

## **Analysis of comments**

### **Applicable Financial Reporting Framework**

ISA 700.7 states that the auditor's judgment regarding whether the financial statements give a true and fair view/present fairly is made in the context of the applicable financial reporting framework. ISA 700.37 also requires the auditor to identify the applicable financial reporting framework in the opinion paragraph of the report. ISA 200 describes what constitutes an applicable financial reporting framework and ISA 210 gives guidance on factors relating to the financial reporting framework that the auditor considers when accepting an audit engagement. The key principle in ISA 210 is that the auditor cannot accept an audit engagement when s/he concludes that the financial reporting framework identified by management is not acceptable. Without an acceptable framework the auditor does not have suitable criteria for evaluating the entity's financial statements.

The following letters commented on the applicable financial reporting framework: ACAG; BASEL; BDO; CICA; CPAI; FAR; FEE; GT; HKSA; ICAI; ICAP; IDW; IOSCO; KPMG; PAAB and PwC.

Most of the comments revolved around a key issue that IAASB grappled with:

- The extent to which the auditor should be required to assess the acceptability of the financial reporting framework adopted by management.

Other comments related to the following:

- Clarity of ¶200.42, which discusses regulatory requirements that supplement the applicable financial reporting framework
- Practicality of the requirement not to accept an audit unless the financial reporting framework is acceptable;
- Location of guidance on an applicable financial reporting framework; and
- Additional comments to improve consistency of guidance.

## **Material presented**

This agenda paper presents the following:

- A summary of the comments raised by issue and task force recommendations on how the issue should be addressed; and
- A mark-up of the relevant paragraphs with the proposed wording changes.

## Summary of comments raised by issue and task force recommendations

### **The extent to which the auditor should be required to assess the acceptability of the financial reporting framework adopted by management**

The exposure draft required the auditor to determine whether the financial reporting framework identified by management is acceptable. Existing ISA 700 had virtually no guidance in this area.

The objective of IAASB in developing guidance was to narrow the range of practice in jurisdictions that have no requirement to adopt an identified financial reporting framework.

For general purpose financial statements, the ED permitted the auditor to presume the acceptability of frameworks established by international or national standards setting organizations authorized or recognized to promulgate standards provided they followed an established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders. The exposure draft did not put the onus on auditors to assess the acceptability of such frameworks or to compare them with IFRS or IPSAS. For other frameworks, it provided criteria (based on the assurance framework) for the auditor to use in assessing their acceptability. It also suggested that the auditor compare these other frameworks to the requirements of frameworks established by recognized standards setters such as IFRS. The ED did not permit the auditor to accept audit engagements when s/he concluded that the financial reporting framework identified by management was not acceptable.

In determining the extent to which the auditor should be required to assess acceptability, the IAASB concluded that the ED provided sufficient protection to the public by:

- narrowing the range of acceptable frameworks to those established by authorized standards setters;
- preventing the auditor from accepting engagements with unacceptable frameworks; and
- requiring the auditor to identify the country of origin of standards in the report.

IAASB concluded it was not necessary for the auditor to assess the suitability of frameworks established by authorized standards setters or to consider whether one framework was more appropriate than another when the entity had a choice. Further, the IAASB concluded it was not necessary for the report to highlight the fact that a particular framework differed from IFRS for the benefit of international users who were not familiar with the domestic standards used to prepare the financial statements.

Some respondents (BASEL, GT, IDW, KPMG) questioned why the presumption in ¶200.41 that frameworks established by recognized standards setters are acceptable did not also apply to frameworks identified/established by government authorities.

These respondents were concerned that the focus on organizations that are authorized or recognized to promulgate standards and that follow an established due process is too limiting because it does not give recognition to government bodies that have the legal authority to set standards but that don't

necessarily follow due process. KPMG added that this approach may put auditors in a difficult position when they have a statutory obligation to report on statements prepared in accordance with regulatory requirements and by virtue of ISA 210.12 are not permitted to accept the engagement because the requirements are not considered to be suitable criteria.

IDW and GT suggested that ¶200.41 be expanded to state that frameworks established by government authorities by means of laws or regulation are presumed to be acceptable. KPMG had the same suggestion, however, they also recommended that the auditor be permitted to highlight deficiencies with the framework in an emphasis of matter paragraph.

