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Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

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April 15, 2008

International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Ave, 14th Floor  
New York, New York 10017 USA

**Subject:** International Auditing and Assurance Standards Board (IAASB) January 2008 Exposure Draft: *ISA 710, Comparative Information-Corresponding Figures and Comparative Financial Statements*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IAASB's proposed revisions to ISA 710.

GAO is committed to transforming and modernizing the accountability profession; accordingly, we support the IAASB's efforts to enhance the consistency of auditor performance in an audit of financial statements by developing a set of international standards that are generally accepted worldwide. Overall, we agree on the need for standards and guidance for reporting on corresponding figures and comparative financial statements.

The Board has asked respondents to comment on specific questions regarding the application of the Clarity Drafting Conventions and auditor's procedures regarding comparative information. We are providing comments on those questions as follows:

### **Request for Specific Comments**

**Question 1:** Do respondents agree that the auditor's procedures are the same for the two approaches to presenting comparative information, except for the responsibility to obtain written representations for more than one period in the case of comparative information presented as comparative financial statements?

**Question 2:** If so, do respondents agree with the structure according to which the proposed ISA has been redrafted to give effect to the auditor's responsibilities in the requirements?

### **Response/ Comment:**

**Questions 1 and 2:** The audit procedures for presenting comparative information are not clear with respect to corresponding figures. We believe the standard should provide language to clarify the nature and extent of audit procedures for

corresponding figures that do not constitute a complete set of financial statements. We recommend clarifying the required audit procedures discussed in paragraph 6 of the proposed standard by requiring auditors to evaluate the entity's disclosures about corresponding figures that do not constitute a complete set of financial statements.

We also believe that it is important to report the nature of audit work performed and degree of responsibility assumed by the auditor for corresponding figures. Paragraph 9 of the standard states that when the comparative information is presented as corresponding figures, the auditor's report shall not specifically identify the corresponding figures unless certain conditions exist, which are described in paragraphs 10, 11(b), 12 and 13. However, we believe that a clear articulation in the auditor's report of the nature of the work performed by the auditor and the degree of responsibility the auditor assumes in relation to corresponding information, in all situations, will allow users of the financial statement better understanding of the corresponding figures and how such information may be used to meet their needs. We recommend (a) revising paragraph 9 to require the auditor to include corresponding figures in the auditor's report regardless of the circumstances, and (b) deleting paragraph A2 and modifying paragraph A3.

In addition, the auditor's report should state whether prior period corresponding figures were audited and provide information about the prior period audit. As currently written, paragraph 12 of the proposed standard requires auditors to report such information only if the prior period was audited by another auditor. We therefore recommend rewording paragraph 12 to apply to all situations when the prior period financial statements were audited, whether by the current period auditor or by a predecessor auditor.

The above proposed changes will improve the clarity of the standard, enhance consistency of the application of the standard, and provide transparency about the auditor's procedures. We have provided proposed wording to paragraph 6, 9 12, A1, A2, and A3 in the attachment to this letter.

## **Request for Comments on the Application of the Clarity Drafting Conventions**

**Question 1:** Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?

**Response/ Comment:** The audit objective as stated in the redrafted ISA does not provide the context in which the requirements of this ISA are set. We recommend clarifying the objective in paragraph 4 to include the auditor's reporting objective with regard to comparative financial information, in order to more fully provide the context in which the requirements of this ISA are set. We have provided proposed wording for this revision in paragraph 4 of the attachment to this letter.

**Question 2.** Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such

that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?

**Response/ Comment:** We have no comment on this issue.

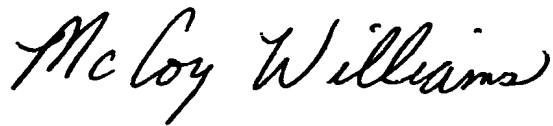
**Special Considerations in the Audit of Public Sector Entities:** We identified no special considerations.

**Additional Comment: Definition of Corresponding Figures**

The use of corresponding figures is determined by the applicable financial reporting framework and therefore, the term may not be familiar to auditors who use a framework that does not allow for corresponding figures. Therefore, we believe it would be helpful to add this context to the definition. We have provided proposed wording in paragraph 5(b) of the attachment to this letter.

We thank you for considering our comments on these important issues.

