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## Foreword

I am pleased to present the thirteenth booklet under the Members' Information and Education Series (MIES-13) on the subject of **“Responsibility of Preparing Financial Statements under IFRS- Auditor’s and Industry’s Perspective”**.

The booklet contains a report titled “Perspectives on the Global Application of IFRS” issued by the Transnational Auditors Committee of the International Federation of Accountants (IFAC) and an article written by one of our members, Mr. Farrukh Rahman emphasizing the importance of preparing financial statements under IFRS and various benefits of a global financial reporting framework.

The objective of financial statements is to provide information—about the financial position, performance and changes in financial position of an entity—that is useful to investors and other external users in making economic decisions about that entity. In order to be useful, information should be understandable, relevant, reliable and comparable. Standardization in this respect will only be possible when all countries around the globe adopt the same standards for preparing financial statements. Pakistan is amongst those countries that are working actively towards achieving the goal of full IFRS compliance by the year 2009.

Our aim of publishing this MIES, is to reiterate the accepted, although widely misunderstood position, that the responsibility of preparing financial statements solely rests with the management of a company and not with the auditor. The MIES also emphasizes the benefits of convergence to one global set of accounting standards to promote a wider credibility of the financial reporting process and the degree of reliance that could be placed on them. Hopefully, you may find the booklet useful and informative.

At the end, I would like to thank Mr. Farrukh Rahman for contributing titled article. I would also like to thank IFAC for granting permission to reproduce a report of its Transnational Auditors Committee.

**Nasim Hyder**  
*President*

July 20, 2007

# **Responsibility of Preparing Financial Statements under IFRS – Auditor’s and Industry’s Perspective**

*By*

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Some months back the two political parties of Pakistan presented us with a Mesak-e-Jamooriat and recently our erstwhile former ICAP President – Syed Shabbar Zaidi introduced to us Mesak-e-Maishat. Going by the trend I am suggesting IFRS as Mesak-e-Shariat between the auditors and industry for preparing and presenting the financial statements.

The responsibility for the preparation and presentation of financial statements is a task having not only varied perspectives within the auditors and industry being the relevant management, but also varied expectations amongst the users of these financial statements.

Before going to various perspectives, let's see what the IFRS themselves have to say about this responsibility. Following is stated in the framework for the Preparation and Presentation of Financial Statements:

“The management of an entity has the primary responsibility for the preparation and presentation of the financial statements of the entity.”

This makes it clear that whatever be the perspective, the responsibility for the preparation and presentation of the financial statements under IFRS rest with the management. Then what causes different perspectives?

To answer this and to set up the overall context, let's see the general perspective and standpoints wherefrom the management, auditors and other users are looking:

IFRS is the language of accounting. Using such language transactions running across the organisation are transformed to reflect the performance of the business. Notwithstanding, it is interesting to note that in itself, management is more concerned with the preparation and evaluation of information being generated for the purpose of internal monitoring, decision making and performance evaluation rather than preparation of financial statements under IFRS which is taken up mostly only as a required statutory burden. This is what causes the prime management concern to shift from the external oriented financial information to the internal oriented one. This is specifically true in case of organisations where the budgetary controls are very advanced and are religiously followed, specifically in cases of entities operating across borders where such controls are primarily exercisable only through the preparation of internal oriented financial information. Since IFRS primarily cater to multi user requirements, mostly concerned with externalities, the prime emphasis of management remains on production of financial information relating to internalities of the business.

On the other hand, an auditor is required to perform an audit under the International Standards on Auditing. ISA states that:

“Management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:

- (a) 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;
- (b) Selecting and applying appropriate accounting policies; and

(c) Making accounting estimates that are reasonable in the circumstances.”

ISAs further state that:

“The responsibility of the auditor is to express an opinion on the financial statements based on the audit.”

Further, the auditor is required not to perform any management function not only through the regulations in this respect in most of the territories but also through the IFAC Code of Ethics for Professional Accountants.

This requirement is becoming more and more stringent and expressive with the development in the profession. In a recent change proposed in the IFAC Code of Ethics, taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework has specifically been termed as a management function, expressly declaring the preparation of financial statements a NO GO AREA for the auditors.

