

Appendix A – Comments Received and Proposed Disposition on Exposure Draft IAPS, “Reporting on Compliance with International Financial Reporting Standards”

General Statements of Support or Non-Support (Responses to Specific Comments Are Shown By Paragraph Below)

<i>Respondent</i>	<i>Comment</i>
ACCA	<p>ACCA does not support the issue of an IAPS dealing with the subject matter contained in the proposed IAPS for a number of reasons.</p> <ul style="list-style-type: none"> •The guidance on reporting in the proposed IAPS is of little real value to auditors. •A planned revision of ISA 700 The Auditor's Report on Financial Statements (ISA 700) already takes such matters into account. •Auditors would place more value on guidance dealing with risk assessment and the design of audit procedures. •The proposed IAPS may deter informative reporting at a time when IFAC should be encouraging transition to IFRSs. <p>If it is decided to continue to progress this proposal to an IAPS, we recommend that major changes are made throughout the document to address:</p> <ul style="list-style-type: none"> •the broader challenges faced by auditors when companies make a transition to IFRSs •the failure to acknowledge and provide guidance relating to the provisions of the standard which will result from the proposed IFRS First-Time Application of International Financial Reporting Standards and •the inappropriate inclusion of material which could be interpreted as asking auditors to take on a management decision-making role.
AICPA	<p>We agree with the significant objectives of the proposed IAPS, which are to curb the potentially misleading practices of either reporting that financial statements are “substantially in compliance” with International Financial Reporting Standards (IFRSs,) or reporting in an unqualified manner on financial statements that include misleading disclosures to that effect. Thus, we are pleased to see the IAASB speaking out on this important subject, and are optimistic that the proposed IAPS already has improved practice in this area. Any entity that chooses to publish financial statements for general use has an obligation to understand the principles and guidance encompassed in its chosen financial reporting framework, and to implement appropriate systems and practices that will result in published financial statements that are in conformity with that framework. Nevertheless, we recognize that occasions arise when an entity has an obligation to publish financial statements even though they may contain departures from the disclosed framework.</p>
Audit Commission	<p>The Commission has recently responded to a consultation by the International Accounting Standards Board on the first-time application of International Financial Reporting Standards (IFRSs). This response was broadly supportive of the draft pronouncement and is enclosed with this letter for your information. <i>[Note: This information was forwarded to staff working on a potential project for first-time application of IFRSs].</i> In the light of this response and the contents of the Exposure Draft, the Commission considers that the draft International Auditing Practice Statement is a useful and appropriate response to the implementation issues that will inevitably arise as the use of IFRSs becomes more widespread. The Commission supports the guidance set out in the proposed Practice Statement. The Commission also believes that the proposed Practice Statement is in principle applicable to the public sector, and agrees that a public sector perspective is not necessary.</p>
CICA	<p>We support the issuance of the IAPS as it addresses an area of practical concern for auditors.</p>
CNCC/OEC	<p>As a general comment, the two French institutes consider this statement to be useful and wish to express their support to its publication. Some clarifications are nevertheless needed.</p>
CPA Australia	<p>CPA Australia supports the proposals contained in the ED.</p>
Deloitte Touche Tohmatsu	<p>We welcome the creation of this new guidance, which we believe will provide needed clarification that anything but full compliance with International Financial Reporting Standards (IFRSs) will result in an appropriately modified audit opinion. We believe this proposed IAPS will provide consistency in application of IFRSs and guidance to preparers</p>

of financial statements.

Ernst & Young	Given the increasing use of International Financial Reporting Standards as the primary basis of financial reporting we strongly support the IAASB's objective to provide additional guidance on the application of ISA 700 in cases where financial statements are prepared using International Financial Reporting Standards (IFRS) or include reference to IFRS. ... However, we wish to emphasise our concern with the proposed guidance in the Exposure Draft relating to financial statements containing a statement of partial compliance with IFRS. We believe that this would not be in the interests of users, and would serve to confuse the efforts of the IASB to ensure that IFRS are applied rigorously and in full.
FEE	FEE generally supports this proposed IAPS.
Grant Thornton	In view of the increase in reporting under IFRS, particularly following 2005 when both the European Union and Australia will require certain companies to report under IFRS, we support the IAASB in its efforts to clarify ISA 700.
IDW	The IDW supports the issuance of this particular Practice Statement because the general credibility of auditors' reports is impaired when unqualified auditors' reports are issued for financial statements that suggest compliance with the IFRS when those financial statements do not comply fully with the IFRS. While we recognize that many enterprises would like to take credit for the processes that they have initiated by which the basis of accounting for their financial statements is being changed to IFRS and that such a process may take some time, we believe that the public interest and the credibility of financial statements and audit reports are not served by allowing the association of unqualified audit reports on financial statements that either suggest whole or partial compliance with the IFRS but contain material departures from the IFRS.

From our point of view, it is essentially uncontroversial that the issuance of unqualified audit reports on IFRS financial statements or on financial statements that suggest compliance with both an acceptable national accounting framework and the IFRS, where either of those kinds of financial statements contain material departures from the IFRS, is clearly inappropriate and does not require further discussion. On the other hand, we are aware that there has been considerable discussion about the situation where financial statements prepared in accordance with an acceptable national financial reporting framework refer to compliance with IFRS, in whole or in part. While we support the position taken in this Exposure Draft of an IAPS, we would like to explain the reason for our support.

As far as we are aware, there isn't a single acceptable national financial reporting framework that allows preparers to claim compliance with that framework when the financial statements contain material misrepresentations of any kind – even material misrepresentations in relation to disclosures that are not specifically required by that financial reporting framework. As a result, any disclosures within the financial statements that go beyond the specific requirements of a particular financial reporting framework cannot contain untruthful or materially inaccurate information or mislead the readers of those financial statements and yet be in compliance with the acceptable national financial reporting framework.

Hence, when performing an audit and issuing an opinion that the financial statements are in compliance with an acceptable national financial reporting framework, auditors are responsible for all of the material assertions made by management within those financial statements – not just for the assertions specifically required by that financial reporting framework. This means that if the financial statements contain any assertions – whether they are required by the acceptable national financial reporting framework being applied, or not – that are untruthful or materially inaccurate or that mislead financial statement users, an auditor would need to issue either a qualified or an adverse audit opinion, as the case may be. Therefore, if assertions referring to full or partial compliance with the IFRS that are untruthful or materially inaccurate or that mislead financial statement users are made in the financial statements that have been prepared in accordance with an acceptable national financial reporting framework, then an auditor would issue a qualified or an adverse opinion.

However, whether or not an assertion that the financial statements comply with the IFRS except for certain requirements constitutes a material misrepresentation depends upon the nature of the assertion, the potential effect of the departure from the IFRS on the financial statements, and whether or not this potential effect on the financial statements has been adequately explained in the financial statements, and if necessary, appropriately quantified. For example, whether or not an assertion that the financial statements comply with the IFRS but for IAS 39 constitutes a material misrepresentation depends upon the potential effect that the appropriate application of IAS 39 would have on the financial statements in question and the adequacy of the disclosure of this potential effect. However, if the effect of noncompliance with IAS 39 is potentially material and inadequate or no further disclosures about the potential effects on the financial statements are provided, the assertion that the financial statements comply with the IFRS but for IAS 39 could be construed as being materially misleading, because it leaves the impression that only one of over 40 IFRS has not been complied with, even though the potential effect of the appropriate application of IAS 39 on the financial statements may be material or, in some circumstances, even pervasive. Consequently, we believe that an emphasis of matter in an auditor's report would not suffice to alleviate a material misrepresentation in the financial statements about compliance with IFRS.

KPMG	While we recognize the need for a Practice Statement on this subject, we have significant concerns with paragraphs 5 to 9. The guidance in paragraphs 5 to 7 is not obviously consistent with the key principle underlying paragraphs 8 and 9. In addition, we believe that the guidance in paragraphs 8 and 9 is not sufficiently clear to result in consistent application in practice..... we support the issuance of a Practice Statement on this subject. As we get closer to 2005, it is likely that an increasing number of entities will choose to disclose information regarding compliance with IFRSs in their financial statements. Clear, consistent guidance in this area for the period leading up to 2005 will be helpful to auditors and ultimately to users of financial statements. We therefore encourage the IAASB to revise the Exposure Draft and to issue a final Practice Statement as early as possible in 2003 with immediate effect.
PAAB/SAICA	We support the development of guidance on reporting on compliance with IFRSs. As a result of the globalisation of business there is growing use of IFRSs by entities and accordingly it is important that auditors report consistently on compliance with IFRSs.
PWC	We support the need for guidance on the wording of the auditor's report when financial statements refer to compliance with IFRSs. With growing use of the IFRSs and entities in the process of changing their financial reporting framework to IFRS, such guidance will contribute to greater consistency in the application of the IFRSs and in auditor communications in these circumstances. ...With the exception of the proposed approach to voluntary disclosures regarding compliance with IFRSs, which is discussed further below, we support the positions proposed in the draft IAPS.
Swiss Institute	We generally support this proposed IAPS. We believe it is appropriate to issue an IAPS on this matter. International Financial Reporting Standards (IFRSs) have arrived at a point where they serve as a clear reference in Europe for users of financial information. IFRSs are responding to market needs much faster than legal and statutory reporting requirements, which raise the need for guidance for auditors in dealing with reporting conflicts arising from these developments.

<i>ID</i>	<i>Respondent</i>	<i>Respondent Comment</i>	<i>Change?</i>	<i>Staff Comment (where necessary)</i>
Title				
1	ACCA	The proposed IAPS is called: 'Reporting on Compliance with International Financial Reporting Standards'. This word 'reporting' would normally be interpreted as a reference to management reporting on compliance not, as presumably intended, to the auditor's expression of opinion. Although the proposed document is to be an IAPS, that context is not always clear and, for the avoidance of doubt, the title should be made more appropriate to the content of any final pronouncement.	Yes	Changed to "Reporting <u>By Auditors</u> on Compliance with International Financial Reporting Standards".
2	FEE	Some commentators may argue that the title should not refer to IFRS because the subject of the proposed Statement is not specific to compliance with IFRS and equally applies in other situations when a company decides to apply more than one financial reporting framework or to provide information on the reconciliation with another financial reporting framework. However, we would disagree with this view because issues relating to compliance with IFRS will be especially relevant in Europe where many EU companies will be required by the EU regulation of 19 July 2002 to apply IFRS by 2005. We would however like to suggest using a title for the proposed IAPS which refers to auditing and not just to financial reporting. For example, "Reporting by Auditors on Compliance with International Financial Reporting Standards" would draw attention to the fact that auditors have a responsibility to identify a financial reporting framework and report on compliance. This is quite separate from the responsibility imposed on enterprises by paragraph 11 of IAS 1 (Revised 1997) to disclose compliance.	Yes	Changed to "Reporting <u>By Auditors</u> on Compliance with International Financial Reporting Standards".
3	IDW	We also believe that the title of the IAPS may appear to be misleading. We suggest changing it to "Reporting by Auditors on Compliance with International Financial Reporting Standards" to prevent any ambiguity as to which reporting is being addressed by the IAPS.	Yes	Changed to "Reporting <u>By Auditors</u> on Compliance with International Financial Reporting Standards".

