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PROFESSIONAL PRACTICE GUIDE

# Implementing IFRS 18

## Presentation of Financial Performance, linked to the Global Internal Audit Standards

A practitioner's guide to IFRS 18 — Presentation and Disclosures in Financial Statements

with reference to the relevant Global Internal Audit Standards **(GIAS 2024)**

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| **Document type** | Professional practice guide |
| **Domain** | Financial reporting, internal audit and risk management |
| **Version** | First edition — 1.0 |
| **Language** | English |
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| **Classification** | Public |

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# Preface: Purpose and Scope of this Guide

IFRS 18 is not a cosmetic update to the way financial statements are presented; it is a reframing of how an entity tells the story of its performance. Issued by the International Accounting Standards Board on 9 April 2024, the standard replaces IAS 1 and addresses a long-standing complaint among investors and analysts: that the statement of profit or loss lacked a common structure permitting comparison between entities, and that the measures management showcases outside the financial statements were too often presented without discipline or a clear reconciliation to the audited figures.

The purpose of this guide is, above all, practical. It offers a focused reading of what the standard actually requires, then turns to what matters specifically to the internal auditor: where the risks lie, which controls are expected to exist, and how to build a readiness review that aligns with the Global Internal Audit Standards (GIAS) issued by the Institute of Internal Auditors. The central message the guide repeats is that the standard does not change net profit, but it does change the path that leads to it, and that change in the route is precisely what calls for the auditor's vigilance.

**Key idea:** IFRS 18 preserves the recognition and measurement requirements and leaves net profit unchanged, yet it imposes a new structure on the statement of profit or loss and, for the first time, brings management-defined performance measures within the scope of structured disclosure and audit.

# Section 1: The General Framework of the Standard

## 1.1 Background and Scope

IFRS 18 emerged from the Board's Primary Financial Statements project, a multi-year effort responding to the market's need for greater transparency and wider comparability. The standard applies to all entities that prepare their financial statements under IFRS, regardless of sector or size. Its impact, however, varies with the nature of the business; banks, insurers, and entities that invest in assets or provide financing to customers will feel a deeper change in classification than a conventional industrial or service entity.

It is important for the auditor to appreciate that the scope of the change is confined to presentation, disclosure, and the structure of the statement; it does not extend to the timing of revenue recognition or the measurement of assets and liabilities. Certain paragraphs that previously sat within IAS 1 have been relocated to IAS 8 and to IFRS 7 on disclosures, which means that the map of authoritative references has itself changed, and that, in its own right, is an item worth verifying when the entity updates its accounting policy manuals.

## 1.2 Effective Date and Transition Mechanics

The standard is effective for annual periods beginning on or after 1 January 2027, including interim periods within the first year of application, with early application permitted provided it is disclosed. The standard is applied retrospectively in accordance with IAS 8, as though it had always been applied, with restatement of the comparative period. The Board granted relief from certain quantitative disclosures required by paragraph 28(f) of IAS 8 in order to ease the burden of transition.

The point that must not escape the auditor is that the entity is required to disclose a reconciliation showing how each line item moved from its previous presentation under IAS 1 to its new classification under IFRS 18 for the comparative period. This reconciliation is the pivot of the first-year review, because it reveals the quality of the mapping between the old chart of accounts and the new categories, and shows whether the classification judgements were applied consistently across the two periods.