Accordingly, an auditor would be more than cautious to take even any role however small that might be, in the preparation of financial statements – not to talk about taking the responsibility thereof.

But it is also important to take into account the ground reality in the relevant environment. Normally so, it is a fact that in the dynamically changing environment of today where both the business world and reporting requirements are substantially developing at a speedy pace; the level of understanding, skill and capabilities available with most of the entities for preparation of financial statements in accordance with IFRS are limited. Take for example how many of us know the accounting for indefeasible right of use (IRU), true sale, service concessions etc.

The limited resource availability and capability, coupled with the internality emphasis by the management as earlier discussed, and more availability of skilled resources with the auditors has made it so happen for the management to look towards auditors for guidance in preparation of IFRS compliant financial statements. This puts auditors in pressurising situations also to cater to the management looking towards them and not compromising their legal and ethical stance.

On the other side comes the perception of other users to the financial statements. It is important to note that this perception is dependant not only upon the evolution of the reporting framework and auditing profession, but also on the overall environment and awareness of the users of financial statements. It is a fact that such overall environment in developing countries like Pakistan is not much developed, and accordingly is not so developed the perception of the users of financial statements in relation to the responsibility of preparing financial statements in compliance with IFRS. Regardless of clear mention of the responsibilities of the management and auditor, the general perception stays that the financial statements are the ownership of auditors who are responsible for the fair presentation; or at best, a joint responsibility of the management and auditors.

However, looking specifically at the perspective of the investor; it seems that what matters for them is the fair presentation of financial statements containing the financial information deemed important for their investment decision. As long as the information being provided meets their criteria, they are also indifferent as to who has the prime responsibility for the preparation and presentation.

On the other hand, the perspective of regulator seems fairly crisp – since the threat to independence of the auditor of involving himself in the process of preparation and presentation of the financial statements is too high which can not be mitigated by any safeguard put in place, the sole responsibility rests with the management. Any involvement of the auditor in this process would seem threatening to the very independence and hence should not only be non-existing, but should also seem not to exist too.

Seeing various perspectives and moving towards conclusion, it is obvious that varied expectations in this respect exist. However, the way forward is only one – the responsibility for the preparation and presentation of financial statement rests with the management which has to be perceived by all the parties in this manner also. It is expected that this would require more awareness on part of all stake holders for which management and auditors both have to play their part; not only by spreading the awareness but also educating the stake holders to let the environment evolve and grow mature.

Finally, taking lead from the above discussion I would like to make two specific suggestions – one for the standard setters in general and the other for the ICAP to ponder upon.

As we all acknowledge and understand the primary focus of the management of the business is internal reporting, where they are evaluated and rewarded, standard setters without being compromising on certain confidentialities should develop standards where internal and external reporting have a linkage. Determination of an operating segment based on internal reporting under IFRS 8 being a step in this direction and would like to see more such standards.

With the arrival of many forward looking business concepts in Pakistan it is high time for the ICAP to start considering introduction of an advanced level IFRS specific post qualification course targeted towards industry in particular and profession in general to give an appropriate response to such developments.

# **Perspectives on the Global Application of IFRS**

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**Good practices in promoting a consistent approach  
to International Financial Reporting Standards**

*issued by*

*Transnational Auditors Committee*

**International Federation of Accountants ( IFAC)**



## Preface

In 2004, the Transnational Auditors Committee produced a compendium of practices around the application of International Financial Reporting Standards (IFRS). That first report indicated extensive activity by the network firms to develop and supervise IFRS-related activities – including training and the development of technical resources – to support the impending transition to IFRS.

Since that first survey was performed, IFRS has grown enormously in importance and use. From 2005, all 7,000 listed companies in the European Union are required to prepare their group financial statements under IFRS. Globally, around 100 countries have now substantially adopted the international standards in the largest-ever transition to a new set of financial reporting standards. And every major economy has at least announced a plan to converge with IFRS. For example, China recently announced that it would require listed companies to adopt standards based on IFRS beginning in 2007.

