

EXPOSURE DRAFT

ED 32/05
(December 2005)

Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)

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



Australian Government

Auditing and Assurance Standards Board

Proposed Auditing Standard: Comparatives (Re-issuance of AUS 704)

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by 31 January 2006. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

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PREFACE

Reasons for Issuing ED 32/05

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 704) *Comparatives* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) 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 will be legislative instruments under the *Legislative Instruments Act 2003*.

Main Proposals

This proposed Auditing Standard is to establish mandatory requirements and provide explanatory guidance on the auditor's responsibilities regarding comparatives.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from existing AUS 704 (July 2002)

The main differences between this proposed Auditing Standard and the Auditing Standard issued by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, AUS 704 *Comparatives* (July 2002), is that in this proposed Auditing Standard:

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 was previously described by the word 'should';
2. the explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas previously some obligations were implied

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within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance;

3. paragraph 9 forms part of the explanatory guidance in the context of the mandatory requirement in paragraph 8, whereas the equivalent paragraph in the existing AUS was a mandatory requirement (paragraph .07 in AUS 704); and
4. the terminology and overall concepts have been aligned to the Audit Risk Standards. The issue and re-issue of the Audit Risk Standards in February 2004, comprising:
 - *AUS 402 Understanding the Entity and Its Environment and Assessing the Risks of Misstatement;*
 - *AUS 406 The Auditor's Procedures in Response to Assessed Risks;* and
 - *AUS 502 Audit Evidence*

gave rise to necessary conforming amendments to certain existing AUSs, including AUS 704.

A Table of Proposed Changes is provided as an attachment to the Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 704) *Comparatives* by 31 January 2006. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed Auditing Standard.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard ,<> *Comparatives* as set out in paragraphs 1 to 2 and Appendix 1, 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 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.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

AUDITING STANDARD

Comparatives

Application

- 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 Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

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

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and provide explanatory guidance on the auditor's responsibilities regarding comparatives. It does not deal with situations when a summarised financial report is presented with the audited financial report (for guidance see AUS 212 *Other Information in Documents Containing Audited Financial Reports*, and AUS 802 *The Audit Report on Financial Information Other Than a General Purpose Financial Report*).
- 5 **The auditor shall determine whether the comparatives comply in all material respects with the financial reporting framework applicable to the financial report being audited.**
- 6 The existence of differences in financial reporting frameworks between countries results in comparative financial information being presented differently in each framework. Comparatives in the financial report, for example, may present amounts (such as financial position, results of operations, cash flows) and appropriate disclosures of an entity for more than one period, depending on the framework. The framework and method of presentation referred to in this Auditing Standard defines:

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“comparatives” as corresponding figures, where amounts and other disclosures for the preceding period are included as part of the current period financial report, 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” for the purpose of this Auditing Standard). These corresponding figures are not presented as a complete financial report capable of standing alone, but are an integral part of the current period financial report intended to be read only in relationship to the current period figures.

- 7 Comparatives are presented in compliance with the applicable financial reporting framework and the auditor’s report only refers to the financial report of the current period.

The Auditor’ Responsibilities

- 8 **The auditor shall evaluate the risk that the comparatives may be materially misstated, and obtain sufficient appropriate audit evidence for that purpose and that the comparatives meet the requirements of the applicable financial reporting framework.**

- 9 The extent of audit procedures performed on the comparatives is significantly less than for the audit of the current period figures and is ordinarily limited to ensuring that the comparatives have been correctly reported and are appropriately classified. For example, this involves the auditor evaluating whether:

- (a) accounting policies used for the comparatives are consistent with those of the current period or whether appropriate adjustments and/or disclosures have been made; and
- (b) comparatives agree with the amounts and other disclosures presented in the prior period or whether appropriate adjustments and/or disclosures have been made.