BASEL suggested that a national financial reporting framework approved in a democratic process by a legislature (Parliament or Government) should qualify as an acceptable financial reporting framework under ISA 200. BASEL also suggested that the phrase *“deliberation and exposure of proposal for comment to a wide range of stakeholders”* be deleted to avoid the possibility of some recognized national frameworks being deemed to be unacceptable.

IOSCO voiced the same concern. IOSCO wanted the type of frameworks that are presumed to be acceptable changed to those frameworks that are authorized and accepted by securities regulators having responsibility for oversight and investor protection, irrespective of how those standards are actually set. They also wanted the ISA to provide guidance to the auditor when a choice of framework is allowed by the jurisdiction and when there are doubts about the suitability of a framework because the framework is not of a quality that is acceptable for cross border usage.

While the HKSA did not phrase their concern in the same way as IOSCO, they questioned whether “acceptable” is the right benchmark. They were concerned that acceptable is a very low threshold which is only above unacceptable. They recommended that the test be an “appropriate” financial reporting framework.

## DISCUSSION

The Task Force considered whether it should expand ¶200.41 to include frameworks identified in legislation or regulation. Some Task Force members felt that there is no need to make this change because legislative requirements are already addressed in ISA 800. Others felt that ISA 800 only addresses financial statements prepared to meet the information needs of regulators, not general purpose financial statements.

Given this, the Task Force considered whether it should recommend the following change to ISA 800.9 *“Examples of financial reporting frameworks that are designed to address the needs of specific users include: ...The financial reporting provisions of a government regulatory agency ~~for a set of financial statements prepared for regulatory purposes.~~”* This would result in having ISA 800 address all financial statements that are prepared to meet the requirements of a government regulatory agency. After some discussion, the Task Force decided there would be no advantage to doing this. It would be simpler to have ISA 800 address financial information prepared to meet the needs of a regulatory agency and ISA 700 to address general purpose financial statements prepared by reference to a framework stipulated by a regulatory agency.

The Task Force also considered whether it should further expand ¶200.41 to include all frameworks established by authorized standards setters along the lines suggested by BASEL (provided gone through a democratic process by a legislature) and by IOSCO (provided they have been accepted by securities regulators having responsibility for oversight and investor protection). The Task Force concluded that it was important to retain the need for authorized standards setters to follow an open and public process since this consideration would be relevant in jurisdictions that do not have a requirement to adopt an identified framework. However, the Task Force concluded that the reference to “international or national standards setting organizations” in ¶200.41 should be deleted to recognize organizations that have the authority to promulgate standards but aren't necessarily international or national organizations.

The Task Force also considered whether it should expand the requirement in ISA 200.37 as suggested by IOSCO:

**The auditor should determine whether the financial reporting framework identified by management is acceptable in the case where the legal framework in the jurisdiction provides for the possibility to choose between different financial reporting frameworks, as well as when the legal framework in a jurisdiction does not specify any financial reporting framework. In the case where a jurisdiction has an established framework developed and issued by a national standards setter, the auditor would ordinarily presume such a framework to be suitable, unless it appears that application of the framework would produce results that are misleading to investors.**

The Task Force did not agree with the proposed wording change since it would expand the auditor's responsibilities in a manner that IAASB concluded was not necessary in view of the other factors built into the ED, i.e., narrowing the range of acceptable frameworks to those established by authorized standards setters; preventing the auditor from accepting engagements with unacceptable frameworks; and requiring the auditor to identify the country of origin of standards in the report.

### **Task Force Recommendations**

The Task Force recommends that IAASB consider:

- expanding the description of financial reporting frameworks that are presumed to be acceptable for general purpose financial statements in ¶200.41 to include frameworks identified in legislative and regulatory requirements governing the preparation of general purpose financial statements;
- deleting the reference to international or national standards setting organizations in ¶200.41 so as to include organizations that have the authority to promulgate standards but aren't necessarily international or national organizations;
- retaining the need for authorized standards setters to follow an open and public process;
- not expanding ¶200.37 as suggested above.

