

ASA 710

(October 2009)

Explanatory Statement

ASA 710 Comparative Information—Corresponding Figures and Comparative Financial Reports

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Reasons for Issuing Auditing Standard ASA 710 *Comparative Information—Corresponding Figures and Comparative Financial Reports*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 710 *Comparative Information—Corresponding Figures and Comparative Financial Reports* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

The Auditing Standard conforms with ISA 710 *Comparative Information—Corresponding Figures and Comparative Financial Statements*.

Operative Date

ASA 710 *Comparative Information—Corresponding Figures and Comparative Financial Reports* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 710 *Comparative Information—Corresponding Figures and Comparative Financial Reports*

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material to auditors regarding their responsibilities relating to comparative information in an audit of a financial report.

Main Features

The Auditing Standard:

- (a) describes the nature of comparative information as being either in the form of corresponding figures or comparative financial reports;
- (b) sets out the audit procedures the auditor is required to conduct in respect of each type of comparative information; and
- (c) sets out the reporting obligations of the auditor in respect of comparative information.

Preamble and Overall Objectives

ASA 710 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 710 is to be read also in conjunction with ASA 200 *Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;

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- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 17/09 *Proposed Auditing Standard: Comparative Information—Corresponding Figures and Comparative Financial Reports* (Re-issuance of ASA 710), was issued on 17 April 2009 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

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Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A *Regulatory Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including ASA 710 *Comparative Information—Corresponding Figures and Comparative Financial Reports*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

Main Differences from ASA 710 *Comparatives* (April 2006, as amended)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 710 *Comparatives* (April 2006, as amended), are:

1. ASA 710 is written in the “clarity” format using the equivalent International Standard on Auditing (ISA 710 *Comparative Information—Corresponding Figures and Comparative Financial Statements*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following requirements included in the Auditing Standard are in part, or full, additional compared to the extant Auditing Standard:
 - (a) As required by ASA 580 *Written Representations*, the auditor shall request written representations for all periods referred to in the auditor’s opinion. The auditor shall also obtain a specific written representation regarding any restatement made to correct a material misstatement in the prior period financial report that affects the comparative information. (Ref: Para. 9)
 - (b) If the auditor’s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of

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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 report. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

- (i) 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; or
 - (ii) In other cases, 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. (Ref: Para. 11)
 - (c) If the financial report of the prior period was audited by a predecessor auditor and the auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:
 - (i) That the financial report of the prior period was audited by the predecessor auditor;
 - (ii) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - (iii) The date of that report. (Ref: Para. 13)
 - (d) If the prior period financial report was not audited, the auditor shall state in an Other Matter 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 report. (Ref: Para. 14)
3. The Auditing Standard contains additional requirements and application and other explanatory material related to the audit of

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comparative financial reports, and in particular, the audit procedures and audit reporting considerations required in such an audit. The extant Auditing Standard does not comprehensively address the audit of comparative financial reports and therefore, does not contain such requirements and application and other explanatory material.

4. The following mandatory obligations in the extant Auditing Standard are included in other Auditing Standards:
 - (a) Where the auditor becomes aware of a material misstatement that affects the prior period financial report on which an unmodified report has been previously issued, and if the prior period financial report has not been revised and an auditor's report has not been reissued, but the comparatives have been properly restated and/or appropriate disclosures have been made in the current period financial report, the auditor shall express an unmodified opinion and shall consider the mandatory requirements in ASA 560 *Subsequent Events*. (Extant Ref: Para. 19)
 - (b) When the prior period financial report was not audited, and the incoming auditor is unable to obtain sufficient appropriate audit evidence regarding the comparatives, the incoming auditor shall qualify the auditor's report on the basis that the comparatives are unaudited and that no opinion on them is expressed. (Extant Ref: Para. 23)
5. Certain guidance material in the extant Auditing Standard has been elevated to requirements.
6. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
7. Application and other explanatory material, linked to the additional requirements listed at 2. above, are also included in the Auditing Standard.