

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

Barbados

- Institute of Chartered Accountants of Barbados

Belgium

- Institut des Experts Comptables
- Institut des Reviseurs 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

- Institute of Chartered Accountants of Cameroon

Canada

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

Chile

- Colegio de Contadores de Chile

China

- 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

- 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

Dominican Republic

- Instituto de Contadores Públicos Autorizados de la República Dominicana

Egypt

- Egyptian Society of Accountants & Auditors

El Salvador

- Corporacion de Contadores de El Salvador
- Instituto Salvadoreño de Contadores Públicos

Federation of Republics of Serbia and Montenegro

- Serbian Association of Accountants and Auditors

Fiji

- Fiji Institute of Accountants

Finland

- HTM-tilintarkastajat ry
- KHT-yhdistys-Föreningen CGR ry

France

- Compagnie Nationale des Commissaires aux Comptes
- Ordre des Experts Comptables

Georgia

- Georgian Federation of Professional Accountants and Auditors

Germany

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

Ghana

- Institute of Chartered Accountants (Ghana)





- Greece**
- Institute of Certified Public Accountants of Greece
- Guatemala**
- Instituto Guatemalteco de Contadores Públicos y Auditores
- Guyana**
- Institute of Chartered Accountants of Guyana
- Haiti**
- Ordre des Comptables Professionnels Agréés d’Haiti
- Honduras**
- Colegio de Peritos Mercantiles y Contadores Públicos
- Hong Kong**
- Hong Kong Society of Accountants
- Hungary**
- Chamber of Hungarian Auditors
- Iceland**
- Félag löggiltra Endurskoðenda
- India**
- Institute of Chartered Accountants of India
 - Institute of Cost and Works Accountants of India
- Indonesia**
- Indonesian Institute of Accountants
- Iran**
- Iranian Institute of Certified Accountants
- Iraq**
- Association of Public Accountants and Auditors (Iraq)
- Ireland**
- Institute of Certified Public Accountants in Ireland
 - 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**
- Institute of Chartered Accountants of Jamaica
- Japan**
- 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**
- 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**
- Society of Accountants in Malawi
- Malaysia**
- Malaysian Institute of Accountants
 - Malaysian Institute of Certified Public Accountants
- Malta**
- Malta Institute of Accountants
- Mexico**
- Instituto Mexicano de Contadores Públicos, A.C.
- Namibia**
- Institute of Chartered Accountants of Namibia
- Netherlands**
- Koninklijk Nederlands Instituut van Registeraccountants
- New Zealand**
- Institute of Chartered Accountants of New Zealand
- Nicaragua**
- Colegio de Contadores Públicos de Nicaragua
- Nigeria**
- Institute of Chartered Accountants of Nigeria
- Norway**
- Den norske Revisorforening
- Pakistan**
- Institute of Chartered Accountants of Pakistan
 - Institute of Cost and Management Accountants of Pakistan
- Panama**
- Colegio de Contadores Públicos Autorizados de Panamá
- Paraguay**
- Colegio de Contadores de Paraguay
- Peru**
- Federación de Colegios de Contadores Públicos del Perú
- 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**
- Institute of Professional Accountants of Russia
- Saudi Arabia**
- Saudi Organization for Certified Public Accountants

2003 IFAC MEMBER BODIES

Sierra Leone

- Institute of Chartered Accountants of Sierra Leone

Singapore

- Institute of Certified Public Accountants of Singapore

Slovakia

- Slovenska Komora Auditorov

Slovenia

- Slovenian Institute of Auditors

South Africa

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

Spain

- Instituto de Censores Jurados de Cuentas de Espana

Sri Lanka

- Institute of Chartered Accountants of Sri Lanka

Sudan

- Sudan Council of Certified Accountants

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 Tanzania

Thailand

- Institute of Certified Accountants and Auditors of Thailand

Trinidad and Tobago

- 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

- Association of Chartered Certified Accountants
- Chartered Institute of Management Accountants
- Chartered Institute of Public Finance and Accountancy
- Institute of Chartered Accountants in England & Wales
- 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 y Economistas del Uruguay

Venezuela

- Federación de Colegios de Contadores Públicos de Venezuela

Vietnam

- Vietnam Accounting Association

Zambia

- Zambia Institute of Chartered Public Accountants

Zimbabwe

- Institute of Chartered Accountants of Zimbabwe

Associate Members

Albania

- Albanian Institute of Authorized Chartered Accountants

Azerbaijan Republic

- Chamber of Auditors of Azerbaijan Republic

Federation of Republics of Serbia and Montenegro

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

Ireland

- Institute of Accounting Technicians in Ireland

Kyrgyzstan

- Union of Accountants and Auditors of Kyrgyzstan

Lithuania

- Lithuanian Chamber of Auditors

Mongolia

- Mongolian Institute of Certified Public Accountants

Nepal

- Institute of Chartered Accountants of Nepal

Pakistan

- Pakistan Institute of Public Finance Accountants

Republic of Moldova

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

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

Affiliate Members

Bahrain

- Accounting and Auditing Organization for Islamic Financial Institutions

France

- Fédération Internationale des Experts Comptables Francophones

United States

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

Standards and Statements

Description

IFAC develops and maintains high quality international standards for application by a wide range of users. The standards cover the areas of auditing and assurance, educational and ethical requirements for professional accountants, and governmental (public sector) accounting and financial reporting.

