

Guidance for auditors on IFRS

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It seems inevitable that some audit reports will require qualification next year given the number of companies who are lagging behind in preparing for the introduction of International Financial Reporting Standards (IFRS). Some 2005 financial statements will be delayed for the same reason, Andrew Ratcliffe, Chairman of the Institute of Chartered Accountants' Audit and Assurance Faculty warned, as the Institute launched new guidance for auditors on IFRS.

Commenting on the new guidance, Faculty Chairman Andrew Ratcliffe said:

"Auditors have a critical role to play in helping their clients get up to speed with new requirements under International Financial Reporting Standards. As the deadline draws near for their introduction, recent ICAEW research suggests some companies are struggling."

Andrew Ratcliffe went on to say: "It is easy to make a high-level comparison of UK GAAP and IFRS and conclude that there are few major differences. As ever, the devil is in the detail. Companies need to carry out a comprehensive analysis of their transactions and exposures. There will be a major change in the format of the accounts; different accounting policies need to be formulated, and there are more extensive disclosure requirements.

"To achieve all this entails a significant project for companies that will affect their entire reporting process and may result in changes in their accounting systems. Being ready only at five minutes to midnight will not be good enough."

He pointed out that in recent years there has been increasing concern about the problem of aggressive earnings management, which has changed the focus of thinking about fraud.

Transition to IFRS will involve complete restatement of the opening balances and potentially more volatile accounting measures. This increases the opportunities for deliberate misstatement of the first set of financial statements under IFRS and auditors will need to respond to this.

The Audit & Assurance Faculty's guidance has been designed to help auditors think about the challenges they will face as the transition to IFRS approaches. It provides auditors with guidance in three key areas: what they should expect the management and the audit committees at their clients to be doing, and what the auditors themselves should be doing.

The guidance lays out good practice guidelines for how auditors should come to a view on their clients' preparedness for the transition to IFRS, and begin to assess the risk of whether the financial statements will be compliant.

Andrew Ratcliffe concluded: "There will be an increased pressure on the auditors in the period leading up to the first set of IFRS financial statements, but I am sure they will be robust. Auditors need to ensure that their work remains of the highest quality and that they use their professional judgement and professional scepticism."

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