Auditors' Affirmations of Compliance with IFRS around the World: An Exploratory Study*

CHRISTOPHER W. NOBES, *University of London*

STEPHEN A. ZEFF, *Rice University*

ABSTRACT

It is widely believed that international financial reporting standards (IFRS) have been adopted in many countries, at least for the consolidated reporting of listed companies. However, in nearly all cases, what the rules require is some national or supranational version of IFRS. This might create problems for investor confidence and comparability. We examine what companies and auditors report concerning compliance with IFRS, focusing on the first full year of IFRS reporting by companies in the stock market indices of four major European countries and Australia. We find that, even when companies were complying with IFRS, they were generally not saying so, which seems to miss part of the point of the 35-year project on international harmonization. In a small number of cases, auditors provided dual reports: on full IFRS in addition to the mandated reference to national GAAP where the latter corresponds with full IFRS. These cases were found only in Germany and the United Kingdom, and mainly related to companies that filed with the Securities and Exchange Commission as foreign private issuers. We propose explanations for the general lack of dual reports and for the exceptions. We call for widespread adoption of dual reporting where a plain report on IFRS is not yet possible.

Keywords Audit; Compliance; IFRS; Reporting

AFFIRMATIONS DES AUDITEURS QUANT À LA CONFORMITÉ AUX IFRS DANS LE MONDE : UNE ÉTUDE EXPLORATOIRE

RÉSUMÉ

L'on tend à croire que les normes internationales d'information financière (IFRS) ont été adoptées dans de nombreux pays, tout au moins en ce qui a trait à l'information consolidée des sociétés cotées. Or, dans presque tous les cas, les règles n'exigent qu'une version

* The authors are grateful for comments on an earlier draft of this paper from Philip Brown (University of Western Australia), Kees Camfferman (Vrije Universiteit, Amsterdam), Paul Cherry (Accounting Standards Board, Canada), Geoffrey Everingham (University of Cape Town), Axel Haller (University of Regensburg), Liesel Knorr (German Accounting Standards Committee), Erlend Kvaal (Norwegian School of Management), Steinar Kvifte (Ernst & Young, Oslo), Christopher Napier (Royal Holloway), Paul Pacter (Deloitte, Hong Kong), R. H. Parker (University of Exeter), Christian Stadler (Royal Holloway), and Ann Tarca (University of Western Australia). They are also grateful for advice from J. Efrim Boritz (editor) and to Zhang Wei-Guo (International Accounting Standards Board).

nationale ou supranationale des IFRS, ce qui pourrait soulever des problèmes au chapitre de la confiance des investisseurs et de la comparabilité. Les auteurs examinent l'information que communiquent les sociétés et les auditeurs en ce qui a trait à la conformité aux IFRS et s'intéressent plus particulièrement à la première année complète de publication d'information sous le régime des IFRS chez les sociétés que regroupent les indices boursiers de quatre importants pays européens ainsi que de l'Australie. Les auteurs constatent que, même dans les cas où les sociétés observent les IFRS, elles n'en font généralement pas mention, ce qui paraît contraire à l'objet même des 35 ans d'efforts du projet d'harmonisation internationale. Dans un petit nombre de cas, les auditeurs produisent un double rapport, l'un portant sur l'information intégralement conforme aux IFRS et l'autre contenant les références obligatoires aux PCGR nationaux lorsque ces derniers correspondent aux IFRS intégraux. Ces cas ont été relevés en Allemagne et au Royaume-Uni seulement et sont principalement ceux de sociétés qui rendent compte à la SEC à titre de sociétés émettrices étrangères fermées. Les auteurs tentent d'expliquer la rareté du double rapport de même que les exceptions. Ils préconisent l'adoption généralisée du double rapport jusqu'à ce que le rapport portant sur l'information intégralement conforme aux IFRS soit possible.

Mots clés : audit, conformité, IFRS, information

In 1976, Sir Henry Benson[1] said that he foresaw the "dominating importance" of international accounting standards "by about the year 2000" (Benson, 1976). Perhaps his listeners thought that this was a forgivable, but gross, exaggeration that was to be expected from the founding chairman of the International Accounting Standards Committee (IASC). However, the European Union's (EU's) regulation concerning the compulsory use of IFRS from 2005 (EU, 2002) was a major step toward the goal. With the announcements in 2007 from the Securities and Exchange Commission (SEC) accepting international standards (IFRS) for foreign registrants, and perhaps for all registrants, Benson's dream is coming true.

