

ASA 710
(October 2009)

Auditing Standard ASA 710
Comparative Information –
Corresponding Figures and
Comparative Financial
Reports

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

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Auditing and Assurance Standards Board

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CONTENTS

PREFACE

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	Aus 0.1 – Aus 0.2
Operative Date	Aus 0.3
Introduction	
Scope of this Auditing Standard	1
The Nature of Comparative Information.....	2-3
Effective Date	4
Objectives	5
Definitions	6
Requirements	
Audit Procedures.....	7-9
Audit Reporting	10-19
Application and Other Explanatory Material	
Audit Procedures.....	A1
Audit Reporting	A2-A11
Conformity with International Standards on Auditing	
Appendix 1: Illustrations of Auditors' Reports	

PREFACE

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 AUASB may make Australian 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. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

Main Features

This Auditing Standard establishes Requirements and provides Application and Other Explanatory Material regarding the auditor's responsibilities relating to comparative information in an audit of a financial report.

This Auditing Standard:

- (a) establishes 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.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard 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. This Auditing Standard 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*.

Dated: 27 October 2009

M H Kelsall
Chairman - AUASB

AUDITING STANDARD ASA 710

Comparative Information – Corresponding Figures and Comparative Financial Reports

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibilities relating to comparative information in an audit of a financial report. When the financial report of the prior period has been audited by a predecessor auditor or was not audited, the requirements and guidance in ASA 510¹ 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 report depends on the requirements of the applicable financial reporting framework. There are two different

¹ See ASA 510 *Initial Audit Engagements—Opening Balances*.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial reports. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement.

3. The essential audit reporting differences between the approaches are:
 - (a) For corresponding figures, the auditor's opinion on the financial report refers to the current period only; whereas
 - (b) For comparative financial reports, the auditor's opinion refers to each period for which a financial report is presented.

This Auditing Standard addresses separately the auditor's reporting requirements for each approach.

Effective Date

4. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

5. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial report has been presented, 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 reporting responsibilities.

Definitions

6. For purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

- (a) Comparative information means the amounts and disclosures included in the financial report in respect of one or more prior periods in accordance with the applicable financial reporting framework.
- (b) Corresponding figures mean comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial report, 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.
- Aus 6.1 (b) The applicable financial reporting framework for the purposes of audit engagements performed in accordance with the *Corporations Act 2001* and Australian Accounting Standards ordinarily refers to comparative information in the form of corresponding figures.
- (c) Comparative financial reports mean comparative information where amounts and other disclosures for the prior period are included for comparison with the financial report of the current period but, if audited, are referred to in the auditor’s opinion. The level of information included in those comparative financial reports is comparable with that of the financial report of the current period.

For purposes of this Auditing Standard, 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. The auditor shall determine whether the financial report includes 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:

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

- (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. 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 necessary 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 report, the auditor shall also follow the relevant requirements of ASA 560.² If the prior period financial report is amended, the auditor shall determine that the comparative information agrees with the amended financial report.
9. As required by ASA 580,³ 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. A1)

Audit Reporting

Corresponding Figures

10. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the circumstances described in paragraphs 11, 12, and 14 of this Auditing Standard. (Ref: Para. A2)
11. 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

² See ASA 560 *Subsequent Events*, paragraphs 14-17.

³ See ASA 580 *Written Representations*, paragraph 14.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

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

- (a) 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
- (b) 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. A3-A5)

12. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial report on which an unmodified opinion has been previously issued, 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 report, modified with respect to the corresponding figures included therein. (Ref: Para. A6)

Prior Period Financial Report Audited by a Predecessor Auditor

13. 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:
- (a) That the financial report of the prior period was audited by the predecessor auditor;
 - (b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - (c) The date of that report. (Ref: Para. A7-Aus A7.1)

Prior Period Financial Report Not Audited

14. 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

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

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.⁴

Comparative Financial Reports

15. When comparative financial reports are presented, the auditor's opinion shall refer to each period for which a financial report is presented and on which an audit opinion is expressed. (Ref: Para. Aus A7.2-A9)
16. When reporting on a prior period financial report in connection with the current period's audit, if the auditor's opinion on such a prior period financial report differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with ASA 706.⁵ (Ref: Para. Aus A7.2, A10)

Prior Period Financial Report Audited by a Predecessor Auditor

17. If the financial report of the prior period was audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial report, the auditor shall state in an Other Matter paragraph:
- (a) that the financial report of the prior period was audited by a predecessor auditor;
 - (b) the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - (c) the date of that report,
- unless the predecessor auditor's report on the prior period's financial report is reissued with the financial report. (Ref: Para. Aus A7.2)
18. If the auditor concludes that a material misstatement exists that affects the prior period financial report on which the predecessor

⁴ See ASA 510, paragraph 6.

