Summary of Significant Comments and Task Force Recommendations—Exposure Draft of Proposed ISA 710 (Redrafted), “Comparative Information—Corresponding Figures and Comparative Financial Statements”

Introduction

1. The comment period for the exposure draft of proposed ISA 710 (Redrafted) (“ED-ISA 710”) closed on April 15, 2008. Thirty-five comment letters were received. A list of respondents is included in the Appendix of this paper.

2. Overall, respondents were supportive of the redraft, with many expressing the view that it was an improvement over the extant ISA. Most of the respondents commented positively on the proposed objective and requirements. Most of the significant comments focused on specific proposals in the requirements section.

3. The following summarizes the significant comments received from respondents, and the Task Force’s preliminary views and recommendations.

Significant Comments

A. Objective

4. The proposed objective stated in paragraph 4 of ED-ISA 710 reflected responsibilities of the auditor with respect to comparative information, as follows:

“The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements complies, in all material respects, with the applicable financial reporting framework.”

5. There was strong support from most of the respondents for the objective.

6. Several respondents¹, however, commented that the reporting requirements of the auditor should also be included.

7. In addition, some respondents² expressed concern that the objective could imply that the auditor’s responsibilities for the prior period figures are similar to that of the current period. For example, a respondent found the proposed objective to be inconsistent with the requirements. It was noted that, while the words “obtain sufficient appropriate audit evidence” included in the proposed objective imply that the auditor has to express an opinion on the comparative information:

- The definition of corresponding figures does not require such an opinion to be expressed;

¹  BDO, PwC, CNCC, AICPA, ICAI, IDW, GAO
²  DTT, ICAEW, IDW, FEE, IRE
• The requirements contained in paragraphs 6 to 8 of ED-ISA 710 would not lead to sufficient appropriate audit evidence on the corresponding or comparative financial statements in order to express an opinion thereon unless the auditor performed the audit of the prior period; and
• The requirements in paragraphs 13 and 18 of ED-ISA 710 relate to circumstances where the prior period was unaudited and the auditor would thus be unable to obtain sufficient appropriate audit evidence.

The respondent suggested that the objective should either be:
• Split into those cases where the current auditor has audited the prior period financial statements (and would thus be able to obtain sufficient appropriate audit evidence) and where not (and would thus only be able to consider the appropriateness of those figures); or
• Reduced to the auditor considering whether the comparative financial information is in accordance with the applicable financial reporting framework.

8. In addition:
• Some respondents3 suggested that the words “with or together with” should be added after “in” to include the comparative financial statement model in the objective.
• Two respondents4 commented that the word “complies” should be replaced with “in accordance with” to be consistent with ISA 200 (Revised and Redrafted)5 and proposed ISA 210 (Redrafted)6.

Task Force Views and Recommendations

9. The Task Force agreed that the auditor’s reporting responsibilities should be included in the objective.

10. The Task Force believes that obtaining sufficient appropriate audit evidence should always be read in the context of expressing an opinion on the financial statements as a whole. The Task Force therefore did not agree with the need to have separate objectives depending on whether or not the prior period financial statements have been audited.

11. However, to resolve the potential misinterpretation that the auditor’s responsibilities for the prior period are similar to the current period, the Task Force adopted a suggestion made by a respondent7 to clarify that the auditor’s focus is whether the comparative information has been prepared in accordance with the requirements for comparative information that are in the applicable financial reporting framework.

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3 ICAEW, ICAS, IDW, IRE and CIPFA
4 IDW and Royal NIVRA
5 ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”
6 Proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements.”
7 DTT
12. The Task Force included the editorial suggestions made by respondents to improve the clarity of the objective, except for the proposed inclusion of “with”. The Task Force is concerned that including such wording could raise confusion as the comparative information for both reporting models is ordinarily presented in one set of annual financial statements showing the comparative figures together with the current period’s financial statements.

13. The Task Force proposes that the objective be refined as follows (see paragraph 5 of Agenda Item 6-B):

“The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements complies, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and

(b) To report in accordance with the auditor’s findings, using the approach to comparative information required in the circumstances.”