As part of assessing whether IFRS should be accepted without reconciliation to U.S. generally accepted accounting principles (GAAP), the SEC expected to be able to review several hundred sets of IFRS financial statements from 2005 onward. However, as Commissioner Campos of the SEC complained,[2] only about 40 filings that straightforwardly affirmed compliance with IFRS were received. Many said they complied with "IFRSs as adopted by the EU"; others said they complied with national rules, which, they said, corresponded with IFRS. Even in those cases where compliance with full IFRS[3] was almost certainly being achieved (e.g., in Australia), the audit report did not say so in 2005–6.

The central purpose of IFRS, as posited by the IASB and some commentators, is that users all around the world can better compare company financial statements, so that the cost of capital falls because information risks are reduced. Decades of effort have been

1. Later, Lord Benson. Henry Benson was the great nephew of the Cooper brothers, as in PricewaterhouseCoopers.
2. Roel C. Campos, "SEC Regulation Outside the United States," speech on March 8, 2007 in London (http://www.sec.gov/news/speech/2007/spch030807rcc.htm).
3. By this, we mean IFRS as issued by the International Accounting Standards Board (IASB).

made toward this end, which will not be achieved merely because statements *are* internationally comparable, but only when users understand and believe that they are comparable. It is startling that many companies have been complying with full IFRS but not feeling it necessary to say that they are, and therefore potentially not reaping the full rewards. We investigate possible reasons for this. The Canadian securities regulators and the International Organization of Securities Commissions (IOSCO) have both commented[4] on the expected incremental benefits to investors of clarity on this subject.

We have two main objectives in this paper. First, we survey major capital markets in order to identify where IFRS are required or where, instead, some local version of IFRS is required. We find that direct application of IFRS is required in only one major capital market. Given the rarity of direct application of IFRS, it becomes important for users to be alerted to the accounting rules being used. This leads us to our second objective. We examine audit reports with respect to IFRS for all the companies in the main stock indices of the world's five largest capital markets that require IFRS. We find little reporting directly on IFRS.

The paper proceeds as follows. First, we survey the degree to which IFRS have been adopted or adapted in major capital markets and distinguish between adoption of IFRS and convergence with them. The issue whether financial statements really have complied with IFRS is important but beyond this paper's scope. We then look at the rules relating to reporting on IFRS by management and auditors. Then we report on audit practice in five major countries, and try to explain it. Finally, we offer some conclusions and policy recommendations.

ADOPTION OR CONVERGENCE?

It is important to distinguish between adoption of IFRS and convergence with IFRS. Adoption (whether of process or of content) means that IFRS are used instead of domestic financial reporting rules. This might apply in certain countries for all companies or for some companies. It might apply compulsorily by law or de facto. An example of the former is that, in South Africa, domestic standards no longer apply to listed companies.[5] Instead, there is a requirement[6] to comply with IFRS and therefore for directors and auditors to report on that basis (de jure adoption). The situation is similar in Israel. An example of de facto adoption is the use of IFRS by many Swiss listed companies[7] for their consolidated statements.

In contrast to adoption, convergence with IFRS is a *process*, whereby domestic standards and IFRS are gradually brought into line. That is, part of the convergence could be

4. OSC (2008), section 3; IOSCO (2008) refers to the "risk of investors making investment decisions without a full understanding".
5. Unlisted companies use national standards based very closely on IFRS.
6. The listing requirements (para. 8.62) of the Johannesburg Stock Exchange require financial statements from 2005 onward to comply with national law and with IFRS.
7. The Swiss Exchange's directive on *Requirements for Financial Reporting* (as revised on November 1, 2006) allows several GAAPs, including IFRS and U.S. GAAP.

achieved by changes to IFRS. Indeed, various different countries might be able to contribute good answers to technical problems. However, extensive multilateral convergence is problematic, because converging with one country could mean diverging from another. Because of the economic importance of the U.S. capital markets and because of the importance of securing the acceptability of IFRS to them, convergence in the case of the United States has meant moving both IFRS and U.S. GAAP toward each other. However, convergence in the case of the Accounting Standards Board of Japan (ASBJ, 2006), for example, effectively means changing Japanese standards. In 2007, a new series of accounting standards came into force in China for listed companies (Deloitte, 2006). These remove many of the previous differences from IFRS; this was a further example of one-sided convergence.

The remarkable point that we now investigate is that nearly all the famous examples of alleged *adoption* of IFRS do not strictly satisfy our definition of de jure adoption. As noted earlier, this can be an important issue, especially for foreign users of financial statements. To our knowledge, the only consequential capital market that requires the use of IFRS as issued by the IASB is South Africa.

