

**Fundación Consejo Internacional  
de Supervisión Pública en Estándares  
de Auditoría, Ética Profesional  
y Materias Relacionadas**

**FINANCIAL STATEMENTS**

**31 December 2006**



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**Public Interest Oversight Board**

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*overseeing international audit, ethics and education standards for the accounting profession*



**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

To the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the Bank for International Settlements (BIS):

We have audited the accompanying financial statements of the FUNDACION CONSEJO INTERNACIONAL DE SUPERVISION PUBLICA EN ESTANDARES DE AUDITORIA, ETICA PROFESIONAL Y MATERIAS RELACIONADAS, (hereafter "PIOB" or "the Foundation") which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Board of Trustees' Responsibility for the Financial Statements*

The Board of Trustees is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Foundation as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**BDO Audiberia**  
Emilio Domenech  
Partner

Madrid, March 31, 2007

## INCOME STATEMENT,

for the year ended 31 December, 2006 (in Euros)

	<b>2 0 0 6</b>
<b>REVENUE</b>	
IFAC Funding	782,191
Other Revenue (note 4)	111,588
<b>Total Revenue</b>	<b>893,779</b>
<b>EXPENSES</b>	
Employee costs (note 8)	218,078
Travel and meeting costs	244,457
Technical Committee stipends (note 9)	206,803
Annual report	22,437
Occupancy (notes 6 and 15)	39,508
Recruitment costs	9,187
Telephone	6,663
Legal and other professional fees	137,769
Auditor remuneration	4,872
Depreciation and amortization (note 11)	34
Other expenses	3,971
<b>Total Expenses</b>	<b>893,779</b>
<b>Surplus</b>	<b>0</b>



## BALANCE SHEET,

at 31 December 2006 (in Euros)

	2006
<b>ASSETS</b>	
Current Assets	
Cash (note 10)	159,582
Accounts Receivable	-
Prepaid Expenses	2,144
	161,726
Capital Assets (note 11)	2,435
<b>Total Assets</b>	<b>164,161</b>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable (note 5)	79,060
Accrued Liabilities (note 6)	40,675
Revenue received in advance (note 12)	14,426
<b>Total Liabilities</b>	<b>134,161</b>
<b>EQUITY</b>	
Endowment funds (note 13)	30,000
<b>Total Equity</b>	<b>30,000</b>
<b>Total Liabilities and Equity</b>	<b>164,161</b>



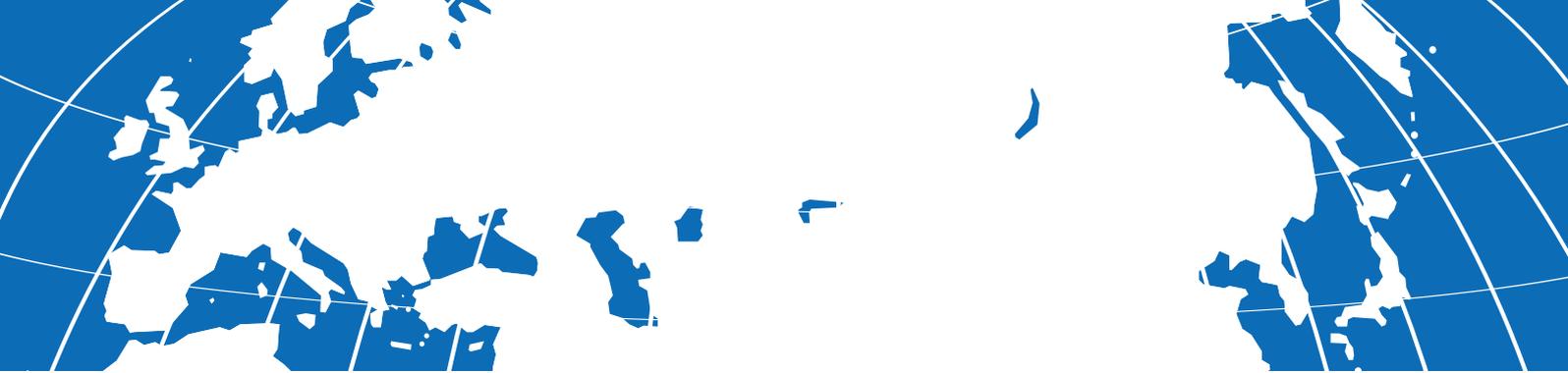
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## STATEMENT OF CHANGES IN EQUITY,

for the year ended 31 December, 2006 (in Euros)

