

**DATE: SEPTEMBER 29, 2006**  
**TO: COUNCIL**  
**FROM: JOHN KELLAS**  
**CHAIRMAN, INTERNATIONAL AUDITING AND ASSURANCE BOARD (IAASB)**  
**SUBJECT: REPORT FROM THE IAASB**

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## **Section 1 Introduction**

- 1.1 This report summarizes the activities of IFAC's International Auditing and Assurance Standards Board (IAASB) since November 2005. It also outlines the activities planned for 2007.
- 1.2 The IFAC Board has approved, with the Public Interest Oversight Board's (PIOB's) endorsement, my reappointment as Chairman of the IAASB for a second term until December 31, 2008. I look forward to working with IAASB, the PIOB, IFAC and our stakeholders during that period. I am also pleased that Jim Sylph has been reappointed to his role within IFAC as Executive Director, Professional Standards.

## **Section 2 IAASB's Strategy and Objectives**

- 2.1 The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.
- 2.2 To achieve its objective, the IAASB is focusing on three major initiatives:
  - **Development of Standards** – establishing high quality auditing, review, other assurance, quality control and related services standards.
  - **Global Acceptance, Convergence and Partnership** – promoting the adoption and acceptance of IAASB pronouncements throughout the world, and supporting a strong and cohesive international auditing profession by coordinating with regional organizations, member bodies and national standard setters.
  - **Communications** – improving the quality and uniformity of auditing practices and related services throughout the world by encouraging debate and presenting papers on a variety of audit and assurance issues; and increasing the public image and awareness of the IAASB's activities and outputs.

## **Section 3 Key Highlights for 2005-2006**

### **Relationship with the Public Interest Oversight Board**

- 3.1. Our relationship with the PIOB, I believe, is working well. The Executive Director and I have both attended the meetings of the PIOB during the year. Our discussions have focused mainly on our major project to enhance the clarity of our standards, matters of

- due process, and the process for obtaining input into our future strategy and work program.
- 3.2. In their oversight role, members of the PIOB have attended the meetings of the IAASB and IAASB Consultative Advisory Group (CAG) during the year. PIOB members have commented favorably on the IAASB's professionalism. They have also highlighted to the IAASB the importance of maintaining integrity and an open-minded approach to the debates on the various issues at hand – two aspects of our discussions to which we attach great importance.
- 3.3 As reported last year in connection with the IFAC reforms, the PIOB reviewed the IAASB's due process in September 2005. The IAASB subsequently finalized the due process document, incorporating the PIOB's comments, in December 2005. This document has been posted to the IAASB website. We think it provides a robust and internationally acceptable due process. I expect, however, that as the PIOB gathers experience of our operations it will wish to discuss with us specific aspects for further improvement.
- 3.4 As also reported last year, the PIOB approved the terms of reference and operating procedures for the CAG (taking account of the IFAC reforms), and the terms of reference for the Chairman of the CAG in September 2005. The final documents, incorporating the PIOB's comments, were noted by the CAG in November 2005, and have been posted to the IAASB website with the CAG membership.

## **Development of Standards**

### UPDATE ON STANDARDS DEVELOPMENT

#### *Clarity Project*

- 3.5 As the Council is aware, one of IAASB's most significant projects is directed at improving the clarity of its Standards. This is a project that the European Commission (EC) has deemed essential to its proposed consideration of the adoption of ISAs for statutory audit in Europe. In this regard, I am pleased to report that in September the IAASB approved amendments to the *Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (Preface) that establish the conventions to be used by the IAASB in drafting future International Standards on Auditing (ISAs), and the authority and obligation attaching to those conventions. It also approved at this meeting the application of those conventions to the following three, re-titled ISAs:

- ISA 300, *Planning an Audit of Financial Statements*;
- ISA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*; and
- ISA 330, *The Auditor's Responses to Assessed Risks*.

In addition, a fourth redrafted ISA (ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*) is scheduled for final approval at the October 2006 meeting.

- 3.6 The conventions, and the authority and obligation attaching thereto, set out in the amended Preface are largely unchanged, though refined, from those approved for

