



The Clarity Standards:

A FOUNDATION *for* GLOBAL AUDIT QUALITY





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THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

The International Auditing and Assurance Standards Board (IAASB) is a standard-setting body designated by, and operating under the auspices of, the International Federation of Accountants (IFAC). The IAASB is subject to the oversight of the Public Interest Oversight Board (PIOB). The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high-quality standards dealing with auditing, review, other assurance, quality control, and related services, and by facilitating the convergence of national and international standards. This objective contributes to enhanced quality and uniformity of practice in these areas throughout the world, and strengthened public confidence in financial reporting.

The IAASB consists of a full-time chairman and 17 volunteer members from around the world. It comprises members in public practice with significant experience in the field of auditing and other assurance services, as well as individuals who are not in public practice (“non-practitioners”). Members are appointed by the IFAC Board based on recommendations from the IFAC Nominating Committee. Member appointments are subject to the approval of the PIOB. At present, the IAASB meets four times a year.

The IAASB is supported financially by IFAC, which itself is funded by membership dues from 157 members and associates in 122 countries, and by contributions from the

Forum of Firms. The Forum of Firms is an organization of public accounting firms that share the objective of promoting consistently high standards of financial reporting and auditing worldwide in the interests of the public and users of the profession’s services. Funding includes staff costs, the costs of the Chairman, the travel costs of the public members of the IAASB, and a contribution towards the travel costs of the other members. The IAASB is a component of the overall IFAC reporting entity and, accordingly, its financial results are included within IFAC’s audited financial statements. These financial statements are published as part of IFAC’s Annual Report, which is available at www.ifac.org. ■



Back row (left to right): Ian McPhee, Kjell Larsson, Marcel Pheijffer, Jon Grant, and Phil Cowperthwaite. Third row (left to right): William Kinney and Caithlin McCabe. Second row (left to right): David Swanney, Gérard Trémoière, M. Abdullah Yusuf, and Jianhua Tang. Front row (left to right): Josef Ferlings, Denise Esdon (Deputy Chair), John Kellas (Chairman), Susan Jones, Diana Hillier, and Craig Crawford. Not pictured: John Fogarty.

REPORT OF THE CHAIRMAN OF THE IAASB

As I look back on the five years during which I have been the Chairman of the IAASB, I am filled with a sense of satisfaction and gratitude. Satisfaction that the end of my term has coincided with the completion of the Clarity project, which marks an appropriate point at which to hand over the reins to my successor; and gratitude for the contribution of so many people who have supported the IAASB's work in so many ways.



John Kellas, *Chairman*

In 2003, the IAASB commenced the Clarity project, the objective of which was to identify ways to improve the clarity of the International Standards on Auditing (ISAs), leading to more consistency in their application and to facilitate their adoption throughout the world.

Our initial plan was to develop new drafting conventions and to complete their application to the entire set of fully revised ISAs by 2011. In response to strong demand by stakeholders for acceleration of that timetable, the IAASB revised its plans, and through investing significantly more time and resources, including drafting assistance kindly provided by a number of national auditing standard setters, successfully completed the project by December 2008. One compromise that proved necessary in drawing up the revised plans was that, whereas the original plan would have included both redrafting and full revision of every standard, the IAASB decided that it would be appropriate to revise fully only the more important standards during the project.

We received outstanding support for the project from our key stakeholders, not only through their sharing views on the principles of the project and its timing, but also in their responses to the exposure drafts that we issued as we worked to finalize 36 ISAs and International Standard on Quality Control (ISQC) 1. I am very grateful to all those who supported our work in this way, especially to those stakeholders who are additionally represented on the IAASB Consultative Advisory Group (IAASB CAG).

BUILDING UPON THE CLARITY PROJECT

I am pleased that we were able to complete this large and important project on time. However, to ensure that its full benefits are obtained, the IAASB will continue to promote the global adoption of ISAs and, perhaps most importantly,

those who adopt and use the ISAs will need to take the steps necessary to ensure their successful implementation. This will be essential if the standards are to achieve their overall effect of increased understanding of requirements by auditors and greater consistency in the performance of audits.

We decided early in the project that all the standards should come into effect at the same time. This means that auditors and others will have to deal at one and the same time with the effects of both the clarifications and the substantive new requirements of the fully revised ISAs. This approach was supported by our stakeholders, but at the same time a number expressed concern that our original effective date for the change was too soon. The IAASB listened sympathetically to these concerns and, conscious of the importance of effective introduction, agreed that the proposed implementation date should be revised to be a year later than originally planned: the clarified standards will therefore be effective for the audits of financial statements for periods beginning on or after December 15, 2009. We believe that this effective date balances the need for those using the standards to have sufficient time to translate and implement them with the desire that the users of financial statements should benefit from them as soon as possible.

In addition, the IAASB has agreed, subject to any unforeseen circumstances, not to issue any additional auditing standards that would become effective in the next two years. This responds to requests the IAASB has received from stakeholders for a period of stability in the standards, as jurisdictions focus on the important task of implementing the clarified ISAs and ISQC 1.

At its December meeting, the IAASB agreed that it will be necessary to provide implementation support in some form to our key stakeholders. The IAASB is committed to assist in this way to the extent possible and consistent with its role as standard setter. The importance of successful implementation cannot be overstated, and the level of effort by all concerned with implementation to make it so should not be underestimated.

For its part, the IAASB will work to explore ways to communicate the key changes arising from the Clarity project, and to ensure that those expected to use the ISAs receive guidance from the IAASB where appropriate (for example, to ensure consistent interpretation).

In October 2008, staff of the IAASB issued an *IAASB Clarity Project Update* to help and encourage those with responsibilities relating to audits of financial statements to set in motion plans to ensure that audits will be effectively carried out under the clarified ISAs. This communication highlights

matters that I have briefly referred to above, and mentions general considerations that may be relevant to a broad group of IAASB stakeholders, including national standard setters, legislators, regulators, oversight bodies, IFAC member bodies, accounting firms, and audit practitioners.¹

STRATEGY AND FUTURE DIRECTION

Recognizing that the IAASB's agenda was fully committed but that it would open up at the end of 2008 on completion of the Clarity project, the IAASB took the opportunity to hold extensive consultations during 2007 to develop our future strategy and work program. During 2008, we analyzed the results of these consultations and developed and approved the final *IAASB Strategy and Work Program, 2009-2011*, which was issued in July 2008. The PIOB confirmed that we have followed due process in developing and finalizing the strategy and work program, and approved its completeness from a public interest perspective.²

The Strategy and Work Program, 2009-2011 is consistent with the IAASB's overall objectives. It builds on the strong base of standards developed by the IAASB to date, and focuses on three areas:

- The development of standards, with an emphasis on those that contribute to the effective operation of the world's capital markets and those relevant to small- and medium-sized entities and practices (SMEs and SMPs);
- The facilitation and monitoring of their adoption; and
- Response to concerns about the implementation of the standards by designing activities to improve their consistent application in practice.

The strategy and work program responds to significant developments in the environment in which audit and other assurance services are performed, and in which standards for such services are set. It also highlights the IAASB's role in working toward global acceptance of and convergence with its standards and in establishing and maintaining relevant partnerships. It is underpinned by the IAASB's communication initiatives to keep

stakeholders informed of its activities and to promote adoption and implementation of its standards.

The work program is scheduled on the basis of the views of those consulted and of the IAASB on our priorities. However, unforeseen events and circumstances may require us to amend our plans. A certain level of flexibility, therefore, will be necessary as the IAASB moves forward. The current economic environment supports that need, and we have already found it necessary to respond.³

The IAASB remains open to possible amendments to ensure that its agenda reflects the public interest at all times.

PROMOTING THE ACCEPTANCE OF ISAs

The clarified ISAs will facilitate adoption and convergence around the world, and they provide a stable platform from which the IAASB plans to advance convergence.

The ISAs are widely accepted in many jurisdictions, and recognized as appropriate for many capital markets. Over the next few years, the IAASB plans to identify and address barriers to the further adoption of ISAs, and will continue to ensure that the content and breadth of proposed new standards facilitate their global acceptance and adoption. For this reason, initiatives, such as developing a framework for reviewing the effectiveness of new ISAs and participating in IFAC's work on impact assessments, have been included in our work program.

The IAASB believes that open and transparent sharing of information with its stakeholders, including national standard setters and regulators, and receptiveness to their input and feedback, are critical in gaining global acceptance and adoption of its standards and ensuring continuous improvement. The IAASB's communication activities in its strategy reflect this belief.

