## Comments Received from IAASB Members during July/August

This compilation contains only those comments relating to specific paragraphs. It does not include the comments received that did not offer specific wording suggestions.

<table>
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<th>Comment</th>
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| A11. An authorized or recognized standards setting organization, or relevant law or regulation, may describe the applicable financial reporting framework by reference to the financial reporting framework of another authorized or recognized standards setting organization (the “other framework”). For example, the applicable financial reporting framework might be described as “International Financial Reporting Standards as adopted by [industry supervisor or regulator] for the use of [industry] in [jurisdiction X].” In such circumstances, users may reasonably make the presumption that the applicable financial reporting framework is the same as, or at least very similar to, the other framework. | “Reasonably” should be replaced by “unreasonably” or “mistakenly.”
(Jon Grant)

Agreed.
See 700.A12 (Agenda Item 5-A), which now reads: “… users may mistakenly assume that…”

An authorized or recognized standards setting organization, or relevant law or regulation, may describe the applicable financial reporting framework by reference to the financial reporting framework of another authorized or recognized standards setting organization (the “other framework”). For example, the applicable financial reporting framework might be described as “International Financial Reporting Standards as adopted by [industry supervisor or regulator] for the use of [industry] in [jurisdiction X].” In such circumstances, it would not be unreasonable for users to reasonably make the presumption that the applicable financial reporting framework is the same as, or at least very similar to, the other framework.
(Denise Esdon)

Agreed in substance.
See 700.A12 (Agenda Item 5-A), which now reads: “… users may mistakenly assume that…” |
| A12. When there are differences between the applicable financial reporting framework and the other framework that are significant in the context of the entity’s financial statements, there is a risk that users may misunderstand the basis on which the financial statements are... |
prepared. For example, if the applicable financial reporting framework does not include a financial reporting standard of the other framework that deals with accounting for the effect of hyperinflation, and the entity operates in a hyperinflationary environment, the effect on the entity’s financial statements is likely to be significant. In such a case, there is a risk that intended users may misunderstand the basis on which the financial statements are prepared if the financial statements describe the applicable financial reporting framework by reference to the other framework.

I also find that the reasoning of A12 which states that there is a risk that the user may misunderstand the basis on which the FS are prepared, when there are differences that are significant in the context of the entity’s financial statements, does not work with the example given of the non application of the accounting standard on hyperinflation in an hyperinflationary environment.

Indeed, in the example given, the non application of the accounting standards on hyperinflation in a hyperinflationary environment will create a risk that the users may misunderstand the basis on which all the FS in the jurisdiction are prepared. It is not a risk in the context of the entity’s FS.

If you want to illustrate the idea that the risk is in the context of the entity’s FS, you have to take an example where the non application of a standard affects only certain entities in a jurisdiction, not all.

(Gérard Trémolière)

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<th><strong>When there are the effect of</strong> differences between the applicable financial reporting framework and the other framework that are is significant in the context of to the entity’s financial statements, there is a risk that intended users may misunderstand the basis on which the financial statements are prepared if the applicable financial reporting framework is described only by reference to the other framework. For example, if the applicable financial reporting framework does not include/omits a-the financial reporting standard</th>
<th><strong>In June, the Task Force was asked to redraft the paragraphs based on the following principles: The auditor’s evaluation of the adequacy of the description of the applicable financial reporting framework includes consideration whether there is a risk that users may misunderstand the basis on which the financial statements are prepared. If the applicable financial reporting framework is described by reference to another established framework, users may mistakenly assume that the applicable financial reporting framework is</strong></th>
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Agreed.

See 700.A12 (Agenda Item 5-A). The example has been amended to refer to an entity that has significant components that operate in a hyperinflationary environment.
of the other framework that deals with on accounting for the effect of hyperinflation, and the entity operates in a hyperinflationary environment, the effect of such a difference on the entity’s financial statements is likely to be significant. In such a case, there is a risk that intended users may misunderstand the basis on which the financial statements are prepared if the financial statements describe the applicable financial reporting framework by reference to the other framework.