**Clarity of ¶200.42, which discusses regulatory requirements that supplement the applicable financial reporting framework.**

CICA commented that an applicable financial reporting framework cannot encompass both the identified financial reporting framework established by international or national standards setting organizations (such as IFRSs) and additional legislative and regulatory requirements. When the additional legislative and regulatory requirements do not conflict with IFRS, the financial reporting framework continues to be IFRSs. [This will depend on local requirements.] When legislative requirements conflict with IFRS, this would not be an acceptable financial reporting framework. The auditor's report should distinguish between these two situations.

IOSCO commented that there is scope for confusion as to when national legal requirements should be deemed to form part of the financial reporting framework and when they should instead be categorised as "other reporting responsibilities".

**Task Force Recommendations**

The Task Force recommends that IAASB revise ¶200.42 to clarify:

- what is meant by additional requirements that do not conflict with the applicable framework;
- the auditor's responsibilities when additional requirements do conflict with the applicable financial reporting framework.

The Task Force disagrees that there is scope for confusion between other reporting responsibilities and national requirements that form part of the financial reporting framework since the former impacts the auditor and the latter impacts the statements.

**Assessing the acceptability of financial reporting frameworks adopted by management in the absence of a requirement to adopt established standards**

IDW and GT expressed concern that the requirement for the auditor to consider whether the financial reporting framework identified by management is appropriate by comparing it to suitable criteria could be quite onerous for auditors. Both felt this could be better addressed by requiring the auditor to compare the framework chosen by management with other frameworks that are known and acceptable.

CICA, on the other hand, suggested that undertaking a comparison to other frameworks is redundant in view of the suitability criteria provided.

BASEL concluded that the meaning of "significant differences" between the framework identified by management and the national standards was too vague and open to interpretation. Further, BASEL

recommended that the description of characteristics of suitable criteria be reconsidered by IAASB over concern that frameworks established by some leading national standard-setting bodies or by certain national laws may not fully meet all the stated criteria.

PAAB recommended that the acceptability of a framework be defined in narrower terms.

“We understand that the intention is to widen the financial reporting framework which the auditor may regard as acceptable. We also believe that the criteria will assist the auditor in arriving at a decision as to acceptability of a reporting framework but that the paragraph could be interpreted too widely, thus allowing preparers to adopt reporting frameworks which might not result in fair presentation but has become ‘acceptable’ due to its application in practice.”

PwC had a concern with the second sentence in ¶44 *‘The entity’s choice is governed by local practice, industry practice, user needs, or other factors.’* They felt the sentence gives management too much choice and may undermine attempts to promote consistency.

ACAG thought that the criteria should include comparability and timeliness.

### **Task Force Recommendations**

The Task Force recommends that IAASB retain and improve the criteria for assessing the acceptability of accounting conventions in a particular jurisdiction because such criteria are consistent with the Assurance Framework and IAS 1.

The Task Force also recommends that the criteria be presented as one of two ways of assessing acceptability. The other way is by comparing the accounting conventions to recognized frameworks.

### **Practicality of requirement not to accept audit unless the financial reporting framework is acceptable**

ICAP recommended that the requirement for an auditor not to accept an engagement for an audit of financial statements when the auditor concludes that the financial reporting framework identified by management is not acceptable be deferred until separate standards on SMEs are developed and issued. ICAP expressed concern that without such standards complying with the above requirement would not be practically possible

PwC, LSCA noted that greater clarity is needed as to when the auditor should *not* accept the engagement. For example, the guidance in paragraph 12 states that if the auditor concludes that the financial reporting framework is not acceptable, the engagement should not be accepted but the following paragraph does not support this contention because it suggests that in such circumstances, the auditor should *discuss* the deficiencies with management and the need for management to adopt a more suitable framework..

BDO questioned how an auditor could consider whether the financial reporting framework is clearly described in the financial statements before accepting the engagement given that there are no financial statements at the engagement acceptance stage.

### **Task Force Recommendation**

The Task Force recommends that IAASB consider wording changes in ¶ 200.44 that make the guidance relevant to small entities and that address the PwC, LSCA and BDO concerns.

### **Structural location of guidance on an applicable financial reporting framework**

IDW, PAAB, GT, ICAI commented on the repetition between ISA 200 and 210 and suggested that the guidance be included in only one section with an appropriate cross-reference in the other section. There were, however, different views as to which section should actually contain the guidance.

#### **DISCUSSION**

The Task Force agreed with respondents who pointed out that the material is repetitive. The Task Force considered whether the guidance should be moved to ISA 200 or ISA 210. It was decided to move it to ISA 200 because it is the umbrella standard. ISA 210 contains a reference to ISA 200.