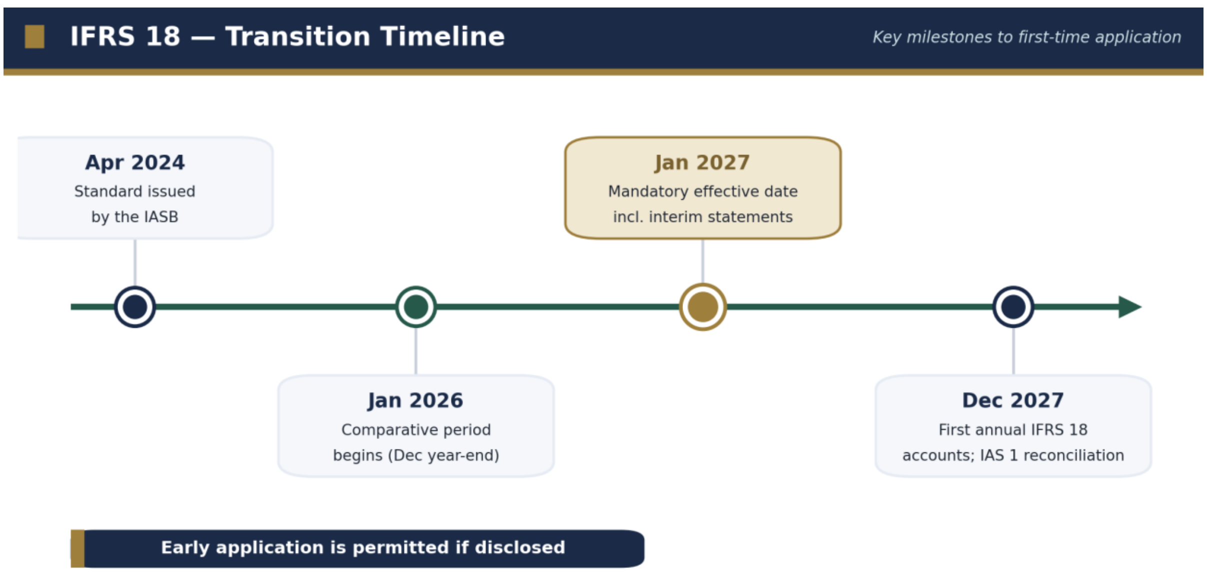


*Figure 2:* *Transition timeline and key milestones for the standard*

## 1.3 What Changed Compared with IAS 1

The essence of the transformation can be summarised in three interlocking shifts. The first is that the statement of profit or loss is no longer left to each entity's discretion in ordering its line items; it is now governed by mandatory categories and subtotals that enable comparison. The second is that the measures management promotes for its performance, which used to live outside the scope of audit, now sit at the heart of the disclosures subject to review. The third is that the standard has set out a clearer logic for distinguishing what is presented on the face of the statements from what is disclosed in the notes, through the principles of aggregation and disaggregation.

These three shifts are what the standard calls its pillars. Because understanding them is a precondition for any effective review, the next section is devoted to them, after we present them in summary form in the figure below.

