

**INTERNATIONAL AUDITING  
PRACTICE STATEMENT 1014**

**REPORTING BY AUDITORS ON COMPLIANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

(This Statement is effective)

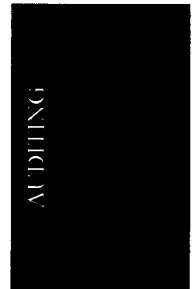
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International Auditing Practice Statement (IAPS) 1014, "Reporting by Auditors on Compliance with Financial Reporting Standards" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," which sets out the application and authority of IAPSs.

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

The IAASB approved this IAPS in March 2003 for publication on June 1, 2003.



## Introduction

1. ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" states that the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. ISA 700, "The Auditor's Report on Financial Statements" establishes standards and provides guidance on the form and content of the auditor's report. In particular, paragraph 17 of ISA 700 requires that the auditor's report clearly indicate the financial reporting framework used to prepare the financial statements. The purpose of this International Auditing Practice Statement (IAPS) is to provide additional guidance when the auditor expresses an opinion on financial statements that are asserted by management to be prepared:
  - (a) Solely in accordance with International Financial Reporting Standards (IFRSs);
  - (b) In accordance with IFRSs and a national financial reporting framework; or
  - (c) In accordance with a national financial reporting framework with disclosure of the extent of compliance with IFRSs.

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

## Financial Statements Prepared Solely in Accordance With International Financial Reporting Standards

2. Examples have arisen of entities stating that their financial statements have been prepared in accordance with IFRSs when, in fact, they have not complied with all the requirements that IFRSs impose. Paragraphs 10-19 of International Accounting Standard (IAS) 1 (Revised 1997), "Presentation of Financial Statements,"<sup>1</sup> set out the requirements to be met before an entity's financial statements can be regarded as having been prepared in accordance

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<sup>1</sup> On May 15, 2002, the International Accounting Standards Board issued an exposure draft of improvements to IASs, including an exposure draft of a proposed revised IAS 1. In that exposure draft, the relevant paragraphs are paragraphs 10-17, with paragraph 11 requiring compliance with all applicable standards.

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with IFRSs. In particular, paragraph 11 makes clear that financial statements should not be described as complying with IFRSs unless they comply with all the requirements of each applicable standard and each applicable interpretation of the Standing Interpretations Committee.<sup>2</sup> Examples such as the following descriptions of the basis on which the financial statements have been prepared illustrate financial statements that have not been prepared in accordance with IFRSs:

- The financial statements indicate that they have been prepared in accordance with IFRSs but then go on to specify certain material departures. For example, a note describing the accounting policies used states that the financial statements are prepared in accordance with IFRSs except for the non-disclosure of sales for geographical segments.
  - The financial statements identify specific IFRS requirements that the entity uses to prepare the financial statements, but these do not include all the requirements that are applicable to an entity fully complying with IFRSs.
  - The financial statements indicate partial compliance with IFRSs without reference to specific departures. For example, a note describing the accounting policies used states that the financial statements are “based on,” or “comply with the significant requirements of” or “are in compliance with the accounting requirements of” IFRSs.
3. An unqualified opinion may be expressed only when the auditor is able to conclude that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the identified financial reporting framework. In all other circumstances, the auditor is required to disclaim an opinion or to issue a qualified or adverse opinion depending on the nature of the circumstances. Accordingly, the auditor does not express an unqualified opinion that indicates that financial statements have been prepared in accordance with IFRSs if the financial statements contain any departure from IFRSs and the departure has a material effect on the financial statements.<sup>3</sup> When the auditor reports on whether the financial statements have been prepared in accordance with IFRSs and the financial statements contain a material departure from IFRSs, such a departure results in a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application, or the

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

<sup>3</sup> Paragraph 13 of IAS 1 (paragraphs 13-16 of the proposed revised IAS 1 referred to in footnote 1) states that in extremely rare circumstances when management concludes that compliance with a requirement in an IFRS would be misleading, a departure from that requirement may be necessary to achieve a fair presentation. A departure from the requirements of a particular IFRS made under the provisions of paragraph 13 of IAS 1 does not constitute a departure from IFRSs for this purpose.

adequacy of disclosures in the financial statements. Paragraphs 36-40 of ISA 700 provide guidance for deciding whether a qualified opinion or an adverse opinion is necessary and on the information to be included in the auditor's report.

4. If the auditor's report contains any qualifying or limiting language when describing the financial reporting framework, it does not meet the requirement in paragraph 17 of ISA 700 that the auditor's report clearly indicate the financial reporting framework used to prepare the financial statements. For example, an opinion paragraph that indicates "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.