More than 100 jurisdictions around the world use ISAs, or base their national standards on them. ■

Europe

Many jurisdictions use ISAs and are proposing to adopt the clarified standards in accordance with our effective date. Although this includes many European Union (EU) member

¹ The update may be downloaded from the IAASB's website at http://web.ifac.org/download/IAASB_Clarify_10-08.pdf.

² Readers are invited to visit <http://www.ifac.org/IAASB/Resources.php#StrategyAndWorkProgram> to review the strategy and work program approved by the IAASB, as well as the *Basis for Conclusions: IAASB Strategy and Work Program, 2009-2011*, a staff-prepared document that explains the IAASB's conclusions with regard to significant matters raised during the development of the strategy.

³ Two Staff Audit Practice Alerts have been issued to address issues in the current economic environment: *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment* (October 2008) and *Audit Considerations in Respect of Going Concern in the Current Economic Environment* (January 2009).

states, we have had a special interest in the possible adoption of ISAs under the EU's 8th Company Law Directive. Such adoption would cement the consistent use of the latest ISAs for statutory audits throughout one of the world's major economic blocs. The EU legislative and adoption processes present their own challenges, but we have worked constructively with the European Commission (EC) to anticipate and iron out difficulties as they have arisen.

The EC has commissioned two studies on the implications for companies and auditors in the EU of adoption of ISAs. These studies are expected to be completed early in 2009. Meanwhile, other initiatives of the EC continue, as preliminaries to possible adoption, including plans for a public consultation on the adoption of ISAs that focuses on timing and process. A recent draft report from the Committee on Legal Affairs of the EU Parliament has given strong encouragement to making rapid progress with the consultation and adoption.

A significant challenge, at least as regards timing, is the translation of the ISAs. For adoption to be effective anywhere in the EU, the entire suite of standards must have been translated from English into 21 of the official languages of the EU. It is hoped that this can be accomplished by the end of 2009, and IFAC continues to work with the EC and translating bodies, as well as experts appointed by national audit regulators, to facilitate this task.

Use of the ISAs in Audits of Small- and Medium-Sized Entities

It is the view of the IAASB that ISAs are capable of being applied to all audits. The IAASB does not support any possibility that audits of SMEs might be carried out to limited auditing standards.

Nevertheless, the IAASB is conscious of the difficulties that practitioners may have in implementing ISAs in the audits of SMEs, and in particular the perception in some quarters that the ISAs have been written primarily with larger entities in mind. An important feature of the Clarity project was to try to ensure that representations from SMPs were taken into account, and that whatever possible was done to ensure that the clarified standards were as clear as possible in relation to the audits of SMEs.

Throughout the project, the IAASB sought input from those in the SME and SMP communities. In addition, IFAC's SMP Committee formed Rapid Response Teams for each ISA being developed, an action designed to give attention to individual standards at key stages. The views of these teams on the content of the ISAs were extremely helpful and led to enhance-

ments that will ease the burden of implementation of the clarified ISAs in the audits of SMEs.

Despite these efforts, the implementation challenges and the prospect of a wider requirement for audits to be conducted in accordance with ISAs have led to concerns in some quarters about whether an audit is the right service for all SMEs. In some countries, regulators have introduced exemptions from audit for entities that would otherwise be required to have an audit; such exemptions may be based on the type of entity, its size, or public interest considerations. Where such exemptions are available, entities often request their professional accountants to conduct a review or compilation engagement (as in the United States and Canada, for example). In certain other countries that have hitherto had comprehensive audit requirements for limited liability companies, consideration is being given to whether there are assurance services for SMEs that would be appropriate to exempt entities.

The IAASB's standards include two that are particularly relevant: International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*, and International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*. Our strategy consultations suggested that these should be revised, although there was at that time no drive for any completely new approach in these areas. More recently, however, I have detected a desire in certain countries to rethink the type of service practicing accountants may be able to deliver in this market. Work to determine what revisions to ISRE 2400 may be necessary was begun in 2008. That work may, if there seems to be demand, appropriately consider whether the service envisaged by ISRE 2400 is fully responsive to the current market.

OVERSIGHT

Our relationship with the PIOB continues to ensure that our work is in the public interest. Our heavy standard-setting program and ambitious timetable have equally put pressure on the PIOB whose role includes confirming that we have followed due process in the development of each standard. I am grateful to the PIOB for managing its own timetable and agendas to enable the timely release of the standards we approved during the year.

The IAASB's terms of reference indicate that IFAC will review the effectiveness of our processes at least every three years. In 2008, IFAC conducted its first triennial review. A review group was formed to gather suggestions from the IAASB and the IAASB CAG for changes that may be neces-

sary to our terms of reference, due process, and working procedures.⁴ These documents had been developed after due process, including public consultation and PIOB approval in March 2006. The changes that were suggested under the recent review were, therefore, largely focused on necessary refinements based on experience over the last three years. The PIOB is currently considering the recommendations of the review group.

Although such a formal review is necessary from time to time, aspects of our processes naturally form the subject of regular discussion with the PIOB. The IAASB is always pleased to engage with the PIOB to improve our processes.

The PIOB has expressed satisfaction that the IAASB has met due process in all matters it has reviewed to date. ■

ACKNOWLEDGEMENTS

The IAASB's successes over the past five years are entirely due to those who have contributed so well to our work.

The Board itself has worked with commitment and common purpose. Board members and technical advisors have willingly put in long days both at Board meetings, which this year have had very full agendas, and in task force meetings and conference calls. This work is voluntary. While for some it may be regarded as an extension or component of their busi-

ness activities, for others it is completely over and above the demands of their own careers. To all, I am extremely grateful.

I would particularly like to thank those whose terms ended in 2008. Denise Esdon has given long and distinguished service to the IAASB and its predecessor, 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 retiring IAASB members: Kjell Larsson, Ian McPhee, Marcel Pheijffer, and Gérard Trémolière. Together with their technical advisors, they have each made a distinctive contribution to our activities.

I should also mention the three Board observers who attend our meetings with speaking rights. They represent the Financial Services Agency of Japan, the U. S. Public Company Accounting Oversight Board, and the European Commission. Their active participation in our meetings is warmly appreciated.

The PIOB has been a constructive force for improvement. This is entirely due to the quality of its members, and the leadership of Professor Stavros Thomadakis, its Chairman. The IAASB CAG has been robust in its advice and comment, reinvigorated under its energetic Chairman, David Damant, who also has observer status at our Board meetings. The PIOB and the independent chairmanship of the IAASB CAG were both innovations introduced by IFAC during my term of office, and they have been outstandingly successful developments.

National standard setters, firms, and others who make available the time of their partners and staff to participate in our meetings or those of the IAASB CAG, and IFAC member bodies and other respondents to our proposals, have all in their own ways contributed. And the IFAC Board has been

⁴ The documents that are currently in place can be accessed at http://www.ifac.org/IAASB/downloads/IAASB_ToR.pdf and http://www.ifac.org/IAASB/downloads/IAASB_Due_Process_and_Working_Procedures.pdf.



unfailingly supportive, while at all times maintaining a proper distance from our technical activities as is so necessary for our independence. To all these I am grateful.

Finally, I must express my gratitude to the dedicated staff of the IAASB. Under the direction of the Executive Director, Professional Standards, Jim Sylph, they have worked diligently to ensure that the IAASB was on track to complete the Clarity project, providing strong technical input along the way. Their efforts this year in particular have been exceptional, and without their hard work, dedication, and loyalty, we would have achieved far less.

CONCLUDING REMARKS

Over the past five years, by building on the solid foundations laid by our predecessors, the IAASB has secured its position as a respected and credible global standard setter. We have adapted to the demands of greater scrutiny and openness. We have demonstrated a commitment to due process. We have promoted the benefits of the ISAs and the need for convergence in

auditing standards as much as in accounting standards. And we have delivered a set of improved auditing standards that I am confident will provide further stimulus to convergence.

It has been a privilege to work with so many talented and dedicated people. I am sure that my successor as Chairman, Professor Arnold Schilder, will find it so, and I am confident that under his leadership, the IAASB will become even better. I wish him and the Board every success in the years ahead.

Many of the matters referred to above are discussed in greater detail in the “Review of the Executive Director, Professional Standards.” I hope you will find this annual report informative and helpful to you in understanding our work. As always, we welcome your comments.