THE ADOPTION THAT NEVER WAS

As explained above, although the EU has brought virtually all of the content of IFRS into force for various purposes, it is not exactly IFRS as issued by the IASB that is required. For example, in France, what is used for consolidated reporting by listed companies is the French-language version of the IFRS as endorsed in the EU by a particular date. New or amended IFRS must be approved by a legal mechanism (Whittington, 2005). This always adds a delay between an IFRS being approved by the IASB and its being endorsed by the EU. Sometimes the delay can last a year.[8] In a few cases, standards or interpretations (or parts of them) have not been endorsed, the most conspicuous example relating to the hedge accounting rules in IAS 39 (Whittington, 2005; Zeff, 2008).

A quite separate point is that, in many countries outside of North America, companies are required to publish unconsolidated statements of each legal entity, so that there are hundreds of such sets of financial statements produced by large groups, whether the top company is listed or not, and by entities that are not part of a group. Such reporting is not allowed to use IFRS in France, although it is in the United Kingdom. This complexity is noted elsewhere (e.g., Haller and Eierle, 2004; Nobes, 2008: 286–8) but its discussion is outside the scope of this paper.

Another high-profile version of “adoption” is that of Australia, where the law still requires Australian standards to be followed by reporting entities.[9] The Australian Accounting Standards Board (AASB) initially took IFRS and turned them into Australian standards by making numerous amendments to IFRS, to delete options, to add disclosure requirements, and to include requirements for public sector entities. For example, IAS 31

8. IFRS 8 was issued by the IASB in November 2006, but was not endorsed until November 2007.
9. Listed companies and some others.

contains[10] an option to use proportionate consolidation, whereas AASB 131 did not. Nevertheless, it could therefore be claimed that compliance with Australian standards would also achieve compliance with IFRS. This approach was abandoned[11] in 2007, and Australian standards are now based exactly on IFRS, except for amendments relating to public-sector entities.

This was proposed by the Accounting Standards Board as the position for Canada when IFRS is brought into force in 2011 (OSC, 2008: Appendix). That is, IFRS would not exactly be "adopted" but incorporated into the *Handbook* of the Canadian Institute of Chartered Accountants, which is imposed on companies by the corporations and securities laws. However, such a process involves the need, as in Australia, constantly to turn IFRS into national standards, and it means that time lags occur, as noted earlier. It also reduces the clarity, for foreigners, of whether or not IFRS are being complied with. Partly for this reason, the securities regulators in Canada have begun consulting[12] on a more direct approach to IFRS adoption.

In some other jurisdictions that claim to put IFRS into national regulations (e.g., Singapore), there is not only a potential for lags but also a series of differences.[13] Similarly, in China, where the new standards of 2007 came close to IFRS, there are some differences and more might arise as the IASB changes its standards. Of course, in these and other countries, certain companies choose to publish an additional set of financial statements that comply with IFRS for various purposes, including foreign listings.

DE FACTO ADOPTION

Even where there is no direct adoption de jure of IFRS (i.e., in nearly all jurisdictions), it is in some cases possible or inevitable for a company to comply with IFRS. It is (and was) apparently inevitable in Australia, assuming compliance with the rules and no delays in turning new IFRS into Australian standards. It is also achieved in the EU, assuming that a company does not wish to take advantage of the more lax hedge accounting rules in the EU's version of IAS 39. A survey (ICAEW, 2007: 78) suggests that this issue affects only non-U.K. banks. The possibility of EU compliance also assumes that there are no relevant implementation lags. For example, for EU companies with September 30, 2007 year-ends, this would have meant complying with IAS 14 rather than with IFRS 8 for segment reporting. Only IAS 14 was EU-endorsed at the date, and it was still optional IFRS in 2007. However, unendorsed IFRS can be followed in the EU if they do not conflict with endorsed IFRS.

10. The IASB proposed to delete the option in an exposure draft of 2007.
11. By AASB 2007-4.
12. *CSA Concept Paper 52-402* of February 2008.
13. For example, in the case of Singapore, there are differences in effective dates for IAS 40, IFRS 2, and IFRS 7; and IFRIC 2 (effective 2005) has not been adopted as we write in April 2008. Malaysia and the Philippines also have a series of differences from IFRS. We are grateful to Paul Pacter for this information.

As mentioned earlier, where law is permissive, such as in Switzerland, de facto adoption of IFRS is also possible.

WHAT SHOULD THE REPORTS SAY?

So far, we have established that IFRS (as issued by the IASB) are directly required in only a very few jurisdictions, but that they might be complied with in many. We now ask what management and auditors should state in these many jurisdictions.