(Denise Esdon)

the same as, or at least very similar to, the other established framework. If the differences between the applicable financial reporting framework and the other established framework are not significant in the context of the entity’s financial statements, users are unlikely to misunderstand the basis on which the financial statements are prepared. If the differences are significant in the context of the entity’s financial statements, there is a risk that users may misunderstand the basis on which the financial statements are prepared. However, such risk is reduced by being transparent about the applicable financial reporting framework and how it differs from the other established framework.

Given the direction of the IAASB in June, and the fact that other IAASB members seemed to support the approach, the Task Force was reluctant to delete the references to “risk of misunderstanding.”

The Task Force agreed to delete the last sentence of the paragraph as it is unnecessary.

With respect to the other specific wording suggestions:

- The Task Force used the term “users” in paragraphs A11-A4, which deal broadly with the description of the applicable financial reporting framework, while the term “intended users” is used in paragraphs A37-A40, which deal with the auditor’s actions.

- The Task Force was concerned that introducing the phrase “effect of differences” may be interpreted to imply that the differences should be quantified, which is not intended.

- The Task Force did not add the proposed words “if the applicable financial reporting framework is described only by reference to the other framework” because it could be interpreted to mean that a comprehensive
A13. The risk of misunderstanding is likely to be less if:

- The financial statements are likely to be used primarily within the particular jurisdiction; and
- It is reasonable to assume that the differences between the applicable financial reporting framework and the other framework are known and understood by the intended users since the authorized or recognized standards setting organization, or the relevant legislator or regulator, has identified the differences as part of an established and transparent development process involving deliberation and consideration of the views of a wide range of stakeholders.

I welcome the new drafting of paragraph A13, second bullet point, which recognises that the risk of misunderstanding for the users is likely to be less when the authorized or recognized standard setting organisation or the relevant regulator or legislator, has identified the differences between say IFRS and IFRS as adopted [...] as part of an established and transparent development process involving deliberation and consideration of the views of a wide range of stakeholders.

It is consistent with the criteria set up in [proposed] ISA 210 to presume that a financial reporting framework is acceptable.

Moreover, the idea could be added in paragraph A13 that the risk is low also when the jurisdiction in which this modified framework is applied represents a substantial and active part of the world’s financial market, so that no user could reasonably claim to have been misled by that framework.

As a consequence the second bullet of A13 would read:

“\textit{It is reasonable to assume that the differences between the applicable financial reporting framework and the other framework are known...}”

The Task Force is of the view that both circumstances ought to be present for the risk of misunderstanding to be sufficiently low to conclude, without the need to consider other factors, that the reference to the applicable financial reporting framework is adequate without further explanation. The Task Force therefore did not agree to replace “and” with “or.” The Task Force agreed to place the second bullet first, as that is the overarching circumstance.

Task Force did not consider it necessary to include the proposed words “in a significant and active financial market” in the second bullet (now first bullet) as – as explained above – both circumstances ought to be present. As a result, the financial statements are likely to be used primarily within the particular jurisdiction.

See 700.A13 (Agenda Item 5-A).
and understood by the intended users since the authorized or recognized standards setting organization, or the relevant legislator or regulator, in a significant and active financial market, has identified the differences as part of an established and transparent development process involving deliberation and consideration of the views of a wide range of stakeholders.”

Furthermore, the “and “ at the end of the first bullet point of A13 should be replaced by a “or”, so that the two conditions of A13 be alternative and no cumulative.

(Gérard Trémolière)

In the lead, replace ‘less’ with ‘low’ (this is the word used in A38).

(Jon Grant)

The risk—likelihood of misunderstanding by intended users is likely to be lower if:

• The financial statements are likely to be used primarily within the particular jurisdiction; and

• It is reasonable to assume that the differences between the applicable financial reporting framework and the other framework are known and understood by the intended users since the authorized or recognized standards setting organization, or the relevant legislator or regulator, has identified the differences as part of an established and transparent development process involving deliberation and consideration of the views of a wide range of stakeholders.