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
Headers				
4	PAAB/SAICA	It is suggested that the headings to each section of the practice statement are aligned with the wording used in paragraph 1 (a) to (c) in order to avoid any confusion as to the circumstances being addressed.	Yes	Changes made to wording in paragraph 1 (a) to (c) and headings aligned to the wording.
5	PAAB/SAICA	Furthermore the heading to paragraphs 5 to 7 should be of the same font typeface as that used for the other two headings.	Yes	Changes made to wording in paragraph 1 (a) to (c) and headings aligned to the wording.
6	PWC	Paragraph 1 establishes a structure for the IAPS with three scenarios. We would suggest that the style of headings used for these sections be the same. Currently, the heading preceding paragraph 5 is presented as a subheading.	Yes	Changes made to wording in paragraph 1 (a) to (c) and headings aligned to the wording.
Scope				
7	ACCA	<p>As guidance only on reporting, we question whether the proposed IAPS is sufficiently useful to merit publication. The proposed IAPS provides additional guidance where financial statements are:</p> <p>(a) in accordance with International Financial Reporting Standards (IFRSs);</p> <p>(b) in accordance with both IFRSs and relevant national standards or practices; or</p> <p>(c) in accordance with relevant national standards or practices, but which disclose in the notes to the financial statements the extent of compliance with IFRSs.'</p> <p>Case (a) causes auditors less difficulty than where national standards or practices themselves introduce uncertainty to financial reporting. It is clearly one already addressed by ISA 700.</p> <p>Case (b) is referred to in paragraph 5 of the proposed IAPS in the following terms (emphasis added): 'the ability to comply fully with more than one financial reporting framework is rare.' And: 'In practice, simultaneous compliance with both IFRSs and a national financial reporting framework is unlikely unless the country has adopted IFRSs as its national financial reporting framework.' The need for provision of guidance for such rare or unlikely circumstances is questionable.</p> <p>Case (c) is not one where additional guidance is required as (to quote the proposed IAPS): 'A note to the financial statements containing disclosure about compliance with IFRSs is treated no differently from any other note to the financial statements.'</p> <p>If additional guidance on reporting is to be provided, it should be incorporated in a revision of ISA 700. A project for a revision of ISA 700 was approved in June 2002, before the proposed IAPS was approved for issue. That project is planned to include (amongst other matters) consideration of:</p> <ul style="list-style-type: none"> • Explanatory paragraphs when the financial reporting framework used differs significantly from international standards. • Whether guidance is needed in ISA 700 in addition to the proposed new IAPS, Reporting on Compliance with International Financial Reporting Standards, for circumstances when the financial statements have been prepared or make reference to IFRSs. • Clarifying the definition of a 'financial reporting framework' in the ISAs.' 	No	<p>The IAAB has previously concluded that guidance on this topic is of real importance to preparers, auditors, regulators and users of financial statements, especially given the EU's decision to transition to IFRSs. The urgency of this guidance necessitates the issuance of an IAPS before ISA 700 revision is complete. Subject to the proposed revisions from the comment process, it is proposed that the IAPS be issued as soon as practicable.</p> <p>Concerning the scope issues raised by ACCA:</p> <ul style="list-style-type: none"> - guidance on the auditor's risk assessment is beyond the intended scope of this limited-scope project and is provided for in the ARM exposure drafts - guidance on transition to IFRSs is being considered separately from this IAPS by IAASB staff - changes are proposed from comments received on the deterrence of informative reporting as indicated in the detailed comments below. <p>In summary, although the issues noted by the commentator are important, they appear beyond the limited scope of this project and should not defer the issuance of this IAPS.</p>

<i>ID</i>	<i>Respondent</i>	<i>Respondent Comment</i>	<i>Change?</i>	<i>Staff Comment (where necessary)</i>
		<p>The proposed IAPS deals only with the application of ISA 700 and provides no assistance to auditors in relation to risk assessment or the design of appropriate audit procedures in instances of dual or transitional reporting. If an IAPS is to be issued, it should address these issues as well as reporting by auditors.</p> <p>At a time when IFAC should be encouraging reporting under IFRSs, the proposed IAPS may act as a deterrent to transition. The risk of adverse comment in the auditor's report could inhibit companies from providing useful disclosures on the extent of their compliance with IFRSs in a period before their full adoption.</p>		
8	ACCA	<p>The transition between acceptable accounting frameworks is an unusual financial reporting event and one which an increasing number of companies are faced with as IFRS are adopted in more jurisdictions. It is our view that guidance on risk assessment and the design of audit procedures will be more valuable to auditors than the reporting guidance in the proposed IAPS. Such guidance should include:</p> <ul style="list-style-type: none"> •audit implications of the proposed IFRS First-Time Application of International Financial Reporting Standards and •providing assurance on a reconciliation between frameworks in addition to (or as part of) financial statements. 	No	Guidance on risk assessment is beyond the scope of this limited-scope project. IAASB staff is researching the need for separate guidance on transition to IFRSs.
9	AICPA	International Standard on Auditing (ISA) 700, The Auditor's Report on Financial Statements, provides guidance to the auditor on how to report in certain circumstances involving the acceptability of the accounting principles selected. Although we believe this is the appropriate guidance to apply in situations involving departures from the financial reporting framework used to prepare the financial statements, the need to issue the proposed IAPS suggests that ISA 700 is not sufficiently clear on this matter. We understand that the IAASB has an active task force addressing other ISA 700 matters, and we recommend that this matter be remanded to the task force for its consideration.	No	This comment (along with other relevant comments received) will be forwarded to the Auditor's Report Task Force. Although guidance on the appropriate financial reporting framework needs to be considered, such consideration is beyond the scope of this limited-scope project.
10	CICA	<p>We believe the scope of the final standard should be expanded to include guidance when:</p> <ol style="list-style-type: none"> 1.an auditor reports on multiple sets of statements issued by an entity, for example under Canadian GAAP for Canadian shareholders and under IFRSs for international shareholders; and 2.an auditor reports on more than one set of an entity's financial statements for the same period contained in one document, each prepared in accordance with a different financial reporting framework <p>We refer you to FOREIGN REPORTING, paragraphs 5610.26-.28 of the CICA Handbook for equivalent Canadian guidance in these situations. These paragraphs are presented in the Appendix to this letter.</p>	No	Additional guidance related to these topics is considered beyond the scope of this limited-scope project. However, this comment (along with other relevant comments received) will be forwarded to the Auditor's Report Task Force for further consideration.
11	Ernst & Young	<p>We draw your attention to the following issues that are not addressed in the Exposure Draft but which we consider should be incorporated in the final statement.</p> <ul style="list-style-type: none"> •The Exposure draft does not deal with the application of ISA 700 to the separate individual financial statements (that are compiled under IFRS) of entities within groups. It is our view that the separate financial statements of an entity within a group might not present a true and fair view, despite the fact that they complied with all the requirements of each applicable IFRS and SIC Interpretation. This is a particular possibility in the case of related party transactions. We recommend that the Board consider whether it is appropriate to express a 'true and fair' opinion on the separate financial statements of an entity within a group, rather than to express an opinion solely in respect of complying with IFRS. Please note that this is a fundamental issue as it also arises in the context of preparing separate financial statements in accordance with national reporting frameworks. •IAS 1 envisages circumstances in which a departure from an IFRS may be necessary to give a true and fair view, and the Exposure Draft of revised IAS 1 sets out the circumstances where this would be required. Paragraph 13 of 	No	Additional guidance related to these topics is considered beyond the scope of this limited-scope project. However, this comment (along with other relevant comments received) will be forwarded to the Auditor's Report Task Force for further consideration.

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
		IAS 1 states that, if management concludes that compliance with an IFRS or an SIC Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the IFRS Framework, then the entity shall depart from the requirement of an IFRS in order to achieve a true and fair view, (providing the relevant regulatory framework requires or otherwise does not prohibit such a departure). If the relevant regulatory framework prohibits such a departure, the entity shall reduce the perceived misleading aspects of compliance by making appropriate disclosures. Our point is that, even if in the latter situation adequate disclosures are made, the fact remains that the financial statements have been prepared applying an inappropriate accounting treatment. Therefore the question arises whether in these circumstances financial statements could be considered to give a true and fair view and consequently, whether an unqualified audit opinion should be expressed. This point should be addressed in the final statement.		
12	FAR	The IAPS is restricted to reporting and does not address the auditor's work before the reporting. It could be argued that it would be helpful to include guidance on the analyses, considerations and conclusions the auditor needs to make to enable his or her reporting on the compliance-issue.	No	This is considered outside the scope of this limited-scope project. The guidance in the ARM EDs is considered to be sufficient.
13	FAR	The borderline between ISA and IAS: Now IAS defines what constitutes "compliance" and ISA seemingly does not. As an IAPS is about auditor's guidance, it could very well expand its guidance to include a comprehensive discussion on compliance and how it should be evaluated in the auditor's context including materiality and similar issues of particular significance to the auditor.	No	This is considered outside the scope of this limited-scope project. The guidance in the ARM EDs and the revision to ISA 320, Audit Materiality should address these issues.
14	FEE	We would also like to observe that the proposed IAPS is restricted to reporting and does not address the work that auditors need to perform before reporting. It might be helpful to include guidance on the analyses, considerations and conclusions required of the auditor before he reports on compliance. IFRS defines what constitutes "compliance" but an IAPS could expand this to include a discussion of how compliance should be evaluated in the audit context by referring to materiality and similar issues of particular significance to the auditor. At a minimum, it would be helpful to make reference to the auditor's work to assess and respond to risks of material non-compliance. In our view, the root cause of any auditor reporting failure is more likely to arise from a failure to address risks of non-compliance than from a failure to apply ISA 700 appropriately.	No	This is considered outside the scope of this limited-scope project. The guidance in the ARM EDs is considered to be sufficient.
15	PWC	The draft IAPS focuses solely on circumstances when the entity asserts that it has complied with IFRS. We agree that this is an appropriate scope for this document. However, we believe that there is also a need for IAASB to develop guidance on what constitutes a financial reporting framework; the auditor's responsibilities in assessing the acceptability of the framework used (the guidance in paragraph 9 of ISA 800 provides a starting point, but could be expanded and linked to the reporting considerations under ISA 700); and the form of the auditor's opinion when a recognised financial reporting framework has not been used. Although we recognise that drafting guidance on such difficult judgments would be challenging, we believe that guidance, together with this IAPS, would be a strong framework in support of improved financial reporting. For that reason, we would encourage IAASB to consider such a project, recognising that its priority would need to be weighed vis-à-vis IAASB's important work program in the next few years.	No	This comment and other relevant comments will be sent to the Auditor's Report Task Force for further consideration. Although guidance on the appropriate financial reporting framework needs to be considered, such consideration is beyond the scope of this limited-scope project.

