

Draft IAPS (Marked-up)
**REPORTING BY AUDITORS ON COMPLIANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS**
CONTENTS

Introduction	1
Financial Statements Prepared <u>Solely</u> in Accordance with International Financial Reporting Standards	2– <u>74</u>
<u>Financial Statements Prepared in Accordance with International Financial Reporting Standards and a National Financial Reporting Framework</u>	<u>5–7</u>
Financial Statements Prepared in Accordance with Another Acceptable <u>a National</u> Financial Reporting Framework <u>with Disclosure of the Extent of Compliance with International Financial Reporting Standards</u> ...	8– <u>911</u>

International Auditing Practice Statements (“Statements” or IAPSs) are issued by the International Auditing and Assurance Standards Board (“IAASB”), which is a committee of the International Federation of Accountants, to provide practical assistance to auditors in implementing the International Standards on Auditing (“ISAs”) or to promote good practice. Statements do not have the authority of ISAs.

This Statement is issued as a supplement to ISA 700, “The Auditor’s Report on Financial Statements.” It does not establish any new basic principles or essential procedures: its purpose is to assist auditors, and the development of good practice, by providing guidance on the application of ISA 700 in cases when financial statements are prepared using International Financial Reporting Standards (IFRSs) or include a reference to IFRSs. The extent to which any of the guidance described in this Statement may be appropriate in a particular case requires the exercise of the auditor’s judgment in the light of the requirements of ISA 700 and the circumstances of the entity. Statements are effective on the date they are issued.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an IAPS. Where no PSP is added, the IAPS is applicable in all material respects to the public sector.

Introduction

1. International Standard on Auditing (ISA) 200, “Objective and General Principles Governing an Audit of Financial Statements” states that 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 identified financial reporting framework. ISA 700, “The Auditor’s Report on Financial Statements” establishes standards and provides guidance on the form and content of the auditor’s report. In particular, paragraph 17 of that ISA requires that the auditor’s report clearly indicate the financial reporting framework used to prepare the financial statements. The purpose of this International Auditing Practice Statement (IAPS) is to provide additional guidance when the auditor expresses an opinion on financial statements that are asserted by management to be prepared:
 - (a) solely in accordance with International Financial Reporting Standards (IFRSs);
 - (b) in accordance with ~~both~~ IFRSs and a national financial reporting framework~~relevant national standards or practices~~; or
 - (c) in accordance with a national financial reporting framework~~relevant national standards or practices~~, but which with disclosure in the notes to the financial statements of the extent of compliance with IFRSs.

The guidance provided in this IAPS practice statement may be applied, adapted as necessary, to reporting on whether financial statements have been prepared in accordance with ~~other~~ financial reporting frameworks other than IFRSs (for example, financial statements that are asserted by management to be prepared in accordance with two different national financial reporting frameworks). This IAPS does not establish any new requirements for the audit of financial statements, nor does it establish any exemptions from the requirements of ISA 700.

Financial Statements Prepared Solely in Accordance with International Financial Reporting Standards

2. Examples have arisen of entities stating that their financial statements have been prepared in accordance with IFRSs when, in fact, they have not complied with all the requirements that IFRSs impose. Paragraphs 10–19 of IAS 1 (Revised 1997), “Presentation of Financial Statements”¹ set out the requirements to be met before an entity’s financial statements can be regarded as having been prepared in accordance with IFRSs. In particular, paragraph 11 makes clear that financial statements should not be described as complying with IFRSs unless they comply with all the requirements of each applicable standard and each applicable interpretation of the Standing Interpretations Committee.² Examples such as the following descriptions of the basis on which the financial statements have been prepared ~~illustrate~~are therefore illustrations of financial statements that have not been prepared in accordance with IFRSs.

¹ On 15 May 2002, the IASB issued an exposure draft of improvements to IASs, including an exposure draft of a revised version of IAS 1. In that exposure draft, the relevant paragraphs are paragraphs 10–17, with paragraph 11 requiring compliance with all applicable standards. The final version of this IAPS will refer to the revised version of IAS 1 (or the equivalent IFRS) that the IASB issues at the end of its due process.