- exposure by the IAASB in October 2005, reflecting the broad support received from respondents.
- 3.7 The IAASB also improved the robustness of how the conventions are applied to the four ISAs exposed last October, having regard in particular to the need for the ISAs to be applicable to audits of entities of all sizes in both the private and public sectors. Further, improvements were made in specific areas where responses indicated ambiguity or the need for additional guidance previously not identified by the IAASB.
  - 3.8 The IAASB is satisfied that the application of the conventions makes the ISAs clearer without weakening them, and we hope thereby to improve their consistent application. We also believe that this will assist in their adoption in jurisdictions around the world and facilitate international convergence. The IAASB is pleased that this project has provided a means to respond in a timely manner to many of the findings of the IFAC Report, "Challenges and Successes in Implementing International Standards."
  - 3.9 The Preface contains important statements about the authority of our standards. However, we think that these should be incorporated within the standards themselves. Accordingly, the IAASB intends to incorporate the provisions of the amended Preface in the body of the ISAs through revision of ISA 200, *Objective and General Principles Governing an Audit of Financial Statements*.
  - 3.10 The IAASB intends to apply the conventions to all of the ISAs with a single effective date. The IAASB has determined, on a provisional basis, that the redrafted ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2008. The final effective date will be confirmed as the IAASB progresses its agenda to issue a complete set of redrafted ISAs. The effective date will, however, not be earlier than this provisional date. As the ISAs are an integrated and complete body of Standards, the IAASB accepts that there is a possibility of further conforming changes to these ISAs as other ISAs are redrafted. Any such changes are not expected to change the substance of the ISAs, though they may have a small effect on their content.
  - 3.11 The IAASB believes that there is strong reason for making the approved documents available as early as possible to assist in their translation, adoption and implementation. Accordingly, the IAASB agreed that redrafted ISAs should be released as they are approved despite the single implementation date.
  - 3.12 The IAASB's agreement on these documents signifies the completion of a substantive component of the IAASB's overall efforts to improve the clarity of its Standards. This now provides the necessary foundation on which the remaining ISAs can be clarified in an efficient and effective manner. I am grateful to all those who commented on the exposed documents, and for the tremendous effort and thought that went into their comments.
  - 3.13 In terms of implementation, the explanatory memorandum accompanying the October 2005 exposure drafts outlined an implementation plan that envisioned completion of the application of the new conventions to the entire set of ISAs by 2011. In response to strong demand by stakeholders for the IAASB to accelerate that timetable, the IAASB has taken a number of steps (including scheduling additional board meetings) to enable it to complete both the revision and redrafting of the relevant ISAs by 2008. The IAASB believes that this timetable is feasible, and can be accomplished without compromising due process.

3.14 The IAASB's tentative timetable to 2008 is available on the IAASB website (a copy is attached in Appendix 1). This work program is being supported by a number of NSSs who have agreed to assist in some of the necessary redrafting work, to whom the IAASB is especially grateful. Subject to any unforeseen difficulties that may arise in the redrafting or revision of individual ISAs, the IAASB is confident it will meet this timetable.

*Other Projects and Initiatives Relating to Standards Development and Adoption*

3.15 The IAASB also achieved significant progress on its other projects. Details of the IAASB's outputs and work in progress are provided in Sections 4 and 5 of this report.

3.16 Translation of ISAs is a significant factor in achieving convergence and adoption of the ISAs around the world. It is pleasing to recognize the efforts of IFAC's member bodies in France, Belgium and the Netherlands in leading the global development of a complete translation of the ISAs extant at December 31, 2004 in both French and Dutch. I am sure this effort will be particularly helpful in ensuring the consistent application of our standards in those parts of Europe, and in providing many other French-speaking jurisdictions with an invaluable resource that should assist with the introduction of ISAs.

3.17 In July 2006, the IAASB approved new guidance for NSSs that adopt its International Standards with limited modifications. While it is not intended to be a definitive statement on convergence, the document, *Modifications to International Standards of the International Auditing and Assurance Standards Board (IAASB)—A Guide for National Standard Setters that Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications*, provides guidance on the extent to which modifications to adopted International Standards are permitted, while still allowing the NSSs to assert that the national standards conform to the International Standards.

3.18 In August 2006, the IAASB issued jointly with the Auditing Standards Board of the American Institute of Certified Public Accountants and the American Accounting Association a Request for Proposals for research on unqualified auditors' reports. This initiative is intended to provide a better understanding of users' perceptions of the financial statement audit and what is communicated about it in the auditor's report. A task force of practitioners and academics will evaluate all proposals to be received. The IAASB will consider a short list of potential proposals.

*International Auditing Practice Statements (IAPSs)*

3.19 The future of IAPSs has been of concern for some time. Existing IAPSs may not all be up to date, and various jurisdictions have attached differing degrees of importance to them. The IAASB agreed not to change the status and authority of IAPSs but to limit the issue of new IAPSs. Where a need arises for specific new guidance in a given area, such material will, as far as possible, be incorporated within an ISA as application material. Alternatively, a new ISA could be produced to address the topic.

3.20 The IAASB agreed that it should review existing IAPSs over time, with consideration given to withdrawing them, or possibly assigning them a higher status by incorporating their (updated) content into the application material in ISAs or converting such (updated) content into new ISAs.