Service Delivered

1. Auditing and Assurance Pronouncements

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

- International Standard on Auditing (ISA) 200, *Objective and General Principles Governing an Audit of Financial Statements* (amendment), October
- ISA 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, October
- ISA 330, *The Auditor's Procedures in Response to Assessed Risks*, October
- ISA 500, *Audit Evidence* (revised), October
- *International Framework for Assurance Engagements* (revised), December
- International Standard on Assurance Engagements (ISAE) 2000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, December
- International Auditing Practice Statement (IAPS) 1005, *The Special Considerations in the Audit of Small Entities* (revised), October
- IAPS 1014, *Reporting by Auditors on Compliance with International Financial Reporting Standards*, March

1.2. Exposure drafts issued by the IAASB:

- Proposed ISA 220, *Quality Control for Audit Engagements* (revision), May
- Proposed ISA 240, *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements* (revision), July
- Proposed ISA 300, *Planning the Audit* (revision), July
- Proposed ISA 600, *The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements* (revision), December
- Proposed ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* (revision)¹, December
- Proposed ISA XX, *Review of Interim Financial Information Performed by the Auditor of the Entity*, May
- Proposed International Standard on Quality Control (ISQC) 1, *Quality Control for Audit, Assurance and Related Services Practices*, May
- Proposed IAPS, *The Audit of Group Financial Statements*, December

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

- ISA 230, *Documentation* (revision)
- ISA 260, *Communications of Audit Matters with Those Charged with Governance* (revision)
- ISA 320, *Materiality* (revision)
- ISA 540, *Accounting Estimates* (revision)
- ISA 701, *Modifications to the Independent Auditor's Report* (revision)

¹ Including proposed amendment to ISA 200, *Objective and General Principles Governing an Audit of Financial Statements*, and ISA 210, *Terms of Audit Engagements*, and conforming amendment to various ISAs.



1.4. The IAASB due process applied in the development of all IAASB standards includes:

- IAASB meetings that 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 forces appointments include individuals who are not members of the IAASB
- Input received from the Consultative Advisory Group² (CAG) to the IAASB on specific issues
- The inclusion of three public members on the IAASB

2. Education Pronouncements

2.1. Pronouncements issued by the Education Committee:

- *Framework for International Education Statements*, October
- *Introduction to International Education Standards*, October
- International Education Standard (IES) 1, *Entry Requirements to a Program of Professional Accounting Education*, October
- IES 2, *Content of Professional Accounting Education Programs*, October
- IES 3, *Professional Skills*, October
- IES 4, *Professional Values, Ethics and Attitudes*, October
- IES 5, *Practical Experience Requirements*, October
- IES 6, *Assessment of Professional Capabilities and Competence*, October
- International Education Guideline (IEG) 11, *Information Technology for Professional Accountants*, January

2.2. Exposure draft issued by the Education Committee:

- Proposed IES 7, *Continuing Professional Development*, October

2.3. Progress has been made on the following education projects:

- Assessment Methods
- Education Requirements for Audit Specialists

2.4. The Education Committee due process applied in the development of all Education Committee standards includes:

- Draft standards and guidelines are exposed for public review and comment
- Consideration of comments received prior to finalization of the document

3. Ethic's Pronouncements

3.1. Exposure drafts issued by the Ethics Committee:

- Code of Ethics Part A, *Applicable to all Professional Accountants*
- Code of Ethics Part B, *Applicable to Professional Accountants in Public Practice* (except for Section 8, *Independence for Assurance Engagements*)
- Code of Ethics Part C, *Applicable to Employed Professional Accountants*

3.2. Progress has been made on the following projects by the Ethics Committee:

- Section 8 of Code of Ethics Part B, *Applicable to Professional Accountants in Public Practice*

3.3. The Ethics Committee due process applied in the development of the Code of Ethics includes:

- Draft standards are exposed for public review and comment
- Consideration of comments received prior to finalization of the document

² The CAG to the IAASB is comprised of individuals representing different groups of constituents in order to provide input and feedback on the IAASB work program, project priorities, and major technical issues.



4. Public Sector Pronouncements

4.1. Pronouncements issued by the Public Sector Committee (PSC):

- International Public Sector Accounting Standard (IPSAS), Cash Basis IPSAS: *Financial Reporting Under The Cash Basis of Accounting*, January

4.2. Exposure drafts issued by the PSC:

- Exposure Draft 23, Proposed IPSAS XX *Impairment of Assets*, September

4.3. Progress has been made on the following public sector accounting projects:

- Accounting for Development Assistance
- Accounting for Social Policies of Governments
- Budget Reporting
- Harmonization of Government Financial Reporting
- Revenue from Non-Exchange Transactions
- Improvements to Existing IPSASs in line with the IASB's General Improvements Project

4.4. The PSC due process applied in the development of the IPSASs includes:

- PSC meetings open to the public, with related agenda materials publicly available
- Draft standards exposed for public review and comment
- Consideration of comments received prior to finalization of the document
- Steering committee appointments include individuals who are not members of the PSC
- Inclusion of observers from external organizations on the PSC

5. Statements of Membership Obligations

5.1. Exposure drafts issued by the IFAC Board in July:

- Proposed Statement of Membership Obligation (SMO) 1, *Quality Assurance*
- Proposed SMO 2, *International Education Standards*
- Proposed SMO 3, *International Standards on Auditing*
- Proposed SMO 4, *IFAC Code of Ethics for Professional Accountants*
- Proposed SMO 5, *Public Sector Accounting Standards*
- Proposed SMO 6, *Investigations and Discipline*
- Proposed SMO 7, *International Financial Reporting Standards*



Guidance and Publications

Description

IFAC develops and produces various forms of guidance and publications intended to either support IFAC pronouncements or as stand-alone publications. The level of authority associated with these guidance and publications materials is intended to be less than that associated with IFAC standards and statements, although these materials may provide illustrations of best or good practices. The topic areas covered by these publications may include auditing and assurance, education, ethics, financial and management accounting, public sector accounting, and small and medium practices.

