

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 710  
(REDRAFTED) (Clean)<sup>1</sup>****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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<sup>1</sup> Note that the proposed ISA includes conforming amendments to extant ISA 710 approved as part of the revision of ISAs 705 and 706.

## **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 in financial reporting frameworks: corresponding figures and comparative financial statements. The auditor's responsibilities and 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 refers only to the financial statements of the current period and does not separately identify 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 responsibilities and reporting requirements for each circumstance.

### **Effective Date**

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

## **Objective**

4. 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.

## **Definitions**

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. Comparative information may be corresponding figures and comparative financial statements.
  - (b) Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as part of the current period financial statements, and are intended to be read in relation to the amounts and other disclosures relating to the current period (referred to as “current period figures”). These

corresponding figures are not presented as a complete set of financial statements capable of standing alone, but are an integral part of the current period financial statements intended to be read only in relationship to the 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 preceding 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).

## Requirements

### Corresponding Figures

#### *The Auditor's Responsibilities*

- 6. The auditor shall determine whether the financial statements correctly include the corresponding figures required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:
  - (a) The corresponding figures agree 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 corresponding figures 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 (Ref: Para. A1)
- 7. If the auditor becomes aware of a possible material misstatement in the corresponding figures 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 regarding whether a material misstatement exists.

#### *Reporting*

- 8. When the comparative information is presented as corresponding figures, the auditor's report shall not specifically identify the comparative information, except in the circumstances described in paragraphs 9, 10(b), 11 and 12. (Ref: Para. A2)
- 9. 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:
  - (a) Unresolved, and 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 in the basis for modification paragraph; or

- (b) Unresolved, but 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 because of the effect or possible effects of the matter on the corresponding figures. (Ref: Para. A3)
- 10 If the auditor becomes aware of a material misstatement that affects the prior period financial statements on which an unmodified report has been previously issued, the auditor shall follow the relevant requirements of [proposed] ISA 560 (Redrafted)<sup>2</sup>, and:
- (a) If the prior period financial statements have been revised and reissued with a new auditor's report, the auditor shall obtain sufficient appropriate audit evidence that the corresponding figures agree with the revised financial statements; or
  - (b) If the prior period financial statements have not been revised and reissued, and the corresponding figures have not been properly restated and/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. A4)

#### *Additional Requirements*

##### **Prior Period Financial Statements Audited by a Predecessor Auditor**

11. If the prior period's 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 and decides to do so, the auditor shall indicate 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 by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
  - (c) The date of that report.

##### **Prior Period Financial Statements Not Audited**

12. If the prior period financial statements are not audited, the auditor shall state 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<sup>3</sup>.

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<sup>2</sup> [Proposed] ISA 560 (Redrafted), "Subsequent Events."

<sup>3</sup> [Proposed] ISA 510 (Redrafted), Initial Audit Engagements – Opening Balances," paragraph 5.

## Comparative Financial Statements

### *The Auditor's Responsibilities*

13. The auditor shall obtain sufficient appropriate audit evidence about whether the comparative financial statements have been prepared and presented in accordance with the applicable financial reporting framework. The auditor shall evaluate whether:
  - (a) The comparative financial statements agree 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 financial statements 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.
14. If the auditor becomes aware of a possible material misstatement in the comparative financial statements 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 regarding whether a material misstatement exists.

### *Reporting*

15. When the comparative information is presented as comparative financial statements, the auditor's report shall specifically identify each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: Para. A5)
16. When reporting on the prior period financial statements in connection with the current period's audit, if the opinion on such prior period financial statements is different from the opinion 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)<sup>4</sup>. (Ref: Para. A6)

### *Prior Period Financial Statements Audited by a Predecessor Auditor*

17. If the financial statements of the prior period 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, the auditor shall report on only the current period.
18. If the financial statements of the prior period were audited by a predecessor auditor and the predecessor auditor does not agree to have the predecessor auditor's report on the prior period reissued, the auditor shall indicate in the auditor's report:
  - (i) That the financial statements of the prior period were audited by a predecessor auditor;
  - (ii) The type of opinion issued by the predecessor auditor and if the opinion was modified, the reasons therefore; and

<sup>4</sup> [Proposed] ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report," paragraph 9.

(iii) The date of that report.