⁵ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8 and Aus 8.1.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and, and unless all of those charged with governance are involved in managing the entity,⁶ those charged with governance and request that the predecessor auditor be informed. If the prior period financial report is amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial report of the prior period, the auditor shall report only on the current period. (Ref: Para. Aus A7.2, Aus A10.1-A11)

Prior Period Financial Report Not Audited

19. If the prior period financial report was not audited, the auditor shall state in an Other Matter paragraph that the comparative financial report is 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.⁷
(Ref: Para. Aus A7.2)

* * *

⁶ See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.
⁷ See ASA 510, paragraph 6.

Application and Other Explanatory Material

Audit Procedures

Written Representations (Ref: Para. 9)

- A1. In the case of a comparative financial report, the written representations are requested for all periods referred to in the auditor's opinion 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 report of the current period only because the auditor's opinion is on that financial report, which includes the corresponding figures. However, the auditor requests a specific written representation regarding any restatement made to correct a material misstatement in the prior period financial report that affects the comparative information.

Audit Reporting

Corresponding Figures

No Reference in Auditor's Opinion (Ref: Para. 10)

- A2. The auditor's opinion does not refer to the corresponding figures because the auditor's opinion is on the current period financial report 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 accounted for or disclosed in the financial report in accordance with the applicable financial reporting framework, the auditor's 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) may be required on the current

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

period's financial report 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 Illustrations 1 and 2 of Appendix 1.

Misstatement in Prior Period Financial Report (Ref: Para. 12)

- A6. When a prior period financial report that is misstated has 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 report, 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 report (see ASA 706).

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

- A7. An illustrative example of the auditor's report if the prior period financial report 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 is contained in Illustration 3 of Appendix 1.

- Aus A7.1 When the prior period's financial report was audited by a predecessor auditor, and the audit opinion was unmodified, the auditor would not ordinarily include a reference to that predecessor auditor's opinion in the auditor's report. If the predecessor auditor's report was modified, the auditor considers the appropriateness of including a reference to that predecessor auditor's opinion in the auditor's report.

Comparative Financial Reports

- Aus A7.2 In respect of audit engagements conducted in accordance with the *Corporations Act 2001*, the auditor's opinion ordinarily refers to a financial report for the current period, which include corresponding figures, and not to comparative financial report(s). Consequently, paragraphs 15, 16, 17, 18 and 19, and related paragraphs A8, A9, A10,

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

and A11 have no application to *Corporations Act 2001* audit engagements.

Reference in Auditor's Opinion (Ref: Para. 15)

- A8. Because the auditor's report on comparative financial reports applies to the financial report for each of the periods presented, the auditor 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 expressing a different auditor's opinion on the financial report 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 reports 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 Illustration 4 of Appendix 1.

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

- A10. When reporting on the prior period financial report in connection with the current period's audit, the opinion expressed on the prior period financial report may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial report of a prior period during the course of the audit of the current period. In some jurisdictions, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor's previously issued report on the prior period financial report.

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

- Aus A10.1 In respect of audit engagements conducted in accordance with the *Corporations Act 2001*, if the prior period financial report is amended during the current period audit and the auditor was not the auditor of the prior period financial report, the auditor is unable to express an opinion in the current period auditor's report in respect of the amendment in the prior period financial report.
- A11. The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial report. An Other

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

Matter paragraph of the auditor's report may indicate that the predecessor auditor reported on the financial report of the prior period before amendment. In addition, if the auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied as to the appropriateness of the amendment, the auditor's report may also include the following paragraph:

As part of our audit of the 20X2 financial report, we also audited the adjustments described in Note X that were applied to amend the 20X1 financial report. 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 report of the entity 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 report taken as a whole.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISA 710.

Appendix 1

Illustrations of Auditors' Reports

Illustration 1 - Corresponding Figures (Ref: Para. A5)

Qualified prior period auditor's report on a matter that affects the current period financial report, and requires a modified auditor's report

Report illustrative of the circumstances described in paragraph 11(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 Report⁸

We have audited the accompanying financial report of ABC Entity, which comprise the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

⁸ The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

Management's⁹ Responsibility for the Financial Report

Management is responsible for the preparation and fair presentation of this financial report in accordance with Australian Accounting Standards,¹⁰ and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation¹¹ of the financial report 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

⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁰ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of this financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such....."

