



International Federation of Accountants

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Agenda Item

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Committee: IAASB

Meeting Location: Washington DC

Meeting Date: December 10-14, 2007

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

Objective of Agenda Item

1. To approve as an Exposure Draft proposed ISA 710 (Redrafted), “Comparative Information – Corresponding Figures and Comparative Financial Statements.”

Task Force Composition

2. The Task Force members are:

Diana Hillier (Chair) IAASB Member

William Kinney IAASB Member

Josef Ferlings IAASB Technical Advisor

3. Redrafting support was provided by Bernard Agulhas and Thinus Peyper of the Standards Department of the Independent Regulatory Board for Auditors (IRBA) of South Africa, the secretariat which supports the Committee for Auditing Standards (CFAS) of the IRBA.

Matters for IAASB Consideration

Title

4. The Task Force believes that the title should be consistent with the financial reporting standards and should incorporate reference to the two approaches to presenting comparative information, which are as corresponding figures and comparative financial statements. The title was therefore changed to “Comparative Information – Corresponding Figures and Comparative Financial Statements.” The title is therefore consistent with IAS 1, “Presentation of Financial Statements,” paragraphs 38 to 41, which refers to “Comparative Information,” and also incorporates reference to the two approaches to the presentation of the information.

Action Requested

The IAASB is asked whether they agree with the Task Force’s decision to change the title of the ISA.

Proposed Objective, Scope and Structure of the Redrafted ISA

5. The Task Force used paragraph 2 of the extant ISA as the basis for the proposed objective, incorporating the concept of obtaining sufficient appropriate audit evidence, as was reflected in the bold lettered requirements in paragraph 6 (for corresponding figures) and paragraph 20 (for comparative financial statements).
6. The Scope section includes a description of the two approaches to comparative information in financial reporting frameworks and explains the differences in audit reporting under each framework. Accordingly, Appendix 1 in extant ISA 710 has been deleted as the information previously included therein in respect of financial reporting frameworks has now been largely incorporated in the Scope section. Other information in Appendix 1 which the task force believed was still relevant was added to the definitions and the definitions were also adapted to incorporate the wording and terminology in IAS 1.
7. The ISA is structured according to the two approaches to comparative information and addresses the auditor's responsibilities and reporting requirements under each approach.

Action Requested

The IAASB is asked whether they agree with the Task Force's decision on how to present the objective and scope and if the structure of the requirements and application material properly support the objective.

Deletion of reference to ISA 720 and ISA 800 (now proposed ISA 805) in the Scope paragraph

8. The extant ISA 710 includes under the Scope paragraph an exclusion for situations when summarized financial statements are presented with audited financial statements, and then refers to ISA 720, "Other Information in Documents Containing Audited Financial Statements," and ISA 800, "The Auditor's Report on Special Purpose Financial Statements." Although [proposed] ISA 805 (Revised and Redrafted), "Engagements to Report on Summary Financial Statements," which will supersede ISA 800, includes some guidance on comparative information, the Task Force believes that it is inappropriate to make specific reference to ISA 805 in proposed ISA 710 but not in other ISAs for which ISA 805 also provides further guidance. Similarly, the Task Force questioned the relevance of the reference to ISA 720 and decided to delete the reference to both ISA 720 and ISA 800.

Action Requested

The IAASB is asked whether they agree with the Task Force's decision to delete reference to ISA 720 and ISA 800 in the Scope paragraph.

Difference in Work Effort for Corresponding Figures and Comparative Financial Statements

9. Paragraphs 6 and 20 in the extant ISA 710 deal with the auditor's responsibility in respect of corresponding figures and comparative financial statements respectively. In the extant ISA, both require the auditor to 'obtain sufficient appropriate audit evidence that the corresponding figures/comparative financial statements meet the requirements of the applicable financial

reporting framework'. However, the related application guidance to those requirements in the extant ISA describes a very different scope of the work expected in these situations. Indeed, the work effort in respect of corresponding figures is significantly less and "ordinarily limited to ensuring that the figures are correctly reported and appropriately classified" (refer to paragraph 6 of extant ISA 710). The Task Force therefore decided that it would be more appropriate to include the reference to 'sufficient appropriate audit evidence' in the objective, and to reword the auditor's responsibilities under Corresponding Figures and Comparative Financial Statements to clearly distinguish the differentiation in work effort under the two approaches.

Action Requested

The IAASB is asked whether they agree with the Task Force's decision to reword the requirements under the two approaches to differentiate between the work effort under each approach.