John Kellas
Chairman

SPOTLIGHT ON NEW IAASB CHAIRMAN, ARNOLD SCHILDER

Professor Arnold Schilder, RA was appointed to serve as the Chair of the IAASB for a three-year term beginning January 1, 2009. He brings both a breadth and depth of experience and strong integrity to the position and, as the incoming Chair, he will lead the IAASB in its initiatives in setting high-quality auditing and assurance standards and facilitating the convergence of international and national standards. He will play a key role in guiding the IAASB as it strives to enhance the quality and uniformity of audit practice throughout the world and to build public confidence in financial reporting, most notably as the IAASB implements the strategy that was approved in 2008.



Professor Arnold Schilder,
RA

Prior to joining the IAASB, Prof. Schilder served for ten years as the Executive Director for banking supervision in the Managing Board of De Nederlandsche Bank NV, the central bank and prudential supervisor of financial institutions in the Netherlands. He was a member of the Basel Committee on Banking Supervision and served as Chairman of its Accounting Task Force from 1999 to 2006. His service as a former member of the IOB will benefit the IAASB as it continues to enhance its working procedures in serving the public interest. He has also served as Chairman of the European Interim Working Committee on Financial Conglomerates. In addition, he is a part-time professor of auditing at the University of Amsterdam and is a past President of the Koninklijk Nederlands Instituut van Registeraccountants, IFAC's member body in the Netherlands. Previously, he was a senior international audit partner in PricewaterhouseCoopers (PwC) in the Netherlands and worked for PwC and predecessor firms from 1972 to 1998. ■

REVIEW OF THE EXECUTIVE DIRECTOR, PROFESSIONAL STANDARDS

Before I give a more detailed review of the IAASB's work during 2008, let me first congratulate the IAASB on the significant accomplishment of bringing the Clarity project to a close—on schedule. This outstanding achievement would not have been possible without the dedicated leadership of John Kellas and the tireless efforts of the IAASB members and technical advisors.

The completion of the Clarity project marks the end of a considerable workload for the IAASB.

However, as I will note below, a number of initiatives already underway will grow in importance during 2009, and new initiatives that are vital to the successful implementation of the clarified ISAs have been added. Despite the change in the nature of the projects to be undertaken, the IAASB's vision remains—that its high-quality standards for assurance and related services, most particularly the International Standards on Auditing (ISAs), are adopted and applied internationally.

The clarified ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2009. ■

DEVELOPMENT OF STANDARDS

With the completion of the Clarity project, the IAASB has issued all its auditing standards in a form consistent with the drafting conventions established during that project. Having also revised many of the auditing standards over the past five years, the end product is a set of up-to-date high-quality standards governing the audit of financial statements.

The IAASB's focus on auditing standards in recent years responded to calls from auditors and regulators to ensure that the ISAs were high-quality standards that were worthy of global acceptance and would facilitate convergence. This focus led to (a) the revision of ISAs dealing with areas of highest audit risk to ensure that they are robust and up-to-date, and (b) the redrafting of all standards to promote consistency in interpretation and international acceptance.



James M. Sylph
Executive Director,
Professional Standards

Final Standards Approved during the Clarity Project

During 2008, the IAASB approved one new standard, twelve revised and redrafted standards, and twelve redrafted standards that had not been revised. Further details, including copies of IAASB pronouncements, can be accessed in the new Clarity Center of the IAASB's website.

ISA 200 (Revised and Redrafted), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, sets out the conventions followed in redrafting the standards (known as the Clarity conventions) and the obligations of auditors who follow the standards. Among other matters, the ISA clarifies that the auditor is required to understand the entire text of an ISA to understand its objectives and to apply its requirements properly. It also explains that, in addition to setting out objectives and requirements, ISAs contain guidance for car-

The new, and revised and redrafted, ISAs include requirements and guidance that aim to strengthen practice in the following areas:

- Materiality in planning and performing an audit, and its use in evaluating misstatements
- Risk assessment, and the gathering and evaluation of audit evidence, in relation to:
 - Accounting estimates (including fair value accounting estimates) and related disclosures
 - Related party relationships and transactions
 - An entity's use of a service organization
- Audit evidence considerations in relation to:
 - External confirmations
 - Written representations (including implications for engagement acceptance considerations)
- Using the work of others, in relation to:
 - Audits of group financial statements, including the work of component auditors
 - Work of an auditor's expert
- Communication with those charged with governance
- Communicating deficiencies in internal control to those charged with governance and management
- Auditor reporting, in relation to:
 - Modifications to the auditor's opinion
 - Emphasis of Matter paragraphs in the auditor's report
- Audit and reporting consideration in the context of special engagements

rying out the requirements. Such guidance may explain more precisely what a requirement means or is intended to cover, or include examples of procedures that may be appropriate. Although such guidance does not in itself impose a requirement, it is relevant to proper application of the requirements of an ISA. ISA 200 (Revised and Redrafted) also introduces new guidance in relation to professional skepticism, professional judgment, the implications of the inherent limitations of an audit, and other matters relevant to applying the ISAs.

All clarified ISAs follow the new clarity structure and have been drafted in light of the obligations and conventions set out in ISA 200 (Revised and Redrafted). The changes that were made to an ISA, however, depended on whether it has been revised or newly developed, or redrafted only to apply the Clarity conventions.

A complete listing of the standards that were revised and redrafted, or redrafted only, as a result of the Clarity project can be found in the Appendix to this report. The listing includes both those approved by the IAASB in 2008 and the standards approved in prior periods, so as to give a comprehensive view of the thirty-six ISAs and ISQC I that auditors will need to implement. ■

OTHER STANDARD-SETTING ACTIVITIES

The IAASB is also making significant progress on a number of other projects in its current work program. Key aspects of these projects are highlighted below.

Reports on Controls at a Third-Party Service Organization

Proposed International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Third-Party Service Organization*, is the first subject matter-specific standard developed under the IAASB's *International Framework for Assurance Engagements*. Reports prepared in accordance with proposed ISAE 3402 will be capable of providing appropriate audit evidence under ISA 402 (Revised and Redrafted), *Audit Considerations Relating to an Entity Using a Service Organization*. The proposed standard will facilitate more consistent reporting on controls at service organizations, thereby assisting service organizations to meet the needs of their clients ("user entities") and their auditors, especially for reports issued in one country to meet the requirements of

auditors of user entities in other countries.

In the absence of an up-to-date IAASB pronouncement over past years, SAS 70,⁵ developed by the AICPA's Auditing Standards Board (ASB), has been accepted in many jurisdictions as the de facto international standard for assurance reports on controls at a third-party service organization. In November 2008, the ASB approved a proposed statement on standards for attestation engagements (SSAE), *Reporting on Controls at a Service Organization*, with a February 2009 comment deadline. The explanatory memorandum to this exposure draft noted that the SSAE had been drafted based on the December 2007 exposure draft of ISAE 3402. Differences between the proposed SSAE and the ISAE 3402 exposure draft that the ASB believed were not supported by any compelling reason were eliminated. The ASB also included an exhibit that detailed what it believed to be differences in objectives, definitions, or requirements between the proposed SSAE and ISAE 3402.

The revision of SAS 70 provides the IAASB with an opportunity to ensure that the final versions of ISAE 3402 and SAS 70 are aligned to the maximum extent possible, thereby promoting convergence in an important practice area. The IAASB's task force intends to liaise with those working on the SSAE; both standards are expected to be issued in 2009.

Assurance on Carbon Emissions Information

The IAASB believes, and the strategy consultation confirmed, that there is a need for timely development of an ISAE dealing specifically with carbon trading to provide a proper reference point as a global trading scheme evolves. Although a global scheme may be some way off, a global assurance standard is needed in the short term so that it can be referenced in national and other schemes, and thus evolve as the global standard in time.

As the use of carbon emissions information becomes more prevalent, the demand for a consistent approach to assurance, and thus the need for an international standard, is likely to grow. During 2008, the task force developed a consultation program to gather views of those directly involved with carbon emissions.

Four roundtables were held during 2008, jointly with IFAC member bodies, to bring together interested parties in Australasia, North America, and Europe. These roundtables allowed more broadly based users of emissions information

⁵ Statement of Auditing Standards Number 70, *Service Organizations*. The revision of SAS 70 will result in 2 separate standards – an auditing standard similar to ISA 402 (Revised and Redrafted), and the proposed SSAE discussed above.

and others interested in emissions trading (such as regulators, lawyers, academics, NGOs, and non-accounting assurers and standard setters) to share their views on key issues in this developing area. In addition, a Project Advisory Panel was formed to provide further input. The Project Advisory Panel currently has fourteen members, predominantly from accounting firms and IFAC member bodies, but it also includes a member nominated by INTOSAI, and a member from a bank that finances carbon offset projects.