**IAASB FUTURE STRATEGY AND WORK PROGRAM**

- 3.21 The IAASB's future strategy and work program is high on our agenda, and that of the PIOB. At its September meeting, the IAASB discussed the process for developing its future strategy and work program. It gave specific consideration to how best to obtain input from the CAG, audit oversight authorities, regulators and other stakeholders on areas where the IAASB could make a significant contribution to the quality of auditing and assurance. Our work program is full to mid/late 2008, and so, the aim is to have a coherent work program responsive to reasonable demands of interested parties in place for the period thereafter.
- 3.22 In this regard, and further to discussions with the PIOB, the IAASB agreed that:
- Given the unique and important role of the CAG, the CAG's views on the process for developing the IAASB's future strategy and work program be sought at an earlier stage than those of other stakeholders. As a first step, we consulted the CAG on the process at the September 2006 CAG meeting. Further CAG input will be sought during 2007.
  - Representatives from particular stakeholders, or individual IAASB members themselves, be invited to present their views on the areas where the IAASB could focus its future strategy.
  - Three public forums be held during 2007. Where possible, these will be held in conjunction with IAASB meetings to ensure that stakeholders in various jurisdictions have an opportunity to provide input to the development of the IAASB's future strategy and work program.
  - Outreach activities be held by supplementing IAASB activities (such as task force meetings) with meetings with representatives from stakeholders who do not otherwise have an opportunity to discuss issues with IAASB representatives. Additionally, it is envisioned that IAASB members will arrange to hold discussions with regulators or the audit oversight authorities in their own jurisdictions and report on the feedback received.
  - Input be obtained from national standard setters (NSSs) at the annual IAASB-NSSs meeting in March next year.
- 3.23 The input and feedback received from all these various consultations will be used to develop a proposed IAASB Strategy and Work Program document covering the period 2009-2011. We anticipate exposing this document for public comment for 75-90 days in the latter part of 2007. With final input from the CAG, we should be able to finalize the document in early 2008 in time for the IAASB to schedule initial discussion of some of these new projects in the fourth quarter of 2008.
- 3.24 We expect to discuss the progress of this initiative with the PIOB and obtain the PIOB's input as appropriate at the relevant stages.
- 3.25 If Council members have specific interests or views they wish IAASB to consider, I would welcome these comments, which can be sent to me or Jim Sylph.

**Global Acceptance, Convergence and Partnership**

- 3.26 The IAASB has continued to make steady progress in obtaining global acceptance and recognition of ISAs. Developments by the EC and in China were of particular

importance. But we are also in close contact with the International Organization of Securities Commissions (IOSCO), the International Organization of Supreme Audit Institutions (INTOSAI), and other stakeholders. The IAASB has also continued to consult the CAG, and to work cooperatively with NSSs. Highlights of these initiatives are set out below.

#### CAG

- 3.27 The CAG met under its independent chairman in November 2005, May 2006 and September 2006. The May meeting was the first CAG meeting to be open to the public, a move designed to bring greater transparency to the CAG's activities. A press release was issued to announce this development. A member of each of the IFAC Small and Medium Practices (SMP) Committee and Developing Nations (DN) Committee were invited to participate at these meetings to increase the SMP and DN voices.
- 3.28 Discussions were held on various IAASB projects at the meetings. The CAG also reviewed the process for its working groups and the mechanism by which IAASB task forces are to provide feedback to the CAG on its comments.
- 3.29 In addition, the CAG discussed matters relating to the application of auditing standards to audits of small- and medium-sized enterprises. It also, as discussed above, considered the IAASB's plan for developing its future strategy and work program.

#### REGULATORS

##### *European Commission*

- 3.30 The EC's revised 8<sup>th</sup> Directive is now in force. Member States are required to adopt provisions to comply with it by June 2008.
- 3.31 The EC formally established the European Group of Auditors' Oversight Bodies (EAOB) in December 2005 to advise it on any matters relating to the implementation of this Directive, including the possible adoption of ISAs for statutory audits in the European Union (EU). The EC also created an EAOB sub-group on ISAs whose objective is to provide proactive input into the IAASB's standard-setting process, including enabling the EC to comment on the IAASB's exposure drafts.
- 3.32 The EC has a further source of advice, in the Audit Regulatory Committee (AuRC). This group consists of representatives of the ministries in the Member States responsible for the implementation of the Directive. I welcome the fact that the EC has put in place arrangements to enable it to comment authoritatively on our proposals. I attended an informal meeting of some of the AuRC to discuss the EC's comment letter on the Clarity project. I am pleased that our interaction with the EC and its advisory groups has been positive, and believe that this liaison is of the first importance.
- 3.33 A further positive development has been the EC's acceptance of our invitation to them to send an observer to the IAASB meetings, with speaking rights, to join our other observers from the U.S. Public Company Accounting Oversight Board (PCAOB) and Japanese Financial Services Agency. We welcomed the first EC observer at our May 2006 meeting in New York.
- 3.34 The EC has also appointed two observer members to the PIOB: Sir Bryan Nicholson, a former Chairman of the UK Financial Reporting Council, and Prof. Dr. Kai-Uwe