### **Task Force Recommendation**

The Task Force recommends that IAASB consider the changes to ISA 200 and 210, intended to eliminate duplication of guidance.

### **Additional comments to improve internal consistency of guidance**

- PwC recommended that the guidance in ISA 200 and 210 would be better supported by including a definition of “financial reporting framework” in the standard. – *Task Force did not adopt this recommendation. Proposed definition complex, did not increase understanding.*
- FAR, FEE, IRE commented that ¶ 210.17 (now 200.46a) should refer to whether the financial reporting framework is acceptable as opposed to suitable. – *Mark up reflects recommendation.*
- ACAG, BASEL, BDO recommended that 200.47 refer to ISA 701 as well as 700. – *Mark up reflects recommendation.*
- IDW suggested numerous editorial comments. – *Mark up reflects many of these comments.*
- PAAB and ICPA recommended the standard recognize that the financial reporting framework in most jurisdictions is not normally “identified” by management but instead determined by legislation. IDW, on the other hand, pointed out that an applicable framework is not just merely

identified by management but also applied by management. – *Mark up now refers to financial reporting framework “adopted” by management.*



## Proposed wording changes

### Extract from ISA 700

#### *Applicable Financial Reporting Framework*

7. The auditor's judgment regarding whether the financial statements give a true and fair view of (or are presented fairly, in all material respects) is made in the context of the applicable financial reporting framework. As discussed in ISA 210, "Terms of Audit Engagements," without an acceptable framework, the auditor does not have suitable criteria for evaluating the entity's financial statements. ISA 200 describes what constitutes an applicable financial reporting framework for general purpose financial statements.

### Extract from ISA 200

#### Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements. It also describes management's responsibility for the preparation and the fair presentation of the financial statements and for identifying the financial reporting framework to be used in preparing the financial statements, referred to in the ISAs as the "applicable financial reporting framework."

#### Objective of an Audit

2. **The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.**
3. An audit of financial statements is an assurance engagement, as defined in the International Framework for Assurance Engagements. ~~An "assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the evaluation or measurement of a subject matter against criteria. As discussed in the Framework, a~~ Two conditions for acceptance of an assurance engagement are is that the subject matter of the engagement is appropriate and that the criteria referred to be used in assessing the subject matter are in the definition be suitable criteria and available to intended users. The financial statements are the subject matter of an assurance engagement involving an audit of financial statements. Paragraphs 34 to 35 in this ISA discuss the meaning of the term "financial statements" and management's responsibility for such statements. Paragraphs 36 to 46 discuss suitable criteria and its availability to intended users for an audit of financial statements through the auditor's consideration of the acceptability of the applicable financial reporting framework. This is further discussed in this ISA under Applicable Financial Reporting Framework in paragraphs 36-46.

#### **Determining the Acceptability of the Applicable Financial Reporting Framework**

36. ~~An~~ The applicable financial reporting framework is a the financial reporting framework identified-adopted by management in preparing the financial statements. that is acceptable in

~~view of the nature of the entity (for example, whether it is a business enterprise or a not for profit organization) and the objective of the financial statements.~~

37. **The auditor should determine whether the financial reporting framework identified adopted by management in preparing the financial statements is acceptable.**
38. The auditor determines whether the financial reporting framework adopted by management in preparing the financial statements is acceptable in view of the nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not for profit organization) and the objective of the financial statements. In some cases, the objective of the financial statements will be to meet the financial information needs of specific users. The information needs of such users will determine the applicable financial reporting framework in these circumstances. Examples of financial reporting frameworks that address the needs of specific users are: a tax basis of accounting for a set of financial statements that accompany an entity's tax return; the financial reporting provisions of a government regulatory agency for a set of financial statements to meet the information needs of that agency; or a financial reporting framework established by the provisions of an agreement specifying the financial statements to be prepared. ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements" establishes standards and provides guidance on financial statements whose objective is to meet the financial information needs of specific users.
39. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared in accordance with a financial reporting framework ~~that are~~ is designed to meet the common information needs of a wide range of users are referred to as "general purpose financial statements."
40. ~~Management may prepare more than one set of financial statements to meet the needs of different users.~~
41. Financial reporting frameworks identified in legislative and regulatory requirements governing the preparation of general purpose financial statements are presumed to be acceptable for general purpose financial statements. Financial reporting frameworks established by ~~international or national standards setting~~ organizations that are authorized or recognized to promulgate standards to be used by certain types of entities are also presumed to be acceptable for general purpose financial statements prepared by such entities provided the standards ~~setting organizations follow an established process~~ are developed through an open, public process involving deliberation and exposure of proposals for comment to a wide range of stakeholders. Examples of such financial reporting frameworks include:
- International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board;
  - International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants – Public Sector Committee;
  - ~~Generally accepted a~~ Accounting principles promulgated by a recognized standards setter in a particular jurisdiction.