Topics addressed during the IAASB's discussions to date included the following: whether the standard should deal with both reasonable and limited assurance engagements; assertion-based versus direct-reporting engagements; application of a proposed ISAE by non-accountants; the effect of emissions inventory uncertainty; and guidance with respect to the suitability of criteria.

I anticipate that the IAASB will obtain wide stakeholder input before issuing an exposure draft for public comment.

Assurance on Pro Forma Financial Information

Raising international capital efficiently requires information that is understandable across borders, together with assurance designed to enhance users' confidence in that information, regardless of where they are based. Capital markets around the world are becoming more integrated, issuers are increasingly looking to raise capital, and investors are looking to invest capital, on an international rather than a local basis. In the European Economic Area (EEA), the introduction of the Prospectus Directive⁶ gives rise to a clear need for common assurance standards throughout the EEA. Representatives from countries outside the EEA have advised the IAASB that there is a need for relevant assurance standards. Consequently, there is a desire for global harmonization of the public and private reports provided by professional accountants in connection with prospectuses—particularly to ensure consistency in the procedures the professional accountant should perform to support the report, and the form and content of that report.

The IAASB's strategy consultations confirmed a need in this area. Accordingly, in 2008 the IAASB approved a proj-

ect proposal to develop an ISAE on assurance reports on pro forma financial information. The ultimate goal of the project is to develop an internationally accepted standard for assurance engagements on pro forma financial information in prospectuses. However, this is an area where it will be necessary for the IAASB to proceed cautiously. Accordingly, the development approach is to use an international project task force to focus on a single market model (EU), and:

- (a) Identify principal issues for this market;
- (b) Obtain input on the applicability and relevance of these issues and a project standard developed within a more global context; and
- (c) Determine steps in advancing the development of the standard.

Because of the nature of the subject, the project task force will specifically consider whether a consultation paper would be appropriate to obtain necessary input before issuing the draft ISAE.

OTHER IAASB INITIATIVES

Fair Value Audit Guidance

As part of the Clarity project, the IAASB approved ISA 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. This revised standard places more emphasis on (a) areas of higher risk, (b) accounting judgment, and (c) possible bias. Doing so will assist the auditor to form appropriate conclusions about the reasonableness of estimates in the context of an entity's financial reporting framework. These areas are also of particular importance in the context of fair values.

The revised ISA also includes expanded guidance on auditing fair value accounting estimates as compared with extant ISA 545,⁷ including audit considerations relating to (a) the proper application of the requirements of the financial reporting framework relevant to such estimates, and (b) the use of models in valuations.

In response to comments received during the course of developing the revised standard, early in 2008, the IAASB formed a task force to determine how best to approach the development of any possible further fair value auditing guidance. Later, the task force was also asked to address the recommendation received from the Financial Stability Forum that the IAASB, major national audit standard setters, and relevant regulators should consider the lessons learned during the mar-

⁶ With the introduction of the Prospectus Directive (the "Directive") and Prospectus Regulation (the "Regulation"), a European regime for prospectuses became effective on July 1, 2005. The Directive and Regulation were part of *Financial Services: Implementing the framework for financial markets: Action Plan*, published by the European Commission in 1999. The action plan identified a series of legislative actions needed to deliver components of a single European Capital Market.

⁷ ISA 545, *Auditing Fair Value Measurements and Disclosures*.

ket turmoil and, where necessary, enhance the guidance for audits of valuations of complex or illiquid financial products and their related disclosures.

This task force, which is comprised of interested parties with relevant perspectives and expertise, has (a) considered aspects of the audit of financial statements measured at fair value, including current issues and practice, and (b) consulted with others, to ensure that the IAASB's work in this area responded to the global needs of our stakeholders.

As the landscape relating to fair values has evolved during 2008, it has been challenging for the task force to clearly identify specific areas where immediate guidance was necessary. This is so particularly in light of the improvements that are widely acknowledged in ISA 540 (Revised and Redrafted). To ensure that those conducting audits were doing so with adequate professional skepticism and in accordance with the currently effective ISAs, the Staff Audit Practice Alert, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*, a staff-prepared non-authoritative document, was issued in October 2008.

I believe that guidance in this form, rooted in the currently effective ISAs and prepared in light of current difficulties in the credit markets, is relevant to audits of all entities that have investments in financial instruments, especially those in illiquid markets. This document, along with other responses to the global financial crisis from IFAC and other organizations, can be found on the IFAC website.⁸

As noted in the Staff Audit Practice Alert, ongoing initiatives by the International Accounting Standards Board (IASB) to provide guidance for preparers responsible for developing fair values will also be useful to auditors. As the effects of the credit crisis and economic downturn continue to unfold, the IAASB will continue to evaluate whether more guidance ought to be given from an auditing perspective.

Implementation Support

To date, the IAASB has concentrated its efforts on setting clear standards and providing adequate time for their implementation. The IAASB recognizes that (a) the effective implementation of its standards is as important as their development, and (b) it has an important role in addressing the practical implementation challenges experienced by those that have adopted, or are adopting, ISAs. Meeting these challenges, however, requires a joint effort by the IAASB, other IFAC boards and

committees, regional and national professional accountancy organizations, the Forum of Firms, national standard setters, regulators, and development agencies.

As the IAASB has only recently completed the Clarity project, its thinking with regard to possible actions to support implementation is preliminary. Staff of the IAASB are currently considering whether a series of modules could be developed that target specific ISAs, mainly those that have been revised and redrafted, to highlight key matters, such as the following:

- The IAASB's main reasons for revising the ISA;
- Key points of emphasis relating to new or revised requirements (or definitions), to the extent that these will result in changes to existing practice; and
- Major viewpoints considered by IAASB in establishing the requirements.

Our future work in this area recognizes the need to ensure that all our efforts under the Clarity project are not wasted through inappropriate implementation.

Monitoring the process of adoption of the clarified ISAs will be a key priority for IFAC's Member Body Compliance Program in 2009. ■

Effectiveness Review of the Implementation of ISAs

One of the IAASB's committed initiatives in its strategy and work program is the development and implementation of a process for assessing the effectiveness of its standards. The purpose of such a process is to assist the IAASB in determining whether it needs to further refine its standards so that they will achieve their intended objectives. In the longer term, this process will become a standing part of the IAASB's effort to continuously improve its standards. I believe that work in this area is vital to the adoption of the ISAs and the aim of global convergence. An important element of this process will be to seek the involvement of (a) the oversight bodies that monitor audit quality, (b) regulators, and (c) national standard setters, as their collective experience should provide important input about how standards are being implemented in practice. Equally, audit firms will represent an important source of relevant data through the lessons they have learned in their own quality control reviews and inspections. Sources will not be limited to parties who have published data, but will include as well any party who may be able to provide relevant input, subject to any data privacy or confidentiality law or regulation.

⁸ For more information about the various initiatives of the IAASB and IFAC, please visit <http://www.ifac.org/financial-crisis/>.

Work on this area is just getting underway; the IAASB approved a draft Terms of Reference for a task force at its December meeting. This task force will be asked to consider and make recommendations on (a) the form, scope, and timing of a process to review the effectiveness of the standards, and (b) the due process to be applied, taking account of the need to involve, consult with, and draw upon the experience of relevant parties. This process is not intended to extend the IAASB's activities to monitoring the implementation of its standards, as this is the role of the regulators and oversight bodies that monitor audit quality. It is, however, expected that any proposed process should take account of the findings of those bodies to the extent that it is practicable to obtain sufficient relevant detail.

We look forward to enhancing our relationships with our stakeholders as we move forward on developing this important initiative.

Impact Assessments

The IAASB's *Strategy and Work Program, 2009-2011* indicates that the IAASB should determine how to implement any proposals that IFAC might adopt for assessing the impact of new standards, in response to the view that impact assessments represent a key element of global acceptance of and convergence towards ISAs.

IFAC staff has begun work on this important initiative, and is developing a *Guide on Impact Assessments*. They are working closely with staff of IFAC's Public Interest Activity Com-

mittees⁹ to ensure a consistent process. Field testing on a new project is also planned, the results of which will be used as an illustrative example within the guide.