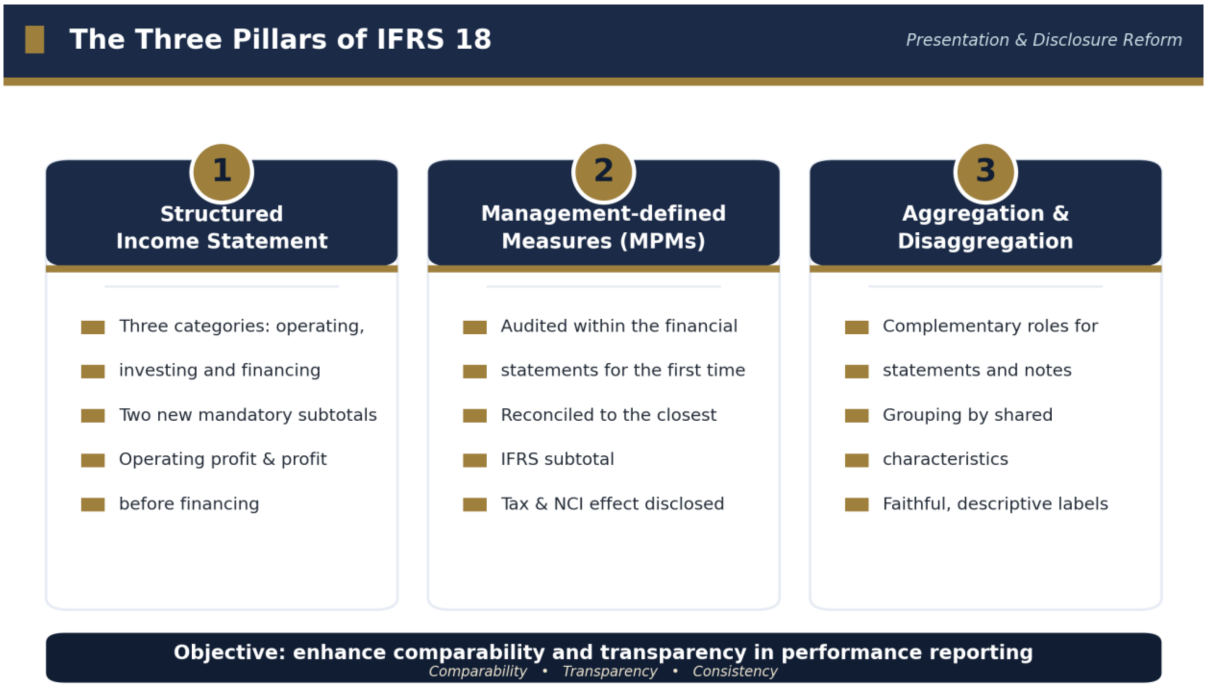


***Figure 1:*** *The three pillars on which the standard rests*

# Section 2: The Three Pillars of the Standard

## 2.1 The New Categories and Mandatory Subtotals

The standard requires income and expenses to be classified into five categories: operating, investing, financing, income taxes, and discontinued operations. The first three categories are new, and the operating category is the residual or default category that absorbs everything not belonging to the other two, including volatile or unusual items. On this basis the standard introduces two mandatory subtotals, namely “operating profit” and “profit before financing and income taxes,” in addition to profit for the period, which remains unchanged.

The practical effect of this arrangement is that, for the first time, the reader can read an operating profit defined in a uniform manner across entities, rather than a measure each management shapes as it pleases. From an audit perspective, the correctness of these two subtotals depends entirely on the accuracy with which the items feeding them are classified, which makes classification testing the core of the field work in this engagement.


*Figure 3: The new structure of the statement of profit or loss and the mandatory subtotals*

## 2.2 Specified Main Business Activities

The standard introduces a precise concept that may change the face of the income statement for certain sectors: that of specified main business activities. Where an entity's main business activity is investing in assets or providing financing to customers, certain items that would ordinarily be presented within investing or financing are reclassified into operating. This assessment is a matter of both fact and judgement, and one of its clearest indicators is the entity's use of a subtotal akin to gross profit as a measure of its performance.

There are exceptions the auditor must keep in mind. Equity-accounted investments, namely associates and joint ventures, are always classified within the investing category, even where investing is a main activity. Likewise, insurance finance income and expenses under IFRS 17, and issued investment contracts with participation features under IFRS 9, are always classified within operating. Goodwill, for its part, is presented as a separate line item. To bring the picture closer, the table below summarises examples of classification by the nature of the entity.

| Type of activity / entity | Relevant example items | Required classification under the standard |
|---|---|---|
| **Conventional industrial or service entity** | Interest income on surplus deposits; gains on incidental disposals of investments | Presented within investing; the operating category is kept for the core activity |
| **Bank or financing institution (financing is a main activity)** | Interest on loans granted to customers; returns on the credit portfolio | Reclassified into operating, as it is the substance of the activity |
| **Real-estate investment entity (investing is a main activity)** | Rental income; fair-value changes on investment property | Presented within operating, as the main activity |
| **Insurance entity** | Insurance finance income and expenses under IFRS 17 | Always classified within operating by the text of the standard |
| **Any entity holding associates** | The entity's share of profit or loss of associates | Always classified within investing, without exception |

*Table 1: Indicative examples of item classification by nature of activity*

## 2.3 Management-defined Performance Measures (MPMs)

The second pillar is the one of greatest interest to the auditor, because it moves measures that were voluntary into the orbit of mandatory disclosure and audit. The standard defines a management-defined performance measure as a subtotal of income and expenses that is used in public communications outside the financial statements, reflects management's view of the performance of the entity as a whole, and is not one of the subtotals already specified by IFRS. Where these conditions are met together, the measure becomes subject to rigorous disclosures.

It should be noted that public communications in this context include management commentary, press releases, and investor presentations, but exclude oral statements, transcripts of oral statements, and posts on social media. Where the conditions are met, the entity is required to provide three disclosures: a reconciliation of the measure to the most directly comparable subtotal or total specified by IFRS; a description of the measure, how it is calculated, and why it provides useful information to users; and a statement of the income-tax effect and the effect on non-controlling interests for each reconciling item. The figure below summarises the decision logic for these measures.