Reference to predecessor auditor when permitted by law or regulation

10. Paragraph 17 of extant ISA 710 states that the incoming auditor is *permitted* to refer to the predecessor auditor's report on the corresponding figures in the incoming auditor's report for the current period, and then prescribes what the incoming auditor's report should indicate *should the auditor decide to refer to another auditor*. The Task Force debated whether the reference to "permitted" should be substituted with "required" to make the requirement stronger. The Task Force also considered the wording in paragraph 11 of ISA 600 (Revised and Redrafted), "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)," issued in October 2007, which states that "...the auditor's report on the group financial statements *shall not* refer to a component auditor, unless *required* by law or regulation...". This is based on the principle of sole responsibility in ISA 600. However, the Task Force decided to retain the current reference to "permitted", as it recognised that the situations are different. Users would not expect an incoming auditor to accept sole responsibility for the prior period's audit. The Task Force has, however, qualified the reference with "and decides to do so", thus clarifying that the requirements will only become effective depending on the auditor's decision.

Action Requested

The IAASB is asked to consider whether the decision of the Task Force to retain the reference to "permitted", suitably qualified, is appropriate.

Disclosure in the financial statements that the corresponding figures and comparative financial statements are unaudited

11. Paragraph 18 and 30 of extant ISA 710 encourages clear disclosure in the financial statements that the corresponding figures or comparative financial statements, depending on the approach followed to disclose the comparative information, are unaudited. The Task Force debated whether this should be a requirement but concluded that it is inappropriate for the auditor to require such disclosure as management is responsible for the financial statements and, accordingly, decided to delete the relevant paragraphs in the proposed ISA 710.

Action Requested

The IAASB is asked to consider whether the decision of the Task Force to delete reference to the auditor's responsibilities regarding disclosures in the financial statements is appropriate.

Modification in respect of corresponding figures when current period figures not modified

12. Although unchanged from the extant ISA, one Task Force member questions whether it is appropriate to modify the opinion on the current period's financial statements when a matter which gave rise to a modification in the previous period is unresolved but is not material or relevant to the current period figures (paragraph 9(b) and example B). The Task Force member accepts that a modification on the opinion on the current period figures may be required in terms of the opening balances, but believes that it is inappropriate to refer to a misstatement in the corresponding figures as the reason for the modification (as is done in both Examples A and B). The Task Force member believes that the auditor should report on the periods that the auditor is asked to audit, and is concerned that the reports, as drafted in both the Extant and Redrafted ISA, may lead to confusion about the level of assurance the auditor is providing regarding the corresponding figures.

Other Task Force members support the extant ISA's position because the corresponding figures are required by the financial reporting framework (e.g., IFRS) as an integral part of the current period's financial statements. The auditor is expressing an opinion on the current period financial statements, rather than just the current period figures.

Action Requested

The IAASB is asked whether they support the position in the extant and redrafted ISA regarding the need to modify the audit opinion regarding the corresponding figures when the matter which gave rise to the modification is not material or relevant to the current period figures.

Other relevant matters

13. There were a number of conforming amendments made to ISA 710 as a result of the revisions to ISA 705 and 706. The approved conforming amendments are shown in both the proposed clean and mark-up drafts of ISA 710 in mark-up.
14. In addition, since the redrafting of ISA 710 commenced, ISA 510, “Initial Engagements – Opening Balances,” has been redrafted and issued as an exposure draft, [proposed] ISA 510 (Redrafted), “Initial Audit Engagements—Opening Balances.” The wording in proposed ISA 710 (Redrafted) has been aligned with the wording in proposed ISA 510 (Redrafted), where appropriate, which has resulted in quite a few wording changes.

Material Presented

Agenda Item 4-A (Pages 3185-3206)	Proposed ISA 710 (Redrafted) – Clean
Agenda Item 4-B (Pages 3207-3228)	Proposed ISA 710 (Redrafted) – Mark-up from Extant
Agenda Item 4-C (Pages 3229-3232)	Proposed Disposition of the Present Tense and Other Statements in Proposed ISA 710 (Redrafted)
Agenda Item 4-D (Pages 3233-3242)	Mapping Document – Proposed ISA 710 (Redrafted)

Draft of the ISA to be Discussed at the Meeting

15. The Task Force proposes that the **clean** version of the draft (**Agenda Item 4-A**) be discussed at the meeting.

Action Requested

16. The IAASB is asked to consider the matters highlighted above and to approve the proposed ISA 710 (Redrafted) for issue as an Exposure Draft.

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