The stage has now been reached where IFRS is becoming the primary generally accepted accounting principles (GAAP) for many of the world's larger audit engagements, and, increasingly, “business as usual” for the network firms. IFRS considerations are now beginning to be embedded in the firms' policies and methodologies.

This second report, like the first, illustrates the progress made with IFRS and sets out examples of good practices that the network firms are implementing. We hope it will be of interest both to the member firms of the Forum and to other interested parties.

## How This Report was Prepared

This report was prepared following a series of conversations with the global IFRS leaders (or equivalents) of ten of the member network firms of the Forum of Firms. Those ten included the seven largest firms in the Forum. The interviews took place from March to August 2006.

Each of the IFRS leaders was asked to describe the practices of their network firms, under a broad range of areas – roughly corresponding to the different sections in this report.

The report does not purport to be a scientific survey of the network firms' practices. The firms were not asked to complete questionnaires, nor are the findings presented on a firm-by-firm basis. Instead, a selection of the firms' practices is profiled in the report as illustrations of current practices. Those practices will continue to evolve as familiarity with the IFRS reporting environment increases. The firms are not identified by name in relation to any specific practices.

The examples of network firm practices are supplemented by commentary highlighting trends in the findings.

“Firm” as used in this report means the network firm, unless the reference is clearly to the individual firms within a network.

## Introduction

### **The challenge of consistent application**

Now that IFRS is being used in so many countries around the world, the challenge is to ensure it is applied as consistently as possible – by preparers, auditors, regulators and others involved in the financial reporting process.

In Europe and Australia, the switch to IFRS for the 2005/06 reporting season was unprecedented in scale and a major step forward in comparability of financial reporting. Based on what we know so far, companies and their auditors seem to have coped relatively well. But it is still too early to draw conclusions about the transition. IFRS has necessitated a steep learning curve for many, and we will learn much more about how the transition went in 2005 when companies address their 2006 reporting. We may find that, in the light of further experience, some of the original judgments could be improved. But this is natural when everyone is adjusting to the adoption of a new GAAP.

Consistency will not be achieved overnight. It will take some time for all market participants to be familiar with IFRS, and the usual forces for consistency – peer pressure and regulatory enforcement – will not act in the usual way at first.

Also, consistency does not mean uniformity. The IFRS standards are principles-based and require judgment to apply them. In some cases the standards allow for the use of alternatives. And every company has different facts and circumstances. Consistency means an acceptable interpretation in every case – it does not mean an identical application and interpretation in each case.

Despite these limitations, the network firms recognize they have a role to play to help avoid differences in how different companies and different teams of auditors in different countries interpret and apply the standards. The practices set out in this report all contribute to enhancing consistency.

### **Policies appropriate to the network's needs**

A key finding from this survey is that different network firms – with different size client-bases and which are at different stages of network development – have differing needs in relation to their processes around IFRS. A firm that has 1000 listed clients using IFRS spread across 70 jurisdictions is clearly in a different position to a firm that has 20 IFRS clients spread across a few jurisdictions.

Hence, network firms with hundreds or thousands of clients using IFRS have a greater need for more formalized policies and processes. For them, without a significant degree of technical infrastructure and sharing of experience, the risks of divergent practices emerging are greater.

This document does not present “one size fits all” solutions. Network firms need to have in place processes to ensure technical quality in relation to IFRS financial statements – but the formality and extent of the processes will be driven by a range of factors: the client base; the culture of the network; and the resources available.

### **Consultation on an international scale**

In today's global environment, under an international reporting framework, it will be comparatively rare that an issue raised in an individual country will have only domestic implications. It is likely that similar issues will have been encountered elsewhere. Therefore, solutions to issues need to be shared and debated at an international level.

The fact that IFRS is new and truly international means that finding answers to some issues takes more time, particularly as the people necessarily involved in interpreting the standards come to the process from a variety of cultural, legal and educational backgrounds. It is no longer realistic/possible for all issues to be raised, discussed and solved entirely within national boundaries.

Some technical answers are therefore taking longer to research, discuss and respond to than the firms would ideally like. But this is a part of the learning process - one that will ease as time progresses and key issues are settled upon.