² The Standing Interpretations Committee was renamed the “International Financial Reporting Interpretations Committee” subsequent to the issue of IAS 1 (Revised 1997).

- The financial statements ~~include a note~~ indicate ~~ing~~ that they have been prepared in accordance with IFRSs but then go on to specify certain material departures. For example, a note describing the accounting policies used to the financial statements states that the financial statements are prepared in accordance with IFRSs except for the non-disclosure of sales for geographical segments.
 - ~~The A note to the~~ financial statements identifies specific IFRS requirements that the entity uses to prepare the financial statements, but these do not include all the requirements that are applicable to an entity fully complying with IFRSs.
 - The financial statements indicate ~~include a note disclosing~~ partial compliance with IFRSs without reference to specific departures. For example, a note describing the accounting policies used states that the financial statements are “based on,” or “comply with the significant requirements of” or “are in compliance with the accounting requirements of” IFRSs.
3. An unqualified opinion may be expressed only when the auditor is able to conclude that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the identified financial reporting framework. In all other circumstances, the auditor is required to disclaim an opinion or to issue a qualified or adverse opinion depending on the nature of the circumstances. Accordingly, the auditor does not express an unqualified opinion that indicates that financial statements have been prepared in accordance with IFRSs if the financial statements contain any departure from IFRSs and the departure has a material effect on the financial statements.³ ~~When the auditor has been asked to report~~ on whether the financial statements have been prepared in accordance with IFRSs and the financial statements contain a material departure from IFRSs, such a departure results in a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application, or the adequacy of ~~financial statement~~ disclosures in the financial statements. Paragraphs 36–40 of ISA 700 provide guidance for deciding whether a qualified opinion or an adverse opinion is necessary and on the information to be included in the auditor’s report.
4. ~~If the A description of the financial reporting framework in the~~ auditor’s report ~~that~~ contains any qualifying ~~ication~~ or limiting ~~ation~~ on language when describing ~~of that the financial reporting framework, it~~ does not meet the requirement in paragraph 17 of ISA 700 that the ~~opinion paragraph of the~~ auditor’s report should clearly indicate the financial reporting framework used to prepare the financial statements. For example, an opinion paragraph that indicated ~~that~~ “the financial statements give a true and fair view and are in substantial compliance with International Financial Reporting Standards” does not meet the requirements of ISA 700.

³ ⁴—A departure from the requirements of a particular IFRS made under the provisions of paragraph 13 of IAS 1 (paragraphs 13-16 of the IAS exposure draft referred to in footnote 1) does not constitute a departure from IFRSs for this purpose.

Financial Statements Prepared in Accordance with International Financial Reporting Standards and a National Financial Reporting Framework

