awp 4.1:

# **ASSESSING THE ACCEPTABILITY OF THE APPLICABLE FINANCIAL REPORTING FRAMEWORK**

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| --- | --- |
| Name of the Entity | XYZ |
| Period of audit | 01.01.20XX to 31.12.20XX |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assessed by | | Signature | Reviewed & agreed by | Signature |
| Name: |  |  |  |  |
| Designation |  |  |
| Date: |  |  |

**Note:** Financial reporting framework established by authorised or recognised organisations promulgating standards are generally presumed to be acceptable (ISSAI 2210.A8). The SAI may skip this assessment when the FRF is IFRS/IPSAS, but the SAI needs to indicate such in the conclusion portion of this working paper.

| **Assessing acceptability of the applicable financial reporting framework** | **Assessment conclusion** |
| --- | --- |
| 1. Is there an applicable financial reporting framework (FRF) adopted by the entity/government?   If yes, indicate the name of the FRF adopted and proceed to following questions. If no, there is no basis for preparation of the financial statements, and as such the auditor/assessor need not proceed with the following questions. | |  |  |  |  | | --- | --- | --- | --- | |  | Yes |  | No |     **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**  **Comments (if any):** |
| 1. What is the basis for preparing the financial statements (FSs)? | |  |  | | --- | --- | |  | Accrual basis | |  | Cash basis | |  | Modified accrual basis | |  | Modified cash basis |   Comments (if any): |
| 1. What is the purpose of the FSs being prepared? | |  |  |  |  | | --- | --- | --- | --- | |  | For general purpose FSs |  | For special purpose FSs |   Comments (if any): |
| 1. Who are the primary users of the FSs? | |  |  | | --- | --- | |  | Legislatures/Parliament | |  | Executive Offices/Government | |  | Regulatory Authorities | |  | Donors/Lenders | |  | Suppliers/Creditors | |  | Others (Specify) |     Comments (if any): |
| 1. Is the FRF a fair presentation framework or a compliance framework? | |  |  |  |  | | --- | --- | --- | --- | |  | Fair presentation framework |  | Compliance framework |   Comments (if any): |
| 1. What do these financial statements consist of? | |  |  | | --- | --- | |  | Statement of Financial Position/Balance Sheet | |  | Statement of Financial Performance/ Income Statement | |  | Statement of Cash Flows | |  | Statement of Changes in Equity | |  | Statement of Cash Receipts & Payments | |  | Statement of Expenditure | |  | Notes to Financial Statements | |  | Others (specify) |   Comments (if any): |
| 1. Does the financial reporting framework used for preparing the financial statements exhibits these attributes? (For description of each attribute, refer to Illustration 4.1 of the Handbook) | |  |  | | --- | --- | |  | Relevance | |  | Completeness | |  | Reliability | |  | Neutrality | |  | Understandability |   Comments (if any): |
| **Overall Conclusion:**  The applicable financial reporting framework exists and is:   |  |  |  |  | | --- | --- | --- | --- | |  | Acceptable |  | Not acceptable |   **Note**. If concluded as not acceptable, the auditor may undertake some of the proposed action given in the guidance below: | |

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| **Risks identified (if any at this level) while assessing the acceptability of financial reporting framework used by the entity in preparing the financial statements that may result in material misstatements:** | |
| **At financial statement level (Trace to** Table A, AWP 5.4) | **At Assertion level, if applicable (**Trace to Table B, AWP 5.4) |
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**(Name of SAI Assessor/ Audit Engagement Supervisor)**

**Date of assessment:**

**Guidance for completing the template on Assessing acceptability of applicable financial reporting framework**

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| Overall Objective of the completing the template | The overall objective of this template is to assess the acceptability of an applicable financial reporting framework as one of the pre-engagement activities. It also provides the auditor in obtaining an understanding of the financial reporting framework used by the entity to prepare the financial statements and helps determine on the wordings of the auditor’s opinion on the financial statements.  One of the preconditions for an audit is to have an acceptable financial reporting framework.  Note: Financial reporting standards established by authorised or recognised organisations promulgating standards are generally presumed to be acceptable (ISSAI 2210.A8). The SAI may skip this assessment when the FRF is IFRS/IPSAS, but the SAI needs to indicate such in the conclusion portion of this working paper. |
| Applicable ISSAIs | ISSAIs 2200, 2210, 2700, 2705, 2706, 2800 |
| Guidance | The auditor can assess the acceptability of the financial reporting framework using a set of suggested questions given above. This can be performed by interviewing key personnel in the entity and through a document review. The conclusion against every question needs to be recorded under the column called Assessment Conclusion. This is an evidence-based assessment, and therefore the auditor or the SAI staff conducting the assessment should maintain supporting documents to support every conclusion.  Considering that similar entities exist across SAIs for conducting financial audits, the acceptability of financial reporting framework can be determined at the SAI level rather than at the level of every audit engagement. The government entities generally use the financial reporting framework issued by the government (specifically issued by the Ministry Finance/Treasury Department) in preparing the financial statements. Therefore, this could be a one-time exercise at the SAI level, rather than for every audit engagement.  The auditor may need to determine the acceptability of financial reporting framework only if the entity considered for auditing is using completely different financial reporting framework, although this could be quite rare.  The auditor can plan and perform the audit if the applicable financial reporting framework exists and is acceptable.  If deemed unacceptable, the auditor may undertake the following;   1. Ask management of the entity to prepare additional disclosures. 2. If additional disclosures are presented, add an Emphasis of Matter paragraph in the auditor’s report. 3. If management refuses to present additional disclosures, consider a modified opinion (a disclaimer of opinion) explaining the misleading nature of the financial statements. 4. Consider informing the legislature and standard setting bodies about the unacceptability of the FRF.   The auditor while assessing the acceptability of the financial reporting framework in preparing the financial statements could also identify the risks that may result in material misstatements at both financial statement level and at the assertion level. The risks may exist in both the situations where the FRF used in preparing the financial statement is either acceptable or not acceptable. Those risks can be recorded in the Table given above and can be traced to AWP 5.4 Risk Register. |
| Overall Conclusion | Based on the conclusion or factual information arrived against every question in an assessment, the auditor or the assessor from the SAI needs to record an overall conclusion. The overall conclusion could be that the financial reporting framework used in preparing the financial statement is either acceptable OR not acceptable. |
| Recording the evidence of assessor and reviewer | The table indicating the details of the assessor and reviewer needs to be completed at the end. This is to ensure that there was independent check and balance in the audit engagement team, and that this was completed before commencement of planning the audit. As mentioned above, this exercise could be carried out at the SAI level for all entities using same financial reporting framework, and not necessarily for every audit engagement.  In this case, the assessor is usually the audit team member or team leader while the reviewer who signs off the assessment is the audit engagement supervisor if the assessment was carried out at the audit engagement level. However, it would depend on the SAI management or the leadership how these responsibilities can be delegated if the assessment was initiated at the SAI level. This assessment needs to be signed off by both the assessor and the reviewer. |