### **What do we mean by “IFRS” for purposes of this report?**

The activities described in this report do not relate exclusively to how the network firms deal with IFRS as issued by the International Accounting Standards Board (IASB). They also cover the technical functions around those frameworks very close to IFRS. The firms would often tend to view these as a single group of frameworks for the purposes of establishing global policies and functions.

Hence, when used in this report, IFRS might also cover a range of frameworks, including for example:

- IFRS as adopted by the European Union
- Australian GAAP (which incorporates Australian equivalents to IFRS)
- Hong Kong Financial Reporting Standards
- South African GAAP (which closely follows IFRS)

This does not mean that the firms endorse departures from IFRS as issued by the IASB. Ideally, the firms would prefer all countries adopting IFRS to do so without variation. But the firms recognize the practical reality that these limited differences in IFRS frameworks exist.

### **Firm Leadership Responsibility/Direction for IFRS**

Firm leadership responsibility or “tone at the top” is one of the major areas of focus of the recently introduced International Standard on Quality Control-1 (ISQC1) issued by the International Auditing and Assurance Standards Board. Firms have a responsibility to ensure that the appropriate objectives for audit quality are set by the leadership and communicated to the practice.

One aspect on which network firm leadership communicates is to alert personnel in their member firms as to how the firm is organized to deal with IFRS – and the importance the leadership attaches to IFRS. For example, most of the firms interviewed issue regular communications to audit partners covering a range of professional issues, including processes for technical support on IFRS.

The structures around responsibility and direction for IFRS tend to reflect each network firm’s client base and the needs of the firm. Firms with a small IFRS client base tend to have a less formal organizational structure to deal with such matters. Nevertheless, the leadership in firms of all sizes communicates the identity of the IFRS “experts” in the firm and, at a minimum, encourages audit teams to consult with those experts.

### **Providing the infrastructure**

Almost every network firm interviewed has established, with the support of the leadership, some

form of task group or steering committee to oversee the development of IFRS activities and policies.

One smaller network firm has identified “experts” from several countries to form a task force for IFRS matters. The task force is an informal grouping and member firms are encouraged to use it.

For another, larger, network firm, the Policy Board of the international firm has set up an Accounting and Auditing Steering Committee. The Steering Committee acts as an oversight mechanism, while policies and procedures for technical matters are prepared by an IFRS Working Party under the Steering Committee.

In another large network firm, the global assurance leadership has created a Global Accounting Committee to oversee policies which are executed by the Global Chief Accountant, acting through an operational group – Global Accounting Consulting Services. Although an IFRS board had existed in the firm for several years, in 2005 the firm saw the wider use of IFRS and the need for global consistency as an opportunity to overhaul the organization of its accounting consulting activities around the world. A new position in the firm – Global Chief Accountant – was created to implement the necessary management changes and set up the necessary policies and protocols. Part of this overhaul involved formalizing the firm’s approach to client and engagement team technical consultations – the same approach being adopted on a global basis. The Global Accounting Committee, which oversees operational policies, is comprised of a number of senior client partners in addition to the Global Chief Accountant.

### **Organization of the Technical Function**

The structure of the technical function in each network firm tends to be organized around centers of IFRS expertise. Inevitably these tend to be in locations where clients that use IFRS are clustered.

Smaller network firms with fewer IFRS-listed clients tend to have more informal structures in which practitioners are encouraged to use the IFRS experts. In these firms, IFRS questions tend to be routed to either the national or the “global” IFRS contact because the local office may not have the necessary IFRS expertise. For example, one network, with relatively few listed clients, has designated IFRS experts – from France, UK, Netherlands, Germany, and Australia – who comprise its International Task Force. The Task Force is an informal group that members are urged to use. Member firms in each country are urged to use their country expert before addressing the Task Force.

Another network firm has created an IFRS Committee comprised of individuals that have been identified as experts, based on IFRS working experience. These individuals are selected from various countries.