**Action Requested**

IAASB is asked to consider the proposed wording of the objectives.

**B. Structure of Requirements**

14. ED-ISA 710 included the proposal to restructure the extant ISA to reflect the IAASB’s view that the auditor’s procedures in respect of corresponding figures and comparative financial statements are the same (except in relation to obtaining written representations) under the two different approaches to presenting comparative information. It also proposed that the ISA should be structured to set out separately the auditor’s reporting responsibilities for each approach to presenting comparative information, as the audit reporting requirements are different for the two approaches.

15. Majority of the respondents agreed with the structure of the ISA and that the requirements under “Audit Procedures” are the same for the two reporting models. Two respondents disagreed. One did not believe that the auditor’s work effort is the same, as explained above (see paragraph 7). The other found the requirements regarding corresponding figures confusing.

16. A respondent commented that the auditor would follow the requirements and guidance in ISA 560 (Redrafted) for both reporting models when the auditor becomes aware of a material misstatement that affects the prior period on which the auditor has previously expressed an unmodified opinion. The respondent suggested that the first part of paragraph

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8 IDW
9 GAO
10 PwC
11 ISA 560 (Redrafted), “Subsequent Events.”
11 of ED-ISA 710 that requires the auditor to follow ISA 560 (Redrafted) when reporting on “corresponding figures” should be moved to the requirement in paragraph 7 of ED-ISA 710 as it relates to both reporting models. Similarly, the requirement to determine that any amendments to the prior period’s financial statements are reflected in the comparative financial information applies whether dealing with corresponding figures or comparative financial statements.

**Task Force Views and Recommendations**

17. The Task Force agreed with the suggestion to move the relevant aspects of the requirement in paragraph 11 in ED-ISA 710 to paragraph 8 (paragraph 7 in the ED-ISA 710).

18. The Task Force believes that the suggestions for more fundamental change to the requirements to introduce greater differential in the work effort in different circumstances were beyond clarity redrafting.

19. The Task Force proposes that the paragraphs be refined as follows (see paragraphs 8 and 12 of Agenda Item 6-B):

8. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor had audited the prior period’s financial statements, the auditor shall also follow the relevant requirements of ISA 560 (Redrafted). If the prior period financial statements are amended, the auditor shall determine that the corresponding figures agree with the amended financial statements.

12. If the auditor becomes aware of a material misstatement in the prior period financial statements on which an unmodified report has been previously issued, the auditor shall follow the relevant requirements of ISA 560 (Redrafted), and:

(a) If the prior period financial statements have been amended and reissued with a new auditor’s report, the auditor shall obtain sufficient appropriate audit evidence that the corresponding figures agree with the amended financial statements; or

(b) If the prior period financial statements have not been amended and reissued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor’s report on the current period financial statements, modified with respect to the corresponding figures included therein.

**Action Requested**

The IAASB is asked to consider whether the amended paragraphs and relocation are appropriate and if any further amendments are needed.
C. Nature of Comparative Information

20. A few respondents\(^{12}\) questioned whether it is the financial reporting framework that determines whether comparative information is presented as corresponding figures or comparative financial statements, as is implied in paragraph 2 of ED-ISA 710. They pointed out that, although financial reporting frameworks specify that comparative information should be included in financial statements, the auditor’s reporting responsibility in relation to comparative information is generally dictated by the law or regulation governing the audit engagement. A respondent\(^{13}\) also pointed out that legal and regulatory requirements may require presentation of the comparative financial statements, or client management may voluntarily present them, even though the financial reporting framework required comparative information to be presented as comparative financial statements. The respondent argued that the auditor’s responsibilities are the same regardless of the form of presentation.

21. In addition:

- A respondent\(^{14}\) commented that there may be difficulty in translating the words “separately identify” and suggested the consistent use of the words “refer to”.
- A few respondents\(^{15}\) suggested that the paragraph should be split as the paragraph is too lengthy.
- A respondent\(^{16}\) suggested that wording would be improved if it described the comparative information as being presented as either corresponding figures or comparative financial statements.

