



Auditing and Assurance Standards Council

Philippine Auditing Practice Statement 1002Ph

**THE AUDITOR'S REPORT ON GENERAL PURPOSE
FINANCIAL STATEMENTS PREPARED IN
ACCORDANCE WITH A PHILIPPINE
FINANCIAL REPORTING FRAMEWORK
OTHER THAN PFRS**

PHILIPPINE AUDITING PRACTICE STATEMENT 1002Ph

THE AUDITOR’S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH A PHILIPPINE FINANCIAL REPORTING FRAMEWORK OTHER THAN PFRS

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Philippine Auditing Practice Statement (PAPS) 1002Ph, “The Auditor’s Report on General Purpose Financial Statements Prepared in Accordance with a Philippine Financial Reporting Framework Other than PFRS,” should be read in the context of the Preface to the Philippine Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” which sets out the application and authority of PAPSs.

This PAPS is issued to provide additional guidance on the application of the existing PSA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements,” and [proposed] PSA 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements.” It does not establish any new basic principles or essential procedures.

THE AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH A PHILIPPINE FINANCIAL REPORTING FRAMEWORK OTHER THAN PFRS

Introduction

1. The existing PSA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," and [proposed] PSA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements," provides that the auditor shall evaluate whether the financial statements (a) are prepared and presented in accordance with the specific requirements of the applicable financial reporting framework and (b) adequately refer to or describe the applicable financial reporting framework.¹
2. The existing PSA700 (Revised) and [proposed] PSA 700 (Redrafted) further states that when expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use the phrase:²

"the financial statements present fairly in all material respects, ... in accordance with the applicable financial reporting framework"

The auditor's opinion identifies the financial reporting framework on which the financial statements are based to advise users of the auditor's report of the context in which the opinion is expressed.³

3. The applicable financial reporting framework is defined in [proposed] PSA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in accordance with Philippine Standards on Auditing," as the financial reporting framework adopted by management in preparing and presenting the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

¹ Paragraphs 10, 13 and 14 of existing PSA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," and paragraphs 10 and 12 of [proposed] PSA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements"

² Paragraph 40 of existing PSA 700 (Revised) and paragraph 31 of [proposed] PSA 700 (Redrafted)

³ Paragraph 43 of existing PSA 700 (Revised) and paragraph A29 of [proposed] PSA 700 (Redrafted)

4. Philippine entities prepare and present their financial statements in accordance with Philippine Financial Reporting Standards (PFRSs) issued by the Financial Reporting Standards Council, the accounting standard-setting body in the Philippines. Certain entities, however, have been permitted to defer the application of PFRSs in part or in full or to apply a specified set of accounting standards.
5. The purpose of this Philippine Auditing Practice Statement (PAPS) is to provide additional guidance on the application of the existing PSA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements,” and [proposed] PSA 700 (Redrafted), specifically on the description of the applicable Philippine financial reporting framework when this is other than Philippine Financial Reporting Standards.

Effective Date

6. This PAPS is effective for auditor’s reports dated on or after March 15, 2008. Earlier application is allowed.

Financial Statements Prepared Solely in Accordance with Philippine Financial Reporting Standards

7. [Proposed] PSA 700 (Redrafted) explains that the financial statements may be described as prepared and presented in accordance with a particular financial reporting framework only if the financial statements comply with all the requirements of that framework effective at the date of the financial statements.⁴
8. Philippine Accounting Standard (PAS) 1, “Presentation of Financial Statements,” makes clear that the financial statements should not be described as complying with Philippine Financial Reporting Standards (PFRSs) unless they comply with all the requirements of PFRSs.
9. Accordingly, when financial statements are prepared solely in accordance with Philippine Financial Reporting Standards (PFRSs), the auditor identifies the financial reporting framework in the opinion paragraph, and in the paragraph on management’s responsibility for the financial statements, as:

“... accordance with Philippine Financial Reporting Standards.”