		2006
Endowment funds		Total
Balance, beginning of year	30,000	30,000
Excess of revenue over expenses (expenses over revenue)	-	-
<b>Balance, end of year</b>	<b>30,000</b>	<b>30,000</b>



## CASH FLOW STATEMENT,

for the year ended 31 December, 2006 (in Euros)

	2006
<b>OPERATING ACTIVITIES</b>	
Excess of revenue over expenses (expenses over revenue)	-
Non-cash items	
Depreciation of capital assets	34
Decrease (increase) in working capital items (note 7)	132,017
<b>Net cash generated</b>	<b>132,051</b>
<b>INVESTING ACTIVITIES</b>	
Capital expenditures	(2,469)
<b>Net cash used</b>	<b>(2,469)</b>
<b>Net increase in cash and cash equivalents</b>	<b>129,582</b>
Cash and cash equivalents, beginning of year	30,000
<b>Cash and cash equivalents, end of year</b>	<b>159,582</b>
<b>CASH AND CASH EQUIVALENTS</b>	
Cash	159,582
	<b>159,582</b>



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### **1 Fundación Consejo Internacional de Supervisión Pública en Estándares de Auditoría, Ética Profesional y Materias Relacionadas**

The Fundación Consejo Internacional de Supervisión Pública en Estándares de Auditoría, Ética Profesional y Materias Relacionadas (“the Foundation”) was constituted on 15 December 2005 under “Ley 50/2002, de 27 de diciembre, de Fundaciones”, the Spanish law for not-for-profit foundations. Its legal founders were the International Organisation of Securities Commissions, the Bank for International Settlements and the International Association of Insurance Supervisors, three international regulatory groups committed to maintaining the stability of the international financial system and operating in the international public interest.

As described in its by-laws, the objective of the Foundation is to strengthen the international financial reporting system through overseeing the standard-setting activities of designated boards of the International Federation of Accountants (“IFAC”) and undertaking any other appropriate programs and projects that will contribute to achieving its objective. The Foundation’s Board of Directors is responsible for ensuring that the Foundation operates within its mandate and meets its legal and administrative obligations to the Spanish government. A Technical Committee of the Board is responsible for planning and executing the Foundation’s oversight program and related activities. Support for the Board of Directors and the Technical Committee is provided by the Foundation’s Secretariat based in Madrid, Spain.

### **2 Accounting policies**

#### **Financial statements**

The Foundation’s financial statements have been prepared in accordance with International Financial Reporting Standards.

#### **Accounting estimates**

Preparation of the financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and in the notes to financial statements. These estimates and assumptions are based on management’s best knowledge of existing facts and circumstances as well as any current period impact of actions that the Foundation may undertake in the future. Actual results may differ from those estimates.

The financial statements are prepared in Euros.



### Measurement Base

The income statement, cash flow statement and balance sheet have been prepared on an accrual basis with all assets and liabilities valued at historical cost

### Revenue and cost recognition

The International Federation of Accountants has committed to fund the Foundation's operating expenses to an annual limit of US \$1,500,000. Revenue from IFAC and other donors is recognised on an accrual basis. Any donated amounts that exceed annual operating expenses are deferred and recognised as revenue of the following year.

Donations are denominated in Euros or US Dollars. Contributions denominated in US Dollars are accounted for in Euros at the rates of exchange prevailing at the transaction date. Differences arising on translation are recognised in the income statement.

Deferred revenue represents prepaid donations. Costs are recognised as an expense when incurred.

### Cash and cash equivalents

The Foundation's policy is to present cash and temporary investments having a term of three months or less from the acquisition date as cash and cash equivalents.

### Capital assets

Capital assets are recorded at cost. Any impairment in the net recoverable amount as compared to the net carrying amount is recognized immediately. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in operating surplus. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Capital assets are depreciated over their estimated useful lives according to the following methods and annual rates:

	<b>METHODS</b>	<b>RATES</b>
Computer equipment		
Computers and Software	Straight-line	25%

### Cash Flow Statement

The following are definitions of the terms used in the cash flow statement:

Cash and cash equivalents comprise cash on hand, current bank balances and short term deposits that can be converted to cash within two working days.

