

*new york state society* | *of*

**NYSSCPA**

*certified* | *public accountants*

530 fifth avenue, new york, ny 10036-5101  
www.nysscpa.org

January 17, 2003

James Sylph  
Technical Director  
International Federation of Accountants  
535 Fifth Avenue, 26th Floor  
New York, New York 10017

By email: [EDcomments@ifac.org](mailto:EDcomments@ifac.org)

Exposure Draft: *Reporting on Compliance with International Financial Reporting Standards*

Dear Mr. Sylph:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents 30,000 CPAs that will implement the provisions proposed in the captioned exposure draft. NYSSCPA thanks IFAC for the opportunity to comment on its exposure draft.

The NYSSCPA Global Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Robert N. Waxman, chair of the Financial Accounting Standards Committee, at (212) 468-7820, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jo Ann Golden  
President

Attachment

*new york state society of*

**NYSSCPA**

*certified public accountants*

530 fifth avenue, new york, ny 10036-5101  
www.nyscpa.org

**NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON IFAC EXPOSURE DRAFT**

**Reporting on Compliance with International Financial Reporting Standards**

December 23, 2002

**Principal Drafter**

Robert N. Waxman

## NYSSCPA 2002- 2003 Board of Directors

Jo Ann Golden, <i>President</i>	William Aiken Spencer Barback	David W. Henion Nancy A. Kirby
Jeffrey R. Hoops, <i>President-elect</i>	Michael G. Baritot Rosemarie A. Barnickel	Vincent J. Love Sandra A. Napoleon-Hudson
Thomas E. Riley, <i>Secretary</i>	Peter L. Berlant Arthur Bloom	Nancy Newman-Limata Raymond M. Nowicki
Frank J. Aquilino, <i>Treasurer</i>	Andrew Cohen Walter Daszkowski	Kevin J. O'Connor Robert S. Peare
Laurence Keiser, <i>Vice President</i>	Michael J. DePietro Katharine K. Doran	Mark A. Plostock Joseph J. Schlegel
Stephen F. Langowski, <i>Vice President</i>	Barbara S. Dwyer Andrew M. Eassa	Robert E. Sohr Robert A. Sypolt
Carol C. Lapidus, <i>Vice President</i>	David Evangelista Franklin H. Federmann	Edward J. Torres Beth Van Bladel
Ian M. Nelson, <i>Vice President</i>	Peter H. Frank Angelo J. Gallo	Howard D. Weiner Philip Wolitzer
Louis Grumet, <i>ex officio</i>	Neville Grusd	

## NYSSCPA 2002- 2003 Global Accounting and Auditing Committee

Robert N. Waxman, Chair	Vanessa Parry	Ronald R. Steger
Glenn E. Albin	Richard M. Posen	William M. Stocker, III
Renee D. Bomchill	Steven Rubin	Howard D. Weiner
Gregory J. Lavin	Jerome S. Schachter	David T. Wong
Richard F. McCarthy	Mark D. Softy	Kevin D. Young
Mary E. Oliverio		

## NYSSCPA 2002- 2003 Accounting & Auditing Oversight Committee

Robert E. Sohr, Chair	Michele M. Levine	Paul D. Warner
Helen K. Bachman	Eugene D. Mahaney	Robert N. Waxman
Philip B. Chenok	Robert S/ Manzella	Paul J. Wendell
Debbie A. Cutler	Steven Rubin	Margaret A. Wood
Keith W. Gardner	Robert M. Sattler	

## NYSSCPA Staff

Robert H. Colson

**Comments of the Financial Accounting Standards Committee of the  
New York State Society of Certified Public Accountants on IFAC's  
*Exposure Draft Reporting on Compliance with International Financial  
Reporting Standards***

December 23, 2002

**General Comments**

The committee appreciates the opportunity to comment on IFAC's *Exposure Draft Reporting on Compliance with International Financial Reporting Standards* (the "proposal"), which guidance is an important contribution to the accounting and auditing literature. The committee's specific comments are set out in bold type below.

**Specific Comments**

**Paragraph 1.**

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.**

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.**

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.**

**Paragraph 2.**

**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:**

**(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).

The final statement should clearly state its application only to material items.

### Paragraph 3.

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....”

### Paragraph 4.

We recommend that the balance of paragraph 17 of ISA 700 either be inserted here or in a footnote to this paragraph.

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.

It would also be helpful to define the term, “substantial compliance with IFRSs.”

### Paragraph 5.

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.

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.

### Paragraph 6.

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."

**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.**

**Paragraph 7.**

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.

**Paragraph 8.**

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.

**Paragraph 9.**

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.

In the example opinion, change "prepares" to "prepared," in sentence one.

An example of an adverse opinion should also be included in the final statement.

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.