<i>ID</i>	<i>Respondent</i>	<i>Respondent Comment</i>	<i>Change?</i>	<i>Staff Comment (where necessary)</i>
16	SIDI	The ED does not cover circumstances where a national accounting body does not adopt significant IFRSs; but financial statements state that they comply with the IFRSs, and auditors also report that the financial statements comply with the IFRSs. This misleads the users; especially, the securities investors. If certain IFRSs have not been adopted by a national accounting body which might have a material effect on the financial statements, the auditor's report should qualify to that effect. This will improve adoption of, and compliance with, the full IFRSs. International portfolio investors then will have more reliance on local financial statements, improving global capital flows in the emerging markets.	No	This is considered beyond the scope of this limited-scope project. The current guidance in ISA 700 along with the interpretative guidance in this IAPS appears to adequately address situations where the financial statements incorrectly purport to comply with IFRSs.
Paragraph 1 – Introduction				
17	FAR	In Sweden, reporting according to paragraph 1 (c) would at present be the only possible statutory alternative without violating Swedish law (Companies Act and Annual Accounts Act).	Yes	Paragraph 6 was amended to indicate the auditor considers relevant laws and regulations when deciding whether to report on compliance with multiple financial reporting frameworks.
18	FAR	The word “indicate” is inherited from ISA 700 as how the auditor reports on which framework is being used. Indicate seems a rather “weak” phrase and a more appropriate wording could be “report on management's assertion” as it must be management that asserts which framework is being used and the auditor who has to conclude thereon.	No	This paragraph repeats the bold letter requirement from ISA 700. Changes to ISA 700 would be necessary to make this change. However, this comment will be forwarded to the Auditor's Report Task Force for further consideration.
19	IDW	We also note that in a number of instances the IAPS refers to “relevant national standards or practices”, “national financial reporting requirements” or “relevant standards or practices”, “national financial reporting requirements” or “relevant national framework”. The terms generally used in the ISA are “identified financial reporting framework” (ISA 200) or “relevant national financial reporting framework”.	Yes	All references to “relevant national standards or practices”, “national financial reporting requirements” or “relevant standards or practices” were revised to “national financial reporting framework” for consistency and to avoid confusion.
20	NYSSCPA	Paragraph one says that the purpose of this International Auditing Practice Statement (IAPS) is to provide additional guidance when the auditor expresses an opinion on financial statements prepared... The final statement should clearly differentiate between “relevant national standards or practices” (used in this paragraph) and “financial reporting frameworks” used in subsequent paragraphs.	Yes	See response to comment #19.
21	NYSSCPA	Paragraph one continues to say the “guidance provided in this practice statement may be applied, adapted as necessary, to reporting on whether financial statements have been prepared in accordance with other financial reporting frameworks.” We recommend that the point about “other financial reporting frameworks” be expanded by example so that auditors can readily understand the applications of this guidance.	Yes	Example added in parenthesis.
22	NYSSCPA	Finally, paragraph one indicates, “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.” This point should be emphasized by moving it to the beginning of paragraph one.	No	The existing placement is similar to the placement in other IAPSs.

<i>ID</i>	<i>Respondent</i>	<i>Respondent Comment</i>	<i>Change?</i>	<i>Staff Comment (where necessary)</i>
23	PWC	We suggest amending paragraph 1 to read "The purpose of this IAPS is to provide additional guidance when the auditor expresses an opinion on financial statements <u>that are asserted by management to be</u> prepared....."	Yes	
Paragraphs 2 -4 – Financial Statements Prepared Solely in Accordance with International Financial Reporting Standards				
Paragraph 2				
24	Ernst & Young	The use of "IFRSs" and "IFRS" in paragraph 2 and 8 is not consistent throughout.	Yes	Amended paragraph 8 for consistency.
25	NYSSCPA	<p>Since an unqualified opinion is expressed when the auditor concludes that the financial statements provide a true and fair view (or are presented fairly, in all material respects) in accordance with the identified financial reporting framework, it should be clearly stated in paragraph two that an unqualified opinion is appropriate if any of the following immaterial conditions occur:</p> <p>(a) in bullet one, the sales for geographical segments do not have a material effect on the financial statements, (b) in bullet two, if those requirements that were omitted do not have a material effect on the financial statements, and (c) for bullet three, where the financial statements "comply with the significant requirements of" IFRSs (and again are not material to the financial statements).</p> <p>The final statement should clearly state its application only to material items.</p>	Yes	<p>Added "material" before the first bullet in paragraph 2 and paragraph 3 already specifically references "material departures."</p> <p>No other changes were considered necessary since this IAPS interprets ISA 700 and ISA 700 has a statement that the ISA only applies to material matters.</p>
26	PAAB/SAICA	It is suggested that the word "accounting" be deleted from the phrase "are in compliance with the accounting requirements of IFRSs". Accounting requirements would imply the recognition, measurement, disclosure and presentation requirements and hence the term "requirements" requires no further modification.	No	The use of "accounting" in this context is necessary in order to illustrate how entities could indicate partial compliance with IFRS that is confusing and lacks clarity.
27	PWC	Paragraph 2 provides a list of illustrations of financial statements that have not been prepared in accordance with IFRSs. This is a useful list. However, the examples focus on note disclosure and, therefore, could be illustrative of both the accounting policy note when the financial statements purport to have been prepared in accordance with the IFRS (which is the subject of this section of the IAPS), or voluntary disclosure of the extent of compliance with IFRSs when the financial statements have been prepared in accordance with another financial reporting framework (which is addressed in a subsequent section of the IAPS). To avoid any confusion, we would suggest redrafting the examples so that they are illustrative of the note disclosure of the basis of preparation of the financial statements and the specific accounting policies applied.	Yes	The examples in paragraph 2 were revised to indicate that the reference to "note" relates to the accounting policy footnote. Also, with the change to the header above paragraphs 2-4, it should be clear that this section relates solely to financial statements that are intended to comply only with IFRSs.
28	PWC	We also consider that, in the same manner as in paragraph 6, this section should include guidance that suggests that it would be helpful for the auditor to first discuss the draft financial statements with management, in order to try to persuade them to amend or remove any references to compliance with IFRS that are considered misleading or that may result in modification or qualification of the auditor's report.	No	This change was considered outside the scope of the IAPS. Note, however, that paragraph 9 does indicate situations where it may be best to not refer to compliance with IFRSs.

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
29	UK APB	It would be helpful to indicate more explicitly that this first section (paragraphs 2 to 4) provides guidance for situations where the financial statements have been prepared to comply solely with IFRSs (compliance with other financial reporting frameworks is addressed later).	Yes	The title above paragraphs 2-4 was revised to "Financial Statements Prepared <u>Solely</u> in Accordance with International Financial Reporting Standards" to make it more evident that this relates only to compliance with IFRSs. Other titles were also revised for clarity and made consistent throughout the IAPS.
30	UK APB	The third bullet point in paragraph 2 should be deleted – it should be self-evident, and provides a potentially confusing overlap with the guidance in paragraphs 8 and 9. Paragraph 2 is dealing with situations where a modified audit opinion has to be given if there is any departure from IFRSs, while paragraphs 8 and 9 indicate a higher threshold for a modified audit opinion where there is a departure from IFRSs (because the entity is primarily reporting compliance with another financial reporting framework). The confusion may arise because the latter would appear to imply an unqualified opinion (though a silent one) on partial compliance with IFRSs; the crucial distinction is the framework being used. As a related point, it should be suggested that the note should make clear that the financial statements had not been prepared in order to comply with IFRSs (see paragraph 10 of our suggested redraft).	No	The third bullet to paragraph 2 was not deleted because it no longer appears confusing subsequent to the change in the title above paragraphs 2-4. This bullet is important because it refers to terms indicating partial compliance with IFRSs. See the APB UK comments below for discussion of the changes to paragraphs 8-9 and the additional paragraphs 10-11.
Paragraph 3				
31	ACCA	Paragraph 3 of the proposed IAPS indicates that an unqualified opinion is not appropriate: 'if the financial statements contain any departure from IFRSs and the departure has a material effect on the financial statements'. The wording of paragraph 3 may have been intended to restrict this statement only to that part of the opinion which relates to IFRSs and so exclude consideration of the 'true and fair override'. However, for clarity of exposition, we recommend that such justifiable departures be referred to explicitly and that suitable guidance be given.	Yes	A footnote was added to the end of the third sentence.
32	CPA Australia	We agree that where the financial statements contain any departure from the IFRSs and the departure has a material effect on the financial statements, such a departure results in a qualified or adverse opinion.	No	
33	Ernst & Young	The third sentence of paragraph 3 of the Exposure Draft states that an unqualified audit opinion could not be expressed if the financial statements contain any departure from IFRS and the departure has a material effect on the financial statements. However, as explained above, IAS 1 acknowledges that a departure from a requirement in an IFRS, or in an SIC Interpretation, may be necessary to achieve a true and fair view. Thus, if a departure from an IFRS or an SIC Interpretation was based on IAS 1.13, an unqualified audit opinion could be expressed. We recommend that this issue be clarified in the third sentence of paragraph 3.	Yes	A footnote was added to the end of the third sentence.
34	FEE	IAS 1 acknowledges that in extremely rare cases departure from a requirement of IFRS is necessary to achieve a fair presentation when management concludes that compliance with this requirement would be misleading. The exposure draft of proposed improvements to IAS 1 discusses this issue in paragraphs 13 to 15. In particular, paragraph 13 allows in extremely rare cases departure from a requirement when compliance would be so misleading that it could conflict with the objective of financial statements set out in the IASB's framework. Provided that the auditor agrees with management on the necessity to depart from IFRS, this would not result in a qualification. We are surprised that this situation is not referred to in paragraph 3 of the draft IAPS.	Yes	A footnote was added to the end of the third sentence.
35	Grant Thornton	Paragraph 3 states that the auditor does not give an unqualified opinion if there is a material departure from IFRS. We are concerned that this paragraph does not make a reference to the true and fair override provisions contained	Yes	A footnote was added to the end of the third sentence.

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
		in IAS 1 (currently paragraph 13) and, as such, could be misinterpreted. We recommend that a footnote be added which states "A departure from the requirements of a particular IFRS made under the provisions of IAS 1, paragraph 13, does not constitute a departure from IFRS for this purpose." The reference to the footnote would be added to the end of the third sentence.		
36	Grant Thornton	The penultimate sentence of paragraph 3 should be modified to add ", their application" after "regarding the accounting policies selected".	Yes	Modified to mirror the language in ISA 700.36 item (b).
37	IRE, Belgium	Suggested change to paragraph 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) (1) in accordance with the (2) 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..... (1)Suggestion to change text into " that the financial statements (give a true and fair view) (or) are presented fairly, in all material respects" ; (2)Insert : "(in the Financial Statements by the Management)"	No	No changes were made since this language comes from existing ISA 200, "Objective and General Principles Governing an Audit of Financial Statements."
38	NYSSCPA	Sentence three of paragraph three essentially restates sentence one and should either be combined with sentence one or follow it. The thought may be better stated as, "Accordingly, the auditor expresses a qualified or adverse opinion that indicates that financial statements have been prepared...."	No	No change considered necessary.
39	UK APB	Paragraph 3 of the draft IAPS indicates that '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'. This is correct in so far as it goes. However, this section needs to address the possibility (set out in paragraphs 13 and 14 of the exposure draft of revised IAS 1) that there may be extremely rare circumstances in which compliance with an IFRS would so misleading that it would conflict with the objective of financial statements set out in the IASB's Framework. In these circumstances the entity discloses that it has complied with applicable IFRSs and Interpretations of those Standards except that it has departed from a requirement of a Standard or an Interpretation to achieve a fair presentation. Providing the auditor agrees with the entity's statement, and all other necessary related disclosures are given, the audit opinion should not be qualified in respect of the departure from the IFRS.	Yes	A footnote was added to the end of the third sentence.
Paragraph 4				
40	Grant Thornton	Paragraph 4 could be misunderstood to be applying to the opinion on the financial statements included in the auditor's report rather than simply the reference to the financial reporting framework that is included in the report letter. We believe the paragraph would be clearer if it was modified as follows: "In addition, paragraph 17 of ISA 700 requires that the auditor's report clearly describe the financial reporting framework used in the preparation of the financial statements. If the auditor's report contains any qualifying or limiting language when describing the financial reporting framework, the auditor's report does not meet the requirement in paragraph 17 of ISA 700. For example, an opinion paragraph that indicated "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."	Yes	Paragraph 4 was revised for clarity, based on the recommendation. However, the first sentence of the suggested revision was not added since this is already stated in paragraph 1.

