

# INTERNATIONAL FEDERATION OF ACCOUNTANTS

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## CHARTING A NEW COURSE FOR THE FUTURE

2003 ANNUAL REPORT



# International Federation of Accountants 2003 Annual Report

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## **International Federation of Accountants**

### **Our Mission**

The International Federation of Accountants (IFAC) is the worldwide organization for the accountancy profession. Its mission is to serve the public interest, strengthen the worldwide accountancy profession, and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards, and speaking out on public-interest issues where the profession's expertise is most relevant.

### **Our Membership**

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

### **Our Values**

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



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



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

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

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

### **We took the road “up the hill.”**

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

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

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

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

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



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

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

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

**We made a recommitment to integrity.**

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

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

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

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

René Ricol

## MESSAGE FROM IFAC CHIEF EXECUTIVE IAN BALL

### DRIVING CHANGE AND ACCOUNTABILITY



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

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

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

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

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

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

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

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

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

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

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

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



Ian Ball



#### **IFAC Management Team**

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



## Charting a New Course for the Future

**As** the international accountancy profession confronted unprecedented challenges in 2003, the International Federation of Accountants took unprecedented action to help shape a future in which the public interest would be best served. Those actions, carried out by IFAC's Board and committees with input and support from IFAC's 158 member bodies and regional accountancy organizations, were focused on building credibility in financial reporting, strengthening standard setting, and enhancing IFAC's governance and role in encouraging quality performance by the world's accountants. As a result, 2003 could be characterized not only as a year of fundamental change, but also as one in which there was increased communications and outreach, greater involvement of member bodies, and a clear focus on quality at every level.

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### **Building Credibility**

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

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