Where the requirement is for a national adaptation of IFRS or for national standards based on IFRS, management and auditors have to refer, inter alia, to whatever the legal requirement is. In the case of EU audit reports, the exact wording was discussed by the Fédération des Experts Comptables Européens (FEE),[14] which originally recommended the wording "in accordance with IFRSs as adopted for use in the EU". This was turned into a recommendation in the United Kingdom and Ireland by the Auditing Practices Board (APB, 2005). However, after discussion at the Accounting Regulatory Committee (ARC)[15] of the European Commission, the phrase "adopted for use in the EU" was replaced by "adopted by the EU", in order to suggest that such reports should be acceptable outside the EU (e.g., in the United States). This formulation (hereafter called "EU-IFRS") can be found in the final version from FEE (2005), which also contained translations into 20 European languages, and in APB (2006). The change of mind led to some variety in audit reports, as explained in the next section.

In Australia and various Asian jurisdictions, management and auditors must refer to compliance with national laws and standards, even if they are based closely or exactly on IFRS. Therefore, given the widespread de facto compliance with IFRS, can the management and auditors refer additionally to IFRS, and do they do so? We know of no reason why management and auditors cannot add to their statements by referring also to IFRS in the many cases where this de facto compliance is achieved, although in some countries there are disadvantages, as explained below. For ease of reference, we call this "dual IFRS reporting". We restrict this term to references to both full IFRS and another version of IFRS in the statutory financial statements. However, it can come in two forms: two separate opinions, or references both to IFRS and to a version of IFRS in one opinion (perhaps in the same sentence). We do not consider it to be dual reporting when companies or auditors refer to IFRS and to a legal framework — for example, "in accordance with IFRS, and in the manner required by the Companies Act" — in the case of South Africa. Another issue (see below) is whether there is another statement or report somewhere else (e.g., in a Form 20-F deposited with the SEC).

Under IAS 1 *Presentation of Financial Statements* (para. 16),[16] management cannot claim compliance with IFRS unless it complies with all requirements. More subtly, a pro-

14. FEE is a professional body representing European auditors.
15. See the "Draft Summary Record" of the meeting of ARC on November 30, 2005 at http://ec.europa.eu/internal_market/accounting/docs/arc/2005-11-30-agenda_en.pdf.
16. As revised in 2007.

posed amendment to IAS 1 of September 2007 adds a requirement concerning the case where a company "refers" to IFRS but does not fully comply. The amended IAS 1 would require such a company to describe the differences between its reporting and IFRS. Because, in this case, the company is *not* complying with IFRS, it is hard to see why it should necessarily comply with this new requirement.

In conclusion, there is no impediment to dual IFRS reporting by *management* if compliance with full IFRS is achieved. Under the International Standards on Auditing,[17] dual reporting by *auditors* is allowed where financial statements comply simultaneously with two frameworks. The SEC (2007: section III.A.2) confirms that it also sees no impediments.

Dual reporting is not a new idea. For example, some U.S. managements asserted compliance with U.S. GAAP and with "International Accounting Standards" in the 1980s and early 1990s (Camfferman and Zeff, 2007: 156-7, 249). In some cases (e.g., Salomon Inc.), the auditor also dual-reported. This was the case for Microsoft in 1996 and 1997. Especially from 1995,[18] international standards became less permissive, and simultaneous compliance was increasingly difficult to achieve.

WHAT DO THE REPORTS SAY?

In the countries where a version of IFRS is required, dual IFRS reporting by auditors has been rare. We have surveyed the audit reports[19] of all the companies in the main stock indices[20] in Australia, France, Germany, Spain, and the United Kingdom for 2005–6 (255 companies in all). These were the largest[21] stock markets for which IFRS[22] were required at that date. Our data relate to reports of 2005–6,[23] which was generally the first year of compulsory IFRS reporting, and was also the most recent year for which a full set of reports was available.[24] In some cases, we comment also on 2006–7 reports.[25] Because a few companies use foreign accounting (e.g., U.S. GAAP), the numbers of companies surveyed is slightly smaller than the numbers in the indices. The largest such reduction relates to Germany, where seven of the DAX 30 used U.S. GAAP, which was still allowed by the EU regulation, under various conditions, for 2005 and 2006.