Marten, Deputy Chairman of the Audit Oversight Commission of the Federal Republic of Germany.

- 3.35 The Executive Director and I took advantage of the IAASB's meeting in Brussels in July 2006 to meet members of the Commission's staff to discuss matters of common interest relevant to adoption of ISAs.

*International Organization of Securities Commissions*

- 3.36 The Executive Director and I met IOSCO's Standing Committee No. 1 in June 2006. Our discussions focused on the Clarity project and the implementation timetable. We explained the IAASB's position in relation to some of their concerns, while they took the opportunity to reinforce the importance they attached to certain aspects of the project.
- 3.37 We have continued to press IOSCO on the subject of their potential endorsement of IAASB's standards. IOSCO indicated that this was still being discussed and that they would be better placed to decide how they should support the IAASB standards after the Clarity project has been substantially completed.

**STANDARD SETTERS**

*National Standard Setters*

- 3.38 The IAASB hosted its 6<sup>th</sup> meeting of the most active NSSs in March 2006, with standard setters from twelve countries in attendance. We were pleased to welcome the participation of China for the first time, and a representative of the host country, Belgium, as an observer.
- 3.39 Participants provided input on various topics, including: international convergence and how NSSs can work with the IAASB towards convergence; the Clarity project; issues regarding documentation requirements in the audit of smaller entities; regulatory impact assessments; XBRL; and developing standards for assurance engagements.
- 3.40 Participants also discussed and agreed a statement of purpose of IAASB-NSSs liaison, in response to the agreed IFAC reforms. This statement has been published on the IAASB website.

*European Auditing Standard Setters (EASSs)*

- 3.41 The Deputy Chair, Executive Director and I attended the EASSs meeting organized by the Fédération des Experts Comptables Européens (FEE) in May 2006. Of the EASSs in attendance, virtually all reported that they were engaged in implementing ISAs independently of, and thereby anticipating, the EC's 8th Directive. In relation to the EC's possible adoption of the ISAs, the translation effort will be substantial, and suggestions were made by the standard setters as to how this could be eased by taking advantage of all the work that has already been undertaken by them.
- 3.42 The EASSs were briefed on the work of the IFAC SMP Committee in commissioning the development of an ISA implementation guide directed towards assisting SMPs. There was generally strong support for this initiative. There was also strong support for the IAASB's new project to develop an assurance standard on service organization auditors' reports.

*Chinese Auditing Standards Board (CASB)*

- 3.43 During 2005, China established the policy of converging its national auditing standards with the ISAs, reformed its standards system and planned a schedule for international convergence. In November 2005, along with the Deputy Chair, Denise Esdon, and the Executive Director, I met representatives of the CASB to discuss progress. This resulted in a joint statement in December 2005 which I signed with Mr Wang Jun, Vice Minister, Ministry of Finance (and Chairman of CASB), to recognize the progress China is making towards international convergence.
- 3.44 Subsequently, in February 2006, the IFAC President, Chief Executive and I attended a ceremony in Beijing, at which the Chinese Ministry of Finance released new accounting and auditing standards which conform more closely to international standards. The release of these standards reflects China's commitment to international convergence with accounting and auditing standards, and its recognition of the importance of these standards in building public confidence in financial statements. I was pleased to speak at this event on the development of ISAs.

*U.S. Public Company Accounting Oversight Board*

- 3.45 Our observer status at the Standing Advisory Group (SAG) meetings provides an opportunity for 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 2 or 3 times a year, and either I or the Executive Director represent IAASB. This activity complements the PCAOB's observer membership of the IAASB and our CAG.

*International Organization of Supreme Audit Institutions*

- 3.46 At the end of 2003, the IAASB approved a memorandum of understanding (MoU) with INTOSAI<sup>1</sup> that formalizes a project structure and cooperation process enabling INTOSAI to use ISAs as a basis for developing its Financial Audit Guidelines for use in the public sector. The MoU called for the IAASB and INTOSAI to review the arrangements every two years.
- 3.47 In light of this, IAASB staff met representatives of the INTOSAI secretariat during the year to discuss the updating of the MoU, principally to reflect recent structural changes within INTOSAI. The updated MoU was approved by both INTOSAI's Professional Standards Committee and the IAASB in May 2006.
- 3.48 There are currently 7 INTOSAI experts participating in a technical capacity on IAASB task forces. We are maintaining a good working relationship with INTOSAI, and it seems that the PIOB views the interaction between INTOSAI and the IAASB favorably.

