



International Federation of Accountants

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**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** Toronto

**Meeting Date:** September 4-5, 2008

### **Applicable Financial Reporting Framework Described by Reference to Another Established Framework**

#### **Note from David Damant**

1. Members of the CAG are asked to give special attention to this topic. It is of vital practical importance to all users of financial statements.
2. On the substance of the matter, I refer Representatives especially to the overall objectives of the auditor in paragraph 11 of ISA 200 (Revised and Redrafted):”<sup>1</sup>  
“In conducting an audit of financial statements, the overall objectives of the auditor are:
  - (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on **whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework** [my emphasis]; and
  - (b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor’s findings.”
3. These over-riding objectives, in the over-riding ISA, explicitly link the audit function to the financial reporting framework.
4. The question therefore arises whether the relevant authorities should in every case ensure that the users are informed when an applicable financial reporting framework described by reference to another established framework is in force, and (in a note) how the applicable financial reporting framework differs from the other established framework referred to (in practice IFRS). This the first item in the proposed IASB amendment to IAS 1<sup>2</sup> (see Appendix 1 to Agenda Item J.1). The users will then know which is the financial reporting framework which is being applied and audited.

<sup>1</sup> ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing,” was approved by the IAASB in June 2008 and is currently awaiting confirmation by the Public Interest Oversight Board that due process has been followed in its development. It can be accessed at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4059>.

<sup>2</sup> International Accounting Standard (IAS) 1, “Presentation of Financial Statements.”

## **IAASB CAG PAPER**

### **IAASB CAG Agenda (September 2008)**

#### **Agenda Item J**

#### **Financial Reporting Framework Described by Reference to Another Established Framework**

5. If this is so, it can then be discussed whether this solution (disclosure) can be ensured by action by the IASB (as in Appendix 1 of Agenda Item J.1), or by regulators (see the statement by IOSCO in Appendix 2 to Agenda Item J.1), or by other parties (legislators, etc). In the absence of explicit information in the financial statements, the IAASB proposes in the relevant paragraphs in proposed ISA 700 (Redrafted)<sup>3</sup> (as repeated in Agenda Item J.1) that, where differences are “significant” in the context of the entity’s financial statements, there should be action by auditors to correct the deficiencies which have therefore arisen, by judgments by the auditors as to whether some degree of emphasis is necessary or whether (rarely) the description of the applicable financial reporting framework in the financial statements is “misleading” as set out in the quoted paragraphs. Representatives on the CAG have therefore to consider their view on the IAASB’s response to the undoubted problem which has arisen.
6. This question has arisen in the context of IFRS and, therefore, in the context of listed companies. After discussion of the matter in those contexts we should separately look at the position for unlisted companies (which may be subject to ISAs, but not IFRS). There is also the question of the fact that the paragraphs under discussion have been redrafted to be framework neutral, rather than referring throughout to IFRS.

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<sup>3</sup> Proposed ISA 700 (Redrafted), “Forming an Opinion and Reporting on Financial Statements.”