- 10 When the financial report of the prior period has been audited by another auditor, pursuant to paragraph 8 of this Auditing Standard, the incoming auditor evaluates whether the comparatives are materially misstated and also follows the guidance in AUS 510 *Initial Engagements - Opening Balances* and AUS 602 *Using the Work of Another Auditor*.

- 11 Pursuant to paragraph 8 of this Auditing Standard, the auditor follows the mandatory requirements and explanatory guidance in

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AUS 510, when the financial report of the prior period is not audited.

- 12 If the auditor becomes aware of a possible material misstatement in the comparatives when performing the current period audit, the auditor ordinarily performs such additional audit procedures as are appropriate in the circumstances.

Reporting

- 13 **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.**
- 14 The auditor's report would make specific reference to the comparatives only in the circumstances described in paragraphs 15, 18(b), 21, 22 and 25 of this Auditing Standard.
- 15 **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:**
- (a) **unresolved, and results in a modification of the auditor's report regarding the current period figures, the auditor's report shall also be modified regarding the comparatives; or**
 - (b) **unresolved, but does not result in a modification of the auditor's report regarding the current period figures, the auditor's report shall be modified regarding the comparatives.**
- 16 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.
- 17 In performing the audit of the current period financial report, the auditor, in certain unusual circumstances, may become aware of a material misstatement that affects the prior period financial report on which an unmodified report has been previously issued.
- 18 **In such circumstances, the auditor shall consider the mandatory requirements in AUS 706 *Subsequent Events* and:**

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- (a) **if the prior period financial report has been revised and reissued with a new auditor's report, the auditor shall obtain sufficient appropriate audit evidence that the comparatives agree with the revised financial report; or**
 - (b) **if the prior period financial report has not been revised and reissued, and the comparatives have not been properly restated and/or appropriate disclosures have not been made, the auditor shall issue a modified report on the current period financial report, modified with respect to the comparatives included therein.**
- 19** **However, 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 consider the mandatory requirements in AUS 706.**

Incoming Auditor - Additional Requirements

Prior Period Financial Report Audited by Another Auditor

- 20** In some jurisdictions, (other than Australia), the incoming auditor is permitted to refer to the predecessor auditor's report on the comparatives in the incoming auditor's report for the current period.
- 21** **Where the financial report of the prior period was audited by another auditor, and the incoming auditor is unable to obtain sufficient appropriate audit evidence regarding the comparatives, the current auditor's report shall be qualified on the basis of a scope limitation. The qualification section shall also refer to the predecessor auditor's report and shall indicate:**
- (a) **that the financial report of the prior period was audited by another auditor and the name of that auditor;**
 - (b) **the type of report issued by the predecessor auditor and, if the report was modified, the reasons therefore; and**
 - (c) **the date of that report.**

Prior Period Financial Report Not Audited

- 22** **When the prior period financial report was not audited, the incoming auditor shall qualify the auditor's report on the basis**

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that the comparatives are unaudited and that no opinion on them is expressed. and appendix

- 23 Pursuant to AUS 510, the auditor is required to perform appropriate audit procedures regarding opening balances of the current period.
- 24 **The auditor shall encourage clear disclosure in the financial report that the comparatives are unaudited.**
- 25 **In situations where the incoming auditor identifies that the comparatives are materially misstated, the auditor shall request management to revise the comparatives or if management refuses to do so, appropriately modify the auditor's report.**

Conformity with International Standards on Auditing

- 26 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 710 *Comparatives*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The difference(s) between this Auditing Standard and ISA 710 are:
- Paragraphs 3(b), 4(b), 5, 20 to 31, Appendix 1, Appendix 2 Example C and E from ISA 710 are not included in this Auditing Standard as they refer to an alternative framework for comparatives;
 - This Auditing Standard includes the following specific mandatory requirements which is included only as guidance in the explanatory paragraphs of ISA 710:
 - ◆ Where the comparatives have not been audited, the auditor shall encourage clear disclosure in the financial report that the comparatives are unaudited. (paragraph 24);
 - Both this Auditing Standard and ISA 710 identify criteria to be assessed when considering whether the comparatives are appropriately presented. Unlike ISA 710 paragraph 6, paragraph 8 in this Auditing Standard identifies the criteria to be addressed in assessing the risk that the comparatives may be materially misstated in the form of a mandatory requirement;
 - Paragraph 13 in ISA 710 provides flexibility for an auditor to include an emphasis of matter paragraph in the current period's audit report on a matter that gave rise to an audit