Service Delivered

1. Guidance

1.1. Auditing and assurance guidance issued:

- *Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services* (revised), July

1.2. Education guidance issued:

- International Education Paper (IEP) 2, *Towards Competent Professional Accountants*, April

1.3. Public sector guidance issued:

- Study 14, *Transition to the Accrual Basis of Accounting*, 2nd Edition (electronic release only), December
- Occasional Paper 6, *The Modernization of Government Accounting in France*, May

1.4. Guidance issued by the Professional Accountants in Business (PAIB) Committee:

- Theme Booklet, *Quality of Earnings: A Case Study Collection*, February
- *Articles of Merit – 2003 Competition*, September. The winning article was *Putting Strategy into the Balanced Scorecard* submitted by Peter Brewer (originally published by the Institute of Management Accountants in *Strategic Finance*)

1.5. Guidance issued by the Small and Medium Practices (SMP) Task Force:

- Volume 1, *Controlling Computers in Business: Backup, Archive and Restore*, April
- Volume 2, *Controlling Computers in Business: Physical Security*, April
- Volume 3, *Controlling Computers in Business: Logical Access Security*, December
- Volume 4, *Controlling Computers in Business: Selection, Implementation and Testing of Packaged Software*, December
- Volume 5, *Controlling Computers in Business: Computer Disaster Recovery Planning*, December

1.6. The Transnational Auditors Committee (TAC) issued practice papers to Forum of Firms members:

- Globally Directed Internal Inspection Programs, March
- Global Application of International Financial Reporting Standards, March

2. Other Publications

- 2.1. The *Report on Rebuilding Public Confidence in Financial Reporting* was prepared by an independent task force and published in August. IFAC distributed more than 7,000 copies of the report.

Facilitation and Networking

Description

IFAC recognizes that in many areas related to the accountancy profession it may need to act in a collaboration or facilitation role or to share the lead with another organization. For topical areas that the Board considers have high importance for the global accountancy profession IFAC will actively facilitate the development of these topics with interested member bodies and/or other groups, enter into collaborative arrangements, and/or develop information sharing networks.

Service Delivered

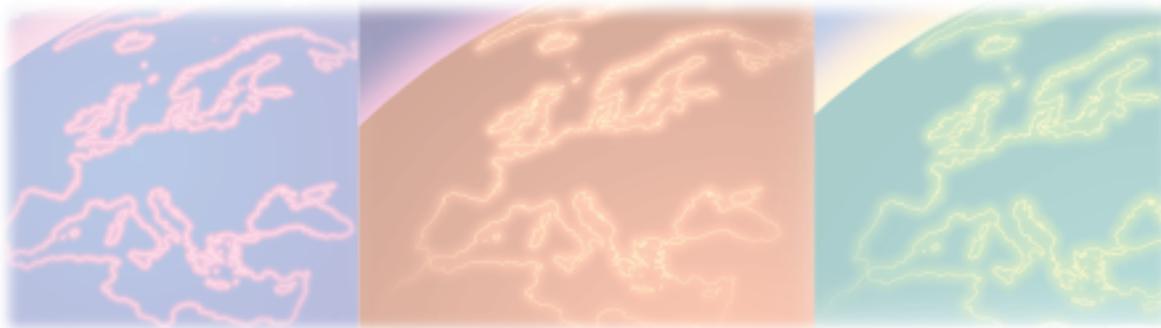
1. National and Regional Standard Setters

1.1 In January, the IAASB hosted its third meeting of the most active national auditing standard setters. The objective of the meeting was to further improve the working relationships between national standard setters and the IAASB and to explore opportunities for closer collaboration on projects, particularly for those standard setters not directly represented on the IAASB. Steps towards improving work processes between the IAASB and national standard setters were extensively discussed, with participants agreeing to work towards closer relationships and strengthened communication. During 2003, the IAASB worked with national standard setters on three joint projects, namely the audit risk standards (US Auditing Standards Board), and projects to revise standards on auditing accounting estimates and audit materiality (UK Auditing Practices Board).

1.2 In May and October, IAASB members met with the chairs of 21 European national auditing standard setters at a meeting hosted by the Fédération des Experts Comptables Européens. The participants at this meeting were very supportive of the direction being taken on IAASB projects and of the need to conform their national agenda to the IAASB work plan.

2. Other Organizations

2.1 In June 2003, the PSC initiated a meeting to consider differences between International Public Sector Accounting Standards (IPSASs) and Government Finance Statistics (GFS). The aim of the meeting was the elimination of unnecessary differences in the financial reporting requirements of IPSASs and GFS. As a result, the Task Force on Harmonization of Public Sector Accounting (the "Task Force") was established. A Steering Committee of the Task Force met in October 2003 and agreed to the terms of reference of the Task Force and that the International Monetary Fund (IMF) would chair the Task Force and the Organization for Economic Cooperation and Development (OECD) would serve as its secretariat. The Task Force operates through two working groups and liaises with, and makes recommendations to, other bodies and task forces related to public sector financial reporting. The role of Working Group I is to identify differences between IPSASs and statistical financial reporting bases (GFSM 2001 and ESA 95) and make recommendations as to whether harmonization is appropriate, and how it could be achieved where appropriate. Working Group II provides input to the ongoing review process of the 1993 SNA. The Task Force and its working groups are scheduled to meet in Paris in February 2004. Recommendations will be considered by the respective standard setters, including the PSC in respect of IPSASs.



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 when developing reports that address the role of IFAC and the accountancy profession.

Service Delivered

1. Officer and Chief Executive Representational Activities

1.1 The IFAC Officers and Chief Executive engaged in representational activities with the following organizations:

- All India Conference of Chartered Accountants, New Delhi, India, January
- CILEA 7th International Seminar, Fortaleza, Brazil, August
- CILEA 8th International Seminar, Pointe-à-Pietre, Guadeloupe, October
- ICAC & ICAJ Caribbean Conference, Jamaica, June
- 3rd FCM Conference, Bucharest, Romania, July
- IDW Conference, Hamburg, Germany, October
- 25th InterAmerican Accounting Association Conference, Panama, September
- Institute of Management Accountants Conference, New Jersey, United States, October
- National Institute of Accountants in Shanghai, Shanghai, China, November
- South Asian Federation of Accountants, Karachi, Pakistan, May

2. Other Regulatory and Public Policy Activities

2.1. During 2003, the IFAC Leadership Group undertook various meetings and discussions with regulatory groups. These included two formal meetings between the IFAC Leadership Group and the Monitoring Group of regulators. These meetings and other discussions related principally to the development of the “IFAC Proposals for Reform” that were approved by the IFAC Council in November.

