



# FOUNDATIONS FOR THE FUTURE

**2011 IAASB ANNUAL REPORT**

**IAASB**

International Auditing  
and Assurance  
Standards Board



# 1

The International  
Auditing and  
Assurance  
Standards Board  
(IAASB)

# 2

Report of the  
Chairman of the  
IAASB

# 6

Report of the  
Technical Director  
of the IAASB

# 11

IAASB Members,  
Technical Advisors,  
Observers, and  
Technical Staff

# 12

Communicating  
with Stakeholders

# 15

Report of the  
Chairman of the  
IAASB Consultative  
Advisory Group  
(CAG)

# 17

IAASB CAG  
Member  
Organizations  
and Observers

## TABLE OF CONTENTS



This electronic version of the IAASB 2011 Annual Report contains hyperlinks to the projects and publications referred to in this report.

## THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that develops auditing and assurance standards and guidance for use by all professional accountants. This standard-setting process involves the [Public Interest Oversight Board \(PIOB\)](#), which oversees the activities of the IAASB, and the IAASB's [Consultative Advisory Group](#), which provides public interest input into the development of the standards and guidance.

The objective of the IAASB, as outlined in its [Terms of Reference](#), is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB consists of a full-time chairman and 17 volunteers from around the world. The 18 board members comprise 9 practitioners with significant experience in the field of auditing and other assurance services and 9 individuals (including the chairman) who are not members or employees of an audit firm ("non-practitioners").<sup>1</sup> At least three of the non-practitioners are public members: individuals who are expected to reflect, and are seen to reflect, the wider public interest. All board members are required to sign an annual statement declaring that they will act in the public interest and with integrity in discharging their responsibilities. Members are appointed by the International Federation of Accountants (IFAC) Board, based on recommendations from the IFAC Nominating Committee and with the approval of the PIOB.



Back row (left to right):  
Jianshen (Jason) Chen,  
Valdir Renato Coscodai,  
Caithlin Mc Cabe,  
Gert Jönsson,  
Ashif Sadrudin Kassam,  
Jean Blascos,  
John (Arch) Archambault,  
Prof. William R. Kinney Jr.,  
Jon Grant, Dan Montgomery.

Front row (left to right):  
Tomokazu Sekiguchi,  
Phil Cowperthwaite,  
Diana Hillier (Deputy Chair),  
Prof. Arnold Schilder  
(Chairman),  
Merran Kelsall,  
David Swanney,  
Cédric Gélard.

Not pictured:  
Abdullah Yusuf

The IAASB ordinarily meets four times a year for a full week. In between, short board teleconferences may be used to guide task forces with specific questions. In developing its standards, independently and under its own authority, the IAASB is required to be transparent in its activities, and to adhere to [due process](#) as approved by the PIOB. Board meetings and teleconferences are open to the public, and agenda papers are available on [www.iaasb.org](http://www.iaasb.org).

The structures and processes that support the operations of the IAASB are facilitated and supported financially by IFAC. The IAASB is a component of the overall IFAC reporting entity; accordingly, its financial results are included within IFAC's audited financial statements. These financial statements are published as part of IFAC's [Annual Report](#).

<sup>1</sup> A non-practitioner is a person who is not a member or employee of an audit practice firm. In respect of individuals who have been members or employees of such firms, these individuals are normally subject to a cooling-off period of three years.

# REPORT OF THE CHAIRMAN OF THE IAASB

## PROF. ARNOLD SCHILDER



The IAASB has continued to successfully deliver on its 2009-2011 strategy. In 2011, we approved several new or improved international standards, produced new guidance to support effective implementation, and further promoted the adoption of the clarified International Standards on Auditing (ISAs). Our work has been propelled by the global financial crisis and its re-illumination of the importance of strong financial infrastructures to support financial stability. Our efforts help address a number of the important issues facing the profession and its many stakeholders today, and lay the foundation for further progress in the future.

### STRENGTHENING AUDITS GLOBALLY

#### *The Clarified ISAs Further Adopted and Implemented*

The completion of the IAASB's Clarity Project at the end of 2008 established a strong basis for a single global auditing language, both for the private and the public sectors. The clarified ISAs are principles-based and promote robust, "thinking" audits on a consistent basis around the world. Importantly, they emphasize professional judgment and skepticism by auditors to ensure that their work contributes to the credibility and quality of the financial statements on which they report. A key element of IAASB's strategy, therefore, has been to promote further the benefits of ISA adoption to constituencies around the world.

During 2011, the IAASB devoted significant outreach effort towards this goal. I am pleased to see more than 75 jurisdictions—almost double compared to a year ago—in all parts of the globe already using the clarified ISAs or committed to using them in the near future. And in many more jurisdictions there are similar positive developments towards ISA adoption. The clarified ISAs are also now translated into more than 40 languages, including a single Spanish language translation acceptable in Spain and throughout Spanish-speaking Latin America, which was published in 2011. I am particularly pleased to have continued broad support from many influential organizations for the adoption of the ISAs. And we acknowledge the tremendous effort being invested by our stakeholders to ensure effective implementation.

I am further encouraged by the recent European Commission (EC) proposed legislation that makes explicit reference to the use of the clarified ISAs in Europe. For me, this is clear recognition of the importance of the ISAs as part of audit reform. It is also a significant step toward global adoption and implementation of high-quality international standards that facilitate transparency, consistency, economic growth, and financial stability.

In a sense, the clarified ISAs deliver a proactive response to regulatory concerns being noted in reports of audit inspection activities, in various parts of the world. In our outreach activities, we have learned that a number of the concerns in relation to audit quality, particularly during the financial crisis, are observed in the context of the application of national standards or the pre-clarified ISAs. We believe the adoption and effective implementation of the clarified ISAs, including adequate training on them, will lead to added rigor in audits.

### Enhancing Relevance and Reliability

Nevertheless, we continue to explore in the public interest how the ISAs could be further strengthened especially in light of the crisis. In my view, this must start with more informative auditor reports—the auditor’s primary means of communication with an entity’s stakeholders.

The IAASB has been proactive in this respect by commissioning international research on user perceptions of the standard auditor’s report. This led to the formation of an IAASB working group to analyze the results of the research and to consider findings from the initiatives of various global organizations, all of which served as the foundation for our May 2011 consultation paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*. The US Public Company Accounting Oversight Board (PCAOB) followed a month later with its own concept release, and there were striking similarities in the comments by stakeholders on the two consultations. The EC’s recent proposals would also have significant effects on audit reports.