<i>ID</i>	<i>Respondent</i>	<i>Respondent Comment</i>	<i>Change?</i>	<i>Staff Comment (where necessary)</i>
41	IRE, Belgium	<p>The auditor cannot report with reference to a framework that doesn't exist. If there is no FULL compliance with IFRS, the auditor cannot refer to this fact in his report. Nevertheless, it is possible to detail the framework in the accounting policies, so that the auditor can refer to these accounting policies, to certify that the financial statements are prepared in accordance with the accounting policies. In this case the auditor would refer in his report as follows: 'The financial statements have been properly prepared in accordance with the accounting policies set out in note 1 of these financial statements'.</p> <p>In this case we suggest not to mention a 'true and fair view' or 'fairly stated' because this is only possible in the case of a 'comprehensive accounting framework', which isn't the case if something has been self-defined in the notes to the financial statements. In the notes to the financial statements, one could refer to the compliance with certain IAS/IFRS to describe the accounting policies as comprehensively as possible.</p>	No	Consideration of an appropriate financial reporting framework is beyond the scope of this project but will be forwarded to the Auditor's Report Task Force for consideration as part of the revision to ISA 700.
42	NYSSCPA	We recommend that the balance of paragraph 17 of ISA 700 either be inserted here (paragraph 4) or in a footnote to this paragraph.	No	Changes were made to this paragraph for clarity, but it was considered unnecessary repetition to include the full paragraph.
43	NYSSCPA	The example in paragraph four states, "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." We take this to mean that stating "the financial statements give a true and fair view ... (deleting "and are in substantial compliance with IFRSs") is appropriate when the auditor is of the opinion that the other reporting framework followed does not have a material (i.e., non-substantial) effect on the financial statements.	No	The understanding is correct.
44	NYSSCPA	It would also be helpful to define the term, "substantial compliance with IFRSs."	No	The term "substantial compliance with IFRSs" is an intentional description of a lack of clarity that is confusing to users and therefore cannot be included in an unmodified audit report.

Paragraphs 5 -7 – Financial Statements Prepared in Accordance with International Financial Reporting Standards and a National Financial Reporting Framework

Paragraph 5

45	CNCC/OEC	<p>The situations described in paragraphs 5 to 7, where the financial statements have been prepared in accordance with more than one framework, and the resulting consequence that they must comply with each of the financial frameworks individually, seems rather theoretical or at least very exceptional. The exceptional character of such a situation is mentioned in paragraph 5 where it is stated that <<[...] in practice, simultaneous compliance with both IFRSs and national financial reporting framework is unlikely, unless the country has adopted IFRSs as its national reporting framework [...] >>. Nevertheless, the text, should, in our opinion, be strengthened to highlight that this type of situation is extremely rare.</p>	Yes	<p>There were multiple comments received on revising the reference that it is rare/unlikely that the financial statements can simultaneously comply with IFRS and another national financial reporting framework. Most commentators wanted the guidance to be strengthened, but others wanted it to be weakened or at least accommodate situations where compliance with multiple frameworks is not confusing as indicated in the last two sentences of paragraph 5. The proposed change is to strengthen the guidance on ability to simultaneously comply with IFRS and a national financial reporting framework, although not using the word "rare".</p>
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ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
				Instead the phrase “extremely unlikely” is proposed here and conformed in paragraph 6. However, to accommodate the request for acknowledgment of situations where compliance with both frameworks is not confusing, the last two sentences of paragraph 5 was changed from “likely to be” to “may be” and the reference to “for all but the most straight forward entities” was deleted since this appears somewhat confusing and not substantiated or defined.
46	CPAAustralia	We agree that for financial statements to have been prepared in accordance with more than one framework, they must comply with each of the frameworks individually.	No	
47	Ernst & Young	The Exposure Draft envisages the circumstance where financial statements have to comply with IFRS and also with another reporting framework. Paragraph 5 states that even where the requirements of IFRS and the other financial reporting framework are sufficiently similar that it is only necessary to prepare one balance sheet, one income statement and one cash flow statement, the notes to the financial statements are likely to be confusing. We fail to see why the notes would be confusing since they would contain all the disclosures required by both financial reporting frameworks. Even if the disclosure requirements of the two financial reporting frameworks were different, in our view this would not threaten the understandability of the financial statements. In this context it has to be recognized that in many countries, for various reasons such as listing requirements, financial statements using IFRS are supplemented by a considerable amount of additional information. Neither we, nor the listing authorities concerned, nor users, appear to have found this confusing. Therefore, we recommend that the last two sentences of paragraph 5 be deleted.	Yes	The last two sentences were not deleted; however, the reference to “likely to be” was revised to “may be” to encompass those situations. Also deleted the reference to “for all but the most straight forward entities” since this appears confusing and is not substantiated or defined. See further discussion in response to comment #45.
48	Grant Thornton	With respect to the material relating to compliance with more than one financial reporting framework, we agree with issuing a warning that such compliance is often difficult. However, more countries are continuing to converge their national standards with IASs and, therefore, the ability to comply with more than one financial reporting framework may no longer be rare, as this paragraph now states.	Yes	See response to comment #45.
49	IRE, Belgium	Suggested changes to paragraph 5: The financial statements may state that they have been prepared in accordance with more than one framework. For example, the notes may indicate that the financial statements comply both with International Financial Reporting Standards and with national financial reporting requirements. For financial statements to have been prepared in accordance with more than one framework, they must comply with each of the indicated frameworks individually. A set of financial statements that has been prepared in accordance with one framework and that contains a note or supplementary statement reconciling the results to those that would be shown under another framework has not been prepared in accordance with that other framework. This is because the financial statements themselves (3) do not show all the information required in the manner required by that framework. The financial statements must comply with both 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 unlikely unless the country has adopted IFRSs as its national financial reporting framework (4). 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, the notes to the	Yes	(3) – Sentence revised for clarity. (4) – Added similar guidance to the end of the sentence. (5) – No change to the IAPS was considered necessary from this comment.

<i>ID</i>	<i>Respondent</i>	<i>Respondent Comment</i>	<i>Change?</i>	<i>Staff Comment (where necessary)</i>
		financial statements are likely to be confusing for all but the most straightforward entities (5). This could threaten the understandability of the financial statements. (3)Question: use of IAS terminology? (4)Insert : "or has eliminated all barriers for applying IFRS" (5)Insert : "unless adequate presentation is found"		
50	NYSSCPA	Paragraph five states, "The financial statements may state that they have been prepared in accordance with more than one framework. For example, the notes may indicate that the financial statements comply both with International Financial Reporting Standards and with national financial reporting requirements." ISA 700.03 states, "This review and assessment involves considering whether the financial statements have been prepared in accordance with an acceptable financial reporting framework [footnote omitted] being either International Accounting Standards (IASs) or relevant national standards or practices. It may also be necessary to consider whether the financial statements comply with statutory requirements." The ISA language is "either or" and it does not say or imply that the financial statements "comply with both IFRSs and with national financial reporting requirements.	No	No changes considered necessary since this IAPS is an interpretation of ISA 700. However, in the revision of ISA 700, the Task Force may need to consider the use of "or" as opposed to "and." These and other comments to be forwarded to the Auditor's Report Task Force for further consideration.
51	NYSSCPA	Paragraph five also says, "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, the notes to the financial statements are likely to be confusing for all but the most straightforward entities. This could threaten the understandability of the financial statements." While this may be an intuitive statement it may not always be the case. The final statement should also encompass those situations where the notes are factual, transparent, and unlikely to be confusing.	Yes	Revised from "likely to be" to "may be" to encompass those situations. Also deleted the reference to "for all but the most straightforward entities" since this appears confusing and is not substantiated or defined. See further discussion in response to comment # 45.
52	PWC	In our view, it is virtually impossible to prepare financial statements that comply with two financial reporting frameworks simultaneously unless a national financial reporting framework is IFRS. For that reason, we would suggest being even stronger in this paragraph in order to encourage entities to select a primary framework and report accordingly. One way of achieving this is: ...The financial statements must comply with both 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 <u>extremely</u> unlikely unless the country has adopted IFRSs as its national financial reporting framework. In <u>all</u> 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, the notes to the financial statements are likely to be confusing for all but the most straightforward entities. This could threaten the understandability of the financial statements.	Yes	See response to comment #45. Also note that the word "all" was not inserted since this change was not considered necessary.
53	Swiss Institute	We agree that a set of financial statements prepared in accordance with one framework that contains a note or supplementary statement reconciling the results to another framework, is confusing to the user and is not in accordance with the other framework.	No	
54	Swiss Institute	Paragraph 5 correctly states that, in practice, simultaneous compliance with both IFRSs and a national financial reporting framework is unlikely unless the country has adopted IFRSs as its national financial reporting framework and that in other cases of use of more than one framework, the understandability of the financial statements would be threatened.	Yes	See response to comment # 45.

Paragraph 6

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
55	ACCA	Paragraph 6 of the proposed IAPS suggests that auditors should encourage management to adopt one financial reporting framework as predominant. We do not believe that an IAPS should make such a proposal. The issue of 'predominance' is one which should be addressed by financial reporting standard setters and management. Auditors offering such encouragement may open themselves to business risk and a self-review threat to their independence (as set out in Section 8 'Independence for Assurance Engagements' of the IFAC Code of Ethics for Professional Accountants).	Yes	Paragraph 6 was revised to remove the reference to a "predominant" financial reporting framework and to eliminate the implication that the auditor makes management decisions regarding the framework to be applied. The reference to "predominant" framework was removed since this is not defined and guidance on determining the appropriate financial reporting framework is beyond the scope of this project. The guidance on encouraging management to select one framework was revised to put in the context of advising management and those charged with governance of the possibility of a qualified/ adverse opinion since it is extremely unlikely to comply with both IFRSs and a national financial reporting framework. Also, a reference to consider relevant laws and regulations was added.
56	CNCC/OEC	Encouraging, in paragraph 6, the auditor to discuss with management and those charged with governance to help determine which of the financial reporting frameworks is predominant, is appropriate.	Yes	Based on other comments received, the reference to "predominant" financial reporting framework was revised as indicated in the response to comment #55.
57	Ernst & Young	Paragraph 6 of the Exposure Draft appears to suggest that the auditor should be involved in a management decision, as it states that the auditor should encourage management to prepare the financial statements in accordance with the predominant financial reporting framework. This seems to conflict with the objectives and general principles governing the audit of financial statements as set out in ISA 200. According to ISA 200 paragraph 12, it is the responsibility of the auditor to form and express an opinion on the financial statements, while the responsibility for preparing and presenting the financial statements is that of the management of the entity. We recommend that paragraph 6 and the first sentence of paragraph 7 be deleted.	Yes	These paragraphs were not deleted; however, changes were made as indicated in the response to comment #55.
58	FAR	In paragraph 6 it should be recognized that national law could prohibit a "choice" between frameworks and a determination of a "predominant" one.	Yes	Added language on consideration of relevant laws and regulations and deleted the reference to "predominant" financial reporting framework with the proposed changes to paragraph 6 as discussed in the response to comment #55.
59	FEE	Paragraph 6 is not very clear on when a note on partial compliance could become misleading. Although this is a matter of judgement, some clarification would help. The problem is that the threat of audit report qualifications could inhibit companies from providing useful disclosures on the extent of their compliance with IFRS in the period before the EU regulation comes into effect. The suggestion that companies decide on a "predominant framework" is interesting. However, unfortunately this would only be useful if the auditor did not have to report on compliance with any other financial reporting	Yes	The guidance on what is considered misleading is included in revised paragraphs 8-11. See response to comment #55 for changes made to revise the guidance on encouraging management to select the predominant financial reporting framework. The changes were

