(MARKED FROM EXPOSURE DRAFT)

PROPOSED-INTERNATIONAL STANDARD ON AUDITING 710
(REDRAFTED)

COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods beginning on or after {December 15, 2009})

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Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in [proposed] ISA 510 (Redrafted) regarding opening balances also apply.

The Nature of Comparative Information

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—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 also require the auditor to express opinions on both the current and the comparative financial information. [ISSUE C]

2.3. 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.

This ISA addresses separately the auditor’s reporting requirements for each circumstance.

Effective Date

4.3. This ISA is effective for audits of financial statements for periods beginning on or after [December 15, 2009].

Objectives

5.4. The objectives of the auditor is are: [ISSUE A]

(a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements complies has been prepared, 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.

Definitions

6.5. For the purposes of the ISAs, the following terms have the meanings attributed below:

(a) Comparative information – The amounts and disclosures included in the financial statements in respect of one or more previous periods in accordance with the applicable financial reporting framework. Comparative information may be corresponding figures or comparative financial statements.

(b) Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as “current period figures”). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.

(c) Comparative financial statements – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period, but are considered separate financial statements on which an audit opinion is expressed. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period (including all statement amounts, disclosures and other explanatory statements to the extent that they continue to be of significance).

For purposes of this ISA, references to “prior period” should be read as “prior periods” when the comparative information includes amounts and disclosures for more than one period.

Requirements

Audit Procedures

7.6. The auditor shall determine whether the financial statements correctly include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

(a) The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated; and

(b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.
8.7. 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. [ISSUE B]

9.8. As required by ISA 580 (Revised and Redrafted), the auditor shall request written representations for all periods referred to in the auditor’s report. (Ref: Para. A1)

Audit Reporting

Corresponding Figures

10.9. When the comparative information is presented as corresponding figures are presented, the auditor’s report opinion shall not specifically identify refer to the corresponding figures except in the circumstances described in paragraphs 110, 124(b), 12 and 134. (Ref: Para. A2)

11.10. 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: [ISSUE D]

(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. (Ref: Para. A3-A5)

12.11. If the auditor becomes aware of obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified report

2 ISA 560 (Redrafted), “Subsequent Events,” paragraphs 14-17.
3 ISA 580 (Revised and Redrafted), “Written Representations,” paragraph 14. [See footnote 4 of the Explanatory Memorandum.]
has been previously issued, the auditor shall follow the relevant requirements of ISA 560 (Redrafted), and [ISSUE B]

(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

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. (Ref: Para. A6)

Prior Period Financial Statements Audited by a Predecessor Auditor

13.42. If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor’s report on the corresponding figures and decides to do so, the auditor shall indicate state in an Other Matter(s) paragraph in the auditor’s report:

(a) That the financial statements of the prior period were audited by the predecessor auditor;

(b) The type of opinion—issued expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(c) The date of that report. (Ref: Para. A7)

Prior Period Financial Statements Not Audited

14.13. If the prior period financial statements were not audited, the auditor shall state in an Other Matter(s) paragraph in the auditor’s report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period’s financial statements.5

Comparative Financial Statements

15.14. When the comparative information is presented as comparative financial statements are presented, the auditor’s report shall specifically identify refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: Para. A85-A9)

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4 ISA 560 (Redrafted), “Subsequent Events,” paragraphs 14-17. [ISA 560 (Redrafted), which was approved by the IAASB in December 2007, will be published when the Public Interest Oversight Board has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda.]

5 [Proposed] ISA 510 (Redrafted), paragraph [5].
16.45. When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter(s) paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted).6 (Ref: Para. A106)

Prior Period Financial Statements Audited by a Predecessor Auditor

17.46. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period’s financial statements, the auditor shall state in an Other Matter(s) paragraph:

(a) that the financial statements of the prior period were audited by a predecessor auditor;

(b) the type of opinion issued by the predecessor auditor and if the opinion was modified, the reasons therefor; and

(c) the date of that report,

unless the predecessor auditor’s report on the prior period’s financial statements is reissued with the financial statements.

18.47. 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 modification, the auditor shall, in addition to the communications required in accordance with [proposed] ISA 510 (Redrafted),7 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. (Ref: Para. A112-A12) [ISSUE E]

Prior Period Financial Statements Not Audited

19.48. 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 appropriate audit evidence that the procedures regarding opening balances do not contain misstatements that materially affect the current period’s financial statements.8 [ISSUE F]

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7 [Proposed] ISA 510 (Redrafted), paragraph [6].
8 [Proposed] ISA 510 (Redrafted), paragraph [5].
Application and Other Explanatory Material

Audit Procedures

Written Representations (Ref: Para. 98)

A1. In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor’s report because management needs to reaffirm that the written representations it previously made with respect to the prior period remain appropriate. In the case of corresponding figures, the written representations are requested for the financial statements of the current period only because the auditor’s opinion is on those financial statements, which include the corresponding figures. The auditor may, however, determine that it is necessary to obtain a written representation regarding any amendments made to resolve a material misstatement in the prior period financial statements that affect the corresponding figures.