~~These financial reporting frameworks are often identified as the applicable financial reporting framework in legislative and regulatory requirements governing the preparation of financial statements.~~

42. In some jurisdictions, legislative and regulatory requirements ~~also~~ may supplement the identified applicable financial reporting framework with additional requirements relating to the preparation and presentation of financial statements. In these jurisdictions, the applicable financial reporting framework encompasses ~~both the identified financial reporting framework and such additional requirements provided they do not conflict with the applicable financial reporting framework.~~ This may, for example, be the case when additional requirements prescribe disclosures in addition to those required by the identified financial reporting framework or when they narrow the range of acceptable choices that can be made within the identified financial reporting framework. If the additional requirements conflict with the applicable financial reporting framework, the auditor discusses the nature of the requirements with management and whether they can be addressed in the notes to the financial statements as supplementary disclosures. Alternatively, the auditor considers whether it is necessary to modify the report, see ISA 701, “Modifications to the Auditor’s Report”.
43. The requirements of the financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements. For certain financial reporting frameworks, a single financial statement such as a cash flow statement and the related explanatory notes constitutes a complete set of financial statements. For example, IPSAS state that the primary financial statement is the cash flow statement when the cash basis of accounting underlies the preparation of the financial statements.<sup>1</sup> Financial statements prepared by reference to IFRS, on the other hand, are intended to provide information about the financial position, performance and cash flows of an entity. A complete set of financial statements under IFRS includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes.
44. When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized ~~national~~ standards setting organization, the entity identifies an applicable financial reporting framework. ~~The entity’s choice is governed by local practice, industry practice, user needs, or other factors.~~ Practice in such jurisdictions is often to use a financial reporting framework established by one of the ~~international or national~~ standards setting organizations described in paragraph 41. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the applicable financial reporting framework for the general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is ~~chosen~~ adopted by the entity, the auditor ~~considers whether the financial reporting framework is in fact acceptable~~ determines whether the accounting conventions collectively constitute an acceptable financial reporting framework for general purpose financial statements. The auditor makes this determination by considering whether it is clearly described in the financial statements and whether it ~~the accounting conventions exhibits the following~~ the characteristics of an normally

<sup>1</sup> See paragraph 9, of the “Preface to International Public Sector Accounting Standards.”

exhibited by acceptable financial reporting frameworks established by authorized or recognized standards setting organizations or by comparing the accounting conventions to the requirements of an existing framework established by such an organization. ~~suitable criteria~~

44a. Acceptable financial reporting frameworks for general purpose financial statements established by authorized or recognized standards setting organizations normally exhibit the following characteristics:

- (a) Relevant to the nature of the entity and the objective of the financial statements. (For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting fairly the financial position, financial performance and cash flows of the business enterprise.)
- (b) Complete in that transactions and events, account balances and disclosures that could affect the fair presentation of the financial statements are not omitted.
- (c) Reliable in that it:
  - (i) Reflects the economic substance of events and transactions and not merely their legal form; and
  - (ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances;
- (e) Neutral in that it is free from bias; and
- (f) Understandable in that it is clear and comprehensive and not subject to significantly different interpretation.

45. A conglomeration of accounting conventions devised to suit individual preferences is not a ~~suitable~~ an acceptable financial reporting framework for financial statements intended to address the common information needs of a wide range of users.