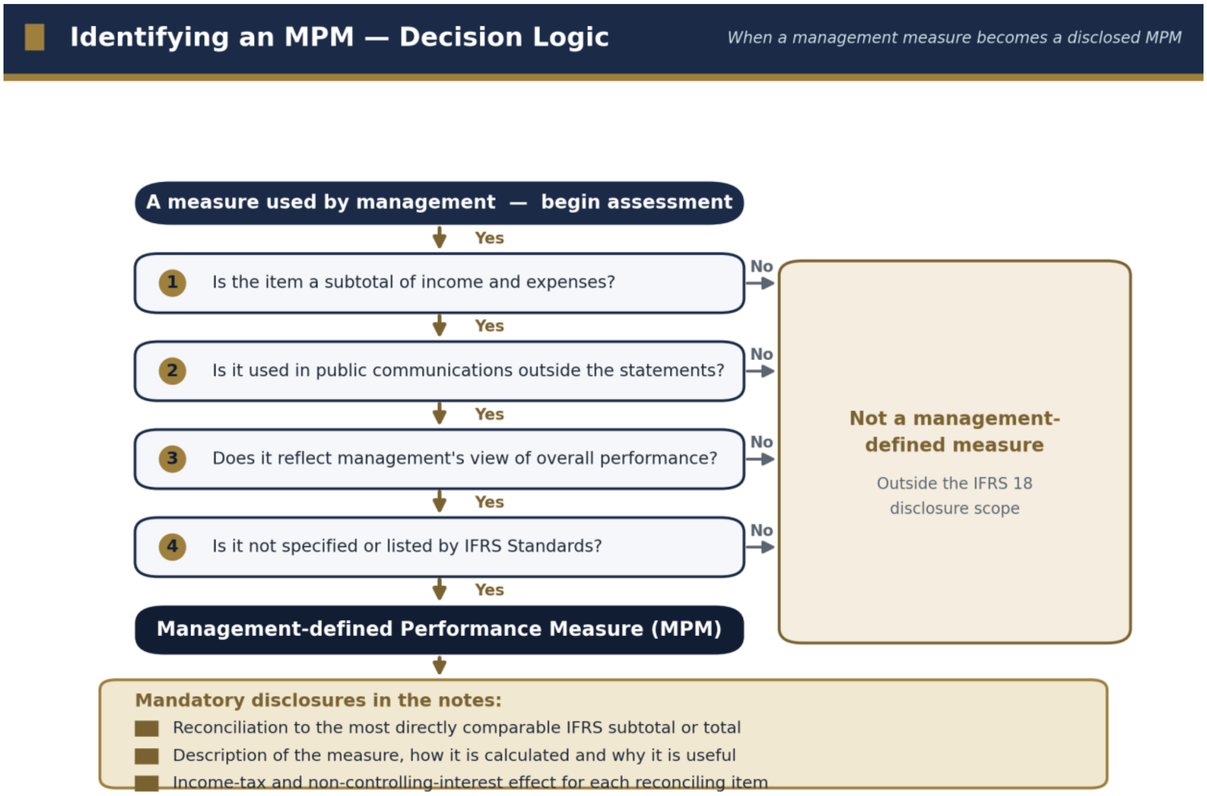


*Figure 4: The logic for determining whether a measure is a management-defined performance measure*

## 2.4 Aggregation and Disaggregation

The third pillar completes the picture by establishing two complementary principles for organising financial information. Aggregation calls for grouping items that share characteristics, while disaggregation calls for separating items that differ in substance so that an important piece of information does not dissolve within a single aggregated line. The standard allocates the roles between the primary statements, which offer a structured and concise picture, and the notes, which carry the supporting detail, and it requires items to be labelled in a way that reflects their shared characteristics rather than resorting to vague captions such as “other” without sufficient justification.