What is at issue? Users and regulators alike are demanding to know more about individual audits and to gain further insights into the audited entity and its financial statements. While the audit is valued, many perceive that the auditor’s report lacks communicative value. Can auditors report more? That is the question, but the answer is not straightforward; there are many complex issues. For example, management is ordinarily expected to be the first source of information about an entity, but some believe auditors should contribute by providing their independent view about matters such as key risks.

We have set ambitious goals for our efforts in 2012 to lay a solid foundation for the future of auditor reporting. Our work will involve considering innovative ways to enhance the relevance and usefulness of auditors’ reports and auditor communications more broadly. It will also include exploring new ways in which auditor reporting could accommodate evolving national reporting regimes. We have learned much from our consultation in 2011 that we will capitalize on in 2012 to move forward quickly. Importantly, we will continue to engage with users and other groups that are also actively exploring this topic to work toward finding a global solution.

### Strengthening Financial Statement Audits

In addition to our ongoing efforts on auditor reporting, the IAASB continues to focus on other areas in which to strengthen financial statement audits. The financial crisis brings quickly to mind the topic of financial instruments. Relevant, therefore, is our new International Auditing Practice Note addressing special considerations in auditing such instruments, which was issued in direct response to the crisis.

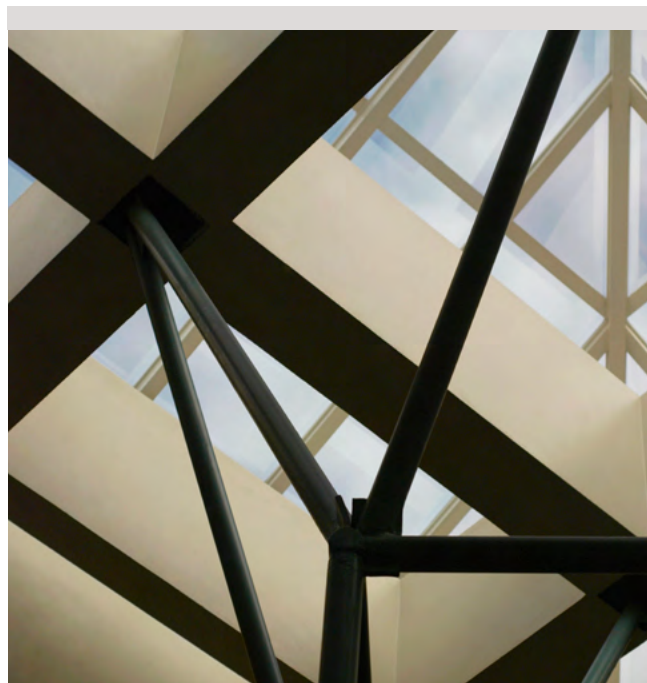
Further, the IAASB has completed the revision of its ISA dealing with the external auditor’s use of the work of an entity’s internal audit function. Our work involved extensive input from, and liaison with, the regulatory community, which has helped enhance the quality of the final standard.

### **BUILDING ROBUST STANDARDS FOR FUTURE ASSURANCE AND RELATED SERVICES**

Much like its work with the ISAs, the IAASB’s efforts in the area of assurance and related services have been geared toward meeting evolving market demands in areas as diverse as compilations of financial information and assurance on greenhouse gas statements.

A major thrust in 2011 has been to enable practitioners to better service the needs of small- and medium-sized entities (SMEs). The clarified ISAs have been developed for application on a proportionate basis but a number of countries have introduced, or are considering the introduction of, exemptions from audit requirements for certain entities, mainly SMEs. While such entities or users of their financial statements (such as lending institutions) may seek to have audits on a voluntary basis, there is also market demand for other services that are capable of meeting the unique needs of SMEs.

Accordingly, in 2011 the IAASB finalized its new standard on compilation engagements. It also progressed the revision of its standard on review engagements, which is on track to be completed in 2012. This work represents important steps in the IAASB’s efforts to develop a range of relevant international standards, and addresses the increased demand for review standards as some jurisdictions are requiring, or are likely to require, statutory reviews in place of audits.



The IAASB's 2011 exposure draft of an enhanced umbrella standard for all assurance engagements other than audits or reviews of historical financial information, and its updated framework for assurance engagements, further demonstrated the importance the IAASB attaches to standards that can support a broad range of reasonable and limited assurance engagements. Such engagements may range, for example, from direct engagements such as "value for money" audits, to possible future engagements addressing integrated reporting. The IAASB is confident that its work in this area, together with appropriate subject matter specific standards, will further improve the consistency and comparability of assurance engagements around the world. Importantly, we believe it will also facilitate innovation in this dynamic and evolving field.

In addition, in 2011 the IAASB finalized its new assurance standard for engagements to report on the compilation of pro forma financial information included in a prospectus. This standard meets an important need for harmonized practices in relation to assurance on services for capital market transactions internationally. Also in 2011, the board made significant headway in the development of an important new standard on assurance engagements on greenhouse gas statements, which was completed in 2012. On this topic, I echo the sentiments expressed by the PIOB in its recent consultation paper, *PIOB Work Program 2012 and Beyond*.

*"Decisions made in the development of this [greenhouse gas assurance] framework will create precedents for the profession's response to demands from society for assurance services in other areas such as sustainability, corporate social responsibility, and environmental consciousness. A consequence of this development is a gradual widening of the range of stakeholders, which challenges the traditional "user, preparer, regulator" approach to representing the public interest." PIOB Work Program 2012 and Beyond*



## EXPANDING PLATFORMS FOR DIALOGUE

In 2011, we have increased our engagement with the international regulatory community. Our meetings with the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO), the European Audit Inspection Group (EAIG), the US PCAOB, representatives of the Financial Stability Board, and others, have been constructive and informative. They have also assisted us in obtaining further public interest input on the most important projects on the IAASB's agenda. In particular, our ongoing dialogue with IFIAR, as well as EAIG, serves to highlight areas of potential improvement to our standards based on the results of inspections undertaken worldwide.

Further, the IAASB continued to invest in liaison and dialogue with the International Accounting Standards Board (IASB). During the year, IAASB working groups monitored several IASB standard-setting projects, including fair value measurement and hedge accounting, and submitted comment letters on auditability or verifiability issues. Also relevant are our continuing efforts to explore the auditing implications of today's financial statement disclosures and the need for the IAASB and the IASB to work together toward high-quality, credible financial reporting.

More broadly, the IAASB has continued during the year to explore the topic of audit quality. Following the publication of its thought piece on the topic in January 2011, the IAASB agreed on the objectives for the development of an international audit quality framework. The board believes that a framework will provide an important platform for further discussion on the topic, and act as a catalyst for all stakeholders to take actions to further enhance audit quality. I have personally observed during my outreach in 2011 how a holistic approach to this topic has already helped stimulate debate.



