

(April 2006)

Explanatory Statement

ASA 710 Comparatives

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



Australian Government

Auditing and Assurance Standards Board

Explanatory Statement

Reasons for Issuing ASA 710 *Comparatives*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 710 *Comparatives* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, 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*.

Process of making Auditing Standards

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

- have a clear public interest focus and are of the highest quality;

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- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

Purpose of Auditing Standard ASA 710 *Comparatives*

The purpose of Auditing Standard ASA 710 is to establish mandatory requirements and provide explanatory guidance on the auditor's responsibilities regarding comparatives.

Auditing Standard ASA 710 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

Operative Date

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from Auditing Standard AUS 704 (July 2002) *Comparatives*

The main differences between ASA 710 and AUS 704 are that in ASA 710:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility is described in AUS 704 by the word 'should'.
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 704 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. Explanatory guidance is provided in respect of audit procedures performed on the comparatives (paragraph 9) whereas AUS 704 includes these as mandatory requirements.
4. The following additional mandatory requirements not contained in AUS 704 are included:
 - (a) the auditor shall issue an auditor's report in which the comparatives are not specifically identified because the audit opinion is on the current period financial report as a whole, including the comparatives (paragraph 13); and
 - (b) in situations where the incoming auditor identifies that the comparatives are materially misstated, the auditor shall request management and those charged with governance to revise the comparatives, and if management and those charged with governance refuse to do so, appropriately modify the auditor's report (paragraph 26).

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5. The following additional explanatory guidance not contained in AUS 704 is included:
- (a) when the auditor's report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is resolved and properly dealt with in the financial report, the current report does not ordinarily refer to the previous modification (paragraph 16).

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 32/05 *Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)* was issued on 9 December 2005 with a 45 day comment period. Submissions were received by the AUASB and it has considered these submissions as part of the development and finalisation of this Auditing Standard.