For the auditor, this principle translates into a practical test: are the items grouped into a single line genuinely homogeneous, and were the items separated out worthy of separation because of their materiality? Poor aggregation may conceal real risks, while poor disaggregation may burden the statement with detail that confuses the reader, and both are presentation failings that warrant an observation.

## Section 3: Consequential Amendments to Other Standards

IFRS 18 did not arrive in isolation; it dragged behind it a series of amendments to related standards, and being aware of them spares the auditor surprises in places not expected. The statement of cash flows prepared under the indirect method in accordance with IAS 7 will now begin from the "operating profit" subtotal rather than net profit, and the options for classifying interest and dividends have been removed; for most entities, dividends paid and interest paid are classified within financing, while interest and dividends received are classified within investing.

As regards earnings per share under IAS 33 and interim financial reporting under IAS 34, consequential alignments were made to fit the new structure. Segment reporting under IFRS 8, for its part, uses the same categories adopted in the statement for segment results, preserving consistency between the overall picture and the segment picture. Goodwill remains a separate line item presented on its own. These amendments, detailed as they may appear, constitute additional checkpoints in the review programme, especially in the statement of cash flows, where both the starting point and the classification logic change together.

> **Note on the statement of cash flows:** The indirect statement begins from operating profit, and the previous classification options for interest and dividends are removed. This dual change, in both the starting point and the classification, is among the places most exposed to error in the first year of application.

## Section 4: A Practical Implementation Roadmap

Turning the text of the standard into operational reality requires a disciplined sequence of stages rather than a single leap just before the effective date. The journey begins with an assessment and impact-analysis stage before 2026, in which the most affected sectors and items are identified and an evaluation is made of whether the entity has specified main business activities that require reclassification. Then comes the presentation and classification design stage during 2026, in which the chart of accounts is rebuilt and mapped to the five categories, and the new subtotals are formulated.

Thereafter the entity advances to the systems, data, and controls stage, since the change in presentation entails adjustments to the enterprise resource planning system, to reporting templates, and to XBRL tagging within the European single electronic format, together with the design of controls that ensure the integrity of the mapping. This is followed by the transition and comparatives stage, extending between 2026 and 2027, in which the comparative period is restated and the IAS 1 to IFRS 18 transition reconciliation is prepared. The journey is crowned by the disclosure and communication stage in 2027, in which the notes and the disclosures of performance measures are drafted and investor messaging is aligned with the audited figures. Governance remains a connecting thread running across all the stages.

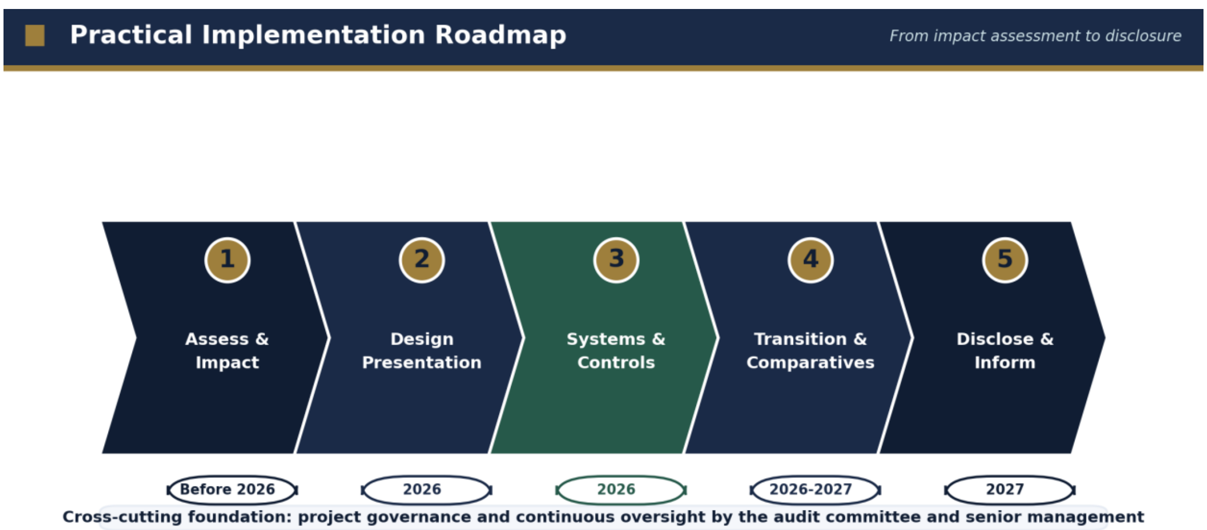


*Figure 5: A practical roadmap for implementing the standard across five successive stages*