## EVERY END MARKS A NEW BEGINNING

The year 2011 marks the end of the three-year Strategy and Work Program that the IAASB has undertaken since my appointment in 2009. At that time, work to establish the clarified ISAs was just completed, and many had thought the IAASB program would be much more subdued than it had been. Of course, that has not been the case. The financial crisis, the renewed emphasis on enhancing the quality of audits, and the attention given to exploring standards for new assurance and related services have made 2011 another productive year for the IAASB. And we do hope that these efforts have contributed to laying solid foundations for the future of auditing and assurance.

Many of the IAASB's current efforts will continue in 2012 and beyond. New initiatives will be added to the IAASB's work program to serve the public interest. And new challenges will arise. We anticipate releasing our 2012-2014 Strategy and Work Program in mid-2012 and I look forward to the challenges and opportunities this plan will bring.

I would like to thank all members, technical advisors, and observers of the IAASB for their unwavering commitment to the IAASB's work during 2011. I would particularly like to thank those whose terms ended in 2011. Diana Hillier has given long and distinguished service to the IAASB, as a member and as the IAASB's deputy chair. Most projects have benefitted from her contributions, and many important

ones from her leadership. I should also like to recognize the contributions of the other outgoing IAASB members: Phil Cowperthwaite, Ashif Kassam and David Swanney. Each made a distinctive contribution to our activities.

I also extend my gratitude to Prof. Linda de Beer, independent Chairman of the IAASB Consultative Advisory Group (CAG), and all those representatives on the CAG who have contributed to the work of the IAASB over what has proven to be a demanding year. Finally, I would like to congratulate James Gunn and his staff for their continuing and impressive productivity and dedication.

As with every year, I also welcome incoming IAASB members. New appointments, as well as further details of the IAASB's projects during the year, are included in the Report of the Technical Director of the IAASB.

Prof. Arnold Schilder, Chairman

# REPORT OF THE TECHNICAL DIRECTOR OF THE IAASB

**JAMES L. GUNN**



## HIGHLIGHTS OF 2011 EFFORTS

The year 2011 saw the IAASB successfully build on the strong base of auditing standards that have been developed to date and effectively address standards for assurance and related services engagements. An integral part of its efforts has been dialogue, public consultation, and communications with stakeholders. Collaboration has also been critical to identifying areas for innovation and improvement, and finding solutions to global issues.



In 2011, in summary, the IAASB:

- ✦ Finalized three new international standards relevant to financial statement audits, assurance services in support of capital markets transactions, and related services particularly pertinent to small- and medium-sized entities (SMEs).
- ✦ Established a new class of pronouncement, International Auditing Practice Notes (IAPNs), and issued the first of such addressing special considerations in auditing the complex and challenging area of financial instruments.
- ✦ Publicly consulted on the future of auditor reporting, leading to approval of an ambitious standard-setting project, and consulted on developments in financial statement disclosures and their audit implications. Both stand at the forefront of investors' and other users' minds when studying audited financial statements.
- ✦ Exposed new proposals that address assurance engagements other than audits and reviews of historical financial information, which set the basis for a wide variety of reasonable and limited assurance engagements.
- ✦ Initiated new communications designed to share the feedback we receive on topics of broad relevance, and to highlight key aspects of the IAASB's new pronouncements.
- ✦ Made substantial progress on other projects.
- ✦ Participated in more than 100 events, meetings and forums.



THE FOLLOWING TABLES DETAIL THE IAASB'S 2011 OUTPUTS AND ACTIVITIES ACROSS ITS PROJECTS.

INITIATIVES	2011 DELIVERABLES
<b>Initiatives Relating to Financial Statement Audits</b>	
<b>Auditor Reporting</b>	Consultation Paper, <i>Enhancing the Value of Auditor Reporting: Exploring Options for Change</i>
<b>Financial Instruments</b>	IAPN 1000, <i>Special Considerations in Auditing Financial Instruments</i>
<b>Financial Statement Disclosures</b>	Feedback Statement on the Discussion Paper, <i>The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications</i>
<b>ISA Implementation Monitoring</b>	Plan for Phase II of the ISA Implementation Monitoring project, <i>Post-Implementation Review of the Clarified International Standards on Auditing (ISAs)</i>
<b>Internal Audit</b>	ISA 610 (Revised), <i>Using the Work of Internal Auditors</i> , and ISA 315 (Revised), <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>
<b>Initiatives Relating to Other Assurance and Related Services</b>	
<b>Pro Forma Information</b>	International Standard on Assurance Engagements (ISAE) 3420, <i>Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus</i>
<b>Compilation Engagements</b>	International Standard on Related Services (ISRS) 4410 (Revised), <i>Compilation Engagements</i>
<b>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</b>	Proposed ISAE 3000 (Revised), <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>

INITIATIVES	2011 ACTIVITIES
<b>Initiatives Relating to Financial Statement Audits</b>	
<b>Audit Quality</b>	Deliberation on project objectives and a draft Audit Quality Framework
<b>Other Information in Documents Containing Audited Financial Statements</b>	Deliberation on proposed revision of ISA 720, <i>The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i>
<b>Professional Skepticism</b>	Discussion of a draft <i>IAASB Staff Questions &amp; Answers (Q&amp;A) publication</i>
<b>IASB Liaison</b>	Discussions with International Accounting Standards Board (IASB) and <i>submission of comment letters on relevant IASB projects</i>
<b>Initiatives Relating to Other Assurance and Related Services</b>	
<b>Assurance on Greenhouse Gas Statements</b>	Deliberations on proposed new ISAE 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i>
<b>Review Engagements</b>	Deliberations on ISRE 2400 (Revised), <i>Engagements to Review Historical Financial Statements</i>

The remainder of my report highlights aspects of the IAASB's deliberations that span many of its activities. It also includes highlights of the IAASB's efforts to continue to engage with a broad range of key stakeholders, as well as its interactions with the Public Interest Oversight Board (PIOB) and the IAASB Consultative Advisory Group (CAG).

## A FOCUS ON REPORTING

Auditor reporting has been a particular focus of the IAASB's 2011 efforts. We received more than 80 comment letters in response to our May 2011 consultation paper from a broad spectrum of stakeholders around the world. The comments expressed a wide range of views but left one clear message—auditor reporting cannot stay the same.