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qualification in the previous period, but is resolved and properly dealt with in the current period, and where the matter is material to the current period. This Auditing Standard in paragraph 16 does not provide the option for an emphasis of matter in this circumstance.

- Paragraph 19 of this Auditing Standard is a mandatory requirement that requires the auditor to issue an unqualified report without an emphasis of matter, while the ISA 710 equivalent is explanatory guidance and allows the auditor to include an emphasis of matter paragraph.
 - Paragraph 21 of this Auditing Standard prescribes as a mandatory requirement, the circumstances where reference to a predecessor's auditor's report shall be made. The ISA does not provide specific guidance on this matter. Furthermore, paragraph 21(a) requires the name of the predecessor auditor to be included when reference to the predecessor auditor's report is made in the current period auditor's report. The ISA does not have such a requirement.
- (a) Where the prior period's financial report has not been audited, paragraph 22 of this Auditing Standard has as a mandatory requirement, a qualified audit report including a statement that "no opinion on the comparatives is expressed". There is no similar requirement in the ISA.

Compliance with this Auditing Standard enables compliance with ISA 710.

APPENDIX 1

EXAMPLES OF MODIFIED AUDITOR'S REPORTS

EXAMPLE 1: QUALIFIED AUDITOR'S REPORT WHERE THE PRIOR PERIOD AUDITOR'S REPORT WAS QUALIFIED AND THE MATTER WHICH GAVE RISE TO THE QUALIFICATION IS REPEATED IN THE CURRENT PERIOD (PARAGRAPH 15(A)) – AUDITOR'S REPORT FOR AUDITS CONDUCTED IN ACCORDANCE WITH BOTH AUDITING STANDARDS AND THE CORPORATIONS ACT 2001:

INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is 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 the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgment, including the assessment of the risks of

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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 [company/registered scheme/disclosing entity] preparation and fair presentation 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 [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

As discussed in Note X to the financial report, no depreciation has been provided in the financial report which, in our opinion, is not in accordance with 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 the year ended 31 December 20X0. 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 non-current 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 Auditor's Opinion

In our opinion, except for the effect on the financial report of the matter referred to in the preceding paragraph, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and

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- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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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EXAMPLE 2: QUALIFIED AUDITOR'S REPORT WHERE THE PRIOR PERIOD AUDITOR'S REPORT WAS QUALIFIED AND THE MATTER WHICH GAVE RISE TO THE QUALIFICATION REMAINS UNRESOLVED, BUT DOES NOT RESULT IN A QUALIFICATION IN RELATION TO THE CURRENT PERIOD FIGURES (PARAGRAPH 15(B)) – AUDITOR'S REPORT FOR AUDITS CONDUCTED IN ACCORDANCE WITH BOTH AUDITING STANDARDS AND THE CORPORATIONS ACT 2001:

INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is 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 the financial report based on our audit. *Except as discussed in the qualification paragraph*, we conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgment, 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 presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not

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for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

Because we were appointed auditors of [name of entity] during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that year 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 report for the year ended 31 December 20X0 was modified accordingly.