46. ~~The~~ Two additional characteristics of acceptable financial reporting frameworks are comparability and timeliness. Comparability relates to the measurement and presentation of like transactions or events in a consistent manner in a particular period and over time. An important implication of comparability is disclosure of description of the financial reporting framework in the financial statements includes information about the basis of presentation preparation of the financial statements and the accounting policies selected and applied for significant transactions and other significant events. Timeliness relates to when the information is made available to users and weighing the need to increase the relevance of information by providing it on a timely basis without sacrificing its reliability.

46a. The auditor may decide to compare the accounting conventions to the requirements of an existing framework established by an authorized or recognized standards setting organization such as, for example, IFRS promulgated by the International Accounting Standards Board. For small entities, the auditor may decide to compare them to financial reporting frameworks specifically developed for such entities. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted by management constitute an acceptable financial reporting framework includes consideration of

the reasons for the differences and whether application of the accounting conventions could result in financial statements that are misleading.

Extract from ISA 210

### **Agreement on the Applicable Financial Reporting Framework**

10. **The terms of the engagement should identify the applicable financial reporting framework.**
11. As stated in ISA 200, “Objective and General Principles Governing an Audit of Financial Statements,” the acceptability of the applicable financial reporting framework adopted by management in preparing the financial statements will depend on the nature of the entity and on the objective of the financial statements. In some cases, the objective of the financial statements will be to meet the common information needs of a wide range of users; in others, to meet the needs of specific users.
- ~~12. **The auditor should not accept an engagement for an audit of financial statements when the auditor concludes that the financial reporting framework identified by management is not acceptable.**~~
13. Without an acceptable financial reporting framework management has no basis for preparing the financial statements and the auditor does not have suitable criteria for evaluating the entity’s financial statements. In these circumstances, the auditor encourages management to address the deficiencies in the financial reporting framework or to identify–adopt another financial reporting framework that is acceptable. ISA 200.37 to 46a describes the factors the auditor considers in determining whether the financial reporting framework adopted by management is acceptable.
14. ~~ISA 200 describes the financial reporting frameworks that are presumed to be acceptable for general purpose financial statements. Legislative and regulatory requirements often identify the applicable financial reporting framework for general purpose financial statements. In most cases, the applicable financial reporting framework will be established by a national standards setting organization that is authorized or recognized to promulgate standards in the jurisdiction in which the entity is registered or operates. In such cases, the auditor and the entity will have a common understanding of the applicable financial reporting framework.~~
- ~~14a. **The auditor should accept an engagement for an audit of financial statements only when the auditor concludes that the financial reporting framework identified adopted by management is acceptable.**~~
15. ~~When the reporting entity is registered or operating in a jurisdiction that does not have an authorized or recognized national standards setting organization, the entity identifies a financial reporting framework that is acceptable for the nature of the entity and the objective of the financial statements. The entity’s choice is governed by local practice, industry practice, user needs, or other factors. For example, the entity’s competitors may apply International Financial Reporting Standards (IFRS) and the entity may determine that IFRS are also appropriate for its financial reporting requirements. In these cases, the auditor obtains an understanding of the matters considered by the entity in identifying an applicable financial reporting framework.~~

16. ~~When the financial reporting framework identified used by the entity is not established by an authorized or recognized international or national standards setting organization, the auditor considers whether the financial reporting framework is acceptable by considering whether it is clearly described in the financial statements and whether it exhibits the characteristics of suitable criteria as described in ISA 200.~~
17. ~~The auditor may also decide to compare the framework to the requirements of frameworks established by authorized or recognized international or national standards setting organizations such as, for example, IFRS promulgated by the International Accounting Standards Board. When the auditor makes such a comparison and significant differences are identified, the decision as to whether the financial reporting framework is suitable includes consideration of the reasons for the differences and whether application of the framework will likely result in financial statements that are misleading.~~
18. When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an authorized or recognized regulatory body or international or national standards setting organization, the auditor may encounter deficiencies in that framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable for general purpose financial statements. In these circumstances, the auditor discusses the deficiencies with management and the ways in which such deficiencies may be addressed. If the deficiencies result in financial statements that are misleading and there is agreement that and the need for management will to adopt another financial reporting framework that is acceptable suitable then, as discussed in paragraph 20, the auditor ~~also~~ refers to the change in the financial reporting framework in a new engagement letter. If management refuses to adopt another financial reporting framework, the auditor considers the impact of the deficiencies on the auditor's report, see ISA 701, "Modifications to the Auditor's Report".