*International Accounting Standards Board (IASB)*

- 3.49 I met the IASB Chairman, Sir David Tweedie, to discuss the IAASB's concern on the issue of how to describe an applicable financial reporting framework where a legislator or regulator requires general purpose financial statements to be prepared in accordance with modified IFRS, or partially adopted IFRS. Subsequent to this meeting, papers were developed for further consideration of the matter by the IAASB and IASB respectively.

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<sup>1</sup> INTOSAI is the representative organization of supreme audit institutions, which are central government auditors.



During the IAASB discussion, the importance of involving regulators in the process was emphasized.

**OTHER STAKEHOLDERS**

*Financial Stability Forum (FSF)*

3.50 The FSF, prompted by senior government and regulatory pressure from the UK, asked the 12 key international standard setters to consider their respective standard-setting processes. In response, we submitted a report for the March 2006 FSF meeting dealing with our current standard-setting arrangements, what we consider to be best practice, and areas and ways in which we are working to strengthen them. Having regard to the various recent reviews of the IAASB and the implementation of the IFAC reforms, I am confident that our processes are of a high standard that bear international comparison

*Global Reporting Initiative (GRI)*

3.51 The next version of the GRI's guidelines (G3), which recommend assurance for top level reports, will be launched at a conference in Amsterdam in early October 2006. The IAASB Deputy Chair will represent IAASB on a panel to discuss assurance.

3.52 FEE has produced a comparison of German, Swedish, French and Dutch pronouncements on sustainability assurance. FEE has again called on IAASB to develop a specific assurance standard on sustainability reporting, and has offered to assist in this regard. I shall be attending a FEE roundtable later this year to discuss the matter.

3.53 IAASB staff are preparing a proposal that IAASB issue guidance on the form of reports to be issued on sustainability reports. This will be considered by the IAASB later in the year, though it is recognized that this is only one of a number of possible demands on our resources. A decision needs to be taken in the light of consultation on our future strategy and work program discussed above.

**Communication**

3.54 Since November 2005, IAASB representatives and staff have made, or will have made, presentations or provided updates on the activities of the IAASB to the following external groups or at the following events:

- AGN International Congress, Montreal – IFAC, Convergence, Current IAASB Work Program, ISAs and SMEs, and Independence Issues
- American Accounting Association, Auditing and International Sections: Los Angeles – Mid-Year Meeting; Washington – Annual Meeting
- American Institute of Certified Public Accountants, Meeting on International Strategy and Planning – IFAC and its Strategic Goals
- Colegio de Contadores de Chile – Update on IFAC Activities
- CPA Associates Annual Meeting, Las Vegas – IFAC, Convergence, IAASB Work Program, ISAs and SMEs, and independence Issues
- European Federation of Accountants and Auditors for SMEs, Brussels
- Fédération des Experts Comptables Européens, Brussels – Conference on Audit Regulation

- Fédération des Experts Comptables Méditerranéens Conference, Istanbul, Turkey – Transparency and Auditing
  - Financial Stability Forum, Roundtable on Financial Reporting and Auditing, Paris – Challenges in Implementing IFAC International Standards on Auditing, Including Independence Standards, and Issues on the Audit of Fair Value Information
  - Financial Stability Institute, Basel – Seminar on International Accounting and Auditing for Banks
  - Global Reporting Initiative, Amsterdam, Conference on Sustainability and Transparency – Value of Assurance in Sustainability Reporting
  - Hong Kong Institute of Certified Public Accountants’ Auditing and Assurance Standards Committee, Hong Kong – Update on IAASB Work Program
  - IMF Symposium on Integrity Supervision of Financial Sector Firms and Markets, Washington D.C. – The External Audit, Professional Skepticism, the Role of Audits and Internal Controls in the Prevention of Fraud
  - Kansas University, Lawrence, Kansas – Symposium on Auditing Problems
  - New York State Society of CPAs, Annual CPD Day – Update on ISA Standard Setting
  - Round Table: The Role of the Professional Organizations of Auditors in the Russian Federation, Moscow
  - UNCTAD ISAR Workshop, Geneva – Auditing Fair Value Information
  - University of Arizona, Masters Class and Faculty – IFAC's Role in Restoring Credibility
  - University of Bergen, Norway, Masters Class in Auditing – IFAC’s Role in Restoring Credibility
  - World Bank Advanced Program in Accounting and Auditing Regulation (REPARIS Program) – Role and Structure of IAASB, Relevance of ISAs in the EU Context, Overview of Key ISAs and IAPSSs, and Current Projects
- 3.55 In February 2006, a 4-page information brochure, *Audit Quality and International Standards on Auditing*, was published to help inform the public about the IAASB’s membership and due process. This can be accessed from the IFAC website at [http://www.ifac.org/MediaCenter/files/Audit\\_Quality\\_Fact\\_Sheet.pdf](http://www.ifac.org/MediaCenter/files/Audit_Quality_Fact_Sheet.pdf).
- 3.56 In March 2006, the IAASB published its fourth annual report covering its activities, achievements and output for 2005.
- 3.57 The printed 2006 edition of the Handbook of International Auditing, Assurance, and Ethics Pronouncements, containing all IAASB pronouncements issued as of December 31, 2005, was released in April. Also included in the Handbook is the revised *Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants in June 2005. Two electronic versions of the Handbook were released with the printed edition: a free PDF downloadable version and an online eComPress version. The eComPress version, which has features designed to make accessing the pronouncements more user-friendly, is available for purchase via the website. At the