ACTIVITIES OF OTHERS THAT ARE RELEVANT TO THE IAASB'S WORK TO ASSIST SMEs

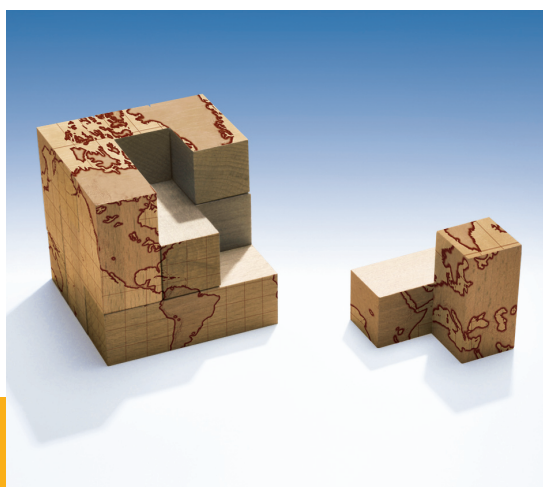
IFAC Policy Position

During 2008, IFAC issued a policy position titled *IFAC's Support for a Single Set of Auditing Standards: Implications for Audits of Small and Medium-sized Entities*.¹⁰ The paper (a) sets out IFAC's view that ISAs are designed to apply to audits of financial statements of entities of all sizes, and (b) highlights how the IAASB considers the needs and perspectives of SMEs in developing those standards. As the IAASB Chairman notes, this view is strongly supported by the IAASB.

The policy position emphasizes that the consistent use of the ISAs is essential to meeting the public interest expectations of an audit. If auditors intend to issue an ISA-based audit report, they must comply with the ISAs. This enables association of a consistent level of assurance with the word "audit," and allows users to make decisions based on a common understanding of the reliability of financial statements. The paper also emphasizes the importance of professional judgment in determining the most effective approach for a particular audit.

Consultation Paper Issued by National Standard Setters On Revisions to the Review Engagement Standard

The IFAC paper discussed above points out that SMEs have an alternative to obtaining an audit; they may obtain a review of their financial statements. International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*, requires a different level of work effort by the practitioner, and results in a different and lower level of assurance. The IAASB will be considering changes to this standard in light of the current needs of the marketplace. A new consultation paper, commissioned by the IAASB and developed by staff of several national auditing standard setters, sought input in the IAASB's consideration of a relevant and cost-effective assurance service that is an alternative to an audit for SMEs



⁹ IFAC's Public Interest Activity Committees include the IAASB, the International Accounting Education Standards Board, the International Ethics Standards Board for Accountants, and their respective Consultative Advisory Groups.

¹⁰ This publication can be downloaded on IFAC's website by visiting <http://www.ifac.org/Store/Details.tmpl?SID=1222895933491044&Cart=1222899462492192>.

in particular. The paper, *Matters to Consider in a Revision of International Standard on Review Engagements (ISRE) 2400, Engagements to Review Financial Statements*,¹¹ was developed by staff from the national auditing standard setters of New Zealand (Professional Standards Board), Canada (Auditing and Assurance Standards Board), and South Africa (Independent Regulatory Board for Auditors). It focuses on a number of significant matters to be considered in reviewing the standard, including (a) the nature and extent of the work a practitioner should perform in an engagement to review financial statements, and (b) how the level of assurance obtained should best be communicated to users. It also raises numerous discussion points. I believe that the preliminary input in response to this paper will help guide the IAASB's work, and enable it to address in a timely and efficient manner the needs of users, practitioners, and other stakeholders for robust and appropriate standards.

LIAISON WITH KEY STAKEHOLDERS

U.S. Public Company Accounting Oversight Board

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

We continue to look for ways to work together with the PCAOB more closely. Our organizations both agree that it is desirable to avoid unnecessary differences between our respective standards. To that end, we note that the PCAOB has recently issued seven proposed new auditing standards related to the auditor's assessment of and response to risk in an audit. We are pleased to note that the PCAOB began by considering the ISAs with the aim of achieving a degree of commonality while recognizing that certain changes were necessary for their purposes.

We will continue to monitor the PCAOB as it continues its work on these important standards. The use of the IAASB's standards as a basis for the PCAOB's proposed new standards is a testament to the value placed on our standard-setting processes and output.

International Organization of Securities Commissions

IOSCO continues to observe the IAASB meetings regularly, and has representation on the IAASB CAG. In addition, IOSCO has regularly responded to the many exposure drafts we have issued during the Clarity project. Our task forces continue to make every reasonable effort to respond to these comments, as regulators' support for the ongoing developments in the IAASB's standard-setting activities is essential to worldwide adoption of the standards.

Although 2008 did not see an IOSCO endorsement of IAASB's standards, we continue to work with IOSCO in this regard. The Chairman and I will continue to liaise with IOSCO on this matter, and we look forward to a positive solution in 2009.

Financial Reporting Frameworks Described by Reference to Another Established Framework

In February 2008, the Technical Committee of IOSCO issued its *Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements*. That statement recommends that all annual and interim financial statements that are prepared on the basis of national standards that are modified or adapted from International Financial Reporting Standards (IFRSs) and published by publicly traded companies should include clear and accurate information on the accounting standards used in the preparation of their financial statements, for example, where national standards assert that they are based on but do not fully implement IFRSs.

The IAASB had proposed some amendments to ISA 700 (Redrafted), *Forming an Opinion and Reporting on Financial Statements*, related to this matter. The main element of the proposed guidance was this—if the applicable financial reporting framework is described in the financial statements as being a modified version of another established framework, the auditor should consider the risk that readers might misunderstand the basis on which the financial statements have been prepared. This risk would be mitigated, for example, if the financial statements include an explanation of the differences between the two frameworks. The amendments proposed in ISA 700 (Redrafted) followed closely amendments that had been proposed by the IASB to its standard governing the preparation of financial statements, although the IAASB also sought to generalize the relevant consideration to other frameworks.

Because the IASB had not finalized the proposed amendment, the IAASB had to decide how, if at all, to deal with the matter in ISA 700 (Redrafted). In the absence of an explicit dis-

¹¹ The consultation paper can be downloaded on IFAC's website by visiting <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0118>.

closure requirement for preparers, the ISA by necessity would have to focus on whether or not there is a risk of users misunderstanding the basis of accounting in the circumstances of the particular entity. In contrast, the IOSCO statement was designed to promote transparency in all cases.

Representatives on the IAASB CAG agreed that this matter of transparency needs to be addressed in the public interest; however, the majority did not support dealing with the matter in ISA 700 (Redrafted), and advised the IAASB against doing so. The reasons for this majority view varied, but included (a) concern about the subjectivity of the particular proposals in the ISA, and (b) wider concern that this was a matter for relevant regulators to resolve because the auditor ought to form the opinion within the context of the applicable financial reporting framework. They believed that further dialogue between the various stakeholders is needed. The IAASB accepted the advice that other bodies would be the more appropriate ones to pursue the matter, but the IAASB decided that it should monitor future developments and be prepared to contribute further if and when appropriate.

International Organization of Supreme Audit Institutions

The Financial Audit Guidelines Subcommittee (FAS) of INTOSAI is continuing to develop Financial Audit Guidelines for the public sector. Each Financial Audit Guideline consists of a practice note and an ISA. The practice note explains the application of the ISA in an audit of a public sector entity. Both these guidelines and the specific considerations for public sector entities in the ISAs are the outcome of the Memorandum of Understanding between INTOSAI and the IAASB.

INTOSAI is also a member of the IAASB CAG. In 2008, INTOSAI representatives participated in four IAASB task forces.

We are pleased that INTOSAI is represented at the IAASB's meetings as an observer, as this informs the development of the Financial Audit Guidelines. To date, INTOSAI's governing body has approved nine such guidelines. We will continue to work with FAS to ensure that it is able to meet its goal of submitting the full set of guidelines, updated to take into account the changes made to the ISAs during the Clarity project, to its congress for endorsement in 2010.

National Auditing Standard Setters

The IAASB hosted its eighth meeting of the most active national standard setters in March 2008, with standard setters from thirteen countries in attendance. We were especially pleased to welcome Brazil to the meeting for the first time.

Participants discussed aspects of the IAASB's future strategy. Some expressed interest in collaborating with the IAASB on some projects and initiatives, such as the consultation paper on review engagements that I have already discussed, as well as other initiatives the IAASB will undertake in 2009 and beyond. Participants expressed strong support for the IAASB's initiative to make national implementation guidance of international relevance available on the IAASB's website. Although other projects have taken priority in 2008, my staff and I will seek to accomplish this in 2009.