⁴ Paragraph A4 of [proposed] PSA 700 (Redrafted)

Financial Statements Prepared in Accordance with A Philippine Financial Reporting Framework Other than Philippine Financial Reporting Standards

10. Certain entities have been given transition relief or exemption in the application of PFRSs (i.e., these were permitted to defer the application of PFRSs in part or in full or to apply a specified set of accounting standards). For example:
- Qualifying non-publicly accountable entities (NPAEs) are permitted to apply the applicable financial reporting standards effective as of December 31, 2004 instead of PFRSs.⁵
 - Pre-need companies are required by the Securities and Exchange Commission (SEC) to apply the accounting standards set forth in amended SEC Pre-need Rule 31, “Accounting Standards for Pre-need Plans and Pre-need Uniform Chart of Accounts (PNUCA).”⁶
 - Certain entities required to comply with PFRSs have been given transition relief or exemption by a regulator in the application of PFRSs.⁷
11. For entities that have been given transition relief or exemption in the application of PFRSs, the auditor identifies the financial reporting framework in the opinion paragraph, and in the paragraph on management’s responsibility for the financial statements, in such terms as follows:
- *Preferred*: “... in accordance with the financial reporting standards in the Philippines⁸ for (describe entity group or industry group, where applicable). . . .”

⁵ PAS 101, “Financial Reporting Standards for Non-publicly Accountable Entities,” permits qualifying non-publicly accountable entities (NPAEs) to apply the applicable financial reporting standards effective as of December 31, 2004, instead of PFRSs.

⁶ Prior to the issuance of the amended SEC Pre-need Rule 31, pre-need companies were allowed by the SEC to defer until December 31, 2006 application of certain provisions of PAS 39, “Financial Instruments: Recognition and Measurement,” and PFRS 4, “Insurance Contracts,” with respect to the accounting treatment on revenues and financial liabilities.

⁷ Transition relief or exemption from PFRSs given by a regulator:

- The SEC exempted from the tainting provision of PAS 39 certain exchange offers of the Bureau of Treasury of eligible government securities to new government bonds.
- The SEC provided transitional relief to mining companies on the fair value requirements of PAS 39 for hedging contracts entered into and effective prior to January 1, 2005.
- The Insurance Commission permitted insurance companies to defer application of PAS 32, Financial Instruments: “Presentation and Disclosure,” PAS 39 and PFRS 4 until January 1, 2006.

⁸ The term financial reporting standards in the Philippines comprehend accounting standards issued by the SEC.

- *Alternative:* "... in accordance with accounting principles generally accepted in the Philippines for (describe entity group or industry group, where applicable)...."

When either of the above term is used, reference is also made to a note that describes further the applicable financial reporting framework.

To provide transition in the use of terminology prescribed in [proposed] PSA 700 (Redrafted), the alternative wording is allowed for a period of two years after the effective date of this PAPS.

12. To illustrate:

- Qualifying non-publicly accountable entities (NPAEs)

Preferred: "... in accordance with the financial reporting standards in the Philippines for non-publicly accountable entities as described in Note X to the financial statements;" or

Alternative: "... in accordance with accounting principles generally accepted in the Philippines for non-publicly accountable entities as described in Note X to the financial statements"

- Pre-need companies

Preferred: "... in accordance with the financial reporting standards in the Philippines for pre-need companies as described in Note X to the financial statements;" or

Alternative: "... in accordance with accounting principles generally accepted in the Philippines for pre-need companies as described in Note X to the financial statements."

- Entities given transition relief or exemption by a regulator in the application of PFRSs

Preferred: "... in accordance with the financial reporting standards in the Philippines as described in Note X to the financial statements;" or

Alternative: "... in accordance with accounting principles generally accepted in the Philippines as described in Note X to the financial statements."

This PAPS 1002Ph, “The Auditor’s Report on General Purpose Financial Statements Prepared in Accordance with a Philippine Financial Reporting Framework Other than PFRS,” was unanimously approved for adoption on January 22, 2008 by the members of the Auditing and Assurance Standards Council.

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