Task Force Views and Recommendations

22. The Task Force agreed with the respondents’ comments that, whilst the applicable financial framework determines the comparative financial information (if any) that should be included in the financial statements, it is ordinarily the laws or regulations governing the auditor’s mandate that determine the auditor’s reporting responsibilities. Therefore, the Task Force has amended the paragraph to clarify that laws and regulations determine the auditor’s reporting responsibility. The Task Force has also included the editorial comments, with the exception of describing the comparative information as being presented as either corresponding figures or comparative financial statements as the information presented is often very similar under either model.

23. The Task Force proposes that the paragraph be refined as follows (see paragraphs 2 and 3 of Agenda Item 6-B):

\(^{12}\) CNCC and PwC
\(^{13}\) KPMG
\(^{14}\) JICPA
\(^{15}\) IRE and FEE
\(^{16}\) KPMG
2. The nature of the comparative information that is presented in an entity’s financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to comparative information in financial reporting frameworks: corresponding figures and comparative financial statements. In general, the information presented is similar, but in the latter case it is likely to be more comprehensive. Most applicable financial reporting frameworks specify corresponding figures; comparative financial statements tend to be required by regulators who require the auditor to express opinions on both the current and the comparative financial information.

3. The auditor’s reporting requirements regarding comparative information in an audit of financial statements differ depending on whether the comparative information is corresponding figures or comparative financial statements. The essential audit reporting differences are:

(a) For corresponding figures, the auditor’s report ordinarily refers only to the financial statements of the current period and does not separately identify refer to the corresponding figures; whereas

(b) For comparative financial statements, the auditor’s report refers to each period for which financial statements are presented.

Action Requested

The IAASB is asked to consider whether the amended paragraph is appropriate and if any further amendments are needed.

D. Unresolved Modifications in the Prior Period Auditor’s Report

24. A few respondents\(^\text{17}\) commented that the manner in which paragraph 10 of ED-ISA 710 was drafted is inconsistent with other paragraphs in this and other ISAs. The respondents commented that the requirement is hidden in the subparagraphs and that subparagraph (b) is simply an explanation of why the auditor needs to modify the auditor’s report and should thus be moved to the application and other explanatory material.

Task Force Views and Recommendations

25. The Task Force agreed to restructure the wording to be in line with the wording of other ISAs. The Task Force believes that this restructuring makes the requirements easier to understand as it sets out the underlying principle first and then explains how it is applied in relation to the two different circumstances (i.e., when the current period figures are effected, and when they are not). The Task Force also moved subparagraph (b) to application and other explanatory material.

26. The Task Force proposes that the paragraphs be refined as follows (see paragraphs 11 and A4 of Agenda Item 6-B):

\(^{17}\) BDO and CICA
11. If the auditor’s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor’s opinion on the current period’s financial statements regardless of whether the effects or possible effects of the matter are relevant or material to the current period figures. In the Basis for Modification paragraph in the auditor’s report, the auditor shall:

(a) If the effects or possible effects of the matter on the current period’s figures are material and require a modification to the auditor’s opinion regarding the current period figures, the auditor shall refer to both the current period’s figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period’s figures are material in the Basis for Modification paragraph; or

(b) If the effects or possible effects of the matter are either not relevant or material to the current period figures, the auditor shall nevertheless modify the opinion in the auditor’s report on the current period’s financial statements. Explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period’s figures and the corresponding figures when the effect or possible effects of the matter are either not relevant or not material to the current period’s figures.

A4. When the auditor’s opinion on the prior period, as previously expressed, was modified, the unresolved matter that gave rise to the modification may not be relevant to the current period figures. Nevertheless, a qualified opinion, a disclaimer of opinion, or an adverse opinion (as applicable) is required on the current period’s financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current period’s figures.