IAASB Consultative Advisory Group

The CAG met in March and September 2008. The IAASB continues to benefit from the leadership of the CAG Chairman, David Damant, and the advice it receives from the members of the advisory group at all stages of its projects.

In March, the CAG's discussions focused mainly on the IAASB's proposed strategy and work program. At the September meeting, the representatives discussed the standards being redrafted under the Clarity project, as well as the more extensive projects to revise certain ISAs. CAG representatives were also given the opportunity to raise matters for the IAASB's consideration when developing project proposals for projects to be undertaken in early 2009.

The CAG Chairman is entitled to attend IAASB meetings as an observer, with the privilege of the floor. Further details on the activities of the CAG during the year are set out in the report of the CAG Chairman, David Damant, on pages 20 to 22.

The CAG will continue to be a tremendous resource for the IAASB as it shifts its focus from the Clarity project. The diverse group of member organizations represented on the CAG will no doubt have views on the emerging areas of carbon emissions, pro forma financial information, and eXtensible Business Reporting Language (XBRL).

COMMUNICATIONS

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

To this end, IAASB members and staff delivered a variety of presentations and speeches throughout the year, or were otherwise involved in meetings with stakeholders, all aimed at informing the audiences about the IAASB's objectives and

During 2008, the IAASB website attracted over 162,000 visitors. Nearly 153,000 copies of final IAASB publications, including standards, and more than 98,000 copies of exposure drafts were downloaded. Approximately 3,100 print copies of the 2008 IFAC *Handbook of International Auditing, Assurance, and Ethics Pronouncements* were distributed. ■

work. A list of events or forums in which IAASB representatives participated is provided in the Appendix under the heading “Communicating with Stakeholders.”

In addition, the IAASB issues press releases and eNews communications, announcing the approval of its standards and highlighting matters of interest to auditors. It further promotes its activities and publications through the IAASB website and presentations. The IAASB plans to consider whether to develop a formal communication plan for the period 2009-2011.

TRANSLATION

As the clarified standards are now finalized, the availability of quality translations is vital to the adoption and effective and consistent implementation of the standards.

Although the official working language of IFAC and the IAASB is English, both recognize, however, that it is crucial that practitioners, legislators, regulators, educators, students, and all other interested groups in non-English speaking jurisdictions should have access to the standards in their native language.

IFAC therefore encourages and facilitates the translation of its standards by its members and associates, regional accountancy organizations, standard setters, regulators, and other parties, and recently updated its policy statements relating to translation.¹²

The policy statement, *Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants*, is based on cooperation between IFAC and a translating body. It provides for the effective and efficient utilization of limited resources. It relies heavily on the goodwill of translating bodies and the fact that quality financial reporting and auditing is of interest to all.

IFAC and the IAASB recognize that a single translation of its standards per language would (a) reduce confusion as

to the source and availability of applicable standards, and (b) eliminate differences in terminology that may exist in multiple translations. It is also more cost-effective and efficient to maintain such a translation. IFAC and the IAASB, therefore, strongly encourage translating bodies to collaborate with other interested parties that may benefit from using the standards in the language of translation in order to achieve a single quality translation of the standards in that language.

PUBLICATIONS AND DISTRIBUTION

To achieve the widest use and recognition of IAASB standards, the IAASB makes its pronouncements available on its website free-of-charge. IFAC and the IAASB jointly released the 2008 edition of the *Handbook of International Auditing, Assurance, and Ethics Pronouncements*. That handbook contains all pronouncements issued as of December 31, 2007. The ISAs that have been clarified (and which are effective for audits of financial statements for periods beginning on or after December 15, 2009) have been included as Part II of the Handbook to facilitate translation and implementation.

In 2009, the IAASB will release an updated Part II that contains the final versions of all thirty-six clarified ISAs and ISQC 1. These standards will reflect minor drafting changes to a number of finalized ISAs to enhance consistency in the use of language and style of drafting as refined over the course of the Clarity project, and to address other matters of clarity, an initiative that was agreed by the IAASB at its December meeting.

A free PDF downloadable version of the Handbook was also released with the printed edition. Individual publications continue to be available for download free-of-charge from the website.

IFAC member bodies are encouraged to promote IAASB standards and guidance to their members, and to that end can link their websites to the IAASB website.

IAASB MEETINGS

Four IAASB meetings totaling nineteen days of full Board deliberation were held over the past year. Additionally, approximately 115 task force meetings (in person and through conference calls) were held during the year. ■

¹² The revised policies and the translations database can be found at www.ifac.org/translations.

IAASB MEMBERSHIP

In addition to the Chairman, the IAASB also bid farewell to five members of the Board at the end of 2008: Denise Esdon (Deputy Chair), Kjell Larsson, Ian McPhee, Marcel Pheijffer, and Gérard Trémolière. I join the Chairman in expressing my gratitude to them for their positive contributions to the IAASB during their respective terms, and, in particular, over the past year as chairs and members of key task forces.

The IAASB welcomes the following new appointments and re-appointments to the Board from January 1, 2009 for terms of three years:

Nominated by IFAC Member Bodies

- Phil Cowperthwaite, *Canada* (re-appointed);
- Cédric Gélard, *France*; and
- Ashif Kassam, *Kenya*.

Nominated by the IFAC Transnational Auditors Committee

- Diana Hillier (re-appointed); and
- Dan Montgomery.

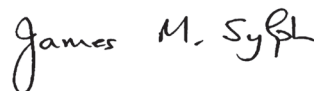
Public Members

- Steen Jensen, *INTOSAI*;
- Tomokazu Sekiguichi, *Japan*; and
- David Swanney, *United Kingdom* (re-appointed).

I am also particularly pleased to welcome Prof. Arnold Schilder as the incoming Chair of the IAASB. He will be supported by the new Deputy Chair, current IAASB member John Fogarty. I am confident that their combined leadership will ensure that the IAASB is well-positioned to meet the challenges it will surely face in the upcoming year.

ACKNOWLEDGEMENTS

I would like to thank the Chairman for his outstanding and dedicated leadership of the IAASB over the past five years, and extend my appreciation to the Board members and all those who have contributed to the work of the IAASB; our accomplishments during 2008 would not have been possible without your efforts and dedication. I am also grateful to my team of staff members who continue to work tirelessly behind the scenes to ensure that the IAASB is able to meet its work schedule and deliver on its commitments.



James M. Sylph
Executive Director, Professional Standards



IAASB Technical Staff: *Back row (left to right):* Michael Nugent, Jessie Wong, James M. Sylph (Executive Director, Professional Standards), Linda Lach and Ken Siang. *Front row (left to right):* Kathleen Healy, James L. Gunn, Alta Prinsloo, and Dorothy Ofori.

IAASB MEMBERS, TECHNICAL ADVISORS, OBSERVERS, AND TECHNICAL STAFF

Throughout 2008

BOARD MEMBERS**TERM ENDING****TECHNICAL ADVISORS***Nominated by IFAC Member Bodies*John Kellas (Chairman), *United Kingdom*

2008

Phil Cowperthwaite, *Canada**

2008

Josef Ferlings, *Germany*

2010

John Fogarty, *United States*

2009

Jon Grant, *United Kingdom*

2010

William Kinney, *United States*

2009

Marcel Pheijffer, *The Netherlands*

2008

Jianhua Tang, *China*

2010

Gérard Trémolière, *France*

2008

M. Abdullah Yusuf, *Pakistan*

2009

Greg Shields

Wolfgang Böhm

Sharon Walker / Chuck Landes

Ashif Kassam

Hans Verkruijsse

Cédric Gélard

Asad Ali Shah

*Nominated by the IFAC Transnational Auditors Committee*Denise Esdon (Deputy Chair), *Ernst & Young*

2008

Craig Crawford, *KPMG*

2010

Diana Hillier, *PricewaterhouseCoopers**

2008

Susan Jones, *Grant Thornton*

2009

Caithlin McCabe, *Deloitte Touche Tohmatsu*

2010

Dan Montgomery

Sylvia Smith

Jon Rowden

Maria Manasses / Josephine Jackson

Tania Sergott

*Public Members*Kjell Larsson, *Sweden*

2009

Ian McPhee, *Australia*

2008

David Swanney, *United Kingdom**

2008

Kelly Ånerud

Richard Mifsud

* These members were re-appointed after their terms ended at the end of 2008. For a full list of appointments effective January 1, 2009, see the Executive Director's review.