time of writing, approximately 2,050 print copies of the Handbook have been ordered and 31,900 copies of the electronic versions have been downloaded.

- 3.58 Individual publications continue to be available for download free of charge from the website.

#### **Section 4 Services Delivered During 2005-2006**

- 4.1 In 2006, the IAASB will have held six meetings, totaling 27 days of full Board deliberation. This higher level of Board activity compared, to our normal schedule of four meetings per year, has arisen as we make every effort to accelerate the Clarity implementation timetable. Additionally, approximately 65 task force meetings and 35 task force conference calls will have been held during the year. These meetings would not be possible without the voluntary contribution of a substantial amount of time on the part of IAASB members and their technical advisors.
- 4.2 As a result of the sustained board and task force activity, we will have achieved a significant level of deliverables during the year. Our output for 2006 is listed in Appendix 2.

#### **Section 5 Planned Activities for 2007**

- 5.1 The IAASB's highest priority for 2007 will be the redrafting of the ISAs under the Clarity project. It is expected that substantial progress will have been achieved on the redrafting exercise by the end of next year with the issue of 11 final redrafted ISAs and 16 exposure drafts of redrafted ISAs.
- 5.2 In addition, the IAASB will devote attention to the revision of a number of other standards. This is expected to result in the issue of the following revised standard and new exposure drafts in 2007:

*Revised ISA*

- Proposed ISA 580 (Revised), *Written Representations*

*New Exposure Drafts*

- Proposed ISA 402 (Revised), *Audit Considerations Relating to Entities Using Service Organizations*
- Proposed ISAE 3402, *Assurance on Controls at a Service Organization*
- Proposed ISA 505 (Revised), *External Confirmations*
- Proposed new ISA on communicating material weaknesses in internal control

- 5.3 This represents an ambitious agenda and will require the commitment and hard work of the IAASB members and others involved in improving the clarity and effectiveness of our standards.
- 5.4 At the same time, the EC is considering the adoption of ISAs under the revised 8th Directive. The IAASB will therefore take all necessary steps to facilitate this process as far as possible, including maintaining ongoing dialogue with representatives of the EC and its advisory groups.

- 5.5 The IAASB will also continue to nurture and enhance its relationships with other stakeholders, particularly audit oversight authorities, regulators and NSSs. As appropriate, IAASB members and staff will continue to present emerging international auditing and assurance topics at significant national or international forums to enhance awareness of international developments.
- 5.6 Last but not least, part of the IAASB's efforts in 2007 will be directed towards gathering input into our future strategy and work program through the various consultations, forums and other initiatives we have planned. Although the IAASB's highest priority will be the continued maintenance and development of high-quality auditing standards relevant to the audit of financial statements, the IAASB will strive to achieve an appropriate balance between the need to develop, review and update its ISAs and the need to develop guidance on other emerging topics, including assurance and other services. We look forward to the consultations on our future strategy and work program to provide us with appropriate input and direction in this regard.

