

Basis for Conclusions:
ISA 710 (Redrafted), Comparative
Information—Corresponding
Figures and Comparative Financial
Statements

*Prepared by the Staff of the International Auditing and
Assurance Standards Board*



**International Federation
of Accountants**

BASIS FOR CONCLUSIONS:
ISA 710 (REDRAFTED), COMPARATIVE INFORMATION—CORRESPONDING
FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 710 (Redrafted), “Comparative Information—Corresponding Figures and Comparative Financial Statements,” which was approved by the IAASB in September 2008.¹

Background

1. In September 2006, the IAASB agreed the conventions to be used in drafting future International Standards on Auditing (ISAs). These conventions are commonly referred to as the IAASB’s Clarity conventions.²
2. The IAASB has undertaken to redraft all of its ISAs in accordance with the Clarity conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time, that while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. ISA 710 is in the latter category.
3. In December 2007, the IAASB issued an exposure draft of proposed ISA 710 (Redrafted)³ (ED-ISA 710). The comment period for ED-ISA 710 closed on April 15, 2008. The IAASB received thirty-six comment letters from various respondents, including regulators and oversight authorities, IFAC member bodies, national auditing standard setters, audit firms, preparers and users of financial statements, and professional and public sector organizations. Input was also received from IFAC’s Small and Medium Practices Committee.
4. Respondents to ED-ISA 710 generally supported the proposed ISA. A significant majority supported the IAASB’s conclusion that the auditor’s procedures under the corresponding figures and comparative financial statement approaches to reporting on comparative information are the same, although the written representations that would need to be obtained would differ. Respondents were also supportive of the proposed restructuring of the ISA to reflect that conclusion.

¹ See minutes of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4426>.

² The IAASB’s Clarity conventions, and the authority and obligation attaching to them, are established in ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

³ Proposed ISA 710 (Redrafted), “Comparative Information—Corresponding Figures and Comparative Financial Statements.”

5. In addition, the IAASB Consultative Advisory Group (CAG) discussed significant issues in the development of ED-ISA 710, and the changes proposed in response to comments received in the finalization of ISA 710 (Redrafted). The CAG raised no significant concerns about the proposed treatment of these issues with the IAASB.
6. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 710, and how the IAASB has addressed them.

Scope and Objective

Objective

7. Paragraph 4 of ED-ISA 710 stated:

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.

8. Many respondents supported the objective of ED-ISA 710. Several respondents, however, commented that in addition to referring to the auditor's work effort, the objective of the ISA should refer explicitly to the reporting responsibilities of the auditor in order to fully and appropriately reflect the requirements of the ISA. Further, concern was expressed by a few respondents that the objective of ED-ISA 710 incorrectly implied that the auditor's responsibilities are similar in relation to the current and prior period, which is not the case. In particular, the respondents noted that compliance with the requirements of the ISA with regard to corresponding figures in cases when the prior period's financial statements are unaudited does not result in the obtaining of sufficient appropriate audit evidence about the corresponding figures.
9. The IAASB recognized that the requirements of the ISA deal with two areas; namely, the auditor's work effort and the auditor's reporting responsibilities with regard to comparative information. Accordingly, the IAASB agreed that it was appropriate to include in the ISA's objective the auditor's reporting responsibilities with regard to comparative information.
10. The IAASB further noted that the requirements in the ISAs on obtaining sufficient appropriate audit evidence should be read in the context of expressing an opinion on the financial statements as a whole. In the case of comparative information, the audit evidence sought by the auditor is in respect of whether the comparative financial information has been *presented* in the current year's financial statements in accordance with the *requirements* of the applicable financial reporting framework *for comparative information*. In order to avoid potential misinterpretation of the auditor's objectives under the ISA, the IAASB agreed to amend the objectives accordingly. Refer to paragraph 5 of ISA 710 (Redrafted).