¹¹ In the case of footnote 10, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives 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 report, 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 report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 10, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

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 report, no depreciation has been provided in the financial report which constitutes a departure from Australian Accounting 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 report 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, property, plant and equipment 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 report presents fairly, in all material respects, (*or gives a true and fair view of*) the financial position of ABC Entity as at 30 June 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

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]

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

Illustration 2 – Corresponding Figures (Ref: Para. A5)

Qualified prior period auditor’s report on a matter that affects the comparability of the current period financial report, and requires a modified auditor’s report

Report illustrative of the circumstances described in paragraph 11(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 on the current period’s figures are immaterial but require a modification to the auditor’s opinion because of the effects or possible effects of the unresolved matter on the comparability of the current period’s figures and the corresponding figures.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Report¹³

We have audited the accompanying financial report of ABC Entity, which comprise the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s¹⁴ Responsibility for the Financial Report

Management is responsible for the preparation and fair presentation of this financial report in accordance with Australian Accounting Standards,¹⁵ and

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

¹⁴ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation¹⁶ of the financial report 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.¹⁷ 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 report.

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

¹⁵ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of this financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such....."

¹⁶ In the case of footnote 15, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives 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."

¹⁷ 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 report, 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 report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 15, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

Basis for Qualified Opinion

Because we were appointed auditors of ABC Entity 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 affect 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 audit opinion on the financial report for the period ended 30 June 20X0 was modified accordingly. Our opinion on the current period's financial report is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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 report presents fairly, in all material respects, *(or gives a true and fair view of)* the financial position of ABC Entity as at 30 June 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

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]

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

Illustration 3 - Corresponding Figures (Ref: Para. A7)

Prior period financial report was audited by a predecessor auditor, and the current period auditor decides to include a reference to the predecessor auditor's report

Report illustrative of the circumstances described in paragraph 13, as follows:

- **The prior period's financial report was audited by a predecessor auditor.**
- **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.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Report¹⁸

We have audited the accompanying financial report of ABC Entity, which comprise the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's¹⁹ Responsibility for the Financial Report

Management is responsible for the preparation and fair presentation²⁰ of this financial report in accordance with Australian Accounting Standards, and of such internal control as management determines is necessary to enable the

¹⁸ The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.
¹⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

²⁰ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of this financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such....."

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation²¹ of the financial report 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.²² 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 report.

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 report presents fairly, in all material respects, (*or gives a true and fair view of*) the financial position of ABC Entity as at

²¹ In the case of footnote 20, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives 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."

²² 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 report, 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 report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 20, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Auditing Standard ASA 710
***Comparative Information – Corresponding Figures and Comparative
Financial Reports***

30 June 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Other Matters

The financial report of ABC Entity for the year ended 30 June 20X0, was audited by another auditor who expressed an unmodified opinion on that financial report on 31 August 20X1.

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]

Illustration 4 - Comparative Financial Reports (Ref: Para. A9)

The auditor is required to report on the prior period financial report (auditor’s report was qualified) and the current period financial report, and the matter giving rise to the previous qualification necessitates a modified auditor’s report on the current period financial report

Report illustrative of the circumstances described in paragraph 15, as follows:

- **Auditor is required to report on both the current period financial report and the prior period financial report 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 report and prior period financial reports, and require a modification to the auditor’s opinion.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Report²³

We have audited the accompanying financial report of ABC Entity, which comprise the statement of financial position as at 30 June 20X1 and 20X0, and the statements of comprehensive income, statements of changes in equity and statement of cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

²³ The sub-title “Report on the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

Management's²⁴ Responsibility for the Financial Report

Management is responsible for the preparation and fair presentation²⁵ of this financial report in accordance with Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation²⁶ of the financial report 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.²⁷ An audit also includes evaluating the appropriateness of accounting policies used and the

²⁴ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

²⁵ Where management's responsibility is to prepare a financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of this financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such....."

²⁶ In the case of footnote 25, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives 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."

²⁷ 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 report, 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 report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 25, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Auditing Standard ASA 710
Comparative Information – Corresponding Figures and Comparative Financial Reports

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained in our audits 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 report, no depreciation has been provided in the financial report which constitutes a departure from Australian Accounting 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, property, plant and equipment 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 report presents fairly, in all material respects, *(or gives a true and fair view of)* the financial position of ABC Entity as at 30 June 20X1 and 20X0 and *(of)* its financial performance and its cash flows for the years then ended in accordance with Australian Accounting Standards.

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]