Sincerely yours,



McCoy Williams  
Managing Director  
Financial Management and Assurance

Enclosure

cc: Mr. James M. Sylph, Technical Director  
International Auditing and Assurance Standards Board

The Honorable Christopher Cox, Chairman  
Securities and Exchange Commission

The Honorable Mark W. Olson, Chairman  
Public Company Accounting Oversight Board

Mr. Harold Monk, Chair  
Auditing Standards Board

Mr. Kjell Larsson, Public Member  
International Auditing and Assurance Standards Board

GAO's proposed changes are reflected on pages 9, 10, 11, 12, & 13 of this exposure draft.

*Proposed Redrafted International Standard on  
Auditing*

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ISA 710, Comparative Information—  
Corresponding Figures and  
Comparative Financial Statements



International Federation  
of Accountants

## REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft, proposed International Standard on Auditing (ISA) 710, “Comparative Information—Corresponding Figures and Comparative Financial Statements” in December 2007 for publication. This proposed ISA may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **April 15, 2008**. All comments will be considered a matter of public record. Comments should be addressed to:

International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017 USA

Comments should be emailed to [Edcomments@ifac.org](mailto:Edcomments@ifac.org). They may also be faxed to +1-212-286-9570 or mailed to the above address.

Copies of the exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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## EXPLANATORY MEMORANDUM

### Introduction

This memorandum provides background to proposed International Standard on Auditing (ISA) 710 (Redrafted), “Comparative Information—Corresponding Figures and Comparative Financial Statements.” The proposed ISA has been redrafted in accordance with conventions agreed by the International Auditing and Assurance Standards Board (IAASB) to be applied to all ISAs. The IAASB approved the proposed redrafted ISA for exposure in December 2007.

### Background

As part of its project to improve the clarity of its International Standards, the IAASB has undertaken to redraft all of its ISAs in accordance with its new clarity drafting conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time, that while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. Proposed ISA 710 (Redrafted) is in the latter category.

The conventions used by the IAASB in redrafting extant ISA 710,<sup>1</sup> and the authority and obligation attaching to those conventions, are established in proposed ISA 200 (Revised and Redrafted)<sup>2</sup> approved by the IAASB as an exposure draft in April 2007, and in the amended “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” (Preface), approved by the IAASB in September 2006.<sup>3</sup>

### Effective Date

The current timetable envisages that all ISAs will have been revised and redrafted, or redrafted only, by late 2008 and the IAASB has agreed that the complete set of ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2009. The IAASB believes that it is in the interests of auditors and others who use the ISAs that the ISAs should be released as soon as they are approved so as to facilitate their implementation.

### Significant Matters

#### Work Effort Involved for Corresponding Figures and Comparative Financial Statements

##### *Audit Procedures*

Paragraphs 6 and 20 in extant ISA 710, which deal with the auditor’s procedures in respect of corresponding figures and comparative financial statements respectively, both require the auditor

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<sup>1</sup> Extant ISA 710, “Comparatives.”

<sup>2</sup> Proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.”

<sup>3</sup> The amended Preface can be accessed at [http://web.ifac.org/download/IAASB\\_Preface.pdf](http://web.ifac.org/download/IAASB_Preface.pdf). Proposed ISA 200 (Revised and Redrafted) can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0079>.

to ‘obtain sufficient appropriate audit evidence that the corresponding figures / comparative financial statements meet the requirements of the applicable financial reporting framework.’ The related guidance differed, but did not clearly articulate a substantive difference in the work effort expected under either approach. The guidance regarding corresponding figures explained that the work effort for the corresponding figures is significantly less than for the audit of the current period figures and is ordinarily limited (unless the auditor becomes aware of a possible material misstatement in the comparative information) to ensuring that the corresponding figures have been correctly reported and are appropriately classified. The IAASB concluded that, although this reference was included under the section on corresponding figures in the extant ISA, it broadly applied to any comparative information, and therefore also to comparative financial statements.

Accordingly, proposed ISA 710 (Redrafted) has been restructured to indicate that the auditor’s procedures are the same under the two different approaches to presenting comparative information. The IAASB did, however, recognize that, in the case of comparative financial statements, the auditor should obtain written representations from management in respect of each period for which the comparative financial statements are presented. In the case of corresponding figures, written representations are required for the financial statements of the current period only, which includes the comparative information for the previous period. Although this requirement is established in ISA 580 (Revised and Redrafted),<sup>4</sup> the IAASB considered it appropriate to include a cross reference to that requirement, and to explain the reasons for the difference in approach to written representations under corresponding figures and comparative financial statements, in the application and other explanatory material of proposed ISA 710 (Redrafted).