Where the client base is substantial, the structure reflects that. For example, one network firm’s Global IFRS Group comprises eight to nine full time people (including two partners). This group is recognized for its expertise within the firm. In addition, there is an IFRS Policy Committee consisting of twelve individuals who meet five to six times per year for two days each time. The firm does not retain individual specialists in the global group for an indefinite period – it is recognized that capacity resides in the countries and specialists in the global group are “on loan” from their home countries. In addition, each country has a regional or national Professional Practice Director (PPD).

For another large network, partners and professional staff around the world who are expert in IFRS are linked together in a virtual organization. In practice, there are a number of centers of expertise including the UK, Germany, France, Eastern Europe, Australia, Hong Kong/China and the

US. There is a core team at the centre which is based in London – approximately eight partners and twenty professional staff – that performs central roles such as preparing comment letters, developing publications and training material, etc.

### **Topic and industry specialisms**

In the larger network firms, the IFRS technical groups are increasingly focused along topic lines.

In one of the large network firms, technical experts in the virtual organization around the world are brought together in three broad topic teams: financial instruments; business combinations; and revenue, liabilities and other areas. These are supplemented by specialists in valuations, pensions, reporting, etc. This firm also has industry IFRS groups which discuss industry-specific issues and prepare thought leadership and technical literature of interest to clients in the relevant industry sectors.

In another large network firm, the IFRS Policy Committee promotes subject matter groups to develop papers and views on particular topics. Each subject matter group includes an individual from the Policy Committee. This firm also promotes industry groups.

In the smaller network firms, the IFRS technical functions tend to have much less formal designation of topic specialists. That said, some individuals within those functions inevitably develop particular aptitudes for dealing with specialist topics such as pensions or financial instruments, and that specialist resource becomes well known within the firm. One smaller firm is looking to develop teams of specialists.

### **Developing a View on IFRS Issues**

The development of views on IFRS issues has two aspects. First, how the firms arrive at agreed positions in relation to their comment letters to standard setters. Second, how views are developed on more contentious issues that arise in practice.

In the five years since the IASB was established, the large network firms have become adept at submitting a single global comment letter on behalf of the network to the IASB and the International Financial Reporting Interpretations Committee (IFRIC) on each new pronouncement. This does not mean that all practitioners in those networks have the same views on accounting issues. But it does demonstrate that the network firms have processes to generate internal discussion and, after debate, to arrive at a consensus position.

In developing responses to IASB pronouncements, one network firm's IFRS group circulates a request to its professional staff worldwide for comments. Based on this input and previous discussions with the IFRS panel, the IFRS group prepares a draft comment letter for consideration by the IFRS panel. If there are conflicting views, the IFRS group suggests one approach but summarizes other views. Finally, a single comment letter is submitted to the IASB on behalf of the whole network.

Where contentious IFRS application issues are raised by the practice, most firms tend to use a committee or panel process to help resolve those issues. One firm uses its IFRS committee to address contentious matters. Another firm uses a policy committee which is responsible for developing views on client technical matters or comment letters to standard setters. In this firm, client matters go through a technical panel of at least four individuals. The views of the policy committee are communicated to the professional practice directors.

One large network adopts the majority view of seven international “center of excellence” leaders where issues are reviewed and responded to in about three days. Each of the seven center leaders could

individually give a global view, but is expected to consult with each other. To arrive at a binding global position, if all seven center leaders were not previously consulted, a draft position is published and center leaders have seven days to object, with one individual being the ultimate arbiter. National professional practice directors have the power to override the global view in limited circumstances – but the global IFRS leader is always informed in such cases.

A key aspect of these processes is that the network comprises individual firms in each country. Hence, for legal and other reasons, the ultimate responsibility for engagement matters resides with the engagement partner and territory leadership in each country, but informed by consultations with and views from the network.

Where the large firms believe that an issue needs clarification by the standard setters – because the standards are not clear or because they appear to lead to the “wrong” answers, they will raise these issues for consideration by IASB and/or IFRIC.

## Consultation

In all the network firms interviewed, a culture of consultation is considered important and encouraged. In almost every firm there is a process for consultation to cascade upwards from the country level to area or regional cluster and finally to the global level.