COMPLIANCE WITH MORE THAN ONE FINANCIAL REPORTING FRAMEWORK

5. A note describing the accounting policies used ~~The financial statements~~ may state that the financial statements ~~they~~ have been prepared in accordance ~~with more than one framework~~. For example, the notes may indicate that the financial statements comply both with both IFRSs ~~international Financial Reporting Standards~~ and with a national financial reporting framework ~~requirements~~. For financial statements to have been prepared in accordance with more than one financial reporting framework, they must comply with each of the indicated frameworks individually. A set of financial statements that has been prepared in accordance with one financial reporting framework and that contains a note or supplementary statement reconciling the results to those that would be shown under another financial reporting framework has not been prepared in accordance with that other framework. This is because the financial statements ~~themselves~~ do not include ~~show~~ all the information required in the manner required by that other framework. The financial statements must comply with both financial reporting frameworks simultaneously and without any need for reconciling statements if they are to be regarded as having been prepared in accordance with both. In practice, simultaneous compliance with both IFRSs and a national financial reporting framework is extremely unlikely unless the country has adopted IFRSs as its national financial reporting framework or has eliminated all barriers for compliance with IFRSs. In other cases, even if the requirements are similar enough to be able to prepare one balance sheet, one income statement, ~~and~~ one cash flow statement and one statement of changes in equity, the notes to the financial statements may ~~are likely to~~ be confusing, ~~for all but the most straightforward entities~~. This could threaten the understandability of the financial statements.
6. It is helpful for the auditor to discuss financial statements that state ~~purport to~~ they have been prepared in accordance with IFRSs and a national ~~more than one~~ financial reporting framework with management and those charged with governance. The purpose of the discussion is to advise management and those charged with governance of the possibility of a qualified opinion or adverse opinion on compliance with one or both of the financial reporting frameworks ~~help decide which of the financial reporting frameworks is predominant~~, given that the ability to simultaneous comply fully with IFRSs and a national ~~more than one~~ financial reporting framework is extremely unlikely ~~rare~~. In these situations, ~~The~~ auditor encourages management and those charged with governance to prepare the financial statements in accordance with only one ~~the predominant~~ financial reporting framework ~~only, taking into consideration any requirements of relevant laws and regulations~~. The auditor's report is then worded in terms of whether the financial statements have been prepared in accordance with that financial reporting framework.
7. If, ~~however~~, management insists on indicating that the financial statements have been prepared in accordance with more than one framework both IFRSs and a national financial reporting framework, the audit report may ~~refers~~ to both those frameworks. However, the auditor considers each financial reporting framework separately. If the auditor is of the opinion that the financial statements are in accordance with only one of the financial reporting frameworks, and the matter that results in failure to comply with the other framework is not such as to cause the financial statements to fail to comply with either framework, then the auditor expresses an unqualified opinion on compliance with that framework and a qualified opinion or an adverse opinion on compliance with the other

~~framework or frameworks.~~ If the auditor is of the opinion that the failure to comply with one of the financial reporting frameworks causes the financial statements to fail to comply with the other financial reporting framework, the auditor issues a qualified opinion or adverse opinion on compliance with both frameworks. An illustration of an auditor's report where the auditor is of the opinion that the financial statements comply, in all material respects, with IFRSs, but judges a qualified opinion is appropriate for compliance with a national financial reporting framework follows:

"Note X to the financial statements indicates that the financial statements have been prepared, in all material respects, in accordance with International Financial Reporting Standards and [relevant national financial reporting framework]. As discussed in Note Y to the financial statements, during the current period the Company reversed previously recorded inventory valuation reserves in the amount of \$X, in order to reflect the net realizable value at the end of the period. This accounting is required by International Financial Reporting Standards, but is not allowed by [relevant national financial reporting framework]."

In our opinion, the financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of the Company as of December 31, 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of the Company as of December 31, 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with [title of national financial reporting framework with reference to the country of origin] (and comply with [refer to relevant statutes or law])."

Financial Statements Prepared In Accordance with ~~Another Acceptable~~ National Financial Reporting Framework with Disclosure of the Extent of Compliance with International Financial Reporting Standards

8. Entities that prepare their financial statements in accordance with ~~a national acceptable~~ financial reporting framework ~~other than IFRSs~~ may disclose additionally, in the notes to those financial statements, the extent to which they comply with IFRSs. Management may, for example, consider such additional disclosures to be desirable when the entity is required to comply with IFRSs at a future date and management wishes to provide readers of the financial statements with an indication of progress towards that compliance. In these circumstances, the auditor considers whether assertions made in the notes to the financial statements with respect to the extent of such compliance are factually correct-accurate and not misleading. The auditor then considers the effect of that disclosure on the auditor's report.
9. ~~For example, w~~When the effect of lack of appropriately applying a certain IFRS ~~would be~~ is material and pervasive to the financial statements, an assertion that the financial statements have been prepared in accordance with IFRSs except for the application of that particular standard may be misleading. ~~without fully disclosing the effect of not applying that standard.~~ In such circumstances, it may be more appropriate for the notes to the financial statements not to comment about the extent of compliance with IFRSs or to state that the financial statements have not been prepared in accordance with IFRSs. Similarly, a note to the financial statements that indicates only partial compliance with IFRSs without reference to specific departures misleads readers because it implies compliance while failing to provide