3. Submissions to External Organizations

3.1. IFAC provided submissions to the following organizations on specified topics:

- The US Securities and Exchange Commission on *Requirements Regarding Auditor Independence*, January
- IASC Foundation’s Consultation Paper, *Proposal for a Testing and Certification Programme*, April
- The US Public Company Accounting Oversight Board (PCAOB) on *Establishment of Auditing and Other Professional Standards*, May
- IOSCO Standing Committee No. 1 in reply to comments received from IOSCO regarding ISAs 230 (“Documentation”), 260 (“Communication of Audit Matters with Those Charged with Governance”), 505 (External Confirmations), 560 (“Subsequent Events”) and 570 (“Going Concern”), June
- The US PCAOB on Proposed Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, October

Assurance Activities

Description

Operate an efficient and effective compliance regime to ensure that IFAC member bodies comply with IFAC membership obligations. Operate mechanisms that aim to improve the quality of audits, specifically those undertaken by members of the Forum of Firms.

Service Delivered

1. Compliance Program

1.1 During 2003, IFAC continued to develop its compliance program with the IFAC Board approving recommendations from the Compliance Working Group in July. Following the approval of these recommendations

the Compliance Advisory Panel was formed in November as well as the strengthening of the staff resource supporting the compliance program.

2. Firms' Quality Control

2.1 During 2003, the TAC was contracted by a Forum of Firms' member to perform a voluntary Design Review under its International Quality Assurance Review program. The objective of the Design Review was to report on the design of the firm's policies and procedures as applied to transnational audits in accordance with the Forum of Firms' Quality Standard. The review was conducted based on the "Guidelines for Performing and Reporting on International Quality Assurance Reviews," issued by the TAC and was conducted across 16 countries.

Communications and Promotion

Description

IFAC's communications activities are designed to 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's communication program calls for the organization to strengthen communications and increase its spokesperson role. The purpose of the program is threefold: to increase member body awareness of and involvement in IFAC initiatives; to more clearly communicate IFAC and the international profession's role in serving the public interest, particularly with respect to contributing to the soundness of financial reporting; and to promote the adoption of IFAC standards and best practices to achieve convergence.

Service Delivered

1. IFAC Communications

1.1 IFAC communications encompass print and electronic communications, media relations, and spokesperson support. The following initiatives were undertaken:

- President's Update memorandum to member bodies on global issues. Three updates issued.
- Approximately 50 press releases, position statements, and backgrounders were sent to the media, member bodies, regulators, and standard setters on a wide range of issues related to the profession and corporate governance.
- IFAC's President met with more than 40 key media representatives worldwide.
- Streamlined IFAC's website, enhancing the Leadership Intranet to facilitate communications among committees, task forces, consultative groups, and other users. Close to 600 individuals now use the Intranet.
- Expanded content of IFAC website to provide easier access to IFAC guidance and pronouncements. Approximately 370,000 visitors viewed 2.1 million pages of the site. Individuals downloaded approximately 172,500 publications from IFAC's site and ordered 630 print publications, and IFAC distributed more than 3,000 copies of the publication.
- Issued eight electronic news summaries (eNews) to 19,000 subscribers.
- Issued two IFAC newsletters (IFAC News).
- Issued three PSC Updates.
- Issued a special newsletter alert on new International Education Standards.

2. Promotion & Spokesmanship Activities

2.1 The IFAC Officers and Chief Executive engaged in the following promotion and spokesperson activities:

- World Federation of Exchanges, New York, United States, October
- Shanghai National Accounting Institute, Shanghai, China, November
- Basel Committee Seminar, Basel, Switzerland, December



2.2 IFAC Committees engaged in the following promotion and spokesperson activities:

Education Committee

- The Education Committee Chair, members and their technical advisors, and the technical manager made presentations to and liaised with the following groups:
 - American Accounting Association International Section, Mid-year meeting, Orlando, United States, February
 - Colombo Branch of the Institute of Chartered Accountants of Sri Lanka, Colombo, Sri Lanka, February
 - National Forum of Accounting Universities, Brasilia, Brazil, June
 - South African Institute of Chartered Accountants, Cape Town, South Africa, August
 - Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), Geneva, Switzerland, September
 - American Accounting Association Annual Meeting, Hawaii, United States, October
 - Representatives of Shanghai National Accounting Institute, Wellington, New Zealand, October

Ethics Committee

- The Ethics Committee Chair and Technical Director made presentations to the following groups:
 - Interview WMAC, New York PBS Radio Station, New York, United States, March
 - New York State Society, Annual Leadership meeting, New York, United States, July
 - National Association of State Boards of Accountancy – Annual Conference, Hawaii, United States, October