## **Section 6 Conclusions**

- 6.1 We have made significant strides in 2005-2006 in finalizing the key elements of our major project to enhance the clarity of our standards. This will provide us with a firm foundation on which to proceed with our program of revising and updating our standards over the next two years. We have taken steps towards closer convergence of national and international standards through enhancing our global partnerships, and made significant progress towards the adoption of ISAs in the EU. Through the considerable efforts we have made in developing and implementing specific initiatives, I am confident that the IAASB is well positioned to meet its long-term objectives.
- 6.2 I wish to record my sincere appreciation to my fellow IAASB members and their technical advisors and firms for the tremendous support they have given to the work of the IAASB among their competing priorities, and also to recognize the professionalism and dedication of the IAASB staff who serve us so well. I am grateful to those national standard setters who are assisting us with the redrafting process under the Clarity project. It is also right to acknowledge the enormous support and advice that we receive from the CAG, regulators, national standard setters, the firms, IFAC and others, for which we are grateful.

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**APPENDIX 1**

**IAASB Project Timetable as at September 2006**

(Subject to periodic revision and change by the IAASB)

<b>Project</b>	<b>Sep-06</b>	<b>Oct-06</b>	<b>Dec-06</b>	<b>Feb-07</b>	<b>Apr-07</b>	<b>Jul-07</b>	<b>Sep-07</b>	<b>Dec-07</b>	<b>Mar-08</b>	<b>Jun-08</b>	<b>Sep-08</b>
Preface and 3 ISAs (ISAs 300, 315 and 330)	Approve final documents										
ISA 240, The Auditor's Responsibilities Relating to Fraud		Approve final ISA									
ISA 200, Objective and General Principles Governing an Audit of Financial Statements	Discuss issues First read of ED		Second read of ED		Approve ED				Review ED comments		Approve final ISA
ISA 210, Terms of Audit Engagements						Approve ED of redrafted ISA				Review ED comments Approve final ISA	
ISA 220, Quality Control for Audits of Historical Financial Information (and possibly ISQC 1)			First read of ED of redrafted ISA		Approve ED				Review ED comments Approve final ISA		
ISA 230, Audit Documentation			Approve ED of redrafted ISA				Review ED comments Approve final ISA				

<b>Project</b>	<b>Sep-06</b>	<b>Oct-06</b>	<b>Dec-06</b>	<b>Feb-07</b>	<b>Apr-07</b>	<b>Jul-07</b>	<b>Sep-07</b>	<b>Dec-07</b>	<b>Mar-08</b>	<b>Jun-08</b>	<b>Sep-08</b>
ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements				First read of ED of redrafted ISA		Approve ED			Review ED comments Approve final ISA		
ISA 260, Communication with Those Charged with Governance		Approve ED of redrafted ISA					Review ED comments Approve final ISA				
ISA 320, Materiality in Planning and Performing an Audit and ISA 450, Evaluation of Misstatements Identified During the Audit		Approve ED of redrafted ISAs					Review ED comments Approve final ISAs				
ISA 402, Audit Considerations Relating to Entities Using Service Organizations	Discuss issues				First read of ED		Approve ED			Review ED comments	Approve final ISA
ISAE 3402, Assurance on Controls at a Service Organization (working title)	Discuss issues				First read of ED		Approve ED			Review ED comments	Approve final ISA
ISA 500, Audit Evidence				Approve ED of redrafted ISA					Review ED comments Approve final ISA		

Project	Sep-06	Oct-06	Dec-06	Feb-07	Apr-07	Jul-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
ISA 501, Audit Evidence – Additional Considerations for Specific Items				Approve ED of redrafted ISA					Review ED comments Approve final ISA		
ISA 505, External Confirmations	Discuss issues			First read of ED		Approve ED			Review ED comments	Approve final ISA	
ISA 510, Initial Engagements – Opening Balances					Approve ED of redrafted ISA						Review ED comments Approve final ISA
ISA 520, Analytical Procedures								Review ED of redrafted ISA			Review of ED comments Approve final ISA
ISA 530, Audit Sampling and Other Means of Testing				Approve ED of redrafted ISA				Review of ED comments Approve final ISA			
ISA 540, Auditing Accounting Estimates and Related Disclosures	Approve close off <sup>2</sup> ISA										
Combined ISA 540, Auditing Accounting	Discuss		Approve				Review of ED	Approve			

<sup>2</sup> The term “**close off**” is used in the context of proposed standards currently under exposure. The intention is to revise the proposed standard based on comments received on exposure, and to obtain the IAASB’s agreement on the revised proposed standard before it is redrafted for clarity purposes. This step is referred to as “close off.” The next step is to expose the changes arising from redrafting the revised proposed standard in the clarity format.