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding, and disposal of fixed assets and investments.

### Taxation

On 29 March, 2006, the Spanish Parliament passed legislation (Ley 4/2006, de 29 de Marzo, de adaptación del régimen de las entidades navieras en función del tonelaje a las nuevas directrices comunitarias sobre ayudas del Estado al transporte marítimo y de modificación del régimen económico y fiscal de Canarias) to exempt the Foundation from Spanish income tax.

### Foreign currency translation

Foreign currency transactions are accounted for in Euros and translated at the rates of exchange prevailing at the transaction date. Exchange gains or losses on subsequent settlement of related balances are recognised in the income statement when they arise.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to their Euro equivalent at the prevailing foreign exchange rate. Foreign exchange differences arising on translation are recognised in the income statement.

## 3 Expenses by Activity

(in Euros)	<b>2006</b>
Board related operating costs	
Oversight Program	461,171
External Relations Program	132,589
Foundation Board Meetings	85,900
Other start-up and ongoing operating costs	214,119
<b>Total expenses</b>	<b>893,779</b>



#### 4 Other Revenue

Revenue received from IFAC includes US \$100,000 of funding support provided by the World Bank to IFAC expressly for the operation of the PIOB and US \$40,000 of funding support provided by the US Federal Reserve Board.

#### 5 Accounts Payable

(in Euros)	2006
Professional services	66,943
Other	12,117
Total Accounts Payable	79,060

#### 6 Accrued Liabilities

(in Euros)	2006
Occupancy expenses	30,000
Travel and other operating costs	10,675
Total Accrued Liabilities	40,675

#### 7 Information Included in the Cash Flow Statement

The increases (decreases) in working capital items are detailed as follows:

(in Euros)	2006
Prepaid expenses	2,144
Accounts payable	(79,060)
Accrued liabilities	(40,675)
Deferred revenue	(14,426)
Increases (decreases) in working capital	(132,017)

#### 8 Employee Costs

(in Euros)	2006
Gross Salaries	202,885
Spanish social security fees	8,993
Other social benefits	6,200
Total Employee Costs	218,078

## 9 Technical Committee Stipends

Members of the Technical Committee receive fixed annual stipends of US \$25,000 except for the Chairman of the Committee who receives US \$80,000 in recognition of his additional leadership responsibilities. As two of the nine ordinary members elected to waive these stipends, total expense for the year was US \$255,000.

## 10 Cash

(in Euros)	<b>2006</b>
Cash in Euros	159,582
	159,582

There are no restrictions on the use of cash.

## 11 Capital Assets

(in Euros)		<b>2006</b>
	Computer equipment	<b>Total</b>
At the lower of recoverable value and cost		
Balance, beginning of year	--	--
Additions	2,469	2,469
Disposals	--	--
Balance, end of year	2,469	2,469
Accumulated depreciation		
Balance, beginning of year	--	--
Depreciation	(34)	(34)
Disposals	--	--
Balance, end of year	(34)	(34)
Net as at December 31, 2006	2,435	2,435

## 12 Revenue received in advance

Revenue received in advance at 31 December 31 2006 of €14,426 represents the excess of IFAC funding received over Foundation 2006 expenses.



### **13 Endowment funds**

To meet the minimum legal capital requirements established by Spanish law, the founders (see note 1) collectively provided an initial endowment of thirty thousand Euros (€30,000).

### **14 Board**

Positions on the Board are voluntary and there is no honorarium paid for any position held. The following persons were members of the Board during the year:

Dr. Stavros Thomadakis	Chairman
Mr. Antoine Bracchi	Board member
Mr. David A. Brown, Q.C.	Board member
Mr. Fayezul Choudhury	Board member
Mr. Michael Hafeman	Board member
Mr. Kosuke Nakahira	Board member
The Hon. Aulana L. Peters	Board member
Prof. Dr. Arnold Schilder	Board member

### **15 Government Assistance**

As part of the localisation agreement in Madrid, the Foundation receives the right from the Spanish authorities to use the premises at Oquendo, 12 free of charge, except for non-structural maintenance expenses (electricity, water, elevator maintenance, etc). In the absence of a final agreement to establish the maximum charge for 2006, an estimated amount of €30,000 has been included in occupancy expense for the year.

### **16 Subsequent Events**

In the opinion of the management there are no significant events that need to be reported.



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