### *Audit Reporting*

As the audit reporting requirements are different for the two approaches to presenting comparative information, proposed ISA 710 (Redrafted) has been structured to set out separately the auditor’s reporting responsibilities for each approach to presenting comparative information.

## **Guide for Respondents**

### **Request for Specific Comments**

The IAASB would welcome views on the following:

1. Do respondents agree that the auditor’s procedures are the same for the two approaches to presenting comparative information, except for the responsibility to obtain written representations for more than one period in the case of comparative information presented as comparative financial statements?
2. If so, do respondents agree with the structure according to which the proposed ISA has been redrafted to give effect to the auditor’s responsibilities in the requirements?

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<sup>4</sup> ISA 580 (Revised and Redrafted), “Written Representations.” ISA 580 (Revised and Redrafted), which was approved by the IAASB in December 2007, will be published when the Public Interest Oversight Board has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda>.



## Request for Comments on the Application of the Clarity Drafting Conventions

Except for the matters referred to above, the IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions, and their effect on the content of the extant ISA. Respondents are asked to respond in particular to the following questions:

1. Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?
2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?<sup>5</sup>

Recognizing that the final ISA will apply to audits of all sizes and in all sectors of the economy, the IAASB is also interested in comments on matters set out below.

- *Special Considerations in the Audit of Smaller Entities*—Respondents are invited to identify special considerations in the audit of smaller entities, if any.
- *Special Considerations in the Audit of Public Sector Entities*—Respondents are invited to identify special considerations in the audit of public sector entities, if any.
- *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed redrafted ISA in a developing nation environment.
- *Translations*—Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed redrafted ISA.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the IAASB to be made aware of this view.

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<sup>5</sup> The IAASB has identified the following criteria for determining the requirements of a Standard:

- The requirement is necessary to achieve the objective stated in the Standard;
- The requirement is expected to be applicable in virtually all engagements to which the Standard is relevant; or, in the case of circumstances that are reasonably likely to exist or arise in an engagement, the requirement is considered necessary to the consistent application of the ISA and the action specified is expected to be appropriate in virtually all such circumstances; and
- The objective stated in the Standard is unlikely to have been met by the requirements of other Standards.

In determining the requirements of a Standard, the IAASB will consider whether the requirements are proportionate to the importance of the subject matter of the Standard in relation to the overall objective of the engagement.

The criteria, which are intended only to assist the IAASB in appropriately and consistently determining requirements, may be refined as further experience is gained.

Respondents are also invited to comment on any undue costs, set against the benefits of more consistent auditor performance, arising from the fact that the proposed redrafted ISA includes requirements that would previously have been guidance under the old drafting conventions, as in the extant ISA (see below). In commenting on this matter, respondents should bear in mind the criteria that the IAASB has applied in redrafting the proposed ISA (see footnote 5) and the fact that the IAASB is seeking to clarify that there was some guidance in extant ISAs that was more in the nature of requirements and would already have been followed by many auditors.

### **Supplement to the Exposure Draft**

To assist respondents in tracking changes, IAASB staff has prepared an analysis of the decisions that have been made by the IAASB with respect to the treatment of the present tense in the explanatory paragraphs of the extant ISA. This analysis also demonstrates how the material in the extant ISA has been reflected in the proposed redrafted ISA. In particular, the analysis:

- Identifies existing sentences in the present tense and whether they are now treated as a requirement or as application and other explanatory material;
- Maps the material of the extant ISA to the proposed redrafted ISA; and
- Identifies explanatory material that is proposed to be eliminated or repositioned as a result of redrafting.

These staff-prepared mapping documents are available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0106>. They are for information purposes only and do not form part of the exposure draft.

<p>To be considered, responses should be emailed to <a href="mailto:Edcomments@ifac.org">Edcomments@ifac.org</a>. They may also be faxed to +1-212-286-9570 or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. They should be received by <b>April 15, 2008</b>.</p>
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**PROPOSED INTERNATIONAL STANDARD ON AUDITING 710**  
**(REDRAFTED)**  
**COMPARATIVE INFORMATION—**  
**CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS**

(Effective for audits of financial statements for periods beginning on or after [December 15, 2009])

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[Proposed] International Standard on Auditing (ISA) 710, “Comparative Information—Corresponding Figures and Comparative Financial Statements” should be read in conjunction with [proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.”