International Auditing and Assurance Standards Board

- The IAASB Chair, IAASB members and technical staff made presentations to and liaised with the following groups or participated in the related forum:
 - Representatives of XBRL International, New York, United States, February
 - US Auditing Standards Board, Nevada, United States, February
 - Representatives of accounting institutes of Belgium, Canada and France — Translations Program, Brussels, Belgium, April
 - International Symposium on Audit Research, California, United States, May
 - Representatives of European national auditing standard setters, Brussels, Belgium, May
 - XBRL International Conference, Amsterdam, Netherlands, May
 - American Institute of Certified Public Accountants — XBRL Implementation Team, New York, United States, June
 - Basel Committee on Banking Supervision, Chicago, United States, June
 - Deloitte and Touche Global Sustainability Conference, Tuscany, Italy, September
 - European Auditing Research Network, Manchester, England, October
 - Institute of Professional Auditors of Russia — International Financial and Economic Week, Moscow, Russia, October
 - Japanese Institute of Certified Public Accountants, Tokyo, Japan, October
 - National Association of State Boards of Accountancy — Annual Conference, Hawaii, United States, October
 - Canadian Auditing and Assurance Standards Oversight Council, Toronto, Canada, December
 - Financial Stability Institute, Basel, Switzerland, December
 - New York State Society of CPAs, New York, United States, December
 - American Accounting Association — Annual Meeting/Auditing Section, various
 - European Union Committee on Auditing, various
 - IOSCO Auditing Subcommittee, various
 - Representatives of INTOSAI, various
- At the end of 2003, a joint IFAC/IAASB and International Organization of Supreme Audit Institutions (INTOSAI) Memorandum of Understanding was near completion. This memorandum will formalize a project structure and cooperation process enabling the use of ISAs by the INTOSAI as basis for its proposed Guidelines for Financial Audit as well as seeing INTOSAI provide the IAASB with experts in the field of public sector auditing that will assist with the incorporation of public sector considerations in the body of ISAs.

- In early 2003, the IAASB published its first annual report highlighting its accomplishments for the 2002 calendar year.

Professional Accountants in Business Committee

- PAIB committee members and technical staff made presentations to the following groups:
 - Consiglio Nazionale dei Ragionieri e Periti Commerciali and Consiglio Nazionale dei Dottori Commercialisti on Toolkit and Corporate Governance in SME's, Rome, Italy, March
 - Representatives from the World Bank and the OECD on corporate governance issues, New York, United States, September
 - Institute of Certified Public Accountants in Ireland Conference, Ireland, March
 - Chartered Institute of Public Finance and Accountancy Leadership Program, Warwick, United Kingdom, June
 - Basel Committee Seminar on Enterprise Governance, Basel, Switzerland, December

Public Sector Committee

- The PSC Chair, PSC members and their technical advisers, PSC observers and PSC staff undertook promotional activities, including seminars and round tables in conjunction with each PSC meeting and attendance at international and national forums. Presentations to and liaison with the following groups occurred:
 - Australasian Auditors-General Annual Conference, Melbourne, Australia, February
 - Eastern and Southern African Association of Accountants General Conference, Dar Es Salaam, Tanzania, February
 - Ministry of Finance Seminar on public sector accounting, Hanoi, Vietnam, February
 - OECD Annual Symposium on Accrual Accounting in Government, Paris, France, February
 - European Union Standards Committee Meeting, Brussels, Belgium, March
 - ICGFM Conference, Miami, Florida, United States, March
 - Meeting with CPA Australia, Melbourne, Australia, March
 - CPA Australia Conference, Melbourne, Australia, April
 - Roundtable discussion, Australian Accounting Standards Board, Heads of Treasury Accounting Research Advisory Council, CPA Australia, Melbourne, Australia, April
 - Virginia Society of CPAs Government and Nonprofit Conference, Herndon, Virginia, United States, April
 - South Asian Comptroller-General of Accounts Conference, Delhi, India, June
 - International Public Sector Accounting Standards – Government Finance Statistics Convergence Meeting, Washington DC, United States, June
 - Government Finance Officers' Association Conference, New York, United States, June
 - Mexican Institute of Public Accountants and Governments of Colombia and Peru International Seminar, Mexico City, Mexico, July
 - International Colloquium on Financial Management for Governments, Vancouver, Canada, September
 - International and National Standards Setters meeting, London, United Kingdom, September
 - Fédération des Experts Comptables Européens Public Sector Committee, Berlin, Germany, November
 - Institut der Wirtschaftsprüfer Government Accounting Seminar, Berlin, Germany, November
 - International Congress on Accounting Standards for Public Administration, Ferrara, Italy, December
- The PSC also published an article in *Australian CPA*, the journal of CPA Australia.
- The PSC Chair is a member of the IASB's Standing Advisory Council (SAC) and attended two IASB SAC meetings during the year, London, United Kingdom, February and November. The November meeting was run in conjunction with a national standard-setters meeting.

Small and Medium Practices Task Force

- Two members of the SMP Task Force are members of the International Accounting Standards Board Advisory Panel on Small-and Medium-sized Entities.

Transnational Auditors Committee

- The Director of TAC and the Secretary of the Forum of Firms made presentations to the following groups:
 - Russell Bedford International, Boston, United States, October
 - European Group of International Accounting Networks, Brussels, Belgium, December



Statement of Financial Performance

For the year ended December 31, 2003

Amounts in US Dollars

	Note	2003	2002
Operating revenue			
Membership dues		\$5,831,031	\$4,927,225
Forum of Firms – IFAC Activities	17	1,738,041	1,211,931
Forum of Firms – Transnational Auditors Committee	17	882,671	798,409
Public Sector Committee Standards Program		382,000	250,000
World Congress of Accountants		–	157,855
Publications		122,231	77,214
Interest income		23,404	41,459
Gain on disposal of property, plant and equipment	7	2,157	–
Other operating revenue		199,191	83,987
Total operating revenue		\$9,180,726	\$7,548,080
Operating expenses			
Employee costs	2, 12	\$4,707,277	\$3,620,606
Travel and meeting costs		2,139,699	1,547,777
Communications and publicity		460,297	299,120
Occupancy		402,607	275,535
Printing and distribution		327,100	262,492
Depreciation		113,941	79,947
Auditor remuneration			
Auditing financial statements		28,122	31,078
Tax services		6,328	5,746
Impairment of property, plant and equipment	7	–	73,367
Other operating expenses		881,610	1,005,185
Total operating expenses		\$9,066,981	\$7,200,853
Surplus for the year		\$113,745	\$347,227