E. Cross-Reference to the Communication Requirements of ISA 510 (Redrafted)

27. A respondent commented that the wording of paragraph 17 of ED-ISA 710 no longer conveys the intent of paragraph 28 of the extant ISA, because the reference to informing the predecessor auditor about a misstatement found was removed in the finalisation of ISA 510 (Redrafted).  

Task Force Views and Recommendations

28. The Task Force agreed to reinstate the wording to inform the predecessor auditor of the misstatement found.

29. The Task Force proposes that the paragraph be refined as follows (see paragraph 18 of Agenda Item 6-B):

18. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without

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PwC

ISA 510 (Redrafted), “Initial Audit Engagements – Opening Balances.”
modification, the auditor shall, in addition to the communications required in accordance with [proposed] ISA 510 (Redrafted), propose that the prior period financial statements be amended, communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor’s report on the amended financial statements of the prior period, the auditor shall report only on the current period.

**Action Requested**
The IAASB is asked to consider whether the amended paragraph is appropriate and if any further amendments are needed.

F. Alignment of Paragraphs 13 and 18

30. Some respondents suggested that paragraph 18 of ED-ISA 710 should be aligned with paragraph 13 to clarify where in the auditor’s report it should be stated that the comparative financial statements are unaudited.

**Task Force Views and Recommendations**

31. The Task Force agreed that the requirements of paragraphs 13 and 18 in ED-ISA 710 are similar and should be aligned. The task force also used the wording in ISA 510 (Redrafted).

32. The Task Force proposes that the paragraph be refined as follows (see paragraph 19 of Agenda Item 6-B):

19. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor’s report that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient evidence that the procedures regarding opening balances do not contain misstatements that materially affect the current period’s financial statements.

**Action Requested**
The IAASB is asked to consider whether the amended paragraph is appropriate and if any further amendments are needed.

G. Prior Period financial Statements Audited by a Predecessor Auditor

33. A few respondents recommended that paragraph A7 of ED-ISA 710 be aligned with the wording used in jurisdictions that adopt the comparative financial statement model (e.g., U.S.) for situations in which the current auditor audits any adjustments related to prior financial statements. They argued that the additional wording for the auditor’s report provided useful clarification.

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20 BDO, CICA, DTT, EYG, IDW  
21 KPMG and PwC
Preliminary Task Force Views and Recommendations

34. The Task Force agreed with the suggested amendments of paragraph A7. The Task Force proposes that the paragraph be refined as follows (see paragraph A11 of Agenda Item 6-B):

A11. The predecessor auditor may be unable or unwilling not agree with a proposed restatement or may refuse to reissue the auditor’s report on the prior period financial statements. An Other Matter(s) paragraph of the auditor’s report may indicate that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor applies obtains sufficient appropriate audit procedures to obtain evidence to be satisfied as to the appropriateness of the restatement adjustment, the auditor’s report may also include the following paragraph:

“As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements taken as a whole.”

Action Requested
The IAASB is asked to consider whether the amended paragraph is appropriate and if any further amendments are needed.

H. Decision Tree

35. A respondent noted that ED-ISA 710 is difficult to read and suggested that additional guidance in the form of a decision tree or other chart would provide a useful roadmap to users.

Task Force Views and Recommendations

36. The Task Force has prepared decision trees for IAASB’s consideration. See Appendix 2 in the proposed ISA.

Action Requested
The IAASB is asked to consider whether the proposed Appendix with decision trees are useful.

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22 CICA
I. Consideration of the Need to Re-expose

37. Agenda Item 6-B show in marked text the changes proposed to ED-ISA 710. The Task Force is of the view that the changes are in response to matters raised by respondents to the exposure draft. They do not introduce new principles or represent other changes of substance when compared with the exposure draft.

38. Accordingly, the Task Force is of the view that re-exposure is not necessary.\textsuperscript{23}

\textsuperscript{23} IAASB Working Procedures regarding re-exposure state: “Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the IAASB; or substantial change to the substance of an International Standard or Practice Statement.”
### List of Respondents

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<td>Compagnie Nationale des Commissaires aux Comptes + Conseil Superieur de l' Ordre des Experts-Comptables</td>
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