## Section 5: The Role of Internal Audit and the Relevant GIAS Requirements

The position of internal audit in the implementation of IFRS 18 should be clear from the outset: it is a provider of assurance and evaluation, not a preparer. Responsibility for applying the standard and preparing the statements rests with management, while internal audit provides objective assurance over the entity's readiness, the adequacy of its controls, and the soundness of its classification and disclosure judgements. Where the function is asked to provide advice during the transition, preserving objectivity becomes a governing constraint so that the ability to express an independent opinion later is not impaired, which is consistent with Domain II of the Global Internal Audit Standards on ethics and professionalism.

The GIAS, issued by the Institute of Internal Auditors and effective since 9 January 2025, provide a clear framework for linking this role to specific principles. Principle 9 on strategic planning requires the risks of implementing the standard to be embedded in the risk-based audit plan and linked to the entity's objectives. Principle 13 on planning engagements effectively requires the objectives, scope, criteria, and risks of the readiness review to be defined and the design of controls to be assessed. Principle 14 on conducting engagement work directs the team to test the classification of items and subtotals, the reconciliations of performance measures, the sufficiency of evidence, and the effectiveness of controls.

Principle 15 frames the communication of results and the monitoring of action plans, through reporting observations in the 5Cs format and monitoring the implementation of corrective actions through to closure, including the confirmation of the implementation of recommendations set out in Standard 15.2. Principle 12 on enhancing quality helps to organise coordination with the external auditor and reliance on combined assurance, so as to avoid duplication of effort or gaps in coverage. The figure below illustrates this mapping between the roles of internal audit and the GIAS principles.