Many of the calls for change related to providing additional, and more pertinent, information for users' decision making. Areas of attention included: auditor commentary in relation to the entity and its audited financial statements, and the audit itself; further communication about going concern and the auditor's work on other information in documents containing audited financial statements; and a 'plain language' description of the nature and scope of an audit. The IAASB demonstrated its responsiveness with a comprehensive and ambitious [project plan](#) to revise its reporting standards commencing immediately in 2012.

The IAASB has also paid particular attention to the clarity, relevance, and understandability of practitioner's reports in its deliberations on other projects. For example, in the new assurance standard addressing pro forma financial information, the clear articulation of the nature of the service performed and the form of conclusion expressed was essential. In relation to its project on compilation engagements, the IAASB took care to ensure the report distinguishes a compilation service from an audit, review, or other assurance engagement, while also explaining the value of the compilation service. In its projects on review engagements and assurance on greenhouse gas statements, deliberations are focusing on clearly distinguishing the level of assurance based on the practitioner's work effort.

Outreach, in particular to investors, analysts, and other groups, to understand perceptions is essential to delivering reports that meet their needs. We are grateful to those national and regional bodies that held roundtables in 2011 on the auditor reporting consultation paper, our proposed greenhouse gas standard, and our other projects to solicit users' and practitioners' views and gain input to their comment letters to the IAASB, and to those that have assisted through surveys and forums.

## A FOCUS ON QUALITY AUDITS

The IAASB looks continually for ways to serve the public interest by improving its international standards, setting requirements, and providing guidance that aims to raise quality. For example, in 2011 the IAASB strengthened its standard relating to the auditor's use of the work of internal auditors. While the auditor may be able to use the work of a robust internal audit function, the standard makes clear that the auditor nevertheless has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function. This revised ISA defines the conditions that are necessary for the external auditor to be able to use the work of internal auditors, including ensuring that the internal audit function's work is adequate for the purpose of the audit, and helps prevent overuse or undue use of such work.

The IAASB also understands that the quality and consistency of audit practice is helped not only through new standards but also by other tools that can be used in developing training programs, internal guidance, or corresponding national material. New IAPN 1000 serves this aim by providing important material to assist auditors in understanding the nature of, and risks associated with, financial instruments and the different valuation techniques and types of controls that may be used by entities in relation to them, and also highlights important considerations that may be relevant throughout the audit process. In finalizing the IAPN, the IAASB also left open the option to issue amendments to the ISAs or other authoritative guidance to further reinforce the quality of audits in relation to financial instruments.

Related, of course, is the important role that the exercise of professional skepticism by auditors plays in a quality audit. This is a point being stressed by regulators and others in light of the financial crisis. In 2011, the IAASB had constructive discussions with the IAASB CAG on this topic and commissioned a staff publication to highlight important considerations within the clarified ISAs, which was issued in early 2012. The IAASB will continue to consider the theme of professional skepticism more broadly in its current and future projects.

More broadly, the IAASB's audit quality project is exploring a holistic view of audit quality that acknowledges each stakeholder's role in supporting it. Our work in this area looks at the interactions between auditors and management, those charged with governance, audit committees, regulators, and users, as well as other factors, such as business practices and corporate governance requirements, firm culture, and the reliability and usefulness of auditor reports. The IAASB has set itself a particularly challenging, yet critically important, goal on this topic.

### *A Note on Implementation of the ISAs*

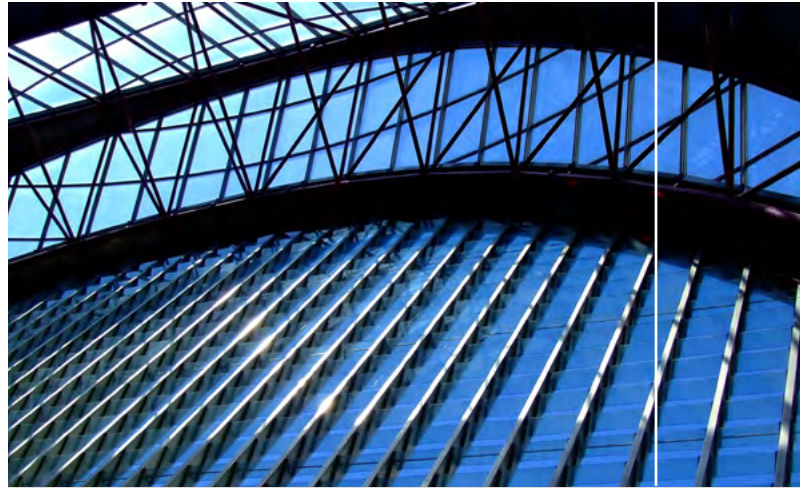
The IAASB continues to learn from implementation experiences with the clarified ISAs. With the October 2011 release of the Plan for a Post-Implementation Review of the Clarified International Standards on Auditing, the review is now in its second phase. The specific focus of this phase, to be carried out largely in 2012 and 2013, will be on gathering information about whether the standards are being consistently understood and implemented in a manner that achieves the IAASB's goals in revising them.

The IAASB does not underestimate the practical challenges of implementation, and how critical support is, for small- and medium-sized practices (SMPs) and others that audit SMEs. SMPs need practical support, through guidance and tools, to help overcome perceived barriers to effective and efficient implementation. This is an area where the IAASB and the International Federation of Accountants (IFAC) have been active, but there remains a critical role for national auditing standard setters and other bodies to support successful implementation. I must say how very pleased I am to hear at many of the events I attend the emphasis and attention being given to the importance of training and implementation in the context of SMPs.

Applying the ISAs proportionately with the size and complexity of an entity is also a critical success factor in the use of ISAs in the SME context, a matter in which many bodies around the globe are keenly interested. The clarified ISAs provide material explaining how the requirements can be applied in the context of an SME audit. The appropriate exercise of professional judgment, of course, is essential to the proper conduct of an audit and judgment is necessary regarding decisions about the audit procedures used to meet the requirements of the ISAs and gather audit evidence. I again encourage stakeholders to download our [2009 staff publication](#) on proportionate application of the ISAs to gain a deeper understanding of their design and intent and how auditors of SMEs can apply them in a relevant and cost-effective way.

### **COMMUNICATIONS, COLLABORATION, LIAISON, AND OUTREACH**

Engagement with stakeholders is a critical element of the IAASB's work. To this end, IAASB members and staff maintained an active schedule of outreach with a wide group of stakeholders during 2011. A list of events, meetings, and forums in which IAASB representatives participated is provided in the Appendix under the heading Communicating with Stakeholders.