19. 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)<sup>5</sup>, propose that the prior period financial statements be amended. 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 follow the requirements in paragraphs 17 and 18 as appropriate. (Ref: Para. A7)

#### Prior Period Financial Statements Not Audited

20. If the prior period financial statements are not audited, the auditor shall state 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 carry out appropriate audit procedures regarding opening balances of the current period<sup>6</sup>.

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## Application and Other Explanatory Material

### Corresponding Figures

#### *The Auditor's Responsibilities* (Ref: Para. 6)

- A1. The extent of audit procedures performed on the corresponding figures is significantly less than for the audit of the current period figures and is limited to the procedures described in paragraph 6.

#### *Reporting* (Ref: Para. 8-10)

- A2. The auditor's report does not refer to the corresponding figures because the audit opinion is on the current period financial statements as a whole, including the corresponding figures.
- 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 with in the financial statements in accordance with the applicable financial reporting framework, the current auditor's report does not refer to the previous modification.
- A4. When the prior period financial statements that are misstated have not been revised and an auditor's report has not been reissued, but the corresponding figures have been properly restated and/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 referencing to the appropriate disclosures (see [proposed] ISA 706 (Revised and Redrafted)).

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<sup>5</sup> [Proposed] ISA 510 (Redrafted), paragraph 6.

<sup>6</sup> [Proposed] ISA 510 (Redrafted), paragraph 5.

## **Comparative Financial Statements**

### *Reporting* (Ref: Para. 15-16)

- A5. The auditor's report refers to the comparative financial statements because the audit opinion is expressed individually on the financial statements of each period presented. Since the auditor's report on comparative financial statements applies to the individual financial statements 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 financial statements for one or more periods, while issuing a different auditor's report on the other financial statements.
- A6. 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. 19)

- A7. The predecessor auditor may 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 sufficient audit procedures to be satisfied as to the appropriateness of the restatement adjustment, the auditor's report may also include the following paragraph:

“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.”

## APPENDIX

### EXAMPLE AUDITORS' REPORTS

#### Example A - Corresponding Figures

- **Report illustrative of the circumstances described in paragraph 9(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<sup>7</sup>**

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<sup>8</sup> 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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<sup>7</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>8</sup> 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."



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<sup>9</sup> 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.<sup>10</sup> 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 (*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.

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<sup>9</sup> 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."

<sup>10</sup> 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 4, 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**

- **Report illustrative of the circumstances described in paragraph 9(b), 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 are not relevant to the current period figures.**

**INDEPENDENT AUDITOR’S REPORT**

*[Appropriate Addressee]*

**Report on the Financial Statements<sup>11</sup>**

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<sup>12</sup> 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

<sup>11</sup> The subheading “Report on the Financial Statements” is unnecessary in circumstances when the second subheading “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>12</sup> 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.”

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<sup>13</sup> 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.<sup>14</sup> 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*

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 on the financial statements for the (period) ended (balance sheet date) 20X0 was modified accordingly.

#### *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 its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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<sup>13</sup> 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."

<sup>14</sup> 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 8, 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 C - Corresponding Figures:

**Report illustrative of the circumstances described in paragraph 11, 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<sup>15</sup>**

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<sup>16</sup> 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

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<sup>15</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>16</sup> 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."

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<sup>17</sup> 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.<sup>18</sup> 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 presents 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 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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<sup>17</sup> 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."

<sup>18</sup> 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 16, 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:

**Report illustrative of the circumstances described in paragraph 15, 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<sup>19</sup>**

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<sup>20</sup> 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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<sup>19</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>20</sup> 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."



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<sup>21</sup> 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.<sup>22</sup> 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. 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 (*or "give a true and fair view of"*) the financial position of the Company as of December 31, 20X1 and 20X0 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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<sup>21</sup> 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."

<sup>22</sup> 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 12, 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 E – Comparative Financial Statements****Report illustrative of the circumstances described in paragraph 17, 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<sup>23</sup>**

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<sup>24</sup> 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

<sup>23</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>24</sup> 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."

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<sup>25</sup> 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.<sup>26</sup> 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*

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 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.

#### *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 (*or "give a true and fair view of"*) 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.

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<sup>25</sup> 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."

<sup>26</sup> 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 20, 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."

*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 a qualified opinion due to a disagreement as to the adequacy of the provision for doubtful accounts.

**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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