(Denise Esdon)

When reading this paragraph in conjunction with para A13, am I to assume that “IFRS as adopted by the EU” would not need any further description of differences in the financial

The current drafting addresses concerns that the guidance may give rise to a proliferation of Other Matter paragraphs and modified opinions – even though the differences may be
statements or an Other Matters paragraph in the auditor’s report? If so is this the right outcome?

Wouldn’t all jurisdictions that altered IFRS claim that they fall into the category of the second bullet in para A13? If they would/could claim this then I don’t believe it results in the right outcome. Users probably have no idea what the real differences are the process of issuing standards is something that the profession, regulators and some interest groups deal with whilst the “mums and dads” would have limited, if any, knowledge of them. Secondly, the delay between comment periods and reporting on standards is too long and the differences may have been forgotten.

(Caithlin McCabe)

A14. In other circumstances, the risk of misunderstanding can be mitigated if, for example:

- Management is able to describe the applicable financial reporting framework without reference to the other framework (e.g., “Financial Reporting Standards of [jurisdiction X]”).

- Sufficient transparency is provided in the financial statements by inclusion of a description of the differences between the applicable financial reporting framework and the other framework that are significant in the context of the entity’s financial statements.

There needs to be an ‘or’ between the two bullets so as not to imply that both are needed. (Contrast with A13 where ‘and’ is correctly included.)

(John Kellas)

Agreed.

See 700.A14 (Agenda Item 5-A).

In other circumstances, the risk of likelihood misunderstanding by intended users can be mitigated if, for example:

- Management is able to describe the applicable financial reporting framework without reference to the other framework (e.g., “Financial Reporting Standards of [jurisdiction X]”); or:

- Sufficient transparency is provided in the

See response to comment on paragraph A12 above.

“Mitigated” has been changed to “reduced,” as proposed.

The lead in to the second bullet has been deleted, as proposed.
financial statements by inclusion of The financial statements include a description of the significant differences between the applicable financial reporting framework and the other framework that are significant in the context of as they apply to the entity’s financial statements.

(Denise Esdon)

A37. As indicated in paragraph A11, an authorized or recognized standards setting organization, or law or regulation, may describe the applicable financial reporting framework by reference to the financial reporting framework of another authorized or recognized standards setting organization. If the applicable financial reporting framework is described as such in the entity’s financial statements, the auditor’s evaluation of the adequacy of the reference to or description of the applicable financial reporting framework depends on the risk that intended users may misunderstand the basis on which the financial statements are prepared.

As indicated in paragraph A11, an authorized or recognized standards setting organization, or law or regulation, may describe the applicable financial reporting framework by reference to the financial reporting framework of another authorized or recognized standards setting organization. If the applicable financial reporting framework is described as such in the entity’s financial statements, the auditor’s evaluation of the adequacy of the reference to or description of the applicable financial reporting framework depends on the risk that intended users may misunderstand the basis on which the financial statements are prepared.

(Denise Esdon)

A38. In the circumstances in paragraph A13 in which the risk of misunderstanding is low, or where the applicable financial reporting framework can be described without reference to the other framework (see paragraph A14), the reference to or description of the applicable financial reporting framework is adequate without further explanation. In other circumstances, the risk of misunderstanding is influenced by whether the differences between the applicable financial reporting framework and the other framework are significant in context of the entity’s financial statements.

In the circumstances in paragraph A13 in which the risk of misunderstanding is low, or

See response to comment on paragraph A12 above.

See response to comment on paragraph A12 above.

See 700.A37 (Agenda Item 5-A).
where the applicable financial reporting framework can be described without reference to the other framework (see paragraph A14); the reference to or description of the applicable financial reporting framework is generally adequate without the need for further explanation in circumstances where:

(a) The applicable financial reporting framework can be described without reference to the other framework (see paragraph A14); or

(b) The effect of differences between the applicable financial reporting framework and the other framework are not significant to the entity’s financial statements.