We examined the audit reports of all 255 companies to see whether the opinion related to "local" IFRS only or to full IFRS as well. Of the five countries that we examined in detail, only Germany and the United Kingdom produced examples of dual IFRS reporting

17. *International Auditing Practice Statement 1014* of March 2003.
18. Several options were removed from international standards in 1993, with effect from 1995.
19. We examined the English-language reports in all cases where these were available. However, we looked at the original-language reports when necessary to resolve doubts.
20. Respectively, the ASX 50, CAC 40, DAX 30, IBEX 35, and FTSE 100 as in June 2007.
21. By market capitalization, according to the 2006 World Federation of Exchanges annual report: http://www.world-exchanges.org/reports/annual-report.
22. That is, IFRS with various provisos as explained above.
23. That is, we looked at the earliest reports for accounting years beginning on or after January 1, 2005.
24. For example, companies with November year-ends did not produce their second IFRS reports until 2008.
25. We used the same companies as for 2005–6 in each case.

by auditors. In the United Kingdom, 17 out of 99 companies dual-reported. In nearly all cases, the management reported in the same way as the auditors — that is, not referring to full IFRS except where the auditors did. However, in the case of BG, for example, management dual-reported but the auditors referred only to EU-IFRS.

In Germany, 5 companies[26] out of the 23 IFRS reporters (22 percent) had dual IFRS audit reports. Where there *was* a dual audit report, the reporting by the management in accounting policy notes was varied — for example, Hypo Real Estate's management referred to the two bases, Henkel's to IFRS only.

In France and Spain, the audit reports uniformly referred only to EU-IFRS, both in the annual reports and in the Forms 20-F of the companies listed on U.S. exchanges.[27]

A published survey of IFRS practice in Europe (Institute of Chartered Accountants in England and Wales [ICAEW], 2007: chap. 8) sheds further light on EU practices. However, it studies 200 listed companies of all sizes across the whole of the EU for 2005–6. So, our sample size for our four EU countries is larger and more homogeneous in terms of size. It is, therefore, difficult to compare results. The ICAEW finds examples of references to IFRS only, to EU-IFRS only, and to dual IFRS reporting. However, it concentrates on management rather than auditors, and does not note that the auditors sometimes dual-report when management does not, or vice versa. The ICAEW finds some dual reporting by *management* in countries other than the United Kingdom and Germany. In percentage terms, this is highest in the Netherlands (ICAEW, 2007: 76).

We noted earlier that the approved wording in the EU is "IFRSs as adopted by the EU". However, in the United Kingdom, all of the Deloitte reports and two PwC reports[28] refer to "IFRS as adopted for use in the European Union", which was the rejected draft wording. A KPMG report[29] refers to "adopted IFRS" without saying who has adopted them. Nearly all this wording is corrected for the 2006–7 reports, except for a few[30] Deloitte reports.

In Australia, for 2005–6 reports (mostly years ending June 30, 2006), the auditors uniformly reported on "Accounting Standards in Australia." This is also the case in the Forms 20-F of those few[31] Australian companies that were SEC-registered. Indeed, the auditors of SEC-registered companies of all the countries except Germany (see below) generally did not dual-report in Form 20-F unless they had done so in the annual report.

26. Henkel, Hypo Real Estate, Linde, Lufthansa, and ThyssenKrupp.
27. For example, Alcatel Lucent, AXA, and Total from France; and Banco Santander, Endesa, and Telefónica from Spain.
28. Kingfisher and Schroders.
29. Scottish and Southern Energy.
30. For example, the reports on Vodafone and Shire refer again to "use in". Not all audit reports on this second year were available at the time of writing.
31. The only Australian-index companies on the New York Stock Exchange (on December 14, 2007) that used Australian standards were Alumina and Westpac. BHP Billiton used EU-IFRS, and James Hardie used U.S. GAAP.

As noted earlier, the widespread failure to assert compliance with IFRS when compliance has probably been achieved seems to miss an important part of the point of 35 years' worth of effort on international harmonization. What explains this; what explains the few exceptions; and is the position changing?

SOME EXPLANATORY FACTORS

We suggest that the explanation for the lack of reference to full IFRS in 2005–6 is prosaic: companies and auditors increasingly do merely what they are required to do by regulation. Reporting and auditing are now largely seen as part of "compliance",[32] rather than being seen as a useful commercial or professional activity. The rules are now more detailed (2,600 pages of IFRS) and the enforcement more strict (e.g., CESR, 2007), so there is little incentive to think or act beyond the rules.

The examples of auditors' dual reporting are, in a sense, easy to explain. The 17 U.K. dual IFRS reporters are mostly (i.e., except for 3) "foreign private issuers" (FPIs) in the United States. Table 1 shows the figures. It is necessary here to distinguish between two types of FPIs in the context of the SEC: (a) those with only Level I American Depositary Receipts, and (b) those that are listed. The former can trade their securities over-the-counter only and have minimal reporting requirements. The latter must register with the SEC, including (until the changes of 2007) filing U.S. GAAP reports or reconciling to U.S. GAAP on Form 20-F.