Audit Reporting

Corresponding Figures (Ref: Para. 911)

No Reference in Auditor’s Report (Ref: Para. 10)

A2. The auditor’s report does not refer to the corresponding figures because the auditor’s opinion is on the current period financial statements as a whole, including the corresponding figures.

Modification in Auditor’s Report on the Prior Period Unresolved (Ref: Para. 11)

A3. When 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 modified opinion is resolved and properly dealt accounted for or disclosed with in the financial statements in accordance with the applicable financial reporting framework, the current auditor’s report opinion on the current period need not refer to the previous modification.

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 and corresponding figures.

A5. Illustrative examples of the auditor’s report if the auditor’s report on the prior period included a modified opinion and the matter giving rise to the modification is unresolved, are contained in Appendix 1, Examples A and B.
Misstatement in Prior Period Financial Statements (Ref: Para. 12)

A6A4. When the prior period financial statements that are misstated have not been amended and an auditor’s report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements, the auditor’s report may include an Emphasis of Matter paragraph describing the circumstances and referring to where relevant, disclosures that fully describe the matter that can be found in the financial statements (see [proposed] ISA 706 (Revised and Redrafted)).

Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: Para. 13)

A7 An illustrative example of the auditor’s report if the prior period financial statements were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor’s report on the corresponding figures, is contained in Appendix 1, Example C.

Comparative Financial Statements (Ref: Para. 14-15)

Reference in Auditor’s Report (Ref: Para. 15)

A8. The auditor’s report refers to the comparative financial statements because an audit opinion is expressed on the financial statements of each period presented. Because the auditor’s report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor’s report may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an Emphasis of Matter paragraph with respect to one or more periods, while issuing expressing a different auditor’s opinion on the financial statements of the other period.

A9. An illustrative example of the auditor’s report if the auditor is required to report on both the current and the prior period financial statements in connection with the current year’s audit and the prior period included a modified opinion and the matter giving rise to the modification is unresolved, is contained in Appendix 1, Example D.

Opinion on Prior Period Financial Statements Different from Previous Opinion (Ref: Para. 16)

A10. When reporting on the prior period financial statements in connection with the current period’s audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period.

Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: Para. 18)

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 evidence to be satisfied as to the appropriateness of the restatement adjustment, the auditor’s report may also include the following paragraph: [ISSUE G]

“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.”

A12 An illustrative example of the auditor’s report if the prior period financial statements were audited by a predecessor auditor and the predecessor auditor agrees to have the predecessor auditor’s report on the prior period reissued with the financial statements, is contained in Appendix 1, Example E.
Example Auditor’s Reports

Example A - Corresponding Figures (Ref: Para. A5)

Report illustrative of the circumstances described in paragraph 110(a), as follows:

- The auditor’s report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- 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.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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9 The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

10 Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation\(^{11}\) of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.\(^{12}\) An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

**Basis for Qualified Opinion**

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Financial Reporting Standards. This is the result of a decision taken by management at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, the fixed assets should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

**Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

\(^{11}\) Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.”

\(^{12}\) In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 10, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”
Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]
Example B - Corresponding Figures (Ref: Para. A5)

<table>
<thead>
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<th>Report illustrative of the circumstances described in paragraph 110(b), as follows:</th>
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<tbody>
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<td>• The auditor’s report on the prior period, as previously issued, included a qualified opinion.</td>
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<tr>
<td>• The matter giving rise to the modification is unresolved.</td>
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<tr>
<td>• The effects or possible effects of the matter are not relevant to the current period figures.</td>
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INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

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13 The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

14 Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”
internal control relevant to the entity’s preparation and fair presentation\textsuperscript{15} of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.\textsuperscript{16} An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

\textit{Basis for Qualified Opinion}

Because we were appointed auditors of the Company during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our auditor's report opinion on the financial statements for the (period) ended (balance sheet date) 20X0 was modified accordingly. Our opinion on the current period’s financial statements is also modified because of the possible effect of this matter on the comparability of the current period’s figures and the corresponding figures.

\textit{Qualified Opinion}

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, (or “give a true and fair view of”) the financial position of the Company as of December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

\textit{Report on Other Legal and Regulatory Requirements}

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]

[Date of the auditor’s report]

\textsuperscript{15} Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.”

\textsuperscript{16} In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 14, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”
[Auditor’s address]
Example C - Corresponding Figures: (Ref: Para. A7)

Report illustrative of the circumstances described in paragraph 132, as follows:

- The prior period’s financial statements were audited by a predecessor auditor.
- The auditor is permitted by law or regulation to refer to the predecessor auditor’s report on the corresponding figures and decides to do so.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements\(^\text{17}\)

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation\(^\text{18}\) of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation\(^\text{19}\) of the financial statements.

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\(^{17}\) The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

\(^{18}\) Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and fair presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

\(^{19}\) Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.”
statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters
The financial statements of the Company for the year ended December 31, 20X0, were audited by another auditor whose report dated March 31, 20X1 expressed an unqualified opinion on those statements.