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
		framework and even in this case he would have to proceed as explained in paragraph 7. We would also like to draw your attention to the risk connected with using an expression such as "the auditor encourages management" in paragraph 6. This wording may give the impression that the auditor could engage in management-type activities that would threaten the auditor's independence and objectivity. Auditors should simply advise those charged with governance of the potential consequences for their audit report of proposed financial statement disclosures.		consistent with the suggestion.
60	Grant Thornton	<p>In addition, we are uncomfortable with the concept of determining which framework "is predominant". We believe that the paragraph should be amended, as noted below, to reflect what we believe is the purpose for the discussion with management and those charged with governance. With this change, the last sentence of paragraph 6 becomes unnecessary.</p> <p>"It is helpful for the auditor to discuss financial statements that state that they have been prepared in accordance with more than one financial reporting framework with management and those charged with governance. The purpose of the discussion is to help assess whether the assertion that the financial statements have been prepared in accordance with both frameworks is appropriate, given that it is often difficult to comply fully with more than one financial reporting framework".</p>	Yes	See response to comment #55. Although the suggestion was considered in the revision, the last sentence was not deleted because it was considered important. Also, the change made did not encompass the last sentence of the recommendation since this could also be seen impairing independence since management is responsible for determining compliance when there are more than one financial reporting frameworks
61	IRE, Belgium	<p>Suggested change to paragraph 6:</p> <p>It is helpful for the auditor to discuss financial statements that purport to have been prepared in accordance with more than one financial reporting framework with management and those charged with governance. The purpose of the discussion is to help decide which of the financial reporting frameworks is predominant, given that the ability to comply fully with more than one financial reporting framework is rare (6). The auditor encourages management to prepare the financial statements in accordance with the predominant financial reporting framework only. The auditor's report is then worded in terms of whether the financial statements have been prepared in accordance with that financial reporting framework.</p> <p>Remark : except if there are legal or regulatory obligations</p>	Yes	Added language on consideration of relevant laws and regulations with the proposed changes to paragraph 6. See further discussion of changes in response to comment #55.
62	NYSSCPA	<p>Paragraph six reads, "It is helpful for the auditor to discuss financial statements that purport to have been prepared in accordance with more than one financial reporting framework with management and those charged with governance. The purpose of the discussion is to help decide which of the financial reporting frameworks is predominant, given that the ability to comply fully with more than one financial reporting framework is rare. The auditor encourages management to prepare the financial statements in accordance with the predominant financial reporting framework only. The auditor's report is then worded in terms of whether the financial statements have been prepared in accordance with that financial reporting framework."</p> <p>The significant implementation problem involving "predominance" is raised in this paragraph, but the auditor discussing it with management and others does not necessarily resolve the issue. What are the criteria and benchmarks for determining predominance? How does the auditor determine whether the main part of the financial statements (i.e., predominant portions) is prepared under one or the other framework? Using what measures? Is there a standard of "higher quality" or "transparency?" Essentially, the term "predominance" requires definition in order for it to be useful.</p>	Yes	See response to comment #55.
63	Swiss Institute	Paragraph 6 suggests that the auditor encourages management in their choice of a single reporting framework. The wording seems to us not suitable for describing the role of an auditor. The auditor should not encourage, but advise management on possible impacts such as described under paragraph 5 (particularly on the fact that issuing simultaneously two clean opinions on the same set of financial statements is very unlikely to be possible), but	Yes	See response to comment #55. The change is consistent with the recommendation.

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
		restrain from taking any influence in management functions.		
64	UK APB	Paragraph 6 of the draft IAPS does not provide helpful guidance and should be deleted (and consequential changes made as necessary to paragraph 7). If management has a valid choice of frameworks, then ultimately the decision as to whether they should seek to comply with one or both, where that is possible, is for them to make. If the auditor encourages the use of one framework in favour of another in such circumstances the auditor may be perceived as making management decisions, which is unacceptable. Also, whilst one financial reporting framework may be predominant, management may have reason to believe that a valid alternative framework is actually more relevant to the users of the entity's financial statements. The fact that paragraph 5 has already indicated that 'The financial statements must comply with both frameworks simultaneously and without need for reconciling statements if they are to be regarded as having prepared in accordance with both', also seems to render paragraph 6 unnecessary.	Yes	This paragraph was not deleted; however, significant changes were made as indicated in the response to comment #55.
		Paragraph 7		
65	CNCC/OEC	However, allowing the audit report to refer to two frameworks will, in our view, give rise to confusion, particularly when, as mentioned in paragraph 7, the auditor expresses an unqualified opinion on compliance with one framework and a qualified opinion with regard to the second framework. The Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables would therefore prefer that the IAPS did not allow the possibility of reporting simultaneously on compliance with more than one framework in the same audit report.	No	No change made since the Board has previously decided to allow the possibility of reporting simultaneously on compliance with more than one framework in the same audit report.
66	CPAAustralia	We agree that if management insists on indicating that the financial statements have been prepared in accordance with more than one framework that the auditor can express an unqualified opinion on one of the frameworks and a qualified or adverse opinion on compliance with the other framework.	No	
67	Grant Thornton	With the change to paragraph 6 above, the word "however" in the first sentence of paragraph 7 becomes unnecessary. We also recommend that the words "insists on indicating" in the first sentence of paragraph 7 be changed to "believes".	Yes	Deleted "however", but determined the other change was unnecessary.
68	IRE, Belgium	Suggested change to paragraph 7: If, however, management insists on indicating that the financial statements have been prepared in accordance with more than one framework, the audit report may (7) refer to those frameworks. However, the auditor considers each framework separately. If the auditor is of the opinion that the financial statements are in accordance with only one of the frameworks 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. Question: "must" i.p.v. "may"?	Yes	Changed to "refers".
69	NYSSCPA	The final statement of paragraph seven should contain an example of the suggested qualified or adverse language and discuss the possibility of an unqualified opinion in the situation outlined in sentence one.	Yes	An example opinion was added for discussion by the IAASB.
70	PAAB/SAICA	We suggest that the first sentence of paragraph 7 read as follows "If, however, management insists on indicating that the financial statements have been prepared in accordance with more than one framework, the audit report may refers to those frameworks."	Yes	

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
Paragraphs 8 – 11 – Financial Statements Prepared in Accordance with a National Financial Reporting Framework with Disclosure of the Extent of Compliance with International Financial Reporting Standards				
71	AARF	<p>The proposed IAPS requires the auditor to issue a modified audit report (qualified, or adverse) in circumstances when a note to the financial statements “implies compliance with International Financial Reporting Standards (IFRS) without providing sufficient information for readers to determine the extent to which the financial statements fail to comply with IFRSs” [Paragraph 9 (b)]. The proposed IAPS also provides an illustration of a qualified opinion when there is non-compliance with a requirement in International Accounting Standard IAS 39 “Financial Instruments: Recognition and Measurement”.</p> <p>The proposed IAPS needs to accommodate circumstances that enable an optional and materially correct statement to be made in the financial statements regarding compliance with IFRSs without the issuance of a modified audit report by the auditor. Such circumstances may arise, for example, in a national jurisdiction where standards are presently not fully harmonised with their international accounting equivalents. Although a national Accounting Standards Board may be committed to harmonisation with International Accounting Standards (IASs), there presently may not be a specific requirement for compliance with every International Accounting Standard. Furthermore, there may not be a national equivalent to IAS 39 “Financial Instruments: Recognition and Measurement” that is referred to in the illustration of a qualified opinion in the proposed IAPS [see Paragraph 9]. In this situation, we believe a company should be able to make a voluntary disclosure about the extent to which the requirements of IFRSs are followed in the financial statements. If this voluntary disclosure is not inaccurate or misleading, we do not believe an audit report qualification is appropriate. An emphasis of matter paragraph instead of a qualified opinion on the primary financial statements in the circumstances contemplated in Paragraph 9 may be a more appropriate treatment.</p>	Yes	Paragraph 11 was added to balance the discussion (that is, to recognize that the disclosures are not always misleading and a qualified or adverse opinion is not always required when there is reference to partial compliance with IFRSs). This new paragraph discusses the auditor’s use of an emphasis of matter paragraph, without overemphasizing it.
72	AARF	<p>The AuASB supports the notion that management explain departures from IASs in a note to the financial statements whenever there is a conflict between the international and national accounting standards and there is the potential that readers of financial statements might be mislead. The AuASB also supports the notion that the auditor needs to obtain sufficient appropriate evidence to support management’s assertions [see Paragraph 8]. However, the AuASB also believes that the requirement for the auditor to issue a qualified audit report in circumstances when there is a conflict between national and international accounting standards needs to be treated specifically within the revisions of ISA 700 that currently form part of the IAASB project on Audit Reporting.</p> <p>Although not explicitly stated in the draft ED, in circumstances when there is a conflict between national and international accounting standards, we believe that as a consequence of the wording in the ED, a qualified opinion may be issued. If this construction is an intention of the draft ED, it is a new requirement in relation to the audit of financial statements. IAPSs generally expand on the application of basic principles or essential procedures in existing auditing standards without establishing any new basic principles or essential procedures in their own right. Basic principles and essential procedures are generally the domain of auditing standards. Furthermore, if it is recognised and accepted that a basic principle might be established with the requirement in Paragraph 9 of this IAPS, the statement that “This IAPS does not also establish any new requirements for the audit of financial statements” [in Paragraph 1] needs to be amended.</p>	Yes	Paragraph 11 was added to balance the discussion (that is, to recognize that the disclosures are not always misleading and a qualified or adverse opinion is not always required when there is reference to partial compliance with IFRSs). This new paragraph discusses the auditor’s use of an emphasis of matter paragraph, without overemphasizing it. No guidance on conflicts between national frameworks and IFRSs was added since this was considered beyond the scope of this project.
73	CICA	The first sentence of paragraph 9 of the ED states “A note to the financial statements containing disclosure about compliance with IFRSs is treated no differently from any other note to the financial statements.” This implies that the guidance in ISA 700 dealing with modified reports applies to such a note to the financial statements, as it would to any other note to the financial statements. We agree with this approach.	Yes	Additional guidance was added in paragraphs 8-11 including guidance on when the entity does not quantify the lack of departure. A detailed discussion on the points on the spectrum that