#### Highlights of interactions with stakeholders include:

- ✪ Hosting the 11th meeting of national auditing standard setters from 14 nations to obtain feedback on key IAASB projects, allow for the sharing of significant developments or issues on national agendas that are of international relevance, and explore opportunities for collaboration and convergence.
- ✪ Continuing to develop our relationship with the International Forum of Independent Audit Regulators, the International Organization of Securities Commissions, the Financial Stability Board, and others.
- ✪ Engaging with representatives of the European Commission to encourage the adoption of the clarified ISAs for statutory audits in Europe.
- ✪ Providing input to the IASB on aspects of its proposed standards that may have potential verifiability or auditability issues.
- ✪ Continuing to participate as an observer at the US Public Company Accounting Oversight Board (PCAOB)'s Standing Advisory Group (SAG), which complements the PCAOB's observer role at the IAASB CAG.

In relation to collaboration and outreach, the IAASB, jointly with IFAC and the IASB, met with 60 representatives from 12 Commonwealth of Independent States and Baltic countries to discuss the adoption of ISAs and International Financial Reporting Standards. This proved to be a remarkably effective way to engage constructively with a broad group of stakeholders as they actively consider adoption and implementation issues. The IAASB welcomes further opportunities to reach out to other regions, such as Latin America and Africa, which are in the midst of adoption, and to pursue such outreach jointly with the IASB.

We also continue to seek innovative ways to communicate with our stakeholders. In 2011, the IAASB approved its first feedback statement, to summarize the comments on its January 2011 discussion paper on financial statement disclosures and help stimulate further thinking and dialogue on an international basis. We heard broad support for the IAASB's initiative to further study this important topic, but also the overwhelming view that improving disclosures will require cooperation and collaboration with many organizations, such as the IASB and others, that are exploring disclosure frameworks.

Another innovation was the IAASB staff's new "At a Glance" documents,<sup>2</sup> which are issued with final pronouncements to assist readers in quickly grasping the main highlights. Such material does not replace the need to read the pronouncements, but it does provide a useful starting point. In addition, the IAASB issues press releases and eNews communications announcing the approval of its standards and highlighting matters of interest. It further promotes its activities and publications through the IAASB website, speeches, and presentations.

## OVERSIGHT AND ADVICE

The IAASB has continued to benefit from its relationship with the PIOB. The PIOB's observations at the 2011 IAASB and IAASB CAG meetings provided valuable independent perspective on the manner in which the board has followed its stated due process and recognized the public interest in developing its standards.

The IAASB has also continued to benefit from the leadership of the independent chairman of the IAASB CAG and the advice it receives from the members of the advisory group at all stages of its projects. The views of the diverse group of organizations represented on the CAG has been particularly valuable to the IAASB as its standard-setting activities move into new and emerging areas, and as it explores relevant perspectives on what users of practitioners' reports expect from audits and other assurance and related services. Further details on the CAG's activities during the year are set out in the Report of the Chairman of the IAASB Consultative Advisory Group.

## LOOKING FORWARD

The IAASB's 2012-2014 *Strategy and Work Program* outlines the IAASB's strategic focus, expected activities, and planned projects during this period. The Strategy and Work Program has now been approved by the IAASB and will be released once PIOB approval of due process is received.

The IAASB's website was recently refreshed, and includes a timetable detailing current initiatives and the meetings at which they are expected to be discussed.

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

## IAASB MEMBERSHIP

The IAASB welcomes the following new appointments and re-appointments to the board, beginning January 1, 2012:

- ✪ Cédric Gélard, France (re-appointed)
- ✪ Prof. Annette Köhler, Germany
- ✪ Dan Montgomery, new Deputy Chair, United States (re-appointed)
- ✪ Brendan Murtagh, Ireland
- ✪ Marc Pickeur, Belgium
- ✪ Tomokazu Sekiguchi, Japan (re-appointed)
- ✪ Bruce Winter, Canada

## ACKNOWLEDGEMENTS

The IAASB's accomplishments in 2011 are entirely due to those who have contributed so well to its work. I express my deep gratitude to the board members, their technical advisors and others who, with commitment and common purpose, have willingly put in long days at board meetings, in task force meetings, and on conference calls. I also wish to thank Prof. Arnold Schilder and Jim Sylph, Executive Director, Professional Standards and External Relations, for their exemplary leadership.

I especially thank my staff. Their efforts have been exceptional, and without their hard work, dedication, and loyalty, we would have achieved far less.



James L. Gunn, Technical Director

<sup>2</sup> For example see the "At a Glance" document for IAPN 1000.

**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD**

AS AT DECEMBER 31, 2011

BOARD MEMBERS	TERM ENDS	COUNTRY	TECHNICAL ADVISORS
Prof. Arnold Schilder, Chairman	2014	Netherlands	
<b>NOMINATED BY IFAC MEMBER BODIES</b>			
Jianshen (Jason) Chen	2013	China	Ge Zhang
Valdir Renato Coscodai	2012	Brazil	Ricardo DeLellis
Philip Cowperthwaite	2011	Canada	Greg Shields
Cédric Gélard*	2011	France	Isabelle Tracq-Sengeissen
Jon Grant	2013	United Kingdom	Marek Grabowski
Ashif Sadrudin Kassam	2011	Kenya	Jan Thijs Drupsteen
Merran Kelsall	2013	Australia	Richard Mifsud
Prof. William R. Kinney, Jr.	2012	United States	Hiram Hasty
Abdullah Yusuf	2012	Pakistan	Pervez Muslim
<b>PUBLIC MEMBERS</b>			
Gert Jönsson	2012	Sweden	Jonas Hällström
Tomokazu Sekiguchi*	2011	Japan	Sachiko Kai
David Swanney	2011	United Kingdom	
<b>NOMINATED BY THE TRANSNATIONAL AUDITORS COMMITTEE</b>			
Diana Hillier, Deputy Chair	2011	United Kingdom	Jon Rowden
John (Arch) Archambault	2013	United States	Rick Wood
Jean Blascos	2013	France	Susan Jones
Caithlin Mc Cabe	2013	Australia	Tania DeSilva Sergott
Dan Montgomery*	2011	United States	Denise Esdon
<b>IAASB STAFF</b>			
Executive Director, Professional Standards and External Relations	James M. Sylph		
Technical Director	James L. Gunn		
Deputy Director	Ken Siong		
Senior Technical Managers	Kathleen Healy Joanne Moores Jessie Wong		
Technical Managers	Beverley Bahlmann Brett James Diane Jules		
Executive Assistant	Dorothy Ofori		
Administrative Assistant	Ameerah Brailsford		
<b>OBSERVERS</b>			
Juan Maria Arteagoitia	European Commission		
Linda de Beer	IAASB Consultative Advisory Group		
Norio Igarashi	Japanese Financial Services Agency		

**IAASB Staff:**

Back row (left to right): Ken Siong (Deputy Director), Beverley Bahlmann, James M. Sylph (Executive Director, Professional Standards and External Relations), Diane Jules, Joanne Moores;  
Front row (left to right): Kathleen Healy, Dorothy Ofori, James L. Gunn (Technical Director) and Jessie Wong.