Qualified Auditor's Opinion

In our opinion, except for the effect on the comparatives for 20X0 of the adjustments, if any, to the results of operations for the year ended 20X0, which we might have determined to be necessary had we been able to observe beginning inventory quantities as at ..., the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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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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EXAMPLE 3: QUALIFIED AUDITOR'S REPORT WHERE THE FINANCIAL REPORT OF THE PRIOR PERIOD WAS AUDITED BY ANOTHER AUDITOR AND THE INCOMING AUDITOR IS UNABLE TO OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE REGARDING THE COMPARATIVES, THE CURRENT AUDITOR'S REPORT IS QUALIFIED ON THE BASIS OF A SCOPE LIMITATION, AND THE QUALIFICATION SECTION REFERS TO THE PREDECESSOR AUDITOR'S REPORT (PARAGRAPH 21) – AUDITOR'S REPORT FOR AUDITS CONDUCTED IN ACCORDANCE WITH BOTH AUDITING STANDARDS AND THE CORPORATIONS ACT 2001:

INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is 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 the financial report based on our audit. Except as discussed in the qualification paragraph, we conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In

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making those risk assessments, the auditor considers internal control relevant to the [company/registered scheme/disclosing entity] preparation and fair presentation 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 [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

The financial report of [name of entity] as at 31 December 20X0, were audited by another auditor, [name of auditor] whose report dated [date], expressed [type of audit opinion] on those statements. We were unable to obtain sufficient appropriate audit evidence regarding the comparatives.

Qualified Auditor's Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding the comparatives, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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.]

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[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Table of Proposed Changes from AUS 704 <i>Comparatives</i>

Base Standard

ISA 710 *Comparatives*, was used as the base standard when drafting this proposed Auditing Standard.

Main differences between the Base Standard and the existing AUS704

The main differences between ISA 710 and the existing AUS 704 are:

1. the terminology and overall concepts have been aligned to the Audit Risk Standards. The issue and re-issue of the Audit Risk Standards in February 2004, comprising:
 - AUS 402 *Understanding the Entity and Its Environment and Assessing the Risks of Misstatement*;
 - AUS 406 *The Auditor's Procedures in Response to Assessed Risks*; and
 - AUS 502 *Audit Evidence*gave rise to necessary conforming amendments to certain existing AUSs, including AUS 704.
2. paragraph 9 forms part of the explanatory guidance in the context of the mandatory requirement in paragraph 8, whereas the equivalent paragraph in the existing AUS was a mandatory requirement (paragraph .07 in AUS 704)

Table of proposed changes from the Base Standard

The table below details the proposed changes from the base standard, ISA 710 (excluding changes to reflect Australian terminology and references to Auditing Standards in Australia).

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
1, 2	Requirement / Guidance	New Application paragraphs.
3	Requirement	Re-position Operative Date paragraph.
5, 8, 13, 15, 18, 19, 21, 22, 25	Requirement	Replace “should” with “shall”.
8	Requirement	The existing AUS 704 identifies the criteria to be addressed in assessing the risk that the comparatives may be materially misstated in the form of a mandatory requirement. This has been retained in this Auditing Standard but departs from ISA 710.
9	Guidance	Paragraph 9 of this Auditing Standard remains explanatory guidance as in ISA 710 but this departs from the existing AUS 704 where it is bold.
16	Guidance	The existing AUS 704 and this Auditing Standard does not allow the use of an emphasis of matter in this circumstance so this a departure from ISA 710.
10, 11, 12	Guidance	Insert “ordinarily”.
19	Requirement	Paragraph 19 of this Auditing Standard has been elevated to a requirement as it is a requirement in the existing AUS 704. This Auditing Standard does not allow the use of an emphasis of matter in this circumstance so is a departure from ISA 710.
21	Requirement	This Auditing Standard prescribes the circumstances where reference to a predecessor’s auditor’s report shall be made whereas ISA 710 does not provide specific guidance, hence this is a departure from ISA 710. Furthermore, paragraph 21(a) requires the name of the predecessor auditor to be included when reference to the predecessor auditor’s report is made in the current period auditor’s report.

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
22	Requirement	Paragraph 22 of this Auditing Standard has an additional requirement that was in the existing AUS 704 and is additional to ISA 710 and has been retained in this Auditing Standard.
24	Requirement	Paragraph 24 has been elevated to a requirement as it is a requirement in the existing AUS 704.