The use of dual IFRS reporting by FPIs is an example of how greater clarity for foreign investors can be a motivation for wanting an audit opinion that refers to full IFRS. In two cases,[33] this explanation is particularly obvious, because the second opinion, on full IFRS, is headed "U.S. opinion" even in the U.K. annual report. The United Kingdom's Auditing Practices Board specifically notes the possibility of a dual report, and expresses a preference for two clearly separate opinions (APB, 2006: para. 8). This is generally the approach of U.K. auditors, whether or not the IFRS opinion is headed "U.S. opinion". Discussions[34] with the Big 4 audit firms in the United Kingdom confirm that a dual report would generally have been easy to provide. This is confirmed by more formal evidence to the SEC (2007: section III.A.2).

As Table 1 shows, 12 out of the 17 U.K. dual IFRS audit reports (71 percent) were written by Deloitte, which is disproportionately large for its share of FTSE 100 companies (which is 19 percent) or of FPIs.[35] None of the dual reports was by KPMG, although the firm was not opposed in principle to giving them.[36] We believe that the predominance of

32. With which we include avoidance of litigation.
33. Royal Bank of Scotland and Vodafone. In the case of Royal Bank of Scotland, there are three opinions: EU-IFRS, IFRS, and U.S. opinion on IFRS.
34. Correspondence with Mary Tokar of KPMG on August 24, 2007, and Andy Simmonds of Deloitte on August 28, 2007.
35. For example, 22 of the FTSE 100 companies were listed on the New York Stock Exchange (on December 17, 2007). Of these, only 4 were audited by Deloitte, 10 by PwC, 6 by KPMG, and 2 by Ernst & Young.
36. Correspondence with Mary Tokar (IFRS partner, KPMG) on August 24, 2007.

TABLE 1
U.K. dual audit reports in 2005–6

	Total	SEC-registered	Other FPI	Not FPI
Deloitte & Touche	12	5 (2 with "U.S. Opinion")	5	2
Ernst & Young	3	1	1	1
KPMG	0	0	0	0
PricewaterhouseCoopers	2	1	1	0
Total	17	7	7	3

Deloitte can be explained by the deliberate policies of the firms. Only Deloitte expressed[37] a clear view in favor of dual reporting.

However, we cannot explain[38] why the 3[39] companies of the 17 that are not FPIs had dual audit reports. Two different audit firms were involved. Furthermore, there are many other U.K. companies that are FPIs or even fully SEC-registered that did *not* dual-report.[40]

As an example of the confusion in this area, the journal of the ICAEW reports that only 11 of the FTSE 100 companies reported on full IFRS and that this shows how many companies would be affected by the SEC's proposal to accept only full IFRS (Accountancy, 2007). In addition to having a smaller count from us,[41] this is wrong because most of the remaining 89 companies are not SEC-registered and so would not be affected. Furthermore, nearly all the companies are probably already complying with full IFRS and merely need to ask their auditors to affirm that.

In the case of Germany, it was noted above that five DAX companies provided dual IFRS audit reports. More detail is given in Table 2. As may be seen, there were 24 FPIs in the DAX. Of these, seven were using U.S. GAAP, as then permitted by the German adaptation of the EU Regulation. Three others were dual reporters (Henkel, Hypo Real Estate, and Lufthansa). The remaining 14 FPIs (e.g., Adidas, Allianz, and Commerzbank) neither used U.S. GAAP nor had a dual audit report. Surprisingly, in addition to the above three FPI dual reporters, another two (Linde and ThyssenKrupp), which were not FPIs, did dual-report.

37. Martyn Jones (U.K. Audit Technical Partner) reports that they had been "pushing it strongly … from the beginning" (correspondence of January 15, 2008).
38. We have written to the finance directors of the companies. We have received two replies. One does not explain the decision to seek a dual report except that it shows an awareness that IFRS and EU-IFRS were potentially different. The other reply suggests that the company's investors were aware of uncertainty in 2005 about endorsement but are less interested now, such that dual reporting has been dropped. The company also confirmed that the dual report had created no problems for its auditors.
39. Capita, Daily Mail, and Hammerson.
40. For example, the SEC lists 40 FTSE companies as registered at December 31, 2005 but only 7 of them had dual audit reports.
41. We find 14 dual reports for 2006–7.

TABLE 2
DAX companies: To which GAAP do auditors refer (2005)?