Not pictured: Brett James, Ameerah Brailsford

\* These members were re-appointed after their terms ended at the end of 2011. For a full list of appointments effective January 1, 2012, see the Report of the Technical Director of the IAASB.

**COMMUNICATING WITH STAKEHOLDERS****MEETINGS, CONFERENCES, AND EVENTS****Accounting and Auditing Standard Setters**

Meeting with Chairman and other representatives of the Financial Accounting Standards Board (FASB), Norwalk, USA

Meeting with Compagnie Nationale des Commissaires aux Comptes and Haut Conseil du Commissariat aux Comptes representatives, Paris, France

Meeting with regional auditing standard setters, Buenos Aires, Argentina

Meeting with Chairman of the International Accounting Standards Board (IASB) and other IASB representatives, London, UK

Meeting with Institute of Chartered Accountants of India's Auditing and Assurance Standards Board, New Delhi, India

Meetings with the US Public Company Accounting Oversight Board (PCAOB), Washington DC, USA

PCAOB Standing Advisory Group meetings, Washington DC, USA

Meeting with Japanese Board of Audit representatives, New York, USA

**Regulators and Audit Oversight Bodies**

Accounting and Auditing Issues Subcommittee of the International Association of Insurance Supervisors, Kansas City, USA

Meeting with European Audit Regulators representatives, London, UK

Meeting with IFIAR Standards Co-ordination Working Group, London UK

Canadian Public Company Accountability Board Audit Symposium, Toronto, Canada

Meeting with Financial Reporting Council representatives, London, UK

Meeting with Insurance and Regulatory Development Authority representatives, Mumbai, India

European Banking Authority Roundtable on the Audit of Banks, London, UK

Meeting with Financial Services Authority representatives, London, UK

Meeting with Monitoring Group Chairman, Madrid, Spain

European Securities and Markets Authority (ESMA) Conference, Seminar on Enforcement of IFRS: Challenges for Supervisors and Exchange of Experience, Paris, France

Meeting with Financial Stability Board representatives, via teleconference

Meeting with Reserve Bank of India, Mumbai, India

Meeting with Accounting Task Force of Basel Committee on Banking Supervision, Basel, Switzerland

Meeting with International Organization of Securities Commissions (IOSCO) Standing Committee #1, London, UK

Meeting with Securities and Exchange Board of India, Mumbai, India

Meeting with ESMA representatives, via teleconference

Meetings with Auditing Subcommittee of IOSCO Standing Committee #1, Toronto, Canada, and via teleconference

Meeting with UK Audit Inspections Unit representatives, London, UK

Meetings with European Audit Inspection Group, Berlin, Germany and Oslo, Norway

Meeting with International Forum of Independent Audit Regulators (IFIAR), Bangkok, Thailand

Meeting with US Securities and Exchange Commission representatives, Washington DC, USA

Meeting with IFIAR Investor Working Group, Berlin, Germany

**Academic and Research Organizations**

American Accounting Association Auditing Section Mid-Year Conference, Albuquerque, USA

Inter-American Accounting Association Conference, San Juan, Puerto Rico

Meeting with IAAER, via teleconference

British Accounting and Finance Association Auditing Special Interest Group's Audit and Assurance Conference, Edinburgh, UK

International Association for Accounting Education and Research (IAAER) Symposium, Venice, Italy

Seminar for Aarhus (Denmark) School of Business participants, New York, USA

Congress at the Tilburg University, Tilburg, the Netherlands

International Symposium on Audit Research Conference, Quebec, Canada

**COMMUNICATING WITH STAKEHOLDERS****MEETINGS, CONFERENCES, AND EVENTS****Preparers, Investors, Governance Organizations, and Others**

Meeting with Accounting and Auditing Committee of the International Corporate Governance Network, Paris, France

Meetings with Center for Audit Quality representatives, New York and Washington DC, USA

Meeting with Institute of International Finance representative, Washington DC, USA

Meeting with AEGON Asset Management and Standard Life Investments representatives, Edinburgh, Scotland

Meeting with Certified Financial Analyst Institute representatives, New York, USA

Meetings with investor representatives from Investment Management Association and Hermes Pensions Management Ltd, London, UK

Meeting with Association of British Insurers representatives, London, UK

Meetings with Global Auditor Investor Dialogue, via teleconference

Meeting with Hundred Group representatives, London, UK

**IFAC Member Bodies**

ASEAN Federation of Accountants 17th Annual Conference, Kuala Lumpur, Malaysia

Meeting with Association of Chartered Certified Accountants representatives, London, UK

Meeting with Instituto de Contabilidad y Auditoría de Cuentas leadership and Instituto de Censores Jurados de Cuentas de España, Madrid, Spain

Consiglio Nazionale dei Dottori Commercialisti e Degli Esperti Contabili, *National Conference on Audit Standards*, Santa Margherita di Pula, Italy

Meeting with Chinese Institute of Certified Public Accountants representatives, New York, USA

National Board of Accountants and Auditors Annual Conference, Arusha, Tanzania

Institute of Independent Auditors of Brazil 40th Anniversary Conference, São Paulo, Brazil

Meeting with Föreningen Auktoriserade Revisorer Regulatory Group representatives, New York, USA

Polish Chamber of Auditors Annual Conference, Warsaw, Poland

Malaysian Institute of Accountants' International Accountants Conference, Kuala Lumpur, Malaysia

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

The Institute of Chartered Accountants of India International Conference, New Delhi, India

Meeting with American Institute of Certified Public Accountants representatives, New York, USA

Meetings with Institute of Chartered Accountants in Scotland representatives, Edinburgh and London, UK

**Accounting Firms**

Baker Tilly International Europe/ Middle East/Africa Conference, Cyprus, Greece

Meeting with Brazilian audit firms' leadership, Sao Paolo, Brazil

Meetings with the Forum of Firms, London, UK and New York, USA

Crowe Horwath International Partners' meeting, Toronto, Canada

Meeting with Chairman of the Global Public Policy Committee, New York, USA

Meeting with Standards Working Group, London, UK

HLB International Audit & Financial Reporting Conference, London, UK

Meetings with Ernst & Young leadership, London, UK and Amsterdam, the Netherlands