### **Financial Statements Prepared in Accordance With International Financial Reporting Standards and a National Financial Reporting Framework**

5. A note describing the accounting policies used may state that the financial statements have been prepared in accordance with both IFRSs and a national financial reporting framework. For financial statements to have been prepared in accordance with more than one financial reporting framework, they must comply with each of the indicated frameworks individually. A set of financial statements that has been prepared in accordance with one financial reporting framework and that contains a note or supplementary statement reconciling the results to those that would be shown under another financial reporting framework has not been prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework. The financial statements must comply with both financial reporting frameworks simultaneously and without any need for reconciling statements if they are to be regarded as having been prepared in accordance with both. In practice, simultaneous compliance with both IFRSs and a national financial reporting framework is unlikely unless the country has adopted IFRSs as its national financial reporting framework or has eliminated all barriers for compliance with IFRSs.
6. It is helpful for the auditor to discuss financial statements that state they have been prepared in accordance with IFRSs and a national financial reporting framework with management and those charged with governance. The purpose of the discussion is to advise management and those charged with governance of the possibility of a qualified opinion or adverse opinion on compliance with one or both of the financial reporting frameworks, given that the ability to simultaneously comply fully with IFRSs and a national financial reporting framework is unlikely. In these situations, the auditor encourages management to prepare the financial statements in

accordance with only one financial reporting framework, taking into consideration any requirements of relevant laws and regulations. The auditor's report is then worded in terms of whether the financial statements have been prepared in accordance with that financial reporting framework.

7. If management insists on indicating that the financial statements have been prepared in accordance with both IFRSs and a national financial reporting framework, the auditor's report refers to both frameworks. However, the auditor considers each financial reporting framework separately. If a matter results in failure to comply with one of the frameworks, but does not cause a failure to comply with the other framework, then the auditor expresses an unqualified opinion on compliance with that framework and a qualified opinion or an adverse opinion on compliance with the one framework. If the auditor is of the opinion that the failure to comply with one of the financial reporting frameworks causes the financial statements to fail to comply with the other financial reporting framework, the auditor issues a qualified opinion or adverse opinion on compliance with both frameworks. An illustration of an auditor's report where the auditor is of the opinion that the financial statements comply, in all material respects, with the national financial reporting framework, but judges a qualified opinion is appropriate for compliance with IFRSs follows:

"Note X to the financial statements indicates that the financial statements have been prepared in accordance with [relevant national financial reporting framework] and International Financial Reporting Standards. As discussed in Note Y to the financial statements, the Company has investment properties in the amount of \$X that are carried at cost less accumulated depreciation. This accounting is required by [relevant national financial reporting framework] and permitted by International Financial Reporting Standards. The fair value of these investment properties of \$X has not been disclosed. Such disclosure is not required by [relevant national financial reporting framework], but is required by International Financial Reporting Standards.

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

all material respects') the financial position of the Company as of December 31, 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards."

**Financial Statements Prepared in Accordance With a National Financial Reporting Framework With Disclosure of the Extent of Compliance With International Financial Reporting Standards**

8. Entities that prepare their financial statements in accordance with a national financial reporting framework may disclose additionally, in the notes to those financial statements, the extent to which they comply with IFRSs. Management may, for example, consider such additional disclosures to be desirable when the entity is required to comply with IFRSs at a future date and management wishes to provide readers of the financial statements with an indication of progress towards that compliance. In these circumstances, the auditor considers whether assertions made in the notes to the financial statements with respect to the extent of such compliance are accurate and not misleading. The auditor then considers the effect of that disclosure on the auditor's report.
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 obtains sufficient appropriate audit evidence to support the assertions. If the note contains a reference to compliance with IFRSs, the auditor considers whether the note is appropriate. In some cases, the auditor may conclude that the note contains misleading information such that the financial statements fail to comply with the national financial reporting framework. This is likely to be the case in circumstances where the reference to compliance with IFRSs misleads readers of the financial statements because it contains materially inaccurate information or incomplete information that is material and pervasive to the financial statements (for example, the lack of compliance with a particular IFRS that is material and pervasive to the financial statements may result in the disclosure being misleading, unless there is adequate disclosure, including quantification of the effects on the financial statements).
10. If the financial statements fail to comply with the national financial reporting framework because the disclosures as to the compliance with IFRSs are misleading, the auditor's report expresses a qualified or an adverse opinion. An illustration of a qualified opinion that may be given in such circumstances follows:

"Note X to the financial statements indicates that the financial statements have been prepared in accordance with

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[relevant national financial reporting framework] and are 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 noncompliance with IAS 39 is material and pervasive, the reference to compliance with IFRSs is considered misleading.

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

11. A note to the financial statements containing disclosure about compliance with IFRSs may not contain misleading information such that the financial statements fail to comply with the national financial reporting framework. If the auditor is of the opinion that a reference to compliance with IFRSs is not misleading, the auditor may express an unqualified opinion on compliance with the national financial reporting framework. In certain circumstances, the auditor may decide to modify the auditor's report by adding an emphasis of matter paragraph to highlight the note that references compliance with IFRSs.<sup>4</sup> The use of an emphasis of matter paragraph is not a substitute for issuing a qualified opinion or adverse opinion on compliance with the national financial reporting framework when disclosures as to compliance with IFRSs are misleading such that the financial statements fail to comply with the national financial reporting framework.

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<sup>4</sup> Paragraphs 30-35 of ISA 700 provide additional guidance on the use of an emphasis of matter paragraph.