Report on Other Legal and Regulatory Requirements
[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]
[Date of the auditor’s report]
[Auditor’s address]

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20 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 18, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”
Example D - Comparative Financial Statements: (Ref: Para. A9)

Report illustrative of the circumstances described in paragraph 154, as follows:

- Auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year’s audit.
- The auditor’s report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period’s figures are material to both the current period financial statements and prior period financial statements and require a modification to the auditor’s opinion.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheets as at December 31, 20X1 and 20X0, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s
judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation\textsuperscript{23} of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.\textsuperscript{24} An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained\textemdash in our audits\textemdash are sufficient and appropriate to provide a basis for our qualified audit opinion.

\textit{Basis for Qualified Opinion}

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with which constitutes a departure from International Financial Reporting Standards. Based on the straight-line method of depreciation and annual rates of 5\% for the building and 20\% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, the fixed assets should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

\textit{Qualified Opinion}

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X1 and 20X0 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

\textit{Report on Other Legal and Regulatory Requirements}

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]

\textsuperscript{23} Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.”

\textsuperscript{24} In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 22, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”
[Date of the auditor’s report]

[Auditor’s address]
Example E – Comparative Financial Statements (Ref: Para. A12)

Report illustrative of the circumstances described in paragraph 186, as follows:

- The financial statements of the prior period were audited by a predecessor auditor.
- The predecessor auditor agrees to have the predecessor auditor’s report on the prior period reissued with the financial statements.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements 25

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation 26 of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation 27 of the financial

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25 The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

26 Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

27 Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.”
statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.\textsuperscript{28} An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

\textit{Basis for Qualified Opinion}

The financial statements of the Company for the year ended December 31, 20X0 were audited by another auditor whose report dated March 31, 20X1, which is included with the financial statements, expressed a qualified opinion due to a disagreement as to the adequacy of the provision for doubtful receivables. The relevant receivables are still outstanding at December 31, 20X1 and no provision for potential loss has been made by management in the financial statements. Accordingly, the provision for doubtful receivables at December 31, 20X1 and 20X0 should be increased by xxx, the net profit for 20X0 decreased by xxx and the retained earnings at December 31, 20X1 and 20X0 reduced by xxx.

\textit{Qualified Opinion}

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects\textsuperscript{2}, (or “\textit{give a true and fair view of}”) the financial position of the Company as of December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

\textit{Report on Other Legal and Regulatory Requirements}

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]

[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]

\textsuperscript{28} In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 26, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”
Appendix 2

Auditor reporting under the corresponding figures model

Was the prior period audited?
  No
  → State that prior period was not audited in an Other Matter paragraph.
    (Para. 14)
  Yes
  →
  → If permitted by law, the audit report may include in an Other Matter paragraph:
    - That the financial statements were audited by a different auditor
    - The type of opinion expressed
    - The date of that report
    (Para. 13)
  No

Was there a predecessor auditor in the prior period?
  Yes
  →
  → Is the opinion in the prior period audit report modified?
    Yes
    → Is the matter resolved?
      Yes
      → No reference made in the auditor's report
        (Para A3)
      No
      → Are there effects or possible effects on the current period's figures that are material?
        Yes
        → No
        → Auditor's report may include an Emphasis of Matter paragraph describing the circumstances and referring to, where relevant, the disclosures describing the matter
          (Para A6)
        No
        → Explain in the "Basis for modification" paragraph that the opinion has been modified because of the effect of the unresolved matter on the comparability of the current period's figures and the corresponding figures.
          (Para 11(b))
    No
    → Was a material misstatement found in the prior period figures?
      Yes
      → Have the corresponding figures been properly restated or appropriate disclosures made?
        Yes
        → Modify the auditor's opinion on the current period financial statements with respect to the corresponding figures
          (Para 12)
        No
        → No reference to the corresponding figures are made in the auditor's opinion
          (Para 10)
      No
      → No reference made in the auditor's report
        (Para A3)

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Auditor reporting under the comparative financial statements model

Was the prior period audited? No → State that prior period was not audited in an Other Matter paragraph (Para. 10)

Yes

Was there a predecessor auditor in the prior period? Yes → Is the predecessor auditor's report reissued with the financial statements? Yes → Express an opinion on the current period's financial statements only (Para A12)

No

Express an opinion on the current period’s financial statements only but also include an Other Matter paragraph stating:
- That the financial statements were audited by a different auditor
- The type of opinion expressed
- The date of that report
(Para. 17)

No

Was a material misstatement found in the prior period figures on which the predecessor auditor had previously reported without modification? Yes → Communicate misstatement with management and those charged with governance and request that the predecessor auditor be informed (Para. 18)

No → No reporting implications

Yes

Does the opinion differ from the opinion the auditor expressed in the prior period? Yes → In addition to expressing an opinion on each period for which financial statements are presented, disclose the substantive reasons for the different opinion in an Other Matter paragraph (Para. 16)

No

Express an opinion on each period for which financial statements are presented (Para. 15)

An Other Matter paragraph may be included that indicates that the predecessor auditor reported on the prior period financial statements before restatement. In addition, if sufficient appropriate audit evidence regarding the appropriateness of the restatement adjustment has been obtained, the auditor can express an opinion on the adjustments in the audit report. (Para. A11)