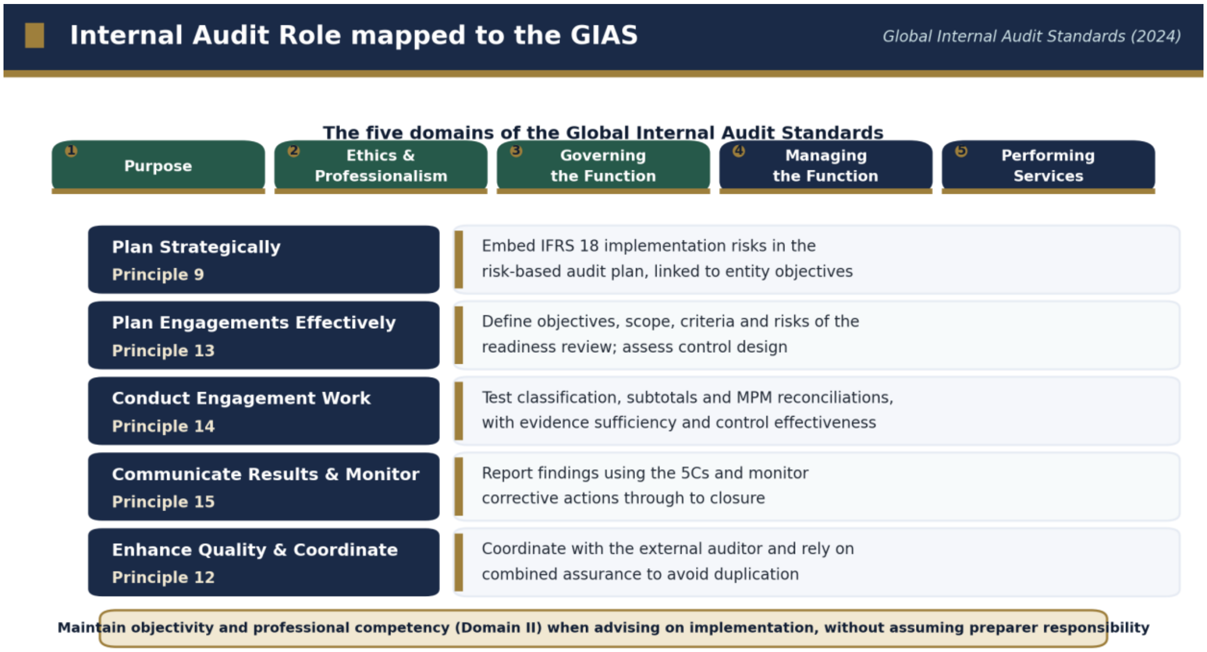


***Figure 6:*** *Mapping the role of internal audit in implementing the standard to the GIAS principles*

## Section 6: A Condensed Practical Audit Program

The table below offers a condensed model in the form of a risk and control matrix, linking each principal risk in the implementation engagement to the expected control, to the suggested audit procedures, and to the evidence that should be obtained. Care has been taken to devote a separate row to each risk without merging, and to express the procedures as numbered, directly actionable points, so that the model can be readily converted into a real field working paper within the engagement.

| Risk | Expected control | Audit procedures | Evidence |
|---|---|---|---|
| **Absence of clear governance over the transition project** | An approved project plan, a multidisciplinary team, and a sponsor at senior-management level | 1. Review the project charter and the decision approving it<br>2. Verify that roles, responsibilities, and the timeline are defined<br>3. Assess the mechanism for reporting to the relevant committee | Project charter, committee minutes, the timeline |
| **Error in classifying items within the five categories** | A matrix mapping the chart of accounts to the categories, with independent review | 1. Select a sample of items and trace their classification<br>2. Recompute the two mandatory subtotals<br>3. Examine the treatment of unusual items within operating | Mapping matrix, classification papers, system reports |
| **Improper application of specified main business activities** | A documented professional-judgement memorandum supporting the main-activity assessment | 1. Review the judgement memorandum and its bases<br>2. Verify the treatment of associates within investing<br>3. Examine insurance finance items within operating | Judgement memorandum, the approved accounting policy |
| **Incomplete or inconsistent disclosure of performance measures (MPMs)** | A register of performance measures with documented reconciliation and management approval | 1. Identify the measures used in public communications<br>2. Examine the reconciliation to the closest IFRS subtotal<br>3. Verify the statement of tax and NCI effects | Measures register, investor presentations, reconciliations |
| **Inappropriate aggregation or disaggregation of items** | A documented materiality policy governing presentation and notes | 1. Assess the homogeneity of items grouped on one line<br>2. Examine the rationale for separating material items<br>3. Review the meaningfulness of item labels in the notes | Materiality policy, draft notes |

| Risk | Expected control | Audit procedures | Evidence |
|---|---|---|---|
| **Unreadiness of systems, reports, and XBRL tagging** | IT general controls over system and template changes | 1. Test change controls over reporting templates<br>2. Examine the integrity of single-electronic-format tagging<br>3. Verify that system output matches the classification | Change logs, XBRL files, test reports |
| **Errors in restating comparatives and the transition reconciliation** | A documented reconciliation between IAS 1 and IFRS 18 figures | 1. Recompute the comparative-period reconciliation<br>2. Trace the effect of restatement on the subtotals<br>3. Examine the disclosure of the basis of restatement | Reconciliation schedules, restatement papers |
| **Inconsistency between investor messaging and the audited statements** | Review of voluntary disclosures before release against the audited figures | 1. Compare press releases with the audited figures<br>2. Verify the control of disclosure outside the statements<br>3. Assess the approval mechanism for public communications | Press releases, pre-release approval log |

*Table 2: A condensed audit programme in risk-and-control-matrix form for the implementation engagement*

## Section 7: Common Pitfalls and Best Practices

Certain avoidable errors recur in transition engagements, and a measure of early vigilance keeps them at bay. Among the most prominent is the belief that the standard is a purely accounting matter that does not touch the systems, whereas the reality is that amending reporting templates, the chart of accounts, and electronic tagging can take longer than drafting the policy itself. Another is deferring work on the comparative period until just before the effective date, a deferral that strains quality because restatement and reconciliation require careful tracing that is hard to accomplish in haste.

