

DATE: SEPTEMBER 22, 2006
TO: COUNCIL
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SUBJECT: FoF AND TAC REPORT TO COUNCIL

IFAC Strategic Priority

Work with the Forum of Firms, through the Transnational Auditors Committee ... to undertake initiatives to improve firms' audit quality, including efforts made to increase transparency of international accountancy firms.

Section 1 Introduction

1.1 This report outlines the activities of the Forum of Firms (FoF) and Transnational Auditors Committee (TAC) since November 2005, and details of activities planned for 2007.

Section 2 FoF and TAC Strategy and Objectives

2.1 The TAC objectives for 2006 were focused on the following six areas:

- Regulation
- Audit Quality
- Firm Transparency
- Ethics
- Education
- Ongoing Responsibilities

2.2 The FoF remains committed to supporting the work of IFAC, and demonstrates this support by nominating members to various IFAC standard-setting boards and committees and providing a financial contribution to IFAC's activities.

Section 3 Key Highlights for 2006

Dialogue with regulators

3.1 The PIOB has recommended that the nomination process for the five PIAC positions to be filled by the FoF not be based on a closed and set slate. The FoF has expressed the difficulties relevant to being fully compliant with this recommendation but will make a best effort during subsequent nomination cycles. All TAC PIAC nominees were satisfactorily approved by the PIOB at its September 2006 meeting.

3.2 The PIOB has determined that its relationship with the FoF/TAC is through the IFAC Board. As such, the FoF/TAC will not be a regular feature on the agenda for future PIOB meetings.

- 3.3 Firm representatives had a very constructive meeting with the MG on December 15, 2005. A number of questions that had been posed by the MG were specifically answered by the firms, covering FoF/TAC activities, quality control, audit quality, transparency of network structure and management. The scheduled MG meeting of October 23, 2006 has been cancelled.
- 3.4 The EC approached the IRLG to determine the interest of the firms in discussing how global audit networks operate and organize their global quality control processes. Since this initial contact, the IRLG has had telephone and other conferences with the EC/EGAOB and a written response to a questionnaire was prepared for this regulator. The IRLG is now reviewing the rules and procedures regarding confidentiality of deliberations and documents applicable to the EGAOB, and counsel will be sought regarding satisfactory safeguard.

Constitution, Anti Competition, TAC Policy and Guidance Statements

- 3.5 With the revision of the IFAC Constitution and the development of a new set of By-laws, the TAC/Forum approved the conforming amendments to the Forum Constitution. The TAC/Forum also approved the correction to the term ending of the TAC Chair to be consistent with the other TAC nominees. Additionally, TAC/Forum approved the change to the Forum Constitution regarding the TAC Chair right of reelection to the maximum of two consecutive terms. These changes will be brought to the IFAC Board for approval in February 2007.
- 3.6 The final version of the anti competition policy was approved.
- 3.7 TAC Policy Statements 1 (Policy for Provisional and Full Members) and 2 (Internal Quality Assurance Review Program Requirements) and TAC Guidance Statement 1 (Definition of Transnational Audit) were approved.

New Hire

- 3.8 The TAC has hired a new Senior Technical Manager, Patricia Dixon, effective March 6, 2006.

Section 4 Services Delivered during 2006

- 4.1 The main strategic objectives achieved during 2006 were:
- Approved revised FoF Constitution
 - Input into ISA 600 (Group Audits) – Final standard in development
 - External QA Reports reviewed through March 2006. One follow-up project identified
 - Tone at the top project commenced August 2006
 - Global consistency in auditing of IFRS practice paper being updated
 - Model transparency disclosure developed and discussed with MG
 - Input into Network Firm definition
 - Input into IES 8 (Competence Requirements for Audit Professionals)

Section 5 Planned Services for 2007

5.1 The work plan for 2007 was discussed and agreed by the TAC and FoF in October 2006. The main strategic areas include:

- Regulation
 - Dialogue with regulators
 - Convergence of auditing, ethics and accounting standards and regulation
- Audit Quality
 - FoF Annual Membership Report
 - Various IAASB projects
 - Liaison with IFAC Member Body Compliance Program
 - External confirmations
 - External QA report issues
 - Tone at the top
 - Input on SMP Quality Control Guide project
 - Global consistency in auditing of IFRS
- Firm Transparency
- Ethics
 - Independence
 - Global Master File
- Education
 - Ethics Education Practice Statement
- Ongoing Responsibilities
- Providing input into IFAC's standard setting process

Section 6 Conclusion

6.1 The Forum of Firms and the Transnational Auditors Committee remain committed to raising the standards of the international practice of auditing and to working with IFAC in achieving the goal of international convergence.

6.2 Finally, we would like to express our appreciation to the members of the TAC and the FoF for their contributions and support during the year.