One network firm requires that the national expert be consulted before addressing issues to the global team. In another network firm, there is a strong culture of consultation between the national directors of IFRS and the global IFRS group. Conclusions reached by the national directors and the international IFRS group are captured and stored in a shared database of queries that can be accessed by the national bodies. The national groups are the first point of contact for engagement teams with queries.

When issues are precedent-setting, highlight possible inconsistencies within IFRS, or involve disagreements with a non-network firm, then the national group in that firm must consult with the international IFRS group, which also may consult with a topic team network, the IFRS Panel, or both. Each national firm has established a dispute resolution process for when an engagement partner does not agree with the guidance received from a national IFRS group. This varies but may involve a panel of partners who are not involved in the engagement, or review by the head of audit, risk management or territory senior partner. The ultimate decision in relation to any specific engagement issue lies with the engagement partner and the leadership of the individual country firm.

Most firms have not formalized the range of issues on which consultation is required. However, the principal categories of matters on which consultation is sought include:

- New or complex issues
- Issues likely to set a precedent
- High-risk situations
- Differences of opinion with clients/other firms
- Use of the true and fair override
- Situations leading to qualification of audit reports
- Disagreement with a regulator

One firm has gone further and issued a specific list of topics on which consultation is sought, either at national or global level. These include for example:

- Carve-out presentations or combined accounts
- Pro forma presentations under IFRS

## Training

For most network firms, each country tends to set policies for training which allows for language differences and market circumstances. In most firms, training material tends to be developed internally, with limited external involvement. Again, in most firms, some training material is developed at the global level, and supplemented or tailored to meet local needs.

IFRS training is aimed in some network firms at those partners and staff likely to be involved in IFRS engagements. In other firms, some level of IFRS training is provided to all audit or assurance practice staff.

At one network firm, training is provided at three levels:

- Globally developed web-based learning tools at the basic level
- Intermediate-level classroom training
- More advanced topics

This firm is also developing annual update training – which would be conducted over a two-day period on a “train the trainers” basis, and then rolled out nationally.

At another network firm, training is developed and cascaded from the global team as follows:

- Basic e-learning training, with more than thirty modules covering individual standards and topics
- Advanced-level training materials covering more complex topics
- Annual update training – on newly published IFRS, common difficulties, important current topics, etc. This is cascaded by holding “train the trainers” events on a regional basis (in Europe, Asia Pacific, North America, Caribbean and South America). The material is then rolled out to national practices.

All material is developed in-house. The only external help is with the design and programming of e-learning tools.

In this firm, the regional annual update training is based on a series of elective modules. Up to 20 different modules may be offered, each module normally comprising accounting application issues related to a particular standard or area of accounting. This allows countries sending several delegates to these events to attend a range of modules and then be in a position to cascade these in their own countries. It also allows those with topic expertise to further enhance their knowledge.

One network firm uses an external training company to deliver the IFRS training at the regional events around the world. These events are however attended by members of the central team, in order to provide ‘colour’ and context to the training.

## Accreditation of IFRS Experts

Directionally, there is a trend towards ‘accrediting’ individuals in the firm that have the requisite knowledge and experience with IFRS to provide consulting advice, or to be able to review IFRS financial statements.

At present, the accreditation system in most network firms is informal – experts tend to be

identified based on experience – or the decision as to whether to accredit is deferred to the national practice. For example, one network has a broad policy where area practices are responsible for setting accreditation standards. Signing partners, senior managers and partners on large subsidiaries are required to have competence in certain areas but need not have completed required training. Another network firm has an informal licensing system for those who review listed companies.

For firms with a larger team of technicians, the arrangements tend to be more structured. For example, one network requires that all member firms that have individuals who are designated as IFRS reviewers attend local or regional sessions of annual partner update training developed by the IFRS group. Another network firm maintains a list of accredited technical consulting staff – generally, these individuals have to complete both the basic and the advanced IFRS training, and attend annual update courses.

### Review of IFRS Financial Statements

ISQC1 and International Standard on Auditing (ISA) 220, *Quality Control for Audits of Historical Financial Information*, require that audit engagements be subject to appropriate quality control and, in the case of listed entities, reviewed by a quality control reviewer independent of the engagement team (often referred to as “second partner review” or “independent partner review”).

