

I n t e r n a t i o n a l F e d e r a t i o n o f A c c o u n t a n t s

a c h i e v i n g a n e w v i s i o n



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The mission of IFAC is the worldwide development and enhancement of an accountancy profession with harmonized standards able to provide services of consistently high quality in the public interest.

## m e s s a g e   f r o m   t h e   p r e s i d e n t



During 2001, the International Federation of Accountants' (IFAC's) leadership set about building a new foundation for the organization. Our mission remained clear — to focus on how we could support the international profession in protecting the public interest — but we recognized that we needed to explore new directions for achieving that mission and look at remodeling and strengthening the IFAC infrastructure to bring about the changes that were necessary. As a result, the Board developed a Medium-Term Strategy, based on the recommendations of IFAC's Structure and Organization Task Force. The ultimate objectives of the strategy are to support accountants in all sectors in providing high quality work and, ultimately, to improve the quality, consistency and transparency of financial information and auditing around the world.

That strategy guided us in many of our activities for 2001. Our focus was threefold: strengthening standard setting, developing an international regulatory regime, and increasing dialogue with member bodies, regional accounting organizations and other related organizations so we could better identify IFAC's role in meeting the needs of an expanding and increasingly diverse profession.

In developing and implementing our vision for the future, we not only looked inward at the profession's needs, we also looked outward. We considered the challenges and concerns facing governments, regulators, investors and other users of the profession's services and considered how we could address their issues from an international perspective. Indeed, a stronger IFAC is one that not only effectively represents the international accountancy profession, but also anticipates and responds to changes in the global environment in which accountants work.

This report describes initiatives undertaken during 2001, including efforts to enhance the transparency of IFAC standard setting, create a global regulatory structure for the profession, and increase IFAC's role as the spokesperson for the profession in international forums. These initiatives were set in motion before large corporate failures undermined public confidence in world capital markets and engendered worldwide scrutiny of the accounting profession's role. The initiatives were designed to accomplish what IFAC has focused on since its founding over 20 years ago — supporting the international profession in providing work of the highest quality. And they are initiatives, which, as we look ahead, can contribute toward building public confidence in the work of the international profession.

A handwritten signature in black ink, appearing to read 'Tsuguoki Fujinuma'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Tsuguoki (Aki) Fujinuma

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The continuing expansion of world trade, the opening of major new markets in developing and transitional countries, and the broadening scope of professional accounting services are among the issues that have caused IFAC over the past year to take a closer look at its role, the guidance it provides, and its relationship with member bodies and other organizations.

With 156 member bodies, representing 2.4 million accountants in 114 countries across every continent, IFAC remains dedicated to ensuring that the international profession is united in its commitment to providing high quality services. Indeed, the environment in which accountants practice makes it more important than ever that IFAC work with its member organizations to build public confidence in the accountancy profession, respond to the challenges of globalization, and meet the expanding needs of investors, regulators and businesses worldwide. During 2001, it sought to address these issues by implementing a new IFAC strategy and a new vision.

### **Strengthening Standard Setting**

IFAC renewed its commitment to strengthening standard setting through initiatives to expand the focus and enhance the operations of the International Auditing Practices Committee (IAPC). IFAC's Board approved recommendations made by a special IAPC Review Task Force to strengthen the processes for establishing worldwide audit and assurance standards and to increase transparency. It also approved changing the name of the IAPC to the International Auditing and Assurance Standards Board (IAASB), effective in 2002, to better reflect the scope of its work.

Key changes in establishing the new IAASB included —

- Expanding membership from 14 to 18 members, including three public members who may be members of IFAC member bodies but are not members in public practice;
- Making meetings open to the public to discuss the development of standards, and making available guidance or other papers, as well as agendas and minutes of those meetings;
- Working closely with national standard setters on matters important to its goals, including undertaking joint projects, and promoting eventual convergence of standards for global acceptance; and
- Increasing the IAASB's technical resources.