- Begin early with impact analysis and identify the most affected sectors and items before obligations accumulate.
- Document classification judgements and main-activity assessments in clear, reviewable professional-judgement memoranda.
- Establish a central register of performance measures linking each measure to its reconciliation, basis of calculation, and management approval.
- Test IT controls over changes before, not after, the new templates are approved.
- Coordinate early with the external auditor to establish combined assurance that reduces duplication and closes gaps.
- Maintain a clear separation between the advisory role and the assurance role to safeguard professional objectivity.

On the other side, best practice concentrates on building robust project governance from the first day, and on treating the transition as a multidisciplinary project bringing together finance, information technology, audit, and corporate communications, rather than as the task of a single department. The entity that invests in early documentation and incremental testing enters the first year of application with greater confidence and lower risk.

## Section 8: A Quick Checklist for the Auditor

The checklist below distils the most important matters the auditor should confirm before closing a readiness-review engagement for the standard; it is designed to be a quick screening tool, not a substitute for the detailed programme.

- Is there approved project governance with a team, a timeline, and a clear sponsor?
- Has the chart of accounts been mapped to the five categories and the mandatory subtotals reviewed?
- Has the assessment of specified main business activities been documented in a judgement memorandum?

- Have associates been treated within investing, and insurance finance items within operating?
- Has a register of performance measures been prepared, including the reconciliation and the tax and NCI effects?
- Has the IAS 1 to IFRS 18 transition reconciliation been prepared for the comparative period?
- Have the system controls and single-electronic-format tagging been tested?
- Has investor messaging and voluntary disclosure been controlled against the audited figures?
- Have observations been reported in the 5Cs format with a monitoring plan through to closure?

## Conclusion

IFRS 18 represents an opportunity as much as a challenge. It gives users of financial statements a clearer and more comparable picture of an entity's performance, and it brings to account measures that used to live outside the scope of audit. From the standpoint of internal audit, early and methodical preparation is what makes the difference between a transition scrambled at the last moment and a disciplined transition that strengthens confidence in financial reporting. And when that preparation is anchored to the Global Internal Audit Standards, the work acquires a sound professional framework that links risks to controls, to reporting, and to follow-up in a single coherent sequence.

The principle with which we began is worth repeating in closing: the standard does not change how much an entity earns, but it does change how it tells the story of its earnings. Understanding this distinction is the key to an effective review, one that is less preoccupied with the final figures than with the soundness of the route that leads to them.

## About the Author


### Ahmad Abumanei

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Ahmad has built extensive practical experience in corporate governance, enterprise risk management, internal control, and regulatory compliance, across a range of organizations in the Gulf and Jordan. His focus is on turning theoretical frameworks into practical, applicable tools, and on producing high-quality professional deliverables that genuinely serve the decision-maker rather than tick a box.

He combines depth in governance, risk, and compliance (GRC) and enterprise risk management (ERM) with experience in information systems auditing and regulatory reviews before supervisory authorities in the region. His work draws on the recognized international standards and frameworks, from ISO 31000 and the COSO framework to the Global Internal Audit Standards issued by The Institute of Internal Auditors, with care to align them with the local regulatory environment in each country.

He holds a number of international professional certifications, among them the Certified Internal Auditor (CIA), the Financial Modeling and Valuation Analyst (FMVA), and the Commercial Banking and Credit Analyst (CBCA), alongside qualifications in financial management, risk, and compliance. This breadth gives his perspective an integrative angle that connects risk to finance and to governance at once.


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## References and Sources

This guide was prepared by drawing on the primary sources of the relevant standards and on published professional analyses, with the content reworded and synthesized. Among the principal sources:


- International Accounting Standards Board, IFRS 18 “Presentation and Disclosures in Financial Statements,” April 2024.
- Institute of Internal Auditors, the Global Internal Audit Standards, effective from January 2025.
- Relevant International Accounting Standards: IAS 7, IAS 33, IAS 34, IFRS 8, IFRS 17, and IFRS 9.

- Published technical analyses by the major audit firms on the impact and application of the standard, reworded and synthesized.

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*This guide is prepared for professional guidance purposes and does not substitute for reference to the full text of the standards or for specialist advice at the point of application.*