Statement of Changes in Equity

For the year ended December 31, 2003
 Amounts in US Dollars

	2003	2002
Equity at beginning of year	\$1,608,405	\$1,261,178
Surplus for the year	113,745	347,227
Net recognized revenue and expenses for the year	\$113,745	\$347,227
Equity at end of year	\$1,722,150	\$1,608,405

Note



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

Statement of Financial Position

As at December 31, 2003

Amounts in US Dollars

	Note	2003	2002
Current assets			
Cash and short-term deposits	3	\$1,308,810	\$1,545,579
Dues receivable, net	4	175,316	171,408
Receivable from the Forum of Firms	5	978,717	162,977
Other receivables	6	116,810	341,043
Other current assets		43,792	65,566
Total current assets		\$2,623,445	\$2,286,573
Non-current assets			
Property, plant and equipment, net	7	\$609,200	\$171,547
Non-current receivables	10, 16	250,421	199,660
Total non-current assets		\$859,621	\$371,207
TOTAL ASSETS		\$3,483,066	\$2,657,780
Current liabilities			
Accounts payable and accrued expenses		\$683,271	\$687,017
Employee entitlements	8	212,764	143,139
Revenue received in advance	9	753,798	124,019
Total current liabilities		\$1,649,833	\$954,175
Non-current liabilities			
Accrued pension costs	12, 2	\$111,083	\$95,200
Total non-current liabilities		\$111,083	\$95,200
TOTAL LIABILITIES		\$1,760,916	\$1,049,375
Equity			
IFAC members		\$1,217,000	\$951,327
IFAC PSC Standards Program	11	505,150	657,078
Total equity		\$1,722,150	\$1,608,405
TOTAL LIABILITIES AND EQUITY		\$3,483,066	\$2,657,780


René Ricol — 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, 2003

Amounts in US Dollars

	Note	2003	2002
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Membership dues		\$6,456,902	\$4,817,100
Forum of Firms		1,804,972	1,251,070
Public Sector Committee Standards Program		382,000	250,000
Publications		122,231	77,214
Interest received		23,404	41,459
Other receipts		179,719	241,842
		\$8,969,228	\$6,678,685
<i>Cash was disbursed to:</i>			
Employee costs		\$(4,621,769)	\$(3,607,718)
Other payments		(4,021,841)	(3,835,765)
		\$(8,643,610)	\$(7,443,483)
Net cash inflow/(outflow) from operating activities	14	\$325,618	\$(764,798)
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment		\$2,157	–
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment		\$(584,016)	\$(126,420)
Net cash outflow from investing activities		\$(581,859)	\$(126,420)
Cash flows from financing activities			
		–	–
Net decrease in cash held		\$(256,241)	\$(891,218)
Add cash and deposits at beginning of year		\$1,545,579	\$2,434,075
Add effect of exchange rate change on foreign currency balance		19,472	2,722
Balance of cash and deposits at end of year	3	\$1,308,810	\$1,545,579

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



Statement of Accounting Policies

For the year ended December 31, 2003

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 on receipt of invoice in January for each respective year.

Forum of Firms revenue

Revenue from the Forum of Firms associated with International Auditing and Assurance Standards Board activity, the Transnational Auditors Committee activity and general IFAC operations is recognized as revenue when it is received or receivable.

Public Sector Committee Standards Program revenue

Revenue from grants is recognized as revenue when received or receivable.

Publications revenue

Revenue from sales of electronic subscriptions is recognized at the commencement 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.

(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 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	5 to 13 years

(v) Financial Instruments

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

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

(vi) Statement of Cash Flows

The following are definitions of the terms used in the Statement of Cash Flows:

- (a) Cash and short-term deposits 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.

(vii) 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.

(viii) 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.

(ix) 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.

(x) 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, 2003

Amounts in US Dollars

1. International Federation of Accountants

The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession, 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 Article 60 through 79 of the Swiss Civil Code. IFAC's primary base of operation is New York, United States.

2. Employee Costs

	2003	2002
Employee costs	\$4,653,856	\$3,605,102
Retirement benefit plans (refer to Note 12)	53,421	15,504
Total employee costs	\$4,707,277	\$3,620,606

3. Cash and Short-Term Deposits

	2003	2002
Cash on hand and at bank	\$208,051	\$750,338
Short-term deposits	1,100,759	795,241
Total cash and short-term deposits	\$1,308,810	\$1,545,579

Of the cash and short term deposits, there are restrictions on the use of \$689,912 (\$763,990, 2002). These restrictions relate to two separate cash reserves. The first cash reserve of \$665,746 (\$740,559, 2002) is for the specific use of the IFAC Public Sector Committee Standards Program in accordance with the funding agreements associated with the Standards Program. The second cash reserve of \$24,166 (\$23,431, 2002) is for specific use in relation to the Sempier Award, which is awarded in association with the World Congress of Accountants.

4. Dues Receivable

	2003	2002
Dues receivable	\$458,715	\$333,742
Provision for uncollectible dues	(283,399)	(162,334)
Total dues receivable	\$175,316	\$171,408

5. Receivable from the Forum of Firms

As at December 31, 2003, \$978,717 (\$162,977, 2002) represents the remaining amount to be received from the Forum for costs invoiced relating to 2003.



6. Other Receivables

As at December 31, 2003, there were no significant items included within other receivables. As at December 31, 2002, the majority of the other receivables balance consisted of two items. The first item was \$157,855 of revenue to be received from the World Congress of Accountants held in November 2002. The second item was for amounts totaling \$160,000 that were receivable in relation to the activities of the Task Force for Rebuilding Public Confidence in Financial Reporting.