OBSERVERSDavid Damant (IAASB CAG Chair, *United Kingdom*)Norio Igarashi (Financial Services Agency, *Japan*)Jennifer Rand (Public Company Accounting Oversight Board, *United States*)Jürgen Tiedje/Jean-Philippe Rabine (European Commission, *Belgium*)*IAASB Technical Staff*

Executive Director,

Professional Standards James M. Sylph

Deputy Directors James L. Gunn

Alta Prinsloo

Senior Technical Manager Ken Siong

Technical Managers Kathleen Healy

Linda Lach

Michael Nugent

Jessie Wong

Executive Assistant Dorothy Ofori

Administrative Assistant Rick James

IAASB STANDARDS AND GUIDANCE

The following standards and guidance were issued by the IAASB. Additional information on these projects can be found on the IAASB website at www.iaasb.org.

The Final Set of Clarified ISAs and ISQC 1

<i>Standard</i>	<i>New, Revised and Redrafted, or Redrafted¹³</i>	<i>Year Approved by the IAASB</i>
International Standard on Auditing (ISA) 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i>	Revised and Redrafted	2008
ISA 210, <i>Agreeing the Terms of Audit Engagements</i>	Redrafted	2008
ISA 220, <i>Quality Control for an Audit of Financial Statements</i>	Redrafted	2008
ISA 230, <i>Audit Documentation</i>	Redrafted	2007
ISA 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>	Redrafted	2006
ISA 250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>	Redrafted	2008
ISA 260, <i>Communication with Those Charged with Governance</i>	Revised and Redrafted	2007
ISA 265, <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i>	New	2008
ISA 300, <i>Planning an Audit of Financial Statements</i>	Redrafted	2006
ISA 315, <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>	Redrafted	2006
ISA 320, <i>Materiality in Planning and Performing an Audit</i>	Revised and Redrafted	2008
ISA 330, <i>The Auditor's Responses to Assessed Risks</i>	Redrafted	2006
ISA 402, <i>Audit Considerations Relating to an Entity Using a Service Organization</i>	Revised and Redrafted	2008
ISA 450, <i>Evaluation of Misstatements Identified during the Audit</i>	Revised and Redrafted	2008
ISA 500, <i>Audit Evidence</i>	Redrafted	2008
ISA 501, <i>Audit Evidence—Specific Considerations for Selected Items</i>	Redrafted	2008
ISA 505, <i>External Confirmations</i>	Revised and Redrafted	2008
ISA 510, <i>Initial Audit Engagements—Opening Balances</i>	Redrafted	2008
ISA 520, <i>Analytical Procedures</i>	Redrafted	2008
ISA 530, <i>Audit Sampling</i>	Redrafted	2008
ISA 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>	Revised and Redrafted	2007
ISA 550, <i>Related Parties</i>	Revised and Redrafted	2008
ISA 560, <i>Subsequent Events</i>	Redrafted	2007
ISA 570, <i>Going Concern</i>	Redrafted	2008
ISA 580, <i>Written Representations</i>	Revised and Redrafted	2007
ISA 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	Revised and Redrafted	2007
ISA 610, <i>Using the Work of Internal Auditors</i>	Redrafted	2008
ISA 620, <i>Using the Work of an Auditor's Expert</i>	Revised and Redrafted	2008

¹³ The labeling convention “Revised and Redrafted” and “Redrafted” will be removed from the title and text of the clarified ISAs when they are published in the Handbook and going forward.

IAASB STANDARDS AND GUIDANCE

The Final Set of Clarified ISAs and ISQC 1 (continued)

<i>Standard</i>	<i>New, Revised and Redrafted, or Redrafted¹³</i>	<i>Year Approved by the IAASB</i>
ISA 700, <i>Forming an Opinion and Reporting on Financial Statements</i>	Redrafted	2008
ISA 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i>	Revised and Redrafted	2008
ISA 706, <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>	Redrafted	2008
ISA 710, <i>Comparative Information—Corresponding Figures and Comparative Financial Statements</i>	Redrafted	2008
ISA 720, <i>The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i>	Redrafted	2007
ISA 800, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</i>	Revised and Redrafted	2008
ISA 805, <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>	Revised and Redrafted	2008
ISA 810, <i>Engagements to Report on Summary Financial Statements</i>	Revised and Redrafted	2008
International Standard on Quality Control (ISQC 1), <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>	Redrafted	2008
Other Publications Issued in 2008		
Joint National Standard Setters Consultation Paper, <i>Matters to Consider in a Revision of International Standard on Review Engagements (ISRE) 2400, "Engagements to Review Financial Statements"</i>		September
Staff Audit Practice Alert— <i>Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment</i>		October
IAASB Clarity Project Update		October

COMMUNICATING WITH STAKEHOLDERS

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

- 3rd European Forum of Accountants and Auditors – Kiev, Ukraine
- AccountAbility Global Launch – London, UK
- AC Group of Independent Audit Firms – Prince Edward Island, Canada
- American Accounting Association Auditing Section Meeting – Austin, USA
- Baruch College 3rd Annual Auditing Conference – New York, USA
- Canadian Institute of Chartered Accountants Small- and Medium-Sized Enterprises Advisors Conference – Quebec, Canada
- Canadian Public Accountability Board – Toronto, Canada
- Carbon Emissions Roundtables – Melbourne and Sydney, Australia; Brussels, Belgium; and Toronto, Canada
- Climate Disclosure Standards Board Meetings – participation via teleconference
- Conference on Accounting and Accountability for Regional Economic Growth in Latin America and the Caribbean – San Salvador, El Salvador
- Eastern Central and Southern African Federation of Accountants Standard-Setters Workshop – Dar es Salaam, Tanzania
- European Court of Auditors Meeting – Brussels, Belgium
- European National Auditing Standard Setters Meetings – Brussels, Belgium
- Financial Accounting Standards Board / International Accounting Standards Board Joint Roundtable on the Global Financial Crisis – Norwalk, USA
- Financial Stability Institute – Seminars for Banking Supervisors – Basel, Switzerland and Gaborone, Botswana
- Global Public Policy Committee Meeting on Fair Value – New York, USA
- Global Reporting Initiatives Meetings – Amsterdam, the Netherlands
- Greek Stock Market and Audit Regulators Meeting – Athens, Greece
- Haut Conseil du Commissariat aux Comptes (H3C) Meeting – Paris, France
- IFAC Board and Council Meetings – Madrid, Spain and Rome, Italy
- IFAC Brazil, Russia, India and China (BRIC) Forum – New York, USA
- IFAC Forum of Firms Symposium – New York, USA
- Institute of Chartered Accountants in Australia Conferences – Brisbane and Sydney, Australia
- Institute of International Finance, “Global Market Turmoil; Next Steps for the Financial Industry” – New York, USA
- International Accounting Standards Board Expert Advisory Panel Meetings, London, UK
- International Forum of Independent Audit Regulators – Oslo, Norway
- INTOSAI Financial Audit Guidelines Subcommittee Meetings – London, UK and Seoul, Korea
- INTOSAI Professional Services Committee Steering Committee Meeting – Beijing, China
- International Symposium on Audit Research – Pasadena, USA
- International Valuation Standards Committee, Roundtable “Valuation of Intangible Assets” – New York, USA
- Legal Affairs Committee of the European Parliament – Brussels, Belgium
- Malaysian Institute of Accountants Conference – Kuala Lumpur, Malaysia
- Monitoring Group Meeting – Madrid, Spain
- National Chamber of Statutory Auditors of Poland, 9th Annual Auditing Conference – Jachranka, Poland
- Public Interest Oversight Board Meetings – Madrid, Spain
- Transnational Auditors Committee – Paris, France
- United Nations Conference on Trade and Development International Standards of Accounting and Reporting Meeting – Geneva, Switzerland
- United States Public Company Accounting Oversight Board Standing Advisory Group Meetings – Washington, USA

REPORT OF THE CHAIRMAN OF THE IAASB CONSULTATIVE ADVISORY GROUP

The Consultative Advisory Group (CAG) of the International Auditing and Assurance Standards Board (IAASB) provides the forum in which the representatives of the various organizations and professions, and the different geographical areas, can provide technical input to the drafts of International Standards on Auditing (ISAs) and other documents developed by the IAASB, and to the IAASB's strategy. The overall aim is to bring forward to the IAASB the views of CAG members on these matters, and it is my task as chairman of the CAG to facilitate this interface.