sufficient information for readers to determine the extent to which the financial statements do not comply with IFRSs: (~~F~~for example, a note to the financial statements indicating that the financial statements “are based on,” or “comply with the significant requirements of” or “are in compliance with the accounting requirements of” IFRSs.)

109. A note to the financial statements containing disclosure about compliance with IFRSs is treated no differently from any other note to the financial statements. All such notes contain management assertions and the auditor obtains sufficient appropriate audit evidence to support the assertions. If the note contains a reference to compliance with IFRSs, the auditor considers whether the note contains misleading information such that the financial statements fail to comply with the entity’s national financial reporting framework ~~because of inadequate or inaccurate disclosure in the financial statements~~. This is likely to be the case in circumstances where the reference to compliance with IFRSs misleads readers of the financial statements because:

- (a) it contains ~~untruthful or~~ materially inaccurate information or incomplete information that is material and pervasive to the financial statements (for example, the lack of compliance with a particular IFRS that is material and pervasive to the financial statements may result in the disclosure being misleading, even if there is quantification of the possible effects on the financial statements from failure to comply with the respective IFRS); or
- (b) ~~misleads readers of the financial statements because~~ it implies compliance with IFRSs without providing sufficient information for readers to ~~determine~~ understand the extent and pervasiveness to which the financial statements fail to comply with IFRSs (for example, the lack of quantification of the possible effects on the financial statements from failure to comply with a particular IFRS that is not material and pervasive to the financial statements).

If the financial statements fail to comply with the entity’s national financial reporting framework because the disclosures as to the compliance with IFRSs are misleading, the auditor’s report expresses a qualified or an adverse opinion. An illustration of a qualified opinion resulting from item (a) above that may be given in such circumstances follows:

“Note X to the financial statements indicates that the financial statements have been prepareds in accordance with [relevant national financial reporting framework] and are substantially in accordance with International Financial Reporting Standards (IFRSs) except that they do not comply with IAS 39, ‘Financial Instruments: Recognition and Measurement.’ Because Given the significant effect in this case on the company’s financial statements of non-compliance with IAS 39 is material and pervasive, and given that the company has not disclosed the effect of this departure from IFRSs, the reference to compliance with IFRSs is considered to be misleading and accordingly is unacceptable within financial statements prepared in accordance with [relevant national framework].”

In our opinion, except for the inclusion of the reference to compliance with IFRSs, the financial statements give a true and fair view of (or ‘present fairly, in all material respects,’) the financial position of the Company as of December 31, 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with [title of national financial reporting framework with reference to the country of origin] (and comply with [refer to relevant statutes or law]).”

11. A note to the financial statements containing disclosure about compliance with IFRSs may not contain misleading information such that the financial statements fail to comply with the national financial reporting framework. If the auditor is of the opinion that a reference to

compliance with IFRSs is not misleading, the auditor may express an unqualified opinion on compliance with the national financial reporting framework. In certain circumstances, the auditor may decide to modify the auditor's report by adding an emphasis of matter paragraph to highlight the note that references compliance with IFRSs (for example, to indicate that the financial statements were not prepared as to comply fully with IFRSs and that the auditor is not expressing an opinion on whether they have been prepared in accordance with IFRSs). The use of an emphasis of matter paragraph is not a substitute for issuing a qualified opinion or adverse opinion on compliance with the national financial reporting framework when disclosures as to compliance with IFRSs are misleading. If the audit opinion is not modified through the use of a qualified opinion or adverse opinion, it implicitly indicates that the auditor does not consider the disclosure about compliance with IFRSs to be misleading.

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