7. Property, Plant and Equipment

	Office Equipment		Furniture & Fittings		Leasehold Alterations		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Opening Net Book Amount	\$138,095	\$62,661	\$31,556	\$69,187	\$1,896	\$34,170	\$171,547	\$166,018
Additions	49,392	148,284	248,506	5,540	255,223	5,019	553,121	158,843
Disposals	1,372	–	155	–	–	–	1,527	–
Impairment Losses	–	15,481	–	26,281	–	31,605	–	73,367
Depreciation	71,048	57,369	25,686	16,890	17,207	5,688	113,941	79,947
Closing Net Book Amount	\$115,067	\$138,095	\$254,221	\$31,556	\$239,912	\$1,896	\$609,200	\$171,547
Cost	\$245,659	\$255,917	\$288,619	\$45,890	\$255,223	\$1,896	\$789,501	\$303,703
Accumulated Depreciation	130,592	117,822	34,398	14,334	15,311	–	180,301	132,156
Net Book Amount	\$115,067	\$138,095	\$254,221	\$31,556	\$239,912	\$1,896	\$609,200	\$171,547

On May 1, 2003, IFAC moved its office location. As a result of the move, IFAC invested in a leasehold alteration asset for the office space, a combination of new and used office furniture, and some additional office equipment. At the time of the office move, IFAC disposed of the remaining furniture and fittings that were not being moved to the new office and the remainder of the leasehold alteration from the old office space. A net gain arising from the disposal of property, plant and equipment of \$2,157 (\$0, 2002) has been recognized in the statement of financial performance.

The impairment of property, plant and equipment in 2002 related to the impairment of furniture and fittings and leasehold alterations resulting from the impending office move. There was no impairment of property, plant and equipment in 2003.

8. Employee Entitlements

	2003	2002
Payroll accrual	\$26,572	\$22,365
Annual leave provision	186,192	120,774
Total Employee Entitlements	\$212,764	\$143,139

9. Revenue Received in Advance

Revenue received in advance at December 31, 2003 of \$753,798 (\$124,019, 2002) represents membership dues paid in advance.

10. Operating Lease Obligations

IFAC entered into a new 10 year operating lease for office space at 545 Fifth Avenue in December 2002, with the lease taking effect from May 1, 2003. The office space previously leased at 535 Fifth Avenue, New York was surrendered with agreement of the landlord effective April 30, 2003. At the date of surrender, there were no outstanding obligations with regard to this operating lease. 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, 2003, the total outstanding letters of credit were \$152,238 (\$97,631, 2002). This amount is included in non-current receivables in the statement of financial position.

As at December 31, 2003, IFAC has an operating lease outstanding for two copier machines. There are five years outstanding on these two operating leases.

Operating lease payments for the year ended December 31, 2003 were \$367,544 (\$253,770, 2002). Future operating lease payments of \$4,968,311 at December 31, 2003 are payable (\$5,206,146, 2002), reflecting the surrender of the previous office lease and commencement of the new office lease, as follows:

Obligations payable after balance date on noncancelable operating leases are as follows:

	2003	2002
Not later than one year	\$445,454	\$270,991
Later than one year and not later than five years	1,977,441	1,920,241
Later than five years	2,545,416	3,014,914
Total Operating Lease Obligations	\$4,968,311	\$5,206,146



11. Public Sector Committee Standards Program

The Public Sector Committee (PSC) Standards Program commenced in 1996. During 2003, the PSC 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. Multilateral development banks and international agencies have provided substantially all the funding for this program, with the funding provided to achieve specified objectives. Towards the end of 2003, the IFAC Board commissioned a review of the PSC's activities. The External Review Panel met once during 2003 and is due to report its recommendations to the IFAC Board in July 2004. The IFAC Board expects that the activities of the PSC 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, 2003, the PSC Standards Program had received revenues and incurred expenses as follows, which are included in IFAC's financial statements:

	2003	2002
PSC Standards Program External Funding	\$382,000	\$250,000
Other operating revenue	17,089	18,932
Total Operating Revenue	\$399,089	\$268,932
Employee costs	\$229,045	\$236,873
Travel and meeting costs	130,519	88,936
Consultants	73,101	–
Printing and distribution	54,993	73,948
Other operating expenses	63,359	27,405
Total Operating Expenses	\$551,017	\$427,162
Deficit for the Year	\$(151,928)	\$(158,230)

As at December 31, 2003, the PSC Standards Program had the following equity balance:

	2003	2002
Equity at Beginning of Year	\$657,078	\$815,308
Deficit for the year	(151,928)	(158,230)
Net Recognized Revenue and Expenses for the Year	\$(151,928)	\$(158,230)
Equity at end of year	\$505,150	\$657,078

12. 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 2003 an estimation has been made to reflect change in accrued pension costs between July 31, 2003 (the AICPA balance date) and December 31, 2003 and the pension costs incurred up to December 31, 2003.

The amounts recognized in the Statement of Financial Position are determined as follows:

	2003	2002
Benefit obligation at July 31, 2003	\$1,152,688	\$1,030,154
Fair values of plan assets at July 31, 2003	995,592	1,146,879
Funded Status	(157,096)	116,725
Unrecognized net (gain) or loss	66,395	(223,497)
Unrecognized prior service cost	14,468	20,300
Unrecognized transition obligation/(asset)	(2,697)	(8,728)
Accrued pension costs at July 31, 2003	78,930	95,200
Adjustment to reflect change in periodic pension expense to December 31, 2003	32,153	–
Accrued Pension Costs	\$111,083	\$95,200

The amounts recognized in the Statement of Financial Performance are as follows:

	2003	2002
Service cost – Benefits earned during the period	\$65,427	\$37,536
Interest cost	69,457	75,268
Expected return on plan assets	(106,526)	(115,260)
Amortization of initial unrecognized net obligation of (net asset) as of May 1, 1985	(4,642)	(6,031)
Amortization of prior service costs	5,832	5,832
Amortization of (gain)/or loss	(13,665)	(21,212)
Net Periodic Pension Expense (Gain)	\$15,883	\$(23,867)



2003 IFAC FINANCIAL STATEMENTS

The principal actuarial assumptions used were as follows:

	2003	2002
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	8.75%	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 chose 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 2003, the level of IFAC contributions that have been recognized as an expense are \$37,538 (\$39,371, 2002). These expenses are included within employee costs in the statement of financial performance.