Meeting with Transnational Auditors Committee, London, UK

Meeting with Argentinian audit firms' leadership, Buenos Aires, Argentina

NEXIA International Annual Conference, Paris, France

**COMMUNICATING WITH STAKEHOLDERS****MEETINGS, CONFERENCES, AND EVENTS****Governments and Public Sector Organizations**

European Commission (EC) Conference, *Financial Reporting and Auditing: A Time for Change*, Brussels, Belgium

Meeting with Comptroller and Auditor General of India, New Delhi, India

Meeting with EC Head of Audit and other EC representatives, Brussels, Belgium

Meeting with Financial Audit Subcommittee of the Professional Standards Committee of International Organization of Supreme Audit Institutions, via teleconference

Meeting with Government Accountability Office representatives, Washington DC, USA

Meeting with Secretary, Ministry of Corporate Affairs, New Delhi, India

Meeting with World Bank representatives, Washington DC, USA

**Regional Organizations and Events**

Accounting and Auditing for Regional Economic Growth Conference, Buenos Aires, Argentina

Africa Congress of Accountants, Nairobi, Kenya

European Federation for Accountants and Auditors of SMEs Conference, Berlin, Germany

Fédération des Experts Comptables Européens (FEE) Conference on Audit Policy, Brussels, Belgium

FEE Discussion Group on Reviews and Compilations project, Brussels, Belgium

Meetings with FEE, Brussels, Belgium

Seminar (jointly with IASB) for, and meetings with, representatives from countries of the Commonwealth of Independent States and Baltic States, London, UK

**Other Meetings, Conferences and Events**

1st Congress "der Mittelstandischen Wirtschaftsprüfer" Harvest Congress of Public Auditors, Leipzig, Germany

IFAC Small and Medium Practices Committee Forum, *Partnering with SMEs to Build and Sustain Value*, Istanbul, Turkey

Meeting with Organization for Economic Co-operation and Development representatives, Paris, France

World Bank REPARIS Program, Amsterdam, the Netherlands

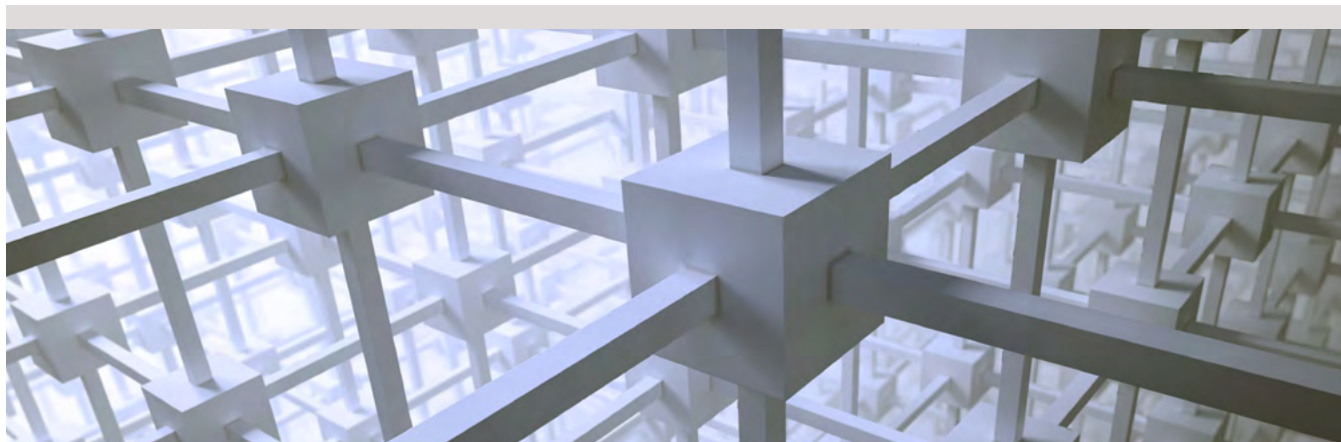
**RESPONSES TO PUBLIC CONSULTATION**

FASB Discussion Paper, *Selected Issues about Hedge Accounting (Including IASB Exposure Draft, Hedge Accounting)*

IASB Agenda Consultation 2011  
IASB Exposure Draft (ED), *Offsetting Financial Assets and Financial Liabilities* (ED/2011/1)

IASB Supplement to ED, *Financial Instruments: Impairment*

IASB ED, *Hedge Accounting* (ED/2010/13)





# REPORT OF THE CHAIRMAN OF THE IAASB CONSULTATIVE ADVISORY GROUP

**LINDA de BEER**



## HIGHLIGHTS OF 2011 EFFORTS

In my second report as chair of the Consultative Advisory Group (CAG), as with my report included in the IFAC Annual Report, I am focusing on the changing world we are all experiencing and specifically how the ground is now, more than ever, moving under the feet of the auditing profession and, hence, the audit standard-setting structures.

Since our inception in 1999, the CAG has seen and has been party to many changes to the auditing profession, auditing standards, and financial reporting. The role of the CAG is to provide advice to and be consulted by the International Auditing and Assurance Standards Board (IAASB) insofar as its strategy, work program, specific technical projects, and other relevant activities are concerned. This consultative and advisory function is not to be underestimated, considering that the CAG now comprises more than 30 member organizations and observers that are all important stakeholders of the auditing profession.

In the past year we have not added any new organizations to the membership of the CAG. However, we have embedded the proposed changes to our governance structures and processes as recommended by the Monitoring Group and Public Interest Oversight Board. As a result, we have rotated the longest serving representatives. I would like to extend

a word of gratitude to those valued individuals who have stepped down and a warm word of welcome to all our new CAG representatives. It is evident that the good governance practice of rotation is constantly bringing new thoughts and fresh ideas into our deliberations.

We are fortunate to have important and influential organizations as CAG members and they send their best people to represent them on the CAG. Therefore the level of commitment and debate is exceptional and sometimes revolutionary. The manner in which CAG comments are considered and processed into the work of the IAASB is proof thereof. The CAG's comments and advice are fed through to the IAASB through various channels, namely the attendance of the IAASB chairman and deputy chair, the specific project's task force chair, as well as the technical director at the CAG meetings. Furthermore, I attend every IAASB meeting to raise the views of the CAG in person. Lastly, we have a formalized minute taking and report back system where the task force chair and technical staff respond to every comment raised by the CAG and how that comment was dealt with.