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in [proposed] ISA 510 (Redrafted)<sup>1</sup> 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 statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to comparative information in financial reporting frameworks: corresponding figures and comparative financial statements. The auditor’s reporting requirements regarding comparative information in an audit of financial statements differ depending on whether the comparative information is corresponding figures or comparative financial statements. The essential audit reporting differences are:
  - (a) For corresponding figures, the auditor’s report refers only to the financial statements of the current period and does not separately identify the corresponding figures; whereas
  - (b) For comparative financial statements, the auditor’s report refers to each period for which financial statements are presented.

This ISA addresses separately the auditor’s reporting requirements for each circumstance.

### Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after [December 15, 2009].

### Objective

4. The objective of the auditor **is** to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements complies, in all material respects, with the applicable financial reporting framework.

### Definitions

5. For the purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Comparative information – The amounts and disclosures included in the financial statements in respect of one or more previous periods. Comparative information may be corresponding figures or comparative financial statements.

*insert...* , and (2) properly report on the comparative financial information in the auditor's report.

<sup>1</sup> [Proposed] ISA 510 (Redrafted), “Initial Audit Engagements—Opening Balances.”

*insert..*  
in accordance with the applicable financial reporting framework,

- (b) Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, 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.
- (c) Comparative financial statements – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period, but are considered separate financial statements on which an audit opinion is expressed. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period (including all statement amounts, disclosures and other explanatory statements to the extent that they continue to be of significance).

For purposes of this ISA, 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

- 6. The auditor shall determine whether the financial statements correctly include 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:
  - (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.
- 7. 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 appropriate in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists.
- 8. As required by ISA 580 (Revised and Redrafted),<sup>2</sup> the auditor shall request written representations for all periods referred to in the auditor’s report. (Ref: Para. A1)

*insert paragraph*  
When the prior year corresponding figures do not constitute a complete set of financial statements, the auditor shall evaluate whether (1) the nature of the information presented and omitted is disclosed in the financial statements or related notes, and (2) the financial statements indicate where the users may obtain a full set of prior year financial statements, if available. If the financial statements do not disclose this information, the auditor shall include this information in the auditor's report.

<sup>2</sup> ISA 580 (Revised and Redrafted), “Written Representations,” paragraph 14. [See footnote 4 of the Explanatory Memorandum.]

## Audit Reporting

### Corresponding Figures

*insert...*  
and clearly state (a) the character of the auditor's work, if any, and (b) the degree of responsibility the auditor is taking with respect to the corresponding figures.

9. When the comparative information is presented as corresponding figures, the auditor's report shall ~~not specifically~~ identify the corresponding figures ~~except in the circumstances described in paragraphs 10, 11(b), 12 and 13.~~ (Ref: Para. A2)
10. 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:
  - (a) If 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, the auditor shall refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification in the Basis for Modification paragraph; or
  - (b) If the effects or possible effects of the matter are either not relevant or material to the current period figures, the auditor shall nevertheless modify the opinion in the auditor's report on the current period's financial statements because of the effect or possible effects of the matter on the corresponding figures. (Ref: Para. A3)
11. If the auditor becomes aware of a material misstatement that affects the prior period financial statements on which an unmodified report has been previously issued, the auditor shall follow the relevant requirements of ISA 560 (Redrafted),<sup>3</sup> and:
  - (a) If the prior period financial statements have been amended and reissued with a new auditor's report, the auditor shall obtain sufficient appropriate audit evidence that the corresponding figures agree with the amended financial statements; or
  - (b) If the prior period financial statements have not been amended and reissued, 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 statements, modified with respect to the corresponding figures included therein. (Ref: Para. A4)

*insert...*  
Audited

~~Prior Period Financial Statements Audited by a Predecessor Auditor~~

prior period

12. If the financial statements of the prior period were audited ~~by a predecessor auditor~~ and the auditor is permitted by law or regulation to refer to the ~~predecessor~~ auditor's report on the corresponding figures ~~and decides to do so~~, the auditor shall indicate in an Other Matter(s) paragraph in the auditor's report:
  - (a) That the financial statements of the prior period were audited by the predecessor auditor;

*insert...*  
auditor, or by a

<sup>3</sup> ISA 560 (Redrafted), "Subsequent Events," paragraphs 14-17. [ISA 560 (Redrafted), which was approved by the IAASB in December 2007, will be published when the Public Interest Oversight Board has confirmed that the IAASB has followed due process in its development. In the interim, respondents can access the text of the ISA at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda.>]

- (b) The type of opinion issued ~~by the predecessor auditor~~ and, if the opinion was modified, the reasons therefore; and
- (c) The date of that report.