13. Employee Disclosure

As at December 31, 2003, IFAC had 29 full-time employees (28 full-time employees, 2002) and 2 part-time employees (1 part-time employee, 2002). In addition to these employees IFAC has 4 contracted personnel (4 contracted personnel, 2002) and 1 secondee (1 secondee, 2002).

14. Reconciliation of Net Surplus with Net Cash Inflow/(Outflow) from Operating Activities

	2003	2002
Net Surplus for the Period	\$113,745	\$347,227
<i>Add/(Less) Non-Cash Items:</i>		
Depreciation	113,941	79,947
Impairment of property, plant and equipment	–	73,367
Net gain on foreign currency balance	(19,472)	(2,722)
Net gain on disposal of property, plant and equipment	(2,157)	–
<i>Add/(Less) Movements in Working Capital:</i>		
Dues receivable	(3,908)	(119,043)
Receivable from Forum of Firms	(815,740)	(162,977)
Other receivables	224,233	(288,828)
Other current assets	21,773	(51,213)
Non-current receivables	(50,760)	(45,372)
Accounts payable and accrued expenses	28,676	(44,564)
Payable to Forum of Firms	–	(596,293)
Employee entitlements	69,625	60,622
Deferred revenue	629,779	8,918
Accrued pension costs	15,883	(23,867)
Net Cash Inflow/(Outflow) from Operating Activities	\$325,618	\$(764,798)

15. 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, 2003, a total of \$1,159,317 was held with JP Morgan Chase Bank. This represented 89 percent of the total amount of bank balances, short-term deposits and receivables. The maximum exposure as at December 31, 2003 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, 2003, the carrying amounts approximate the fair values for all financial instruments held by IFAC (2002 carrying amounts approximate the fair values).



16. 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:

René Ricol	President
Charles Horstmann	Deputy President, American Institute of Certified Public Accountants, United States
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
André J Bindenga	Koninklijk Nederlands Instituut van Registeraccountants, Netherlands
Angelo Casò**	Consiglio Nazionale dei Dottori Commercialisti and Consiglio Nazionale dei Ragionieri e Periti Commerciali, Italy
Jean-François Cats	Institut des Reviseurs d'Enterprises, Belgium
Yugui Chen#	Chinese Institute of Certified Public Accountants, China
Juan José Fermín del Valle	Federación Argentina de Consejos Profesionales de Ciencias Económicas, Argentina
Wolfgang Fliess*	Institut der Wirtschaftsprüfer in Deutschland e.V. and Wirtschaftsprüferkammer, Germany
Ndung'u Gathinji	Institute of Certified Public Accountants of Kenya, Kenya
N.D. Gupta	Institute of Chartered Accountants of India, India
Yaw Kiong Ernest Kan#	Institute of Certified Public Accountants of Singapore, Singapore
David Leonard#	The Association of Chartered Certified Accountants, United Kingdom
William Nahum#	Compagnie Nationale des Commissaires aux Comptes and Ordre des Experts Comptables, France
Kesree Narongdej	The Institute of Certified Accountants and Auditors of Thailand, Thailand
Rolf Nonnenmacher#	Institut der Wirtschaftsprüfer in Deutschland e.V. and Wirtschaftsprüferkammer, Germany
Guylaine Saucier*	The Canadian Institute of Chartered Accountants, Canada
Ignatius Schoole**	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
Sylvie Voghel#	Certified General Accountants Association of Canada, Canada
Graham Ward	Chartered Institute of Management Accountants, Institute of Chartered Accountants in England & Wales, Institute of Chartered Accountants of Ireland, Chartered Institute of Public Finance and Accountancy and Institute of Chartered Accountants of Scotland, United Kingdom
Peter Wong*	Hong Kong Society of Accountants, Hong Kong
Shozo Yamazaki	Japan Institute of Certified Public Accountants, Japan

*Completed their terms at the conclusion of the IFAC Council meeting, November 2003.

#Commenced their terms at the conclusion of the IFAC Council meeting, November 2003.

**The membership of the IFAC Audit Committee is comprised of these three Board members.

**IFAC Representatives**

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

IFAC Member Organizations

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

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, 2003, the balance outstanding of employee receivables relating to residential security deposits was \$43,183 (\$38,351, 2002). This amount is included in non-current receivables in the statement of financial position.

17. Forum of Firms

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

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

For 2003 and 2002, the IFAC financial statements reflect revenues from the Forum for amounts invoiced to the Forum for the agreed IFAC contributors and the related expenses, and full contribution for TAC related expenses.

18. Contingencies

IFAC has no contingencies outstanding as at December 31, 2003 (\$nil, 2002).

19. Line of Credit

IFAC has an available line of credit with JP Morgan Chase Bank for \$500,000. As at December 31, 2003, IFAC had not used the line of credit. The interest rate applied is the prime rate plus 0.75% (4.75% as at December 31, 2003) and that substantially all assets are collateralized by the line of credit. The line of credit expires June 30, 2004. There was no line of credit established as at December 31, 2002.



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INDEPENDENT AUDITOR'S REPORT

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Audit report to the Members of the
International Federation of Accountants

We have audited the accompanying statement of financial position of the International Federation of Accountants (IFAC) as at December 31, 2003, 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 the Organization'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, 2002 and for the year then ended, were audited by other auditors whose report dated March 17, 2003, expressed an unqualified opinion on these 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, 2003, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

A handwritten signature in black ink that reads "Weiser LLP".

Weiser LLP
Certified Public Accountants

February 23, 2004
New York, N.Y.





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