ID	Respondent	Respondent Comment	Change?	Staff Comment (where necessary)
		<p>We believe that readers would expect the note to the financial statements containing a reference to compliance with IFRSs to quantify the extent to which the financial statements fail to comply with IFRSs. Therefore, if the note does not quantify the extent to which the financial statements fail to comply with IFRSs, we believe the auditor should issue a modified report, as suggested in the ED. However, paragraph 9 of the ED indicates that the auditor would issue either a qualified or an adverse opinion. It also provides an illustration of a qualified opinion that does not quantify the effect of the failure to comply with IFRSs. We believe that paragraph 9 oversimplifies the situation as follows.</p> <p>The nature of the auditor's modified report would depend on how material and pervasive the effect of the failure to comply with IFRSs was and whether the entity had quantified the effect, or whether the auditor was able to do so if the entity had not. For example, at one end of the spectrum, the effect of the failure to comply with IFRSs may not be pervasive and may be quantifiable. In this case, the auditor could issue a qualified opinion that would quantify the effect on the financial statements. At the other end of the spectrum, the effect of the failure to comply with IFRSs may be pervasive and the entity may not provide the information that the auditor would require in order to quantify the effect on the financial statements. In this case, the auditor might issue a disclaimer of opinion.</p> <p>In conclusion, we believe paragraph 9 needs to be expanded to consider the different points on the spectrum that may arise. In this respect, the guidance should include how the auditor deals with the situation when the entity has not quantified the effect of the failure to comply with IFRSs as this will likely be a common occurrence.</p>		<p>may result in either: no qualification, a qualified opinion or an adverse opinion was not added since this depends on the auditor's judgment given the situation and the basic principles are outlined in this IAPS. However, whether additional guidance is needed on issuing a qualified or adverse opinion will be proposed for discussion by the IAASB.</p>
74	CICA	<p>We also have the following comments on the illustration:</p> <ul style="list-style-type: none"> •We recommend that the illustration in paragraph 9 be revised to include quantification of the effect, as this presumably is the simplest scenario as described above. •We question whether IAS 39 is the best IAS to use in the illustration given that it will often have a pervasive effect on the financial statements. •Notwithstanding our comments in the first bullet, we suggest the last sentence of the first paragraph of the illustration be replaced by something along the following lines: "The notes to the financial statements do not disclose the significant effect of non-compliance with IAS 39 on the entity's financial statements. In my opinion, [relevant financial reporting framework] requires that such disclosure be made." In addition, the wording of the opinion paragraph should be amended to "In our opinion, except for the failure to disclose the effect of non-compliance with IAS 39 on the entity's financial statements referred to in the preceding paragraph, the financial statements present..." 	Yes	<p>The example qualified opinion was modified, but no discussion of quantification was added since the modified qualified opinion results from the material and pervasive effect of not applying IAS 39, irrelevant of the lack of quantification of the effects of lack of such application.</p>
75	CPAAustralia	<p>We agree that entity's which prepare their financial statements in accordance with an acceptable financial reporting framework other than IFRSs may disclose, in the notes to those statements the extent to which they comply with IFRSs and agree that an auditor is required to obtain sufficient appropriate audit evidence to support the assertions of management regarding all note disclosures.</p>	No	
76	Ernst & Young	<p>According to IAS 1.11 financial statements may only be described as complying with IFRS if they comply with all the requirements of each applicable IFRS and each applicable interpretation of the SIC. Also, IAS 1.12 states that appropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes, or by explanatory material. However, the Exposure Draft envisages circumstances where a statement of partial compliance with IFRS may be made. We believe that any such statement of partial compliance with IFRS in the financial statements would be misleading, even if information is provided explaining the extent to which the financial statements do not comply fully with IFRS. Therefore, if financial statements are prepared in accordance</p>	No	<p>Paragraphs 8 and 9 were not deleted (but rather expanded) given the Board's previous decisions made with regards to disclosing the extent of compliance with IFRSs. However, many changes were made to paragraphs 8-9 based on other comments received.</p>

<i>ID</i>	<i>Respondent</i>	<i>Respondent Comment</i>	<i>Change?</i>	<i>Staff Comment (where necessary)</i>
		with another acceptable financial reporting framework, we believe that a reference to IFRS would be acceptable only if the financial statements complied also with all the requirements of each applicable IFRS and each applicable interpretation of the SIC. In this case the guidance provided in paragraphs 5 and 6 of the Exposure Draft would apply when expressing an audit opinion. However, if the financial statements contained a statement indicating only partial compliance with IFRS, we consider that the audit opinion should be qualified with regard to compliance with IFRS. Consequently we recommend paragraphs 8 and 9 should be deleted, and paragraph 7 be changed to state explicitly that an unqualified audit opinion with regard to compliance with IFRS should not be expressed on financial statements containing a statement in the notes that indicated only a partial compliance with IFRS.		
77	Ernst & Young	Paragraph 9 contains two typographical errors in the illustrative qualified opinion: •in the first sentence “prepares” should be replaced by of “prepared”; •in the same sentence “ISA 39” should be replaced by of “IAS 39.	Yes	
78	FAR	Substance over form? In paragraph 9 it is not clearly expressed whether it is acceptable or not to depart from IAS as long the effects are not significant. It could be argued – post-Enron et. al. – that all departures are unacceptable; i.e. compliance is a matter of form and not of substance.	No	Not within the scope of this project but may need to be considered by another task force.
79	FAR	Insignificant effects of departures: the guidance and the example on a qualified opinion do not seem to cover the case when a company disclosed the effects of a significant departure. Does this kind of disclosure heal the non-compliance? Whether it does or not, the guidance should address the topic.	Yes	Guidance added to paragraphs 8-10 to indicate when the lack of quantification results in the need to issue a qualified or adverse opinion.
80	FAR	The illustration of a qualified opinion is deficient. It is concluded that the non-compliance with IAS 39 has a “significant effect” on the financial statements and the text that follows includes such strong wording as “misleading” and “unacceptable”, all without proper illustration of why/on what basis the auditor has come to these conclusions. Paragraph 9 (b) describes the misleading situation that causes the auditor to qualify the opinion. But the reader of an auditor’s report containing the proposed illustration, the purpose of which would be to mitigate the failed information in the financial statements, has not been provided with “sufficient information ... to determine the extent to which the financial statements fail to comply with IFRSs (for example, quantification).” In our view, the illustration does not meet the black lettered requirements in ISA 700 paragraph 40. In that paragraph it is required a clear description of all the substantive reasons and, unless impracticable, a quantification of the possible effect(s) on the financial statements. The illustration in paragraph 9 in the IAPS should be redrafted accordingly to comply with what is said in the last sentence of paragraph 1.	Yes	The example audit opinion was modified. The revised example opinion is a qualified opinion irrelevant of the lack of disclosure of the quantification of differences. Further discussion of whether there is quantification of the possible effects of lack of application is left for the footnote referenced in the audit opinion.
81	FEE	Paragraph 8 would be more helpful if it indicated what is an acceptable financial reporting framework other than IFRS. We support the statement that when significant departures have been identified, the notes should also indicate the effect of such departure. Although this is covered by the words “without fully disclosing the effect of not applying that standard”, this issue could be emphasised in a separate paragraph explaining the type of disclosure that might be used. We also support the statement in paragraph 9 that a note about compliance with IFRS should not be treated differently from any other note to the financial statements. In our view, any disclosures within the financial statements that go beyond the specific requirements of a particular financial reporting framework cannot contain untruthful or materially inaccurate information or mislead the readers	Yes	Guidance on determining what is an “acceptable” or “appropriate” financial reporting framework is beyond the scope of this project but may be discussed as part of the revision to ISA 700. All references to “acceptable” were removed from the IAPS to prevent confusion. No other changes to the IAPS were considered necessary from this comment although certain changes were made in response to other comments received as noted elsewhere in this

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		of the financial statements and still be in compliance with an acceptable financial reporting framework. This would clearly be the case when a financial reporting framework included fair presentation or a true and fair view as its overriding principle. In our view, an acceptable financial reporting framework could not allow preparers to claim compliance with that framework when the financial statements contain material misrepresentations of any kind, including misrepresentations in relation to disclosures that are not required by that framework.		analysis.
82	FEE	<p>Consequently, to the extent that a reference to compliance with IFRS represents a material misrepresentation, we would expect an auditor to qualify the auditor's report under the relevant national accounting framework.</p> <p>We agree that an emphasis of matter would not suffice where the financial statements contain a material misrepresentation contained in a disclosure that goes beyond the specific requirements of the financial reporting framework applied because this would mean that one is distinguishing violations of the true and fair view due to non-compliance with specific requirements from violation of the true and fair view resulting from other material misrepresentations.</p> <p>Nevertheless, FEE believes that the illustration developed in paragraph 9 of the draft statement is deficient and should preferably be deleted. It is implied that non-compliance with IAS 39 always has a "significant effect" on financial statements and the text that follows includes such strong wording as "misleading" and "unacceptable", all without proper illustration of why and on what basis the auditor has come to these conclusions.</p> <p>Moreover, paragraph 9 (b) refers to a misleading situation that causes the auditor to qualify the opinion, but the reader of an auditor's report containing the proposed illustration (the purpose of which should be to mitigate the deficiency in the financial statements) is not provided with "sufficient information to determine the extent to which the financial statements fail to comply with IFRSs (for example, quantification)". The illustration does not clearly meet the back lettered requirements in paragraph 40 of ISA 700 to provide a clear description of all the substantive reasons and, unless impracticable, a quantification of the possible effects on the financial statements.</p> <p>If, despite our reservations, the IAASB believes that the illustration needs to be maintained, it should at least be redrafted. Whether or not an assertion that one has complied with the IFRS except for IAS 39 constitutes a material misrepresentation depends upon the potential effect that IAS 39 would have on the financial statements in question. For example, the assertion that the financial statements comply with IFRS except for IAS 39 could be construed as being materially misleading if it leaves the impression that only one of over 40 IFRS has not been complied with in a situation where the effect of applying IAS 39 would be material and pervasive.</p>	Yes	The example qualified opinion was redrafted based on this and other comments received.
83	Grant Thornton	In the illustrative report letter in paragraph 9, the word "indicate" in the first sentence should be "indicates", "prepares" should be "prepared" and "ISA" should be "IAS."	Yes	
84	IDW	<p>No quantification of the possible effects of the departure from IFRS by not applying IAS 39 was provided in the auditor's report in the illustrative qualified opinion at the end of the proposed IAPS, even though such quantification is required unless impracticable by ISA 700.40. In our view, if no quantification is provided because it is impracticable to do so, then the fact that quantifying the possible effects on the financial statements is impracticable should be explicitly stated in the paragraph describing the substantive reasons for the qualification.</p> <p>Furthermore, the use of the adjective "substantially" in the illustrative qualified opinion to modify the term "in accordance with International Financial Reporting Standards" is not necessary to achieve a qualified opinion when there is a material departure from IAS by not applying IAS 39. By removing the word "substantially", it becomes</p>	Yes	The example opinion was revised based on this and other comments received to make it clear that the qualified opinion is due to departure from IAS 39. No discussion of quantification was considered necessary given that the qualification is due to material and pervasive noncompliance in the circumstances and not from lack of quantification.