During the review process, the IAPC continued to issue guidance for application by auditors in all parts of the world, including new International Standards on Auditing (ISAs) dealing with fraud and error, and new International Auditing Practice Statements (IAPs) on auditing derivative financial instruments and dealing with bank audits. In addition, during 2001 the IAPC issued an exposure draft (ED) of an ISA on auditing fair value measurements and disclosures and an ED of an international practice statement on the impact of electronic commerce on the audit of financial statements.

IFAC's Public Sector Committee (PSC) also progressed plans to strengthen its standard-setting processes through the establishment of steering committees and the reformation of a consultative group. The steering committees are chaired by a PSC member and include non-PSC members. They will provide a mechanism for the PSC to broaden its experience and expertise base and involve key constituents at an earlier stage of the International Public Sector Accounting Standards (IPSASs)

## 2001 IFAC Board Members

Tsuguoki Fujinuma, President — Japan  
René Ricol, Deputy President — France  
Guy Andrade — Brazil  
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Angelo Casò — Italy  
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Ndung'u Gathinji — Kenya  
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Guylaine Saucier — Canada  
Ignatius Sehoole — South Africa  
Graham Ward — United Kingdom  
Peter Wong — Hong Kong  
Shozo Yamazaki — Japan

## 2001 IFAC Committee Members

### Compliance Committee

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Wim de Bruijn, Chair —  
*The Netherlands*  
Guy Andrade — *Brazil*  
Michael Chan — *Hong Kong*  
Brain Currie — *United Kingdom*  
Norio Igarashi — *Japan*  
Robert Mednick — *United States*  
Yves Nicolas — *France*  
Mahesh Shah — *India*  
Enrique Zamorano — *Mexico*

### Education Committee

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Warren Allen, Chair — *New Zealand*  
Robert Dye — *Canada*  
Yoram Eden — *Israel*  
Gary Holstrum — *United States*  
David Hunt — *United Kingdom*  
Bohumil Král — *Czech Republic*  
Dato' Abdul Halim Mohyiddin —  
*Malaysia*  
Hector Ostengo — *Argentina*  
Usana Patramontree — *Thailand*  
József Roóz — *Hungary*  
Masum Türker — *Turkey*  
S.M. Zafarullah — *Pakistan*

## a c h i e v i n g   a   n e w   v i s i o n

development process. The consultative group will provide the opportunity for key constituents to communicate directly with the PSC on work program priorities, proposed IPSASs and other relevant matters.

The PSC has now substantially completed the first phase of its standards program to develop a comprehensive body of international accounting standards for governments and other public sector entities around the world. Seventeen IPSASs were issued through December 31, 2001, representing an international benchmark of best practice in financial reporting under the accrual basis. In many jurisdictions, application of their requirements will enhance the accountability and transparency of governmental financial statements.

The PSC recognizes that many governments may not yet be in a position to adopt the IPSASs for the accrual basis of accounting. To assist these governments, the PSC has also developed an ED, *Reporting under the Cash Basis of Accounting*.

With its core set of IPSASs in place, the PSC will increase its promotion and communication activities. Already an increasing number of governments and government organizations are expressing interest in the adoption of the accrual basis of accounting and, as a consequence, the application of IPSASs. For example, the Organization for Economic Cooperation and Development (OECD) adopted IPSASs for its 2000 financial statements.

In addition to developing the standards, PSC published a study that provides an overview of the types of governance arrangements in place in the public sector and includes recommendations on governance practices.

The first stage of the standards project has been funded by the World Bank, Asian Development Bank, International Monetary Fund (IMF), and United Nations Development Program, along with IFAC. The World Bank and the IMF have agreed to provide some of the funds necessary to support the ongoing standard-setting program, with the PSC actively seeking the additional funding necessary.



During 2001, IFAC's Board also approved the development of International Education Standards for Professional Accountants. As the profession moves steadily towards harmonization of technical and practice standards and raises the bar in the quality and consistent application of these standards, there is a need for robust and codified education standards. Without robustness in education, the achievement of higher compliance with technical and practice standards will be compromised. After full exposure and consultative input, IFAC will have a set of standards prescribing best practices regarding pre-qualification education of professional accountants and continuing professional development for members of the accountancy profession. The standards will begin to be issued in 2003 and in order to meet their responsibilities as IFAC members, member bodies will be expected to comply with these standards by 2005.