#### Prior Period Financial Statements Not Audited

- 13. If the prior period financial statements were not audited, the auditor shall state in an Other Matter(s) 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 statements.<sup>4</sup>

#### *Comparative Financial Statements*

- 14. When the comparative information is presented as comparative financial statements, the auditor’s report shall specifically identify each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: Para. A5)
- 15. When reporting on prior period financial statements in connection with the current period’s audit, if the opinion on such prior period financial statements differs from the opinion previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter(s) paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted).<sup>5</sup> (Ref: Para. A6)

#### Prior Period Financial Statements Audited by a Predecessor Auditor

- 16. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period’s financial statements, the auditor shall state in an Other Matter(s) paragraph:
  - (a) that the financial statements of the prior period were audited by a predecessor auditor;
  - (b) the type of opinion issued by the predecessor auditor and if the opinion was modified, the reasons therefor; and
  - (c) the date of that report,
 unless the predecessor auditor’s report on the prior period’s financial statements is reissued with the financial statements.
- 17. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall, in addition to the communications required in accordance with [proposed] ISA 510 (Redrafted),<sup>6</sup> propose that the prior period financial statements

<sup>4</sup> [Proposed] ISA 510 (Redrafted), paragraph [5].

<sup>5</sup> [Proposed] ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report,” paragraph [9].

<sup>6</sup> [Proposed] ISA 510 (Redrafted), paragraph [6].

be amended. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period. (Ref: Para. A7)

#### Prior Period Financial Statements Not Audited

18. If the prior period financial statements are not audited, the auditor shall state in the auditor's report that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to carry out appropriate audit procedures regarding opening balances of the current period.<sup>7</sup>

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## Application and Other Explanatory Material

### Audit Procedures

#### *Written Representations* (Ref: Para. 8)

- A1. In the case of comparative financial statements, the written representations are for all periods referred to in the auditor's report 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 for the financial statements of the current period only because the auditor's opinion is on those financial statements, which include the corresponding figures. The auditor may, however, determine that it is necessary to obtain a written representation regarding any amendments made to resolve a material misstatement in the prior period financial statements.

However, the auditor may ask for representations that the corresponding figures are in accordance with the financial reporting framework and that disclosure of the nature of those figures is adequate.

### Audit Reporting

#### *Corresponding Figures* (Ref: Para. 9-11)

- A2. ~~The auditor's report does not refer to the corresponding figures because the audit opinion is on the current period financial statements as a whole, including the corresponding figures.~~
- 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 dealt with in the financial statements in accordance with the applicable financial reporting framework, the current auditor's report ~~needs not refer to the previous modification.~~
- A4. When the prior period financial statements that are misstated have 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 statements, the auditor's report may include an Emphasis of Matter paragraph describing the circumstances and referring to where relevant disclosures that fully

shall state in the Other Matter(s) paragraph (1) the type of opinion that was issued and (2) how the matter which gave rise to the modified opinion was resolved.

<sup>7</sup> [Proposed] ISA 510 (Redrafted), paragraph [5].



describe the matter can be found in the financial statements (see [proposed] ISA 706 (Revised and Redrafted)).

*Comparative Financial Statements* (Ref: Para. 14-15)

- A5. The auditor’s report refers to the comparative financial statements because an audit opinion is expressed on the financial statements of each period presented. Because the auditor’s report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor’s report 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 issuing a different auditor’s opinion on the financial statements of the other period.
- A6. When reporting on the prior period financial statements in connection with the current period’s audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period.

*Prior Period Financial Statements Audited by a Predecessor Auditor* (Ref: Para. 17)

- A7. The predecessor auditor may not agree with a proposed restatement or may refuse to reissue the auditor’s report on the prior period financial statements. An Other Matter(s) paragraph of the auditor’s report may indicate that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor applies sufficient audit procedures to be satisfied as to the appropriateness of the restatement adjustment, the auditor’s report may also include the following paragraph:
 

“We also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.”