Nature of Comparative Information

11. Paragraph 2 of ED-ISA 710 stated that 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. A few respondents pointed out that although the applicable

financial reporting frameworks ordinarily specify the comparative information that is required to be included in financial statements, the auditor's reporting responsibility in relation to that comparative information is usually dictated by the law or regulation governing the audit engagement. It was also suggested that management may voluntarily present comparative information even if not required by the financial reporting framework. The IAASB agreed that the ISA should accommodate differences that exist in different jurisdictions. Accordingly, it agreed to amend the ISA to acknowledge that, while the applicable financial reporting framework determines the comparative financial information (if any) that should be included in the financial statements, the auditor's reporting responsibilities thereon are determined by law, regulation or the terms of engagement. See paragraph 2 of ISA 710 (Redrafted).

Structure of Requirements

12. ED-ISA 710 set out separately the auditor's reporting responsibilities with regard to the auditing and reporting of comparative information under the corresponding figures and the comparative financial statement approaches. One respondent commented that paragraph 11 of ED-ISA 710, which required compliance with the relevant requirements of ISA 560 (Redrafted) when a material misstatement that affects the prior period financial statements on which an unmodified report had been issued is detected by the auditor, applies regardless of the approach adopted (i.e., it applies to both corresponding figures and comparative financial statements approaches). Similarly, the requirement in paragraph 7 of ED-ISA 710 for the auditor to determine that any amendments to the prior period's financial statements are reflected in the comparative financial information should apply under both approaches.
13. The IAASB considered the relevant requirements in ISA 560 (Redrafted) and concluded that they apply regardless of the approach adopted with respect to comparative information. The IAASB also concluded that the auditor would always need to determine that amendments to the prior period's figures are appropriately reflected in the comparative financial information regardless of the approach adopted. Accordingly, the IAASB agreed to reposition the requirements within the ISA to clarify the applicability of the relevant requirements. See paragraphs 8 and 12 of ISA 710 (Redrafted).

Audit Reporting

Unresolved Modifications in the Prior Period Auditor's Report

14. Paragraph 10 of ED-ISA 710 required the auditor to modify the auditor's opinion in the event that a modification in the prior period's auditor's report is unresolved, regardless of the relevance or materiality of the matter to the current period's figures. A few respondents commented that the requirement is unnecessarily complex and hard to understand, and contains explanatory material which should be stated as guidance.
15. The IAASB considered respondents comments and agreed that the clarity of the requirement can be improved by the following:

- Restructuring the paragraph to focus on the principle underlying the requirement (i.e., the requirement to modify the auditor’s opinion where the prior period’s modification remains unresolved) and to distinguish clearly between the two circumstances addressed by the requirement (i.e., when the current period figures are affected, and in other cases). See paragraph 11 of ISA 710 (Redrafted).
 - Deleting reference to ‘regardless of whether the effects ... of the matter are relevant or material to the current period’s figures,’ which appeared to limit inappropriately the auditor’s ability to judge the relevance and materiality in the particular circumstances.
 - Repositioning as guidance the part of the paragraph which provides the explanation for the need to qualify the current period’s auditor’s opinion. See paragraph A4 of ISA 710 (Redrafted).
16. It was further suggested that the ISA should address circumstances when the financial statements are adjusted for matters other than a material misstatement, such as a retroactive adoption of a new accounting standards or a change in accounting policy. The IAASB noted that neither extant ISA 710 nor other ISAs require the auditor’s opinion to be modified or an Emphasis of Matter paragraph to be included in the auditor’s report when such matters have been properly accounted for and adequately presented and disclosed in the financial statements. Accordingly, the IAASB did not think it necessary to include these references in the redrafted ISA.

Cross-Referencing the Communication Requirements of ISA 510 (Redrafted)⁴

17. Paragraph 17 of ED-ISA 710 dealt with the case when the auditor detects a material misstatement in the comparative information although the predecessor auditor had expressed an unmodified opinion on the prior year’s financial statements. A respondent noted that extant ISA 710 required the auditor to inform the predecessor auditor about the misstatement. The respondent felt that the requirement should be retained in ED-ISA 710.
18. The IAASB did not intend to make a change to the extant ISA in this respect. ED-ISA 710 contained a cross reference to ISA 510 although as a result of changes made in the finalization of ISA 510 (Redrafted), the cross reference no longer achieved the required effect. Accordingly, the IAASB agreed to reinstate the requirement for the auditor to communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed. See paragraph 18 of ISA 710 (Redrafted).