## CHANGE IS THE ONLY CONSTANT

In 2011, it became evident that the early signs of improvement to the economic climate were not coming to fruition and that the world of audit standard-setting and regulation is possibly more uncertain and unpredictable than ever before. The CAG, being very attuned to its leadership role in advising the IAASB on its agenda, spent a large portion of our 2011 meetings on the strategic projects on the IAASB agenda, such as auditor reporting and audit quality.

In September 2011, we had a panel discussion on auditor reporting to debate some of the larger strategic questions relating to the concerns and limitations of the current auditor reporting model. We are privileged to have members from various geographical areas and representing different links in the reporting chain on the CAG. Therefore our panel discussion served well to provide a broad perspective of issues and possible solutions. In 2012, we will commit even more agenda time to the auditor reporting project, in light of the IAASB giving this such high priority.

Realizing that a consultative advisory group should not just be considering matters being put to it for input, but also looking beyond what is on the agenda to what is missing from the agenda, I made a change to our processes to allow for some 'blue sky' thinking time at our meetings. As a result, at our March 2011 meeting in New York the CAG proactively focused the IAASB's attention on the importance of professional skepticism. This topic therefore got onto the activities of the IAASB and a paper in this regard has been issued in February 2012.

Our agenda time was further spent on the project dealing with the auditors' role insofar as other disclosures are concerned. This is a very important topic in a world where regulators and investors are asking for assurance beyond the statutory financial information. We also gave input into the projects on the use of internal audit and pro forma information. These are all important areas for preparers and investors where strong auditing standards are needed to enhance corporate governance. The IAASB consulted the CAG on the proposed guidance on the audit of financial instruments, which was recently issued. The CAG believes that this guidance is of the utmost importance to assist in the auditing of financial instruments, which has resulted in concerns in the past. We also gave input into limited assurance matters and keenly advised on the IAASB's ISA implementation monitoring.

In 2011 the IAASB consulted on—and finalized, in March 2012—its proposed strategy for 2012–2014. The CAG and its individual member organizations gave input on this important document, which will determine the focus areas for the next three years.

## MORE AND RAPID CHANGE IN 2012?

The only certainty is that 2012 will bring further challenges to the auditing profession. I have already mentioned the 2012 focus on auditor reporting. This priority is supported by the fact that various important bodies such as the European Commission and the Public Company Accounting Oversight Board in the United States are currently undertaking similar initiatives.

The CAG has flagged the importance of the auditing profession being able to not only respond rapidly, but also for the IAASB to play a leadership role where aspects align with its own mandate of audit and assurance standard setting.

The expectations gap around audit is also forever shifting and there is a continued call for auditors to provide assurance on aspects beyond financial information. These include sustainability reports, corporate governance statements, and integrated reporting—which, once it matures, will be a combination of financial, social, environmental, governance, and other information and will cover both the historical side and be forward-looking at the same time. Auditing and assurance standards cannot afford to lag behind; we must ensure that there is appropriate guidance for auditors to prevent damaging, divergent, and inconsistent practices in these areas.

## IN CONCLUSION

The quality of the CAG's input into international audit standard setting is directly related to the commitment by our member organizations and their representatives. We are fortunate that they are deeply committed to this important task. I thank and applaud you for your immense contribution. I would also like to recognize the leadership of Prof. Arnold Schilder, who pays diligent attention to the CAG's views to ensure that they are fully considered by the IAASB, as well as to the IAASB technical team, who serve the standard-setting processes in a professional and tireless manner.



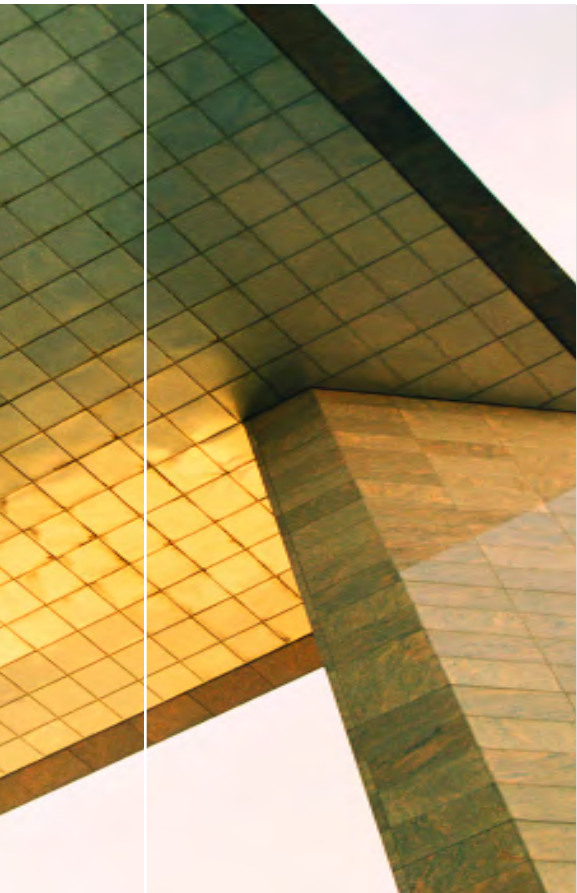
Prof. Linda de Beer, CA (SA), Chair

## IAASB CAG MEMBER ORGANIZATIONS AND OBSERVERS

### MEMBER ORGANIZATIONS

Asian Financial Executives Institutes	International Organization of Securities Commissions
Associação Brasileira de Instituições Financeiras de Desenvolvimento	International Organization of Supreme Audit Institutions
Basel Committee on Banking Supervision	International Valuation Standards Council
BUSINESSEUROPE	Islamic Financial Services Board
CFA Institute	Japan Securities Dealers Association
European Commission	National Association of State Boards of Accountancy
European Federation of Accountants and Auditors for SMEs	North American Financial Executives Institutes
European Financial Executives Institutes	Organisation for Economic Cooperation and Development
Fédération des Experts Comptables Européens	Sri Lanka Accounting and Auditing Standards Monitoring Board
Gulf States Regulatory Authorities	United Nations Conference on Trade & Development
Information Systems Audit and Control Association	World Bank
Institute of Internal Auditors	World Federation of Exchanges
International Accounting Standards Board	
International Actuarial Association	<b>OBSERVERS</b>
International Association of Insurance Supervisors	Financial Services Agency, Japan
International Bar Association	US Public Company Accounting Oversight Board
International Corporate Governance Network	





#### **IAASB Contact Information**

**IAASB Technical Director**

**James L. Gunn**

[jamesgunn@iaasb.org](mailto:jamesgunn@iaasb.org)

**IAASB website**

[www.iaasb.org](http://www.iaasb.org)