## Example Auditor's Reports

### Example A - Corresponding Figures

**Report illustrative of the circumstances described in paragraph 10(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 Statements<sup>8</sup>**

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation<sup>9</sup> of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

<sup>9</sup> Depending on the circumstances, this sentence may read: "Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards."

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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<sup>10</sup> of the financial statements 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.<sup>11</sup> 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 statements.

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 statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Financial Reporting 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 statements 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, the fixed 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 Opinion*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or “*give a true and fair view of*”) the financial position of the Company as of December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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<sup>10</sup> Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give 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.”

<sup>11</sup> 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 statements, 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 statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 10, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”

**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]

## Example B - Corresponding Figures

**Report illustrative of the circumstances described in paragraph 10(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 are not relevant to the current period figures.**

### INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

#### **Report on the Financial Statements**<sup>12</sup>

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation<sup>13</sup> of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

<sup>12</sup> The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>13</sup> Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

internal control relevant to the entity’s preparation and fair presentation<sup>14</sup> of the financial statements 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.<sup>15</sup> 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 statements.

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*

Because we were appointed auditors of the Company 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 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 statements for the (period) ended (balance sheet date) 20X0 was modified accordingly.

#### *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 statements present fairly, in all material respects (or “*give a true and fair view of*”) the financial position of the Company as of December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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]

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<sup>14</sup> Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give 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.”

<sup>15</sup> 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 statements, 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 statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 14, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”

**Example C - Corresponding Figures:**

**Report illustrative of the circumstances described in paragraph 12, as follows:**

- **The prior period’s financial statements were audited by a predecessor auditor.**
- **The auditor is permitted by law or regulation to refer 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 Statements**<sup>16</sup>

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation<sup>17</sup> of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, 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<sup>18</sup> of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

<sup>16</sup> The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>17</sup> Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

<sup>18</sup> Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give 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.”

for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>19</sup> 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 statements.

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 statements present fairly, in all material respects (or “*give a true and fair view of*”) the financial position of the Company as of December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Other Matters*

The financial statements of the Company for the year ended December 31, 20X0, were audited by another auditor whose report dated March 31, 20X1 expressed an unqualified opinion on those statements.

### **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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<sup>19</sup> 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 statements, 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 statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 18, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”



**Example D - Comparative Financial Statements:**

**Report illustrative of the circumstances described in paragraph 14, as follows:**

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

## INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

**Report on the Financial Statements<sup>20</sup>**

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheets as at December 31, 20X1 and 20X0, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

*Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation<sup>21</sup> of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

<sup>20</sup> The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>21</sup> Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

internal control relevant to the entity's preparation and fair presentation<sup>22</sup> of the financial statements 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.<sup>23</sup> 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 statements.

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 statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Financial Reporting 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, the fixed 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 Opinion*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or "*give a true and fair view of*") the financial position of the Company as of December 31, 20X1 and 20X0 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting 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]

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<sup>22</sup> Depending on the circumstances, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give 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."

<sup>23</sup> 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 statements, 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 statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 22, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

**Example E – Comparative Financial Statements**

**Report illustrative of the circumstances described in paragraph 16, as follows:**

- **The financial statements of the prior period were audited by a predecessor auditor.**
- **The predecessor auditor agrees to have the predecessor auditor’s report on the prior period reissued with the financial statements.**

## INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

**Report on the Financial Statements**<sup>24</sup>

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation<sup>25</sup> of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, 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<sup>26</sup> of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

<sup>24</sup> The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>25</sup> Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

<sup>26</sup> Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give 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.”

for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>27</sup> 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 statements.

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*

The financial statements of the Company for the year ended December 31, 20X0 were audited by another auditor whose report dated March 31, 20X1, which is included with the financial statements, expressed a qualified opinion due to a disagreement as to the adequacy of the provision for doubtful receivables. The relevant receivables are still outstanding at December 31, 20X1 and no provision for potential loss has been made by management in the financial statements. Accordingly, the provision for doubtful receivables at December 31, 20X1 and 20X0 should be increased by xxx, the net profit for 20X0 decreased by xxx and the retained earnings at December 31, 20X1 and 20X0 reduced by xxx.

#### *Qualified Opinion*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or “*give a true and fair view of*”) the financial position of the Company as of December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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]

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<sup>27</sup> 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 statements, 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 statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 26, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”



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