Audit reference	Type of company			Total
	SEC-registered	Other FPI	Not FPI	
U.S. GAAP	7	—	—	7
Dual IFRS	—	3	2	5
EU-IFRS	4	10	4	18
Total	11	13	6	30

The partial explanation for the majority usage of EU-IFRS in Germany, even for FPIs, is that most of the FPIs (including all the dual reporters) were Level I only and not required to use U.S. GAAP or to reconcile to it. The only DAX companies with full SEC registrations that neither used U.S. generally accepted auditing standards nor dual-reported were Allianz,[42] BASF, Bayer, and Deutsche Telekom. The first three of these[43] had EU-IFRS reports in their annual reports but IFRS reports in Form 20-F. Deutsche Telekom had EU-IFRS reports in both places.

In Germany and Austria, there is a particular legal reason for restricting an audit assignment in the annual report to EU-IFRS: the legally required audit opinion (reference to EU-IFRS) activates a cap on auditor liability. In Austria, for example, the *Unternehmensgesetzbuch* limits the liability of auditors when operating within its legal framework — that is, in the context of EU-endorsed IFRS. An audit report relating to anything else (e.g., full IFRS) would not enjoy a liability cap, except by separate negotiation.[44] This is also the position for Germany.[45] It means that a report on full IFRS would be riskier for auditors and, therefore, costlier for companies. A further complication is that the SEC requires auditors to use U.S. GAAP rather than international standards on auditing as used in the EU, so a separate opinion for SEC purposes is necessary anyway.

Another potential[46] explanation for avoiding a dual IFRS report in the EU is that EU-IFRS could, in the future, depart further from IFRS such that simultaneous compliance might become more difficult. To avoid the embarrassment of having later to drop the reference to full IFRS, it would be better never to make it.

42. Allianz is unusual in another way: it is an SE (a *societas Europaea*, a European public company), so in principle it is European, not German.
43. BASF had an EU-IFRS report in its German-language annual report but an IFRS report in its English-language document.
44. We are grateful to Gerhard Prachner (PricewaterhouseCoopers, Vienna) for this information.
45. We are grateful to Alfred Wagenhofer for this information (correspondence of December 5, 2007).
46. Our suggestion here received confirmation from Liesel Knorr of the German Accounting Standards Committee (correspondence of January 2, 2008).

IS THE POSITION CHANGING?

The remaining question from above is whether the position is changing. We found a slight decrease in the number of dual IFRS audit reports for 2006–7 compared with 2005–6.[47] The position has changed in another way for foreign registrants of the SEC for 2007 reports onward (SEC, 2007). At least for their SEC filings, their auditors will have to report on full IFRS if they wish to avoid reconciliation. Given that these auditors will specifically have to address the issue of full IFRS conformity in the audit reports designed for the SEC, it would then presumably be costless (except in Austria and Germany, as explained above) for them to opine on full IFRS in their domestic audit reports. This will presumably increase the number of domestic opinions on full IFRS — that is, it will increase dual reporting, given the continued legal need for opinions on national versions of IFRS.

Elsewhere, in June 2007, the Australian Auditing and Assurance Standards Board revised auditing standard ASA 700 to require an additional reference to IFRS (i.e., dual reporting). In New Zealand, the Professional Standards Board of the Institute of Chartered Accountants had done the same one month earlier with AGS-1012[48] (Fisher and Perry, 2007). We applaud these changes because they will make it clear to foreign users whether or not IFRS are being followed. These revisions seem to be the world's first requirements for dual IFRS reporting.

In Canada, it is intended (OSC, 2008) that IFRS will be the primary basis of reporting, although it remains unclear whether dual reporting will be necessary because of a continued need to comply with national laws and regulations and the phasing in of some IFRS, which may themselves be undergoing change at the time of adoption.

CONCLUSIONS AND POLICY IMPLICATIONS

Few jurisdictions have directly adopted IFRS, partly because of the widespread and longstanding reluctance of the state to allow a private-sector body to control accounting. South Africa has accepted the process of international standard setting by the IASB. The SEC and the Canadian regulators are considering doing so as well. However, this is not the position in the EU, nor is it likely to become the position.

Where, despite the lack of direct adoption of IFRS, they are nevertheless in practice fully complied with, it was not normal for auditors to be asked to affirm this in 2005 or 2006. The exceptions were some German and U.K. companies that were generally FPIs in the United States. However, some FPIs from those countries did not dual-report and some dual reporters were not FPIs.

47. The U.K. numbers fell from 17 to 14; the numbers per auditor falling to 11 (Deloitte), 1 (Ernst & Young) and 2 (PwC). The German numbers fell from 5 to 4 (Linde had only an EU-IFRS opinion).