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		more clear that the departure from IAS 39 is causing the qualification – not the assertion in relation to “substantial” compliance.		
85	IRE, Belgium	<p>Suggested changes to paragraph 9:If the financial statements fail to comply with the entity's financial reporting framework because (8) the disclosures are misleading, the auditor's report expresses a qualified or an adverse opinion.</p> <p>(8) Question: Is this the link?</p>	No	The opinion is qualified because the financial statements fail to comply with the national financial reporting framework as a result of the misleading disclosures related to compliance with IFRSs.
86	IRE, Belgium	<p>Question: “What if management states in the accounting policies that there should be compliance with IFRS regarding recognition and valuation of assets and liabilities, but no compliance with IFRS regarding disclosures.”</p> <p>Suggestion: We suggest to add the following case. An entity that prepares financial statements both in accordance with IFRS for recognition and measurement of assets and liabilities but not for presentation and disclosure and in accordance with relevant national standards and practices. Note that these cases exist when companies have aligned their accounting policies for consolidated financial statements to IFRS but are still required to report in accordance with national standards which prescribe other disclosures. In such case the auditor should only express an opinion on the financial statements in accordance with the national standards and practices. No specific reference but also no qualification requires to be made in the audit report to the alignment of the accounting policies to the IFRS since this could lead to the appearance that the financial statements are in accordance with IFRS. On the other hand the reference to IFRS for recognition and measurement purposes doesn't mislead the reader or user of the financial statements either. We believe this case will occur quite frequently for companies that are not listed but that want to gradually introduce IFRS in their financial reporting without having to disclose in accordance with IFRS which can be a cumbersome task.</p>	No	The IAASB has previously decided not to adopt this approach. In particular, the reference to compliance with IFRS in a footnote where there has not been compliance with the disclosure requirements of IFRS misleads the readers if the lack of disclosure is material to compliance with IFRSs.
87	JICPA	The word “quantification” that is used as an example for the bullet (b) is not explained in paragraph 9 and, accordingly, may not be clearly understood by readers of this draft IAPS. We recommend that the meaning of “quantification” should be clearly explained in paragraph 9 as follows: “Quantification means a reconciliation from another acceptable financial reporting framework to IFRSs.”	Yes	Revised the parenthesis based on the language in ISA 700.37.
88	KPMG	<p>Paragraphs 5 to 7 address opinions on financial statements prepared in accordance with both IFRSs and relevant national standards or practices. According to paragraph 7, when management insists on indicating that the statements have been prepared in accordance with more than one framework, the auditor considers each framework separately and when the auditor concludes that the statements are in accordance with only one of the frameworks 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.</p> <p>We are concerned that this position is not obviously consistent with paragraphs 8 and 9 of the Exposure Draft. Paragraphs 8 and 9 address opinions on statements prepared in accordance with national standards that also contain note disclosures regarding the extent of compliance with IFRSs. According to paragraph 9, when faced with this situation, the auditor considers whether the reference to compliance with IFRSs in the notes contains misleading information such that the statements fail to comply with the national standards. The main principle underlying the position taken in paragraph 9 is that disclosures in the notes to the financial statements regarding the extent of compliance with IFRSs may impact the fair presentation of the financial statements prepared by reference to local standards because the notes are an integral part of financial statements prepared by reference to local standards.</p>	Yes	Paragraph 7 has been revised to introduce the concept that certain matters may be so significant as to require a qualified or adverse opinion on both sets of financial reporting frameworks similar to the guidance in paragraphs 8-9. An example opinion was also added to paragraph 7. The example added was drafted in terms of when financial statements comply with IFRS and not the national financial reporting framework. Paragraphs 8-11 were also modified to introduce discussion of an emphasis of matter paragraph although the guidance added does not overemphasize the use of an emphasis of matter paragraph.

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		<p>If we apply this principle to paragraph 7, it is difficult to see how the Exposure Draft can suggest that when one set of statements is prepared by reference to two sets of standards, the auditor has the ability to consider the impact of each framework separately and, in certain circumstances, express an unqualified opinion in compliance with one framework and an adverse opinion on compliance with another. We believe that paragraphs 7 and 9 need to be made consistent in their approaches.</p> <p>The unsatisfactory nature of the guidance can be clearly seen by considering a case where a company to which IAS 39 is material fails to follow that standard. National GAAP has no equivalent. If reporting on both frameworks, the auditor following the guidance as drafted would issue a clean opinion on national GAAP and an adverse one on IFRS. If, on the other hand, the company was complying solely with national GAAP and the auditor was reporting solely in those terms, information about compliance with IFRSs being supplementary, it would appear that the auditor would be required to give an adverse, or at least qualified, opinion on compliance with national GAAP.</p> <p>We therefore recommend that paragraphs 5 to 7 of the Exposure Draft should be revised to make it clear that, when the auditor disagrees with reference to compliance with IFRSs in the financial statements and concludes a qualified or adverse opinion is necessary, the auditor should consider whether the matter is such as to cause the financial statements to fail to comply with national GAAP. If so, the opinion on national GAAP should also be modified appropriately.</p> <p>There may of course be circumstances where a departure from IFRSs and its disclosure is not sufficient to cause the financial statements to fail to comply with national GAAP. We suggest that this is in fact the most likely situation, and so we believe it would be helpful if the Exposure Draft were revised to provide relevant reporting guidance. The reporting guidance should cover:</p> <ul style="list-style-type: none"> • statements prepared by reference to two sets of standards; <p>In this case, the auditor should express an unqualified opinion in accordance with local standards and a qualified opinion in accordance with IFRSs. An example of such an opinion is as follows:</p> <p>Note X to the financial statements indicates that the financial statements have been prepared in accordance with [relevant national standards or practices] and, in all material respects, International Financial Reporting Standards. Note y indicates that the Company has investment properties in the amount of \$X. These properties are carried at cost less accumulated depreciations; this accounting is required by [relevant national standards or practices] and permitted by International Financial Reporting Standards. The fair value of these investment properties has not been disclosed. Such disclosure is not required by [relevant national standards or practices] but is required by International Reporting Standards.</p> <p>In our opinion:</p> <p>the financial statements give a true and fair view of 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 generally accepted accounting principals in XYZ country; and</p> <p>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 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.</p> <ul style="list-style-type: none"> • statements prepared by reference to local standards that also disclose the extent of compliance with IFRSs. 		

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		<p>In this case, the auditor should express an unqualified opinion in accordance with local standards and include an emphasis of matter paragraph regarding the disagreement with the disclosures regarding IFRSs. An example of such an emphasis paragraph is as follows:</p> <p>Without qualifying our opinion on presentation of the financial statements in accordance with [relevant national standards or practices], we draw your attention to Note X to the financial statements which states that the financial statements comply in all material respects with International Financial Reporting Standards (IFRSs). In our opinion, the statements do not comply in all material respects with IFRS because they do not disclose the fair value of investment properties held by the company. Such disclosures are required by IFRSs.</p>		
89	KPMG	<p>Our concern with respect to the guidance in paragraphs 8 and 9 is that it is not clear enough to result in consistent interpretation of what is meant by "misleading information such that the financial statements fail to comply with the entity's financial reporting framework." This is the key test, and it is uncontentious that, if the information is such as to cause the statements to fail to comply with the framework, an unqualified opinion cannot be given. The difficult question is when the information is such as to cause this to be the case. Paragraph 9 currently states that a note will likely contain misleading information when reference to compliance with IFRSs:</p> <p>(a) contains untruthful or materially inaccurate information; or (b) misleads readers because it implies compliance with IFRSs without providing sufficient information for readers to determine the extent to which the financial statements fail to comply with IFRSs (for example, quantification).</p> <p>The paragraph goes on to suggest that in such circumstances the auditor would qualify the opinion or give an adverse opinion. However, the Exposure Draft does not provide adequate guidance as to when an adverse as opposed to qualified opinion may be appropriate. In fact the Exposure Draft confuses the issue because it gives inadequate consideration to the distinction between information that is inaccurate but nevertheless does not cause the financial statements as a whole to be misleading, and information which does have the latter effect.</p> <p>We therefore recommend that the proposed Practice Statement should be changed to provide a description of the ways in which information may be misleading so that it will be more helpful to auditors in framing their audit opinion. It should, for example, clarify that untruthful or materially inaccurate described in (a) above would not necessarily render the financial statements as a whole misleading unless, as described in ISA 700, it is "so material and pervasive to the financial statements the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements."</p>	Yes	Changes were made to paragraphs 8-9 to clarify the guidance on what is misleading. Additional guidance on whether the auditor should issue a qualified or adverse opinion was not introduced as the basic principles are covered in ISA 700. This issue will, however, be proposed for discussion by the IAASB (see Issues Paper in Agenda Item 5-A).
90	NYSSCPA	Sentences four and five of paragraph eight focus on the situation where an assertion about IFRS may be (or is) misleading without disclosing the effect of not applying one IFRS standard. The fifth sentence then says (a) it may be more appropriate for the notes not to comment about the extent of compliance, or (b) to state that the financial statements have not been prepared in accordance with IFRS. Yet another alternative for auditor consideration would be to fully disclose the pervasive effect of not applying the IFRS.	No	The changes made in response to other comments should address this comment. In particular, the guidance has been clarified to indicate when disclosure of the effect of not applying the IFRS results in the need to issue a qualified or adverse opinion.
91	NYSSCPA	<p>The two situations in the fourth sentence of paragraph nine (top of page 7) bring up more substantive matters than are dealt with in this proposal and the proposal should reference the appropriate auditing literature dealing with fraud and managements integrity. It is recommended that a cross-reference be made to the appropriate sections of International Standards on Auditing or International Auditing Practice Statements.</p> <p>In the example opinion, change "prepares" to "prepared," in sentence one.</p> <p>An example of an adverse opinion should also be included in the final statement.</p>	Yes	The grammatical recommendations were made. No other changes were considered necessary.

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		Everyone agrees that misleading financial statements are unacceptable, but we suggest that this sentence should stop immediately after "misleading."		
		It is not clear just how a material departure from IFRSs and a material misstatement of facts results in an "except for" opinion.		
92	PAAB/SAICA	<p>We would support an introductory paragraph to this section of the practice statement explaining that with the globalisation of business and the growing adoption of IFRSs, entities will be attempting to move towards compliance with IFRSs and hence it is increasingly likely that financial statements which are prepared in accordance with relevant national standards or practices will contain disclosure in the notes on the extent of convergence with IFRSs. We believe this section should make it clear that a status report on the entity's progress towards convergence with IFRSs, that is accurate and not misleading, should not result in a qualified audit opinion as this will discourage voluntary disclosure on convergence.</p> <p>While we agree that the audit opinion should be qualified in circumstances where the reference to compliance with IFRSs is misleading, we believe that additional guidance is required on the interpretation of what is to be regarded as misleading to ensure consistent application of the guidance. We do not believe that the example of "quantification" is sufficient guidance in this regard. We also suggest that the illustrative audit report would be improved by indicating that the entity that had failed to disclose the effect of the departure from IAS 39 was a financial institution as the impact on such an institution is likely to be material and pervasive. Further similar practical examples of misleading references to compliance with IFRSs would serve to improve the guidance significantly.</p> <p>As presently drafted paragraph 9 (b) could be understood to imply that financial statements are regarded as misleading merely because they imply compliance with IFRSs. Perhaps this paragraph could be made clearer that financial statements would be regarded as being misleading when they fail to provide sufficient information for readers to determine the extent to which they do not comply with IFRSs.</p>	Yes	<p>No introductory paragraph, as suggested, was added to the IAPS since this was considered beyond the scope of the IAPS and perhaps more suitable for a discussion paper. However, a sentence was added to paragraph 8 based on comments received by the UK-APB.</p> <p>Changes were made to include additional guidance on what is considered misleading and discussion on emphasis of matter paragraph. The purpose of the proposed addition to paragraph 11 is to avoid discouraging voluntary disclosure without overemphasizing the use of an emphasis of matter paragraph.</p>
93	PAAB/SAICA	It is suggested that the word "accounting" be deleted from the phrase "are in compliance with the accounting requirements of IFRSs". Accounting requirements would imply the recognition, measurement, disclosure and presentation requirements and hence the term "requirements" requires no further modification.	No	The use of "accounting" in this context is necessary in order to illustrate how entities could indicate partial compliance with IFRS that is confusing and lacks clarity.
94	PAAB/SAICA	The illustrative wording of the audit report in paragraph 9 states that "the financial statements are <u>prepares</u> in accordance with ..." instead of "the financial statements are <u>prepared</u> in accordance with ..."; it also refers to ISA 39 instead of IAS 39.	Yes	
95	PWC	<p>We have reservations about the proposed guidance in those circumstances when the financial statements are prepared in accordance with an acceptable financial reporting framework and voluntarily disclose the extent to which the financial statements are also in compliance with IFRSs.</p> <p>Our reservations are twofold:</p> <ul style="list-style-type: none"> -first, whether the guidance on modifications to the auditor's report may inadvertently discourage voluntary disclosures and whether it is complete and, -second, whether there is sufficient guidance to ensure consistent judgments regarding misleading disclosures. 	Yes	Guidance added to paragraph 11 on emphasis of matter in order to alleviate concerns about discouraging voluntary disclosures. In addition, changes were made to the guidance on what is considered misleading.
96	PWC	We agree with the conceptual basis for arguing that the auditor should express a qualified opinion if there is a	Yes	Guidance added to paragraph 11 on emphasis