Prior Period Financial Statements Audited by a Predecessor Auditor

19. Paragraph A7 of ED-ISA 710 contained guidance for reporting by the auditor in the event that a material misstatement is considered to be present in the prior period’s financial statements and the predecessor auditor disagrees with the proposed restatement or refuses to reissue the auditor’s report on those financial statements. Some respondents were of the

⁴ ISA 510 (Redrafted), “Initial Audit Engagements—Opening Balances.”

view that the illustrative wording contained in paragraph A7 of ED-ISA 710 which might be included in the auditor's report in these circumstances could be made clearer by including additional wording used in some jurisdictions. A respondent found it to be unclear whether the auditor is required to audit the adjustments made to the comparative information and, if not, whether the audit report should state that the adjustments are unaudited. The respondent also felt that the auditor should be required to include an Other Matter paragraph in the auditor's report to highlight the fact that the predecessor auditor has reported on the prior year's financial statements before amendment. In addition, concern was expressed that the related illustrative report in Example E in the Appendix is inconsistent with the related requirements in paragraph 17 of ED-ISA 710.

20. The IAASB considered the respondent's comment regarding the highlighting of the predecessor auditor's involvement with the prior year's financial statements and concluded that there are alternative ways by which this information could be communicated. For example, the ISA acknowledges that the predecessor auditor might reissue their audit report. The IAASB also agreed that to require the auditor to audit the amendment, or to dictate how this should be communicated, is out of the scope of this project to redraft the ISA.
21. However, the IAASB revisited paragraph A7 of ED-ISA 710 and the related illustrative report in Example E in the Appendix in light of respondents' comments and concluded that the paragraph and related Appendix can be improved by the following:
 - Redrafting the example of an Other Matter paragraph of the auditor's report in paragraph A7 of ED-ISA 710 to clarify the auditor's responsibility with respect to the prior year's financial statements. See paragraph A11 of ISA 710 (Redrafted).
 - Deleting the illustrative report in Example E in the Appendix; as the requirements are relatively straightforward, the illustrative report added little to the understanding of the related requirements.

Other Specific Matters

Written Representations

22. Paragraph A1 of ED-ISA 710 stated that the auditor may obtain a written representation regarding amendments made to resolve a material misstatement in the prior period financial statements. A respondent noted that, in order to comply with the requirements of ISA 580 (Revised and Redrafted),⁵ the auditor would have to comply with the paragraph in virtually all cases. The IAASB agreed that, in order to ensure consistency with ISA 580 (Revised and Redrafted), it is appropriate to elevate the specific guidance in paragraph A1 of ED-ISA 710 to form part of the requirements of the ISA. See paragraph 9 of ISA 710 (Redrafted).

⁵ ISA 580 (Revised and Redrafted), "Written Representations," paragraph 14.

Decision Trees

23. A respondent noted that ED-ISA 710 could be made clearer and easier to understand by inclusion of an illustrative decision tree or flowchart. The IAASB considered including decision trees as an Appendix to the ISA to illustrate the auditor's reporting responsibilities with regard to corresponding figures and comparative financial statements. However, the IAASB concluded that, if included, there may be the risk that auditor's reading and understanding of the ISA in its entirety may be compromised. The IAASB was strongly of the view that this outcome should be avoided. The IAASB also felt that it would be difficult to strike an appropriate balance between ensuring that the requirements of the ISA are fully reflected in such illustrative devices and preserving their simplicity so that they are easy to understand. Accordingly, the IAASB agreed that decision trees should not be included in the ISA. However, it considered that such representations of requirements may nevertheless be helpful as training material, provided they accurately reflect the requirements of the ISA.