Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

32nd SESSION
4 - 6 November 2015
Room XVIII, Palais des Nations, Geneva

Wednesday, 4 November 2015
Afternoon Session

Key foundations of high-quality reporting: International audit and assurance requirements and good practices in their implementation

Presented by

Michael Stewart
Director
Implementation Activities, International Accounting Standards Board

This material has been reproduced in the language and form as it was provided. The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
International audit and assurance requirements and good practices in their implementation: IFRS judgement capacity-building

Michael Stewart
IASB Director of Implementation Activities
November 2015
Information supply chain

High quality at each stage reinforces confidence across the information chain

- **Preparers**
  - Corporate governance (Ethics codes)
- **Accounting standards**
  - (IFRS & the IFRS for SMEs)
- **Auditing** (ISAs)
- **Enforcement**
- **Capital providers**

Education underpins competence across the information chain
Qualitative characteristics

• If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent (ie fundamental qualities).
  – Financial information without both relevance and faithful representation is not useful, and it cannot be made useful by being more comparable, verifiable, timely or understandable.

• The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable (ie enhancing qualities—less critical but still highly desirable)
  – Financial information that is relevant and faithfully represented may still be useful even if it does not have any of the enhancing qualitative characteristics.
Principle-based standards

• Principle-based standards:
  – Support the consistent application of those standards across diverse facts and circumstances
  – Require application of judgement

• Ability to make judgements is key, for preparers, auditors, enforcers

Concepts  Principles  Rules
Responding to the challenges of judgement

• Requirement to make judgement brings challenges both in making those judgements and in auditing them

• Transparency, and critical assessment, of judgements can support better judgements and better audit of judgements
  – Management’s explanation of significant judgements made in applying accounting policies (IAS 1, para 122)
  – Auditor’s description of Key Audit Matters in Auditor’s Report, i.e. a description of matters that were of most significance in the audit (ISA 700 & ISA 701)
  – Appropriate auditor scepticism of management’s judgements (current IAASB project)
IASB Education Initiative project: IFRS judgement capacity-building

• Aim: support rigorous and consistent IFRS application—by developing cohesive IFRS understanding and capacity to make/audit/regulate/analyse IFRS judgements

• How:
  – comprehensive teaching material for CA/CPA (or equivalent) stream and MBA stream IFRS teachers
  – development agencies and others fund translation into all widely spoken languages
  – facilitate regional in-person training workshops for teachers, adopting jurisdiction preparers and auditors, regulators, etc

• Who:
  – Teachers of IFRS, regulators, auditors and preparers
Framework-based approach

- What is the economics of the phenomenon (e.g., transaction, event)?
- What information about that economic phenomenon would primary users—existing and potential investors, lenders, and other creditors that cannot demand information from the entity—find useful in making decisions about providing resources to the entity?
- Then identify the relevant IFRS requirement/s and evaluate the requirement/s against the objective
  - is the requirement a principle rooted in the Conceptual Framework?
  - if not, understand why the rule does not maximise concepts (e.g., application of the cost constraint, reason often in Basis for Conclusions)
- Focus on making/auditing/regulating/analysing IFRS judgements and estimates
Framework-based approach provides...

- a cohesive understanding of IFRS
  - Framework facilitates consistent and logical formulation of IFRS

- a basis for judgement in applying IFRS
  - Framework established the concepts that underlie the estimates, judgements and models on which IFRS financial statements are based

- a basis for continuously updating IFRS knowledge and IFRS competencies

As important for those auditing IFRS judgements as those making IFRS judgements
Framework-based approach IFRS material language map and workshops

Comprehensive teaching material: Languages—Arabic, Chinese, English, French (stage 3 only), Korean (in 2015), Japanese, Polish (stage 3 only), Portuguese, Russian and Spanish.

- Train the teacher’ workshop; number indicates duration in days.
- Half-day video conference
- Regional IFRS regulatory capacity building workshops; number indicates duration in days.
• We work with others to support *Framework*-based approach
  – create awareness
  – encourage those certifying accountants to examine their students’ ability to make the *judgements* that are necessary to apply IFRS
Thank you