The membership of the CAG as of December 31, 2008 is shown in the Appendix. It should be noted that membership is, in the large majority of cases, by organization. Representatives of the organizations attend the meetings of the CAG but the significance of the views of the CAG is increased by the fact that on substantial questions it is the opinions of the organizations which can be brought to bear on the evolution of the ISAs. In my view, the CAG membership continues to represent a very adequate coverage of those organizations internationally or within geographical areas which represent those interested in auditing without, in most cases, being auditors or bodies representing auditors. I shall continue to work to include others in the membership of the CAG should any gaps appear in this regard.

THE CAG's INPUT TO THE IAASB

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

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

These three areas are discussed below.

ADVICE ON THE IAASB's AGENDA AND PROJECT TIMETABLE

The CAG has discussed and supported the future *Strategy and Work Program* of the IAASB, and has continued to support the necessary attention to the needs of small- and medium-sized



David Damant
Chairman

entities (SMEs). These needs are consistently taken into account in the development of new ISAs, and, in this context, the IAASB has also decided to revisit assurance standards other than audit, in particular the review and compilation standards, ISRE 2400¹⁴ and ISRS 4410.¹⁵ The CAG has also proactively supported the continuing consideration of fair value auditing guidance, which has proved very relevant to the role of the audit in the recent international financial crisis, even though the need for this guidance had been decided upon by the IAASB before the crisis became manifest. The CAG has also supported the proposed work on assurance reports on pro forma financial information—essentially in the context of prospectuses; this is a matter of general concern to investors and exchanges worldwide.

The relevance of XBRL to auditing is under consideration by the IAASB. The CAG continues its support for this topic since, although the steps still to be taken are considerable, XBRL may make a dramatic difference to the way in which accounting standards are formulated—the change could in due course even be revolutionary since with XBRL it will be possible to drill down to items in the financial statements of the entity that are normally subsumed in overall headings. Thus the eventual consequences for auditing need to be kept under surveillance. I may finally mention the support of the CAG for the IAASB approach to matters concerning the environment. This is a broad subject, of general concern and widely discussed, often without focus. It is important to approach such matters through clearly delineated topics, and this practical approach has led the IAASB to the proposed analysis of the question of auditing carbon emissions.

TECHNICAL ADVICE ON PROJECTS

The year 2008 saw a very considerable volume of ISAs coming forward for discussion in the CAG, as the Clarity project came to its conclusion. Despite the heavy workload, it was ensured that every proposed ISA was discussed at a CAG meeting before approval by the IAASB and confirmation of the due process by the Public Interest Oversight Board (PIOB).

As the work proceeds, the CAG responds to specific points raised by the IAASB and its Task Forces on the proposed ISAs and other texts. In addition, the representatives bring forward other matters arising from the IAASB draft documents for

¹⁴ International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*.

¹⁵ International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*.

debate in the CAG and for consideration by the IAASB. This proactive role is enhanced by the appointment from amongst the representatives of small working groups for various topics, each led by a Rapporteur. The working groups do not necessarily have to agree on the matters they bring forward, simply to alert the CAG to aspects of each topic which the CAG should discuss.

In the case of the redrafting of ISA 700,¹⁶ a particular point arose. Financial reporting frameworks described by reference to International Financial Reporting Standards (IFRSs) are employed by a number of jurisdictions around the world, but in certain cases without an explicit statement as to the extent to which the relevant financial reporting framework differs from that of pure IFRSs. The International Accounting Standards Board has considered this matter but has decided not to amend IAS 1¹⁷ to cover this question. The International Organization of Securities Commissions (IOSCO) has issued a statement on the matter, but as a recommendation to companies rather than a requirement in the IOSCO member jurisdictions, and, therefore, without requiring full transparency as to the finan-

cial reporting framework employed. In this situation, the IAASB proposed certain paragraphs to be added to ISA 700 (Redrafted) in the direction of correcting this deficiency. A considerable discussion of the matter took place in the CAG, and the large majority of the representatives did not agree with this solution. Amongst the several negative considerations brought to bear, it was thought that it was not the task of auditors to correct deficiencies in disclosure. As a result of the discussions in the CAG, as well as other conversations, the IAASB decided to withdraw the proposed paragraphs. The value of bringing together in the CAG a wide membership of relevant institutions was exemplified by the discussions on this matter.

ADVICE ON OTHER MATTERS OF RELEVANCE TO THE ACTIVITIES OF IAASB

The IAASB proposed in 2008 a number of procedural activities for 2009 onwards, including an implementation guidance review, an effectiveness review, the possible development of a rapid response framework, and an assessment of the impact of ISAs. The CAG will continue to support these topics for discussion, since even the best ISAs are only part of the establishment of a high level of audit quality, although perhaps the most important part. I believe that the assessment and development of the overall financial environment in which ISAs are promulgated and adopted is an important part of the IAASB's task.

¹⁶ ISA 700 (Redrafted), *Forming an Opinion and Reporting on Financial Statements*.

¹⁷ International Accounting Standard (IAS 1), *Presentation of Financial Statements*.



DUE PROCESS

Over the last two years, the involvement in due process of the CAG Chair, and eventually the CAG itself, has been discussed by IFAC, the PIOB, the IAASB, and the CAG. For a period up to the end of the Clarity project, the CAG Chair has submitted written reports to the PIOB confirming that due process as it concerns the discussions in the CAG has been correctly carried forward. For some years, all significant points made by CAG representatives in the CAG discussions have been minuted, and the IAASB or its Task Force have prepared a “Report-Back,” in which each of the points made in the minutes has been answered. This may entail some further comment from the IAASB, or the acceptance of the point, or the statement of reasons why the point has not been accepted by the IAASB. The series of Report-Backs tracks the discussion on technical points over time in a very satisfactory manner. But the same Report-Backs are also directly relevant to the checking of the CAG due process now introduced, to make sure that the IAASB has taken due account of the views of CAG representatives, whether or not the points are agreed. In view of the involvement of the Report-Backs in due process for the future, the format of these documents has been re-examined and to an extent enlarged.

In view of the end of the Clarity project, the number of ISAs and other IAASB pronouncements coming forward for final agreement and for confirmation of due process will in the future be more spread over time, even if the workload of the IAASB and the CAG remains at a high level in itself.

A further development as it concerns due process is that the CAG Chair will in the future attend all IAASB meetings. The right to attend and to speak has been in existence and has been taken up since the establishment of the CAG, and the due process requirement will now point formally to complete attendance. At the same time, the attendance at the IAASB meetings enables the CAG Chair to ensure an appropriately detailed attention to the progress of technical arguments, as the discussion of a topic evolves over time within the IAASB and in liaison with the CAG.

Perhaps, in this context, I could mention a further process, which also contributes very greatly to the development of IAASB pronouncements. The Chair and Deputy Chair of the IAASB attend all CAG meetings, and, in addition, for the

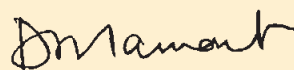
majority of topics the relevant Task Force is represented by the Chair or, at any rate, a Task Force member. This physical interface (although sometimes teleconferencing has to be used as a substitute) is of the very greatest value—the interplay of ideas, in the debate between the various parties, can be of exceptional interest and value.

CONCLUSION

Since I was appointed as Chair of the CAG, I have worked closely with John Kellas who was Chair of the IAASB until December 2008. Mr. Kellas is a professional of the highest ability and it has been a pleasure and privilege for me to work with him over the years in question.

Mr. Kellas and his colleagues represent a high level of professional integrity, and both this and the representation of the public interest within the IAASB and by the PIOB have resulted in ISAs of a level that I believe, as the independent Chair of the CAG, to be commendable. No doubt, as in all human activities, improvements can still be made, and, as Chair of the CAG, I hope to ensure that the work of the CAG can make a contribution to such improvements. Towards this end, many inputs are required towards the development of ISAs and the work generally of the IAASB. Both as regards the input, and as regards the public perception of the technical discussions, and their appropriateness within the context of due process, the broad nature of the CAG membership continues to be a significant asset.

This work has been considerably enhanced during my period as Chair by the relevant staff member over the same period—Alta Prinsloo. Ms. Prinsloo has now been promoted to other activities within IFAC, but I would like to put on record the very great assistance that she has been to me in the build-up of the CAG and say how much I appreciate her contribution and professional abilities. These qualities are also present in the IAASB Staff as a whole under the leadership of Jim Sylph. To all of them, my thanks.



David Damant
Chairman

CONSULTATIVE ADVISORY GROUP MEMBERS AND OBSERVERS

As at December 31, 2008

MEMBER ORGANIZATIONS

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

OBSERVERS

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

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