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		<p>voluntary disclosure regarding the extent of compliance with IFRS that is misleading. Indeed, ambiguous note disclosure regarding the extent to which the entity complies with IFRSs is inconsistent with the aim for transparency in financial reporting. We are concerned, however, that the proposed guidance might inadvertently discourage commentary in the financial statements regarding the extent to which the financial statements comply with IFRSs.</p> <p>As entities move towards adopting the IFRSs, we believe that it will be helpful for entities to disclose comprehensively the extent to which their financial statements comply with IFRSs. Indeed, we would suggest that the IAPS include wording in support of doing so. Paragraphs 8 and 9 of the draft IAPS, however, might not have the effect intended because they hold out a qualified opinion as the only course of action for the auditor and, together with the ambiguity on when such disclosures are misleading (as discussed further below), may result in discouraging entities from considering including any voluntary disclosure.</p> <p>A qualified opinion on the financial statements should be used when the disclosure is truly “misleading” in the context of the financial statements as a whole. We believe, however, that there are other circumstances when the use of an emphasis of matter paragraph could be both useful and appropriate.</p> <p>The “misleading” test sets a high threshold for circumstances when the auditor’s report should be qualified. For example, in ISA 700, The Auditor’s Report on Financial Statements, misleading is a test used to distinguish the need for an adverse opinion from a qualified opinion, and is related to a judgment on materiality and pervasiveness. We agree that threshold is appropriate. However, we would expect that more often than not, the voluntary disclosure will not necessarily be “misleading” in the context of the financial statements as a whole, but rather may be a matter on which the auditor may wish to comment in an explanatory paragraph to assist readers in understanding the implications of the disclosure.</p> <p>ISA 700 suggests that, in addition to the use of an emphasis of matter paragraph for matters that affect the financial statements, the auditor may also modify the auditor’s report by using an emphasis of matter paragraph, preferably after the opinion paragraph, to report on matters other than those affecting the financial statements. Thus, ISA 700 provides a conceptual basis for such an approach.</p>		<p>of matter in order to alleviate concerns about discouraging voluntary disclosures. In addition, changes were made to the guidance on what is considered misleading.</p>
97	PWC	<p>The draft suggests that the auditor considers whether a note about compliance with IFRS contains misleading information. As noted above, we support the principle, but are not convinced that the guidance in the draft IAPS will lead to consistent judgments in practice.</p> <p>For example, the illustrative qualified opinion refers to the financial statements being “substantially in accordance with IFRS except that they do not comply with IAS 39”. What is unclear in this example is whether the matter that led to the disclosure being considered misleading is the failure to quantify, or in some way convey the impact of, the effects of the failure to comply with IAS 39, or whether it is the fact that the entity asserts “substantial” compliance with IFRS despite failing to comply with IAS 39. We are concerned that the example could be interpreted both ways and could, therefore, lead to inconsistent judgments in practice. We would strongly recommend that IAASB provide a less ambiguous example and offer the following wording for the illustrative qualified opinion in paragraph 9:</p> <p>Note X to the financial statements indicates that the financial statements have been prepared 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 the effect on the company’s financial statements of non-compliance with IAS 39 is</p>	Yes	<p>Changes made as follows:</p> <ul style="list-style-type: none"> • the example qualified opinion was modified consistent with the recommendation • item 9(b) was also revised consistent with the recommendation • language on emphasis of matter was added in order to balance between the need to modify the opinion and not when there is note disclosure on the extent of compliance with IFRS (this should alleviate concerns that this IAPS will result in discouraging entities from voluntary disclosing the extent of compliance with IFRS)

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		<p>material and pervasive, we believe that the indication that the financial statements are substantially in accordance with IFRSs is misleading.</p> <p>In our opinion, except for the indication that the financial statements are substantially in accordance 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, 20XX, and of the results of its operations and its cash flows for the year then ended in accordance with [title of financial reporting framework with reference to the country of origin] (and comply with [refer to relevant statutes or law]).</p> <p>Similarly, the second criterion for misleading information in paragraph 9 (b) could be interpreted in different ways. It refers to the disclosure misleading readers because it "implies compliance with IFRSs without providing sufficient information for readers to determine the extent to which the financial statements fail to comply with IFRS". It is unclear whether the issue is the assertion regarding compliance, or the failure to provide full disclosure of any departures. We believe that the issue is the failure to disclose sufficient information when such disclosure is important to enable readers to understand the extent of compliance. Therefore, this criterion would be clearer if it focused only on the failure to provide sufficient information for readers to understand the extent to which financial statements comply with IFRS (for example, the failure to quantify the extent and pervasiveness of any departures) – which could be achieved by amending the wording as follows:</p> <p>"(b) fails to provide sufficient information for readers to understand the extent to which the financial statements comply with IFRSs and the pervasiveness of any departures.</p> <p>We would like to emphasise that we believe that IAASB should encourage comprehensive disclosures that tell the full story if entities choose to provide voluntary disclosures regarding the extent of compliance with IFRSs. The example above demonstrates a scenario when the disclosure is clearly misleading and the auditor's opinion on the financial statements qualified accordingly. However, we would not support any assertion of "substantial compliance" with IFRSs in a voluntary disclosure unless the entity complies, in all material respects, with all of the recognition, measurement and disclosure requirements of all applicable IFRSs. In all other circumstances, we would modify our report either through a qualification, if the disclosure were misleading in the context of the financial statements as a whole, or through an emphasis of matter paragraph.</p>		
98	PWC	<p>As noted under the second comment on paragraph 2, we would suggest that the guidance suggest that the auditor first talk with management to persuade them to amend or remove any references to compliance with IFRS that are considered misleading or that may result in modification or qualification of the auditor's report.</p> <p>In the illustrative qualified opinion, reference is made to ISA 39, rather than IAS 39.</p>	Yes	The grammatical correction was made, but no discussion was added on requesting management to remove references to IFRS as indicated in the response to comment #28 .
99	SIDI	The ED should give further illustrations of significant or material departures from IFRSs that warrant qualification in the auditor's report.	No	No additional examples were added since this IAPS is intended to be principles-based allowing for auditor judgment and because each situation must be considered within the context of circumstances related to the engagement.
100	Swiss Institute	Paragraph 8 treats the case where an entity does comply with another acceptable framework than IFRSs (what would be the attributes of such a framework?), but discloses the extent to which it complies with IFRS. The present wording does not really demonstrate the complexity of assuring completeness of such disclosures. Reconciliation of earnings and equity or cash-flows may be much less delicate than compliance with IFRS	Yes	Certain changes were made to this paragraph and to paragraph 9 including: adding more guidance to the paragraphs, a reference to completeness, and removing the reference to

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		disclosure requirements (e.g. segment information or other). However, the complexity of this issue is not apparent from the present wording and may continue to remain underestimated. We would welcome more specific guidance with regard to this aspect.		"another acceptable" framework. No other changes were considered necessary with the limited scope of this project.
101	UK APB	<p>The issue of reporting compliance with International Financial Reporting Standards (IFRSs) is becoming increasingly important as many countries move towards adoption of them. During this period of change the APB believes that it will be helpful for companies to disclose the extent to which their financial statements comply with IFRSs. However, the APB is concerned that paragraphs 8 and 9 of the draft IAPS will be read as suggesting that auditors will need to qualify their audit opinions in circumstances where it is not appropriate. In turn, this may lead companies not to publish information that would otherwise be of value to users of financial statements.</p> <p>The APB agrees that if a note to the financial statements describing the degree of compliance with IFRSs is materially incorrect or misleading that it will be appropriate for the auditors to qualify their opinion. The problem with paragraphs 8 and 9 is that they do not provide sufficiently clear guidance as to what would be misleading; it is possible that they could be interpreted as suggesting that it is necessary for companies to quantify in all cases the extent to which the financial statements fail to comply with IFRSs. The attachment to this letter sets out a suggested redraft of this section of the draft IAPS which we strongly commend to you.</p> <p>Suggested redraft of paragraphs 8 and 9 of the Exposure Draft 'Reporting on Compliance with International Financial Reporting Standards'</p> <p>8. Entities that prepare their financial statements in accordance with an acceptable financial reporting framework other than IFRSs may decide to disclose additionally, in the notes to those financial statements, the extent to which those statements comply with IFRSs. Management may, for example, consider such disclosures to be desirable when it is known that the entity will have to comply with IFRSs at a certain date and wish to provide readers of the financial statements with an indication of progress towards that goal.</p> <p>9. 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 seeks sufficient appropriate audit evidence to support the assertions. If the note contains a reference to compliance with IFRSs, the auditor considers whether the note causes the financial statements not to comply with the entity's financial reporting framework. A note referring to compliance with IFRSs is likely to cause the financial statements not to comply with the entity's financial reporting framework only where it contains materially inaccurate or misleading information. If the audit opinion is not qualified or otherwise modified it indicates implicitly that the auditor agrees with the note containing disclosure about compliance with IFRSs.</p> <p>10. Information is likely to be misleading if it implies full or substantial compliance with IFRSs when that is not the case. In particular, the note should not imply that the financial statements have been prepared in order to comply with IFRSs, and would normally indicate that financial statements that had been so prepared might differ in material respects (for example, through containing different disclosures). In this context, the auditor considers carefully the suitability of generalised statements; for example that the financial statements "are based on," or "comply with the significant requirements of" or "are in compliance with the accounting requirements of" IFRSs.</p> <p>11. In some circumstances, factual information as to the extent of compliance with IFRSs may also be considered misleading if the effect of non-compliance with one or more IFRSs is likely to be material and pervasive to the financial statements but that is not indicated. For example, it may be misleading for a bank to state that it has complied with all IFRSs except IAS 39, unless the note draws attention to the likely significance of IAS 39.</p>	Yes	<p>Many of the suggestions were adopted through amendment to paragraphs 8-11. In particular:</p> <ul style="list-style-type: none"> • additional language on an emphasis of matter should alleviate the concern that the IAPS will require qualification of audit opinions where this may not be necessary; however, the reference to emphasis of matter is not overemphasized • the guidance on misleading was revised for clarity • the suggested second sentence of paragraph 8 and suggested last sentence of paragraph 9 were added • the example qualified opinion was amended to be essentially the same as the recommendation <p>The ordering was not changed and no guidance on documentation was added since this is already covered by ISA 230, "Documentation."</p>

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		<p>12. If the financial statements fail to comply with the entity's financial reporting framework because the disclosures are misleading, the auditor's report expresses a qualified or an adverse opinion. An example of a qualified opinion where there is no disclosure in the financial statements of the material and pervasive effect of a non-compliance with IFRSs is:</p> <p>Note X to the financial statements indicates that the financial statements have been prepared 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'. The effect on the company's financial statements of non-compliance with IAS 39 is so material and pervasive, we consider that the indication that the financial statements are substantially in accordance with IFRSs is misleading.</p> <p>In our opinion, except for the indication that the financial statements are substantially in accordance 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, 20XX, and of the results of its operations and its cash flows for the year then ended in accordance with [title of financial reporting framework with reference to the country of origin] (and comply with [refer to relevant statutes or law]).</p> <p>The auditor's working papers document the reason why the auditor believes the non-compliance with IFRSs to be material and pervasive.</p>		