(Disclaimer Esdon)

[Table arrangement continued with comments from IAASB Members]

This paragraph refers to the circumstances in A13 and says that the “reference to or description of the applicable fin rep framework is adequate without further explanation.” I am assuming that what was intended by this was that a “description of the differences was not necessary.” Is this clear, or could there be confusion about whether the word “description” in paragraph A38 meant the same thing the second bullet in A14, “description of the differences.”

(Caithlin McCabe)

Paragraph A14 provides examples of circumstances that can reduce the risk of misunderstanding. The description of the differences (second bullet of paragraph A14) is thus an example of a “further explanation.”

A39. If the differences are not significant in the context of the entity’s financial statements, intended users are unlikely to misunderstand the basis on which the financial statements are prepared and, therefore, the reference to the applicable financial reporting framework
without further explanation is likely to be adequate.

If the differences are not significant in the context of the entity’s financial statements, intended users are unlikely to misunderstand the basis on which the financial statements are prepared and, therefore, the reference to the applicable financial reporting framework without further explanation is likely to be adequate.

(Denise Esdon)

See response to paragraph A38 above.

A40. If, however, the differences are significant in the context of the entity’s financial statements, the auditor’s evaluation of the adequacy of the reference to or description of the applicable financial reporting framework involves considering whether there is sufficient transparency of the differences. For example:

(a) If the differences are sufficiently transparent to intended users as described in paragraph A14, the risk of misunderstanding is mitigated and the reference to or description of the applicable financial reporting framework is adequate.

(b) If the differences are not sufficiently transparent to intended users, the auditor may conclude that it is necessary to draw intended users’ attention to this matter in the auditor’s report in accordance with ISA 706 (Revised and Redrafted). The purpose of doing so is to inform intended users that differences between the applicable financial reporting framework and the other framework may be significant in the context of the entity’s financial statements.

(c) In extreme cases, the differences may be so significant in the context of the entity’s financial statements that there is an unacceptably high risk that intended users may misunderstand the basis on which the financial statements are prepared. If this is the case, the auditor determines whether it is necessary to express a modified opinion in accordance with ISA 705 (Revised and Redrafted).

Finally, paragraph A40. (c) is unclear, since A40 (a) deals with the case where the differences are sufficiently transparent to intended users, A40 (b) deals with the case where the differences are not sufficiently transparent and an other matter paragraph is inserted in the auditor’s report. It is therefore difficult to understand what the scope of A40(c) is.

Do you mean that, even though the differences are sufficiently transparent, they are so significant that they require a modification of

The Task Force is of the view that the circumstances in paragraph A40(c) may exist even if the financial statements include a description of the differences. The guidance has been amended to clarify this.

The guidance now indicates that, in extreme cases, the differences may be so significant in the context of the entity’s financial statements that there is an unacceptably high risk that intended users will misunderstand the basis on which the financial statements are prepared. In some cases, this may be so even if the financial
the opinion and I do not agree with this position, or do you mean that the differences are not sufficiently transparent, in which case we are back in A40 (b).

At the end of the day, a modification of the opinion can only be based on the fact that the accounts prepared in accordance with the modified IFRS do not give a true and fair view.

(Gérard Trémolière)

If the concern is that the users will be misled by the lack of transparency surely that will have been dealt with but an ‘other matter’ paragraph. It seems to me illogical that in extreme cases the opinion should be qualified for this reason and unhelpful to the reader as the issue will probably be pervasive and this will therefore lead to a disclaimer. I remain of the view that, if something else has to be said after A40b (and I do not think anything else needs to be said!) a more acceptable route would be a link back to 14 (b) and remind auditors that the difference between full and modified IFRS may give rise to doubts as to whether the financial statements achieve fair presentation.