<b>Project</b>	<b>Sep-06</b>	<b>Oct-06</b>	<b>Dec-06</b>	<b>Feb-07</b>	<b>Apr-07</b>	<b>Jul-07</b>	<b>Sep-07</b>	<b>Dec-07</b>	<b>Mar-08</b>	<b>Jun-08</b>	<b>Sep-08</b>
Estimates and Related Disclosures and ISA 545, Auditing Fair Value Measurements and Disclosures	issues First read of ED of revised and redrafted ISA		ED				comments	final ISA			
ISA 550, Related Parties	Review ED comments		Approve final ISA								
ISA 560, Subsequent Events			Approve ED of redrafted ISA				Review ED comments Approve final ISA				
ISA 570, Going Concern			First read of ED of redrafted ISA		Approve ED			Review ED comments Approve final ISA			
ISA 580, Written Representations		Approve ED				Review of ED comments		Approve final ISA			
ISA 600, The Audit of Group Financial Statements (discussions scheduled for 2007)				Review ED comments		Approve final ISA					



Project	Sep-06	Oct-06	Dec-06	Feb-07	Apr-07	Jul-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
ISA 610, Considering the Work of Internal Auditing			Approve ED of redrafted ISA				Review ED comments Approve final ISA				
ISA 620, Using the Work of an Expert		Second read of ED			Approve ED			Review ED comments	Approve final ISA		
ISA 700, The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements				First read of ED of redrafted ISA		Approve ED				Review ED comments Approve final ISA	
ISA 701, The Independent Auditor's Report on Other Historical Financial Information and ISA 800, The Independent Auditor's Report on Summary Audited Financial Statements		Approve close off <sup>3</sup> of ISA 701	Approve close off <sup>4</sup> of ISA 800			Approve ED of redrafted ISAs				Review ED comments Approve final ISAs	
ISA 705, Modifications to the Opinion in the Independent Auditor's Report and ISA 706, Emphasis of Matter and Other Matter(s) Paragraphs in the Independent Auditor's Report						Approve ED of redrafted ISAs				Review ED comments Approve final ISAs	
ISA 710, Comparatives						Approve				Review	

<sup>3</sup> See footnote 1.

<sup>4</sup> See footnote 1.

Project	Sep-06	Oct-06	Dec-06	Feb-07	Apr-07	Jul-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
						ED of redrafted ISA				ED comments Approve final ISA	
ISA 720, Other Information in Documents Containing Audited Financial Statements		Approve ED of redrafted ISA					Review ED comments Approve final ISA				
New ISA on Material Weaknesses in Internal Control		Discuss issues		Approve ED				Review ED comments Approve final ISA			
Proposed ISA on Forming an Opinion	Discuss issues										

APPENDIX 2

**Documents Approved and/or Issued in 2006**

1. The IAASB issued the following five final pronouncements in 2006:  
*International Standards on Auditing (Redrafted)*
  - ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* (subject to approval in October 2006)
  - ISA 300, *Planning an Audit of Financial Statements*
  - ISA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*
  - ISA 330, *The Auditor's Responses to Assessed Risks**Other*
  - Revised *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*
2. The IAASB approved the following documents for close off under the “old drafting conventions” in 2006:
  - ISA 260 (Revised), *Communication with Those Charged with Governance*
  - ISA 320 (Revised), *Materiality in Planning and Performing an Audit*
  - ISA 450, *Evaluation of Misstatements Identified during the Audit*
  - ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)*
  - ISA 800, *Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* (subject to approval in October 2006)
  - ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*
  - ISA 706, *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report*

For those documents approved at the time of writing this report, the PIOB accepted, on the advice of the Executive Director, that due process had been followed in developing and finalizing the close-off versions of these ISAs. These documents are being redrafted under the Clarity project and will be re-exposed for comments on the application of the Clarity drafting conventions. I anticipate the documents to be approved in October 2006 will also be cleared in due course.
3. The IAASB issued the following exposure drafts in 2005-2006:
  - Proposed ISA 550 (Revised), *Related Parties*
  - Proposed ISA 600 (Revised), *The Audit of Group Financial Statements* (exposure draft of redrafted ISA under Clarity)
4. Other exposure drafts that the IAASB is expected to approve at its October and December 2006 meetings include the following:

*ISA Revision*

- ISA 580 (Revised), *Written Representations*

*Application of the Clarity Drafting Conventions*

- ISA 230, *Audit Documentation*
- ISA 260 (Revised), *Communication with Those Charged with Governance*
- ISA 320 (Revised), *Materiality in Planning and Performing an Audit*
- ISA 450, *Evaluation of Misstatements Identified During the Audit*
- Combined ISA 540, *Auditing Accounting Estimates and Related Disclosures* and ISA 545, *Auditing Fair Value Measurements and Disclosures*
- ISA 560, *Subsequent Events*
- ISA 610, *Considering the Work of Internal Auditing*
- ISA 720, *Other Information in Documents Containing Audited Financial Statements*