Although most network firms do not at this stage have separate, additional policies for independent review of IFRS financial statements, the trend is towards having more formal arrangements in place for review of higher-risk IFRS financial statements by an expert reviewer.

In one network firm, there is no formal policy, but accounts of listed or public interest entities are reviewed by an IFRS technical reviewer prior to issuance.

Another network firm does not have a central policy for reviews of financial statements beyond the need to follow ISQC1/ISA220. Each firm within this network devises its own review policy. Reviews are conducted at the national level only – there is no cross-border review process, although the US and Canadian firms operate a “gate-keeper” system for foreign filings.

In another network firm, concurring review partners on IFRS-based engagements must be partners designated as IFRS reviewing partners if the client is a listed company or a public interest entity. If the concurring partner is not so accredited, a further partner with IFRS credentials must be added to the team. The national IFRS technical group also performs compliance reviews of the largest clients.

### Support Tools for the Practice and for Clients

As soon as the political decision to adopt IFRS was made several years ago in Europe, the firms have been preparing the market for the change – through publications, training and general awareness building. Over the last five years, one large network firm alone has distributed from its central team 750,000 IFRS publications and practice aids both internally and to clients. Across the firms as a whole, the figure would be several million.

As we moved closer to 2005, the emphasis shifted from general awareness to promoting consistent application of IFRS among clients and internally in the firms.

At a minimum, most network firms use an IFRS disclosure checklist and illustrative financial statements. Often, these are also made available to clients. Larger firms tend to develop these support tools in-house while medium and smaller firms spread development costs by using tools developed by a third-party supplier.

For firms with a large client base, a much larger range of support tools and practice aids are often developed. Examples are shown below:

- Illustrative financial statements for different industry types (e.g., banks, insurance, investment funds)
- Illustrative interim financial statements
- Measurement checklists
- Guides on specific, complex standards (e.g., IAS 29, IAS 39, IFRS 2, and IFRS 3)
- Guides on first-time adoption of IFRS
- IFRS comparison publications (e.g., IFRS vs. US GAAP)
- IFRS accounting manuals, providing detailed commentary on application issues in relation to each standard
- News alerts and updates

Increasingly, firms are making this information available through electronic media rather than solely paper-based publications. For example, one large network firm has made its manual of IFRS application issues available on the Internet. The same firm is also developing webcasts by senior partners of its global IFRS group, as a way of informing partners and staff of new IFRS developments.

A number of the network firms have acquired easy-to-search web addresses and established sites dedicated to IFRS information. These provide news, insight, support tools, publications and helpful links to sites of other organizations.

To support clients' conversion to IFRS, a number of network firms developed extensive methodologies and toolkits to assist with different aspects of first-time adoption – including systems and change-management aspects. Although most large companies in Europe have now passed the transition stage, these tools will still be of assistance to private companies yet to adopt IFRS, and companies in other countries still to make the change. Some of the lessons learned and experience drawn from first-time adoption will also be valuable when companies have to deal with the next “wave” of new IFRS standards, likely to be effective from 2009.

### **Integration of IFRS in Audit Methodology and Quality Review**

For most network firms, their global audit methodology platforms were established before the arrival of IFRS. Hence, firms are incorporating additional procedures related to IFRS into the detailed audit programs in their existing audit methodologies.

For example, in one network, a major project was undertaken in 2004-2005 to provide additional IFRS-specific guidance to supplement the firm's global audit methodology. Linkages are provided from the basic methodology to the additional steps and guidance.

Similarly, most network firms' arrangements to conduct national or global internal quality assurance review programs (“inspection” in ISQC1 terms) pre-dated the widespread use of IFRS. In earlier years, specific IFRS expertise was provided in some firms to assist international quality review teams which may have had to review IFRS engagements. For these engagements, specific questions around IFRS were built into the review checklist or the cross-border quality review process.

However, now that IFRS applies to significant numbers of listed companies, IFRS engagements are likely to figure prominently in any sample of engagements for review. As IFRS becomes widespread in many territories, this specific emphasis is likely to become the norm.