(Jon Grant)

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<th>Proposed ISA 700 (Redrafted) – Comments from IAASB Members</th>
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<td><strong>In other circumstances, the auditor’s evaluation of the adequacy of the reference to or description of the applicable financial reporting framework depends on the likelihood that intended users may misunderstand the basis on which the financial statements are prepared. The auditor’s evaluation is influenced by whether the effect of differences between the applicable financial reporting framework and the other framework is significant to the entity’s financial statements.</strong></td>
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<td><strong>If, however, the differences are significant in the context of the entity’s financial statements, the auditor’s evaluation of the adequacy of the reference to or description of the applicable</strong></td>
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<td><strong>See response to comments on paragraphs A12 and A38 above.</strong></td>
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<td><strong>The references to “transparent” have been deleted.</strong></td>
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<tr>
<td><strong>The Task Force is of the view that paragraph A40(b) refers to an Other Matter paragraph (as opposed to an Emphasis of Matter paragraph) because the framework is also identified in the auditor’s report and has amended the guidance to clarify this.</strong></td>
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<td><strong>Paragraph A40(c) has been amended as explained in the response to Gérard’s comment above. The basis for the modified opinion is the fact that the reference to the other</strong></td>
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A financial reporting framework involves considering whether there is sufficient transparency of the differences. For example:

(a) If the differences are sufficiently transparent to intended users as described in paragraph A14, the risk–likelihood of misunderstanding is mitigated-reduced and, accordingly, the reference to or description of the applicable financial reporting framework is adequate.

[What is meant by “transparent?” Do we mean appropriately communicated or disclosed?”]

(b) If the differences are not sufficiently transparent to intended users, the auditor may conclude that it is necessary to draw intended users’ attention to this matter in the auditor’s report in accordance with ISA 706 (Revised and Redrafted). The purpose of doing so is to inform intended users that differences between the applicable financial reporting framework and the other framework may be significant in the context of the entity’s financial statements.

[This assumes that there is already some form of disclosure in the financial statements, otherwise you could not have an Emphasis of Matter paragraph.]

(c) In extreme cases, the effect may be so significant that intended users may misunderstand the basis on which the financial statements are prepared. If this is the case, the auditor determines whether it is necessary to express a modified opinion in accordance with ISA 705 (Revised and Redrafted).

[It would be useful to explain the basis for modified opinion – insufficient disclosures?]

(Denise Esdon)
I note that the inclusion of an Other Matters paragraph when “the differences are not sufficiently transparent to intended users” is only a “may” – “the auditor may conclude that it is necessary”? I suspect that we cannot make it a requirement, but when focusing only on the paragraphs relating to this issue, I was wondering if it is appropriate.

(Caithlin McCabe)

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| I am not sure that the illustrative examples in the standard go far enough. These standards are so technical that I believe the subtle differences between the various types of opinions and reporting obligations will be lost on many. If the board is struggling with them, how can we expect auditors who have not been part of the extended debate to understand them?  

In my view, we should have an illustrative example to deal with:

- A9 and A10 – where the financial statements are prepared in accordance with one framework with a reconciliation to another
- A34 – Financial statements prepared in accordance with IFRS and the Corporations act requirements of a jurisdiction – I thought that 2 would cover this but it did not – this happens in many jurisdictions
- An example to show what a report on other legal and regulatory requirements might look.

Has there been any debate at the board on the need for more illustrative examples?

Finally re paragraph 35 , how would you deal with the scenario where the view is that compliance with the applicable financial reporting framework does not give a true and | The requirement for an Other Matter paragraph is in ISA 706 (Revised and Redrafted). Paragraph A40(b) explains that the auditor consider whether the circumstances meet those described in ISA 706 (Revised and Redrafted) and necessary for an Other Matter paragraph to be included in the auditor’s report.

Except for a request to include an illustrative example of an auditor’s report on consolidated financial statements (as a result of ISA 600 (Revised and Redrafted)), the IAASB did not debate whether to include additional illustrative examples.

As this is a redraft of extant ISA 700, not a revision (except for the guidance in paragraphs A11-A14 and A37-A40), the Task Force is reluctant to add additional illustrative examples.

The Task Force recommends that the matter be considered as part of the new project on auditors’ report (to commence in 2009). |
fair view, as envisaged in par 7(b)(ii) and hence departure is required? In the UK they have to make an explicit statement on “true and fair” and in our jurisdiction we have a “true and fair” override. The examples do not appear to cover either of these scenarios. Is this because the view is that they would occur very rarely?

(Caithlin McCabe)