### A New Regulatory Regime

A major component of the IFAC strategy is the creation of a regulatory regime for the international accountancy profession. Significant progress was made in the development of this regime in 2001. A Constitution and operating procedures were drafted for the Forum of Firms (Forum), and its executive arm, the Transnational Auditors Committee (TAC). The IFAC Compliance Committee is another key component of the new regime which is designed to promote consistent and high quality standards of financial reporting and auditing practices worldwide and to strengthen the global financial framework within which the profession operates.

Currently, 23 firms that perform transnational audits are provisional members of the Forum. To become full members, these firms must adhere to a Quality Standard that requires, among other things, that they subject their policies, methodologies and work undertaken in relation to transnational audits to periodic International Quality

## 2001 IFAC Committee Members

### Ethics Committee

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Marilyn Pendergast, Chair — *United States*  
 Jean-François Cats — *Belgium/The Netherlands*  
 S.P. Chhajed — *India*  
 Jean-Jacques De Douit — *France*  
 Francisco Papellás Filho — *Brazil*  
 Michael Foulds — *United Kingdom*  
 Chen-Chang Lai — *Taiwan*  
 Pekka Luoma — *Finland*  
 Jesús Peregrina — *Spain*  
 Francesco Serao — *Italy*  
 Donald Wray — *Canada*

### Financial and Management Accounting Committee

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Bill Connell, Chair — *United Kingdom*  
 Zein El Abdin El Boraie Ahmad — *Sudan*  
 Muhammad Aslam — *Pakistan*  
 Kahlid Ateeq — *Bahrain*  
 Raymond Darke — *Canada*  
 Pascal Giraud — *France*  
 David Jeffries — *Australia*  
 Santiago Lazzati — *Argentina*  
 Gary Luoma — *United States*  
 Gerhard Prachner — *Austria*  
 Peter Sampers — *The Netherlands*  
 Marco Zaldivar — *Peru*

### Information Technology Committee

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Everett Johnson, Chair — *United States*  
 Aidan Collins — *Ireland*  
 Mujahid Eshai — *Pakistan*  
 George Glass — *United Kingdom*  
 Klaus Heese — *Germany*  
 Byram Johnston — *Australia*  
 John Lainhart, IV — *ISACA*  
 Anders Malmeby — *Sweden*  
 Akira Matsuo — *Japan*  
 Robert Parker — *Canada*  
 Michael Schirmbrand — *Austria*  
 Thierry Trompette — *France*

## a c h i e v i n g   a   n e w   v i s i o n

Assurance Review. The TAC has developed several TAC Alerts, available through IFAC's web site, to assist provisional members of the Forum with the application of the Forum Quality Standard and performing international quality assurance reviews designed to meet the Forum membership requirements.

Over the 2001 calendar year, the Compliance Committee also laid the foundation for a program of monitoring and ensuring member body compliance with the obligations of the IFAC membership. This involves member bodies working towards the adoption at the national level of ISAs, IPSASs, the IFAC Code of Ethics and other pronouncements of IFAC, as well as International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and International Accounting Standards (IASs) issued by the IASB's predecessor. It is intended that member bodies will incorporate IFAC and IASB standards in their national standards and use their best endeavors to persuade national governments, regulators and standard setters that financial statements should comply with ISAs, IPSASs, IFRSs and IASs, as appropriate.

In light of more recent developments in the profession, IFAC Officers and the Compliance Committee are reviewing the future compliance strategy and work program to ensure that it is responsive to these developments and meets stakeholder needs and member body expectations.

To ensure that the global regulatory regime is moving ahead in a way that best meets the public interests, IFAC continues active liaison with various international organizations and regulators.

### **Expanded Guidance for a Changing Profession**

IFAC's Code of Ethics for Professional Accountants serves as the foundation for all codes of ethics developed and enforced by member bodies. After extensive public exposure and obtaining comments from member bodies, their members, and others, a new Independence Standard was developed by the Ethics Committee and approved by the IFAC Board. This standard updates previous guidance in light of changes in the marketplace