48. *Audit Implications of the Transition to New Zealand Equivalents to International Financial Reporting Standards*, 2007.

For 2007 onward, Australia and New Zealand have moved to a requirement for dual audit reports. The SEC's requirement for full IFRS from foreign registrants that wish to avoid reconciliations might increase the frequency of dual reporting elsewhere.

Where it is not possible, for local reasons, to report simply on full IFRS, we believe that companies and auditors in the EU and elsewhere should consider the issuance of a dual report that includes opining on full IFRS, as now required in Australia and New Zealand. In most cases, it would be costless but would increase the clarity of reporting, which regulators suggest would entail an incremental benefit especially for companies with international investors. For those few companies unable to claim IFRS compliance, useful information would be forthcoming that is now hidden. If there are specific local reasons[49] why dual reporting has disadvantages, then we would encourage regulators to remove them.

IOSCO (2008) has urged listed companies to state that their financial statements comply with IFRS as issued by the IASB, if that is the case, and otherwise to explain the differences. At present, the International Auditing and Assurance Standards Board appears to be unable to encourage or require dual audit reporting because it is "framework neutral".[50] Nevertheless, we believe that the International Federation of Accountants, FEE, and other audit-related bodies should consider encouraging or requiring dual reporting so as to make it widely known that they are, or are not, adhering to full IFRS.

REFERENCES

Accountancy. 2007. Compliance with IFRS. *Accountancy*, September, 28.

Accounting Standards Board of Japan (ASBJ). 2006. *Statement on Japan's progress towards convergence*. Tokyo: ASBJ.

Auditing Practices Board (APB). 2006. *Auditor's reports on financial statements in the United Kingdom*, Bulletin 2006/6. London: APB.

Auditing Practices Board (APB). 2005. *Auditor's reports on financial statements in Great Britain and Ireland*, Bulletin 2005/4. London: APB.

Benson, H. 1976. The story of international accounting standards. *Accountancy*, July, 34.

Camfferman, K., and S. Zeff. 2007. *Financial reporting and global capital markets: A history of the International Accounting Standards Committee, 1973–2000*. Oxford: Oxford University Press.

Committee of European Securities Regulators (CESR). 2007. *CESR's review of the implementation and enforcement of IFRS in the EU*. Committee of European Securities Regulators, 07-352, November.

Deloitte. 2006. *China's new accounting standards*. Hong Kong: Deloitte.

European Union (EU). 2002. *Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards*.

49. For example, as in the case of the liability cap in Austria and Germany,
50. This point was made to us by James M. Sylph, IFAC's executive director of professional standards, in correspondence of November 19, 2007.

Fédération des Experts Comptables Européens (FEE). 2005. *Reference to the financial reporting framework in the EU in accounting policies and in the audit report and applicability of endorsed IFRS*. Brussels: FEE.

Fisher, F., and Perry, J. 2007. Complying with IFRS: Guidance amended. *Chartered Accountants Journal* 86 (6): 28–9.

Haller, A., and Eierle, B. 2004. The adaptation of German accounting law to IFRS: A legislative balancing act. *Accounting in Europe* 1: 27–50.

Institute of Chartered Accountants in England and Wales (ICAEW). 2007. *EU implementation of IFRS and the fair value directive*. London: ICAEW.

International Organization of Securities Commissions (IOSCO). 2008. Statement on providing investors with appropriate and complete information on accounting frameworks used to prepare financial statements, IOSCO Technical Committee, February 6.

Nobes, C. W. 2008. The context of financial reporting by individual companies. In *Comparative International Accounting*, eds. C. W. Nobes and R. H. Parker, chap. 13. Harlow, Essex, U.K.: Prentice Hall.

Ontario Securities Commission (OSC). 2008. *CSA Concept Paper 52-402*, Canadian Securities Administrators, http://www.osc.gov.on.ca/Regulation/Rulemaking/Current, February 15.

Securities and Exchange Commission (SEC). 2007. *Acceptance from foreign private issuers of financial statements prepared in accordance with international financial reporting standards without reconciliation to U.S. GAAP*, RIN 3235-AJ 90, December 21. Washington, DC: SEC.

Whittington, G. 2005. The adoption of international accounting standards in the European Union. *European Accounting Review* 14 (1): 127–153.

Zeff, S. A. 2008. Political lobbying on accounting standards — US, UK and international experience. In *Comparative International Accounting*, eds. C. W. Nobes and R. H. Parker, chap. 10. Harlow, Essex, U.K.: Prentice Hall.