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Organización Internacional de Comisiones de Valores  
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Organizaçào Internacional das Comissões de Valore

August 27, 2008

Mr. James M. Sylph  
Executive Director, Professional Standards  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

Email address: Edcomments@ifac.org

***Re: Proposed Redrafted International Standard on Auditing 710, "Comparative Information – Corresponding Figures and Comparative Financial Statements"***

Dear Mr. Sylph:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of proposed redrafted international standard on auditing ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements* (the ED). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing and professional standards.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting. As we review proposed auditing standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the area of audit being addressed, whether the standards are clear and understandable and whether the standards are written in such a way as to be enforceable.

Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

### **Overall Comments**

While we recognize that this standard has been redrafted and not revised, we are concerned that in certain respects the guidance is unclear and incomplete. We have identified these matters below with recommendations as to how the standard could be improved.

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## *Corresponding Figures vs. Comparative Financial Statements*

We believe that the definition of “corresponding figures” in paragraph 5(b) should be clarified and perhaps augmented with one or more examples in the Application Material to describe and illustrate this type of comparative information.

We also believe that some of the discussion of “comparative financial statements” could be clearer. For example, the statement in paragraph 2 (b), when read in combination with the definition of comparative financial statements in paragraph 5 (c) and the requirement in paragraph 18, is unclear.<sup>1</sup> Specifically, in paragraph 2(b), it is unclear whether the statement that the auditor “refers to” each prior period is intended to mean that the auditor *expresses an opinion* on the financial statements of the prior periods, as suggested by paragraph 5(c). If so, the ISA would not appear to be framework neutral because local laws and regulations often dictate whether an auditor is required to express an opinion on prior periods. Additionally, there appears to be an inconsistency between the definition of comparative financial statements in paragraph 5(c) and the auditor’s reporting obligation under paragraph 18. Paragraph 5(c) seems to suggest that the prior period financial statements are required to be audited, while paragraph 18 discusses how an auditor reports when the prior period financial statements are not audited.

## *Audit Reporting – Corresponding Figures*

Paragraph 11 discusses the auditor’s reporting requirements when the auditor becomes aware of a material misstatement that affects the prior period financial statements in the corresponding figures framework. The guidance does not discuss the auditor’s reporting requirements if the prior year financial statements are adjusted for something other than a material misstatement. For example, the prior period financial statements could be adjusted for a retroactive adoption of a new accounting standard or a change in accounting policy elected by management, or could be affected by reclassifications made in the presentation of data. We recommend guidance be included for the auditor’s responsibility related to all changes in the prior period financial statements that could impact the corresponding figures. The reporting guidance could reference the consideration of an Emphasis of Matter Paragraph in accordance with ISA 706 *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report*. Similar guidance should also be added to paragraph A1, which discusses obtaining written representations regarding material misstatements in the prior period financial statements.

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

Paragraph A7 discusses the auditor’s reporting alternatives *if* the auditor applies sufficient audit procedures to restatement adjustments made to financial statements that were audited by a predecessor auditor in which the predecessor auditor did not agree with the proposed restatement adjustment or refused to reissue their report. (*Emphasis added*) Paragraph A7 states the following:

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

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<sup>1</sup> Paragraph 2(b) states, “For comparative financial statements, the auditor’s report *refers to* each period for which financial statements are presented” (emphasis added), paragraph 5(c) defines comparative financial statements as, “Comparative information...*on which an audit opinion is expressed*” (emphasis added) and paragraph 18 describes the reporting requirement for comparative financial statements when prior periods are unaudited as follows: “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.”

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.

There is no guidance describing the reporting alternatives if the auditor chooses not to or is not able to apply sufficient audit procedures to the restatement. It is not clear to us if the auditor is required to audit the restatement adjustment or if the restatement adjustment could be unaudited. If the auditor is not required to audit the restatement adjustment, then the ISA should require the auditor to report that the restatement adjustment has not been audited. This guidance should be consistent with paragraph 18 of the ED, which requires the auditor to state in the auditor's report that the comparative financial statements are unaudited. Irrespective of whether the restatement adjustment has been audited, we also believe the auditor should not have a choice in describing whether it has been audited; therefore, we believe this guidance should be elevated to a requirement.

In addition, the guidance states that the auditor's report *may* indicate that the predecessor auditor reported on the financial statements of the prior period before restatement. (*Emphasis added*) The use of the word "may" indicates the auditor may alternatively not indicate that the predecessor auditor reported on the financial statements of the prior period before restatement. Without this disclosure, the reader may mistakenly understand that the predecessor auditor has audited and is reporting on the restatement; therefore, we believe this guidance should be elevated to a requirement.

#### ***Variations in Terminology Related to Adjustments to Prior Period Financial Statements***

The ED uses the term "restated," "amended," and "re-issued" when discussing adjustments to prior period financial statements (see paragraphs 6, 11a, 11b, 17, A1, A4, and A7). It is not clear to us what is meant by "restated" or if the aforementioned terms are to be used interchangeably. For example, does the term "restated" relate solely to corrections for material misstatements or does it encompass all adjustments to prior period financial statements (e.g. reclassifications, retroactive adoption of new accounting standards, changes in accounting policies and adjustments for discontinued operations). We suggest the Board clarify its intended meaning and use of these terms.

#### **Objective**

The objective properly discusses the auditor's responsibilities to obtain sufficient appropriate audit evidence about comparative financial information but it does not include the auditor's obligations related to reporting on comparative information. We therefore suggest revising paragraph 4 as follows:

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, and where appropriate, to report on comparative information.

#### **Requirements**

We believe the following application and other explanatory material should be elevated to requirements:

- *Audit Procedures - Written Representations*

Paragraph A1 indicates that the auditor *may* 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 under the corresponding figures framework. (*Emphasis added*) We are concerned that the use of the word “may” suggests that the auditor may alternatively determine that such representations are unnecessary. The representation appears to be required by paragraphs 10 and 11 of ISA 580, *Written Representations*, which require the auditor to request management to provide written representations that it has “fulfilled its responsibility for the preparation and presentation of the financial statements” and “provided the auditor with all relevant information.” We therefore suggest revising paragraphs 8 and A1 as follows:

8. As required by ISA 580 (Revised and Redrafted), the auditor shall request written representations for all **financial statements and period(s)** referred to in the auditor’s report. **In the case of corresponding figures, the auditor shall obtain written representations regarding any amendments made to resolve a material misstatement in the prior period financial statements.**

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 that 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.~~**

In addition, see the recommendation above to expand written representations to other areas in which the prior period financial statements are restated.

- *Audit Reporting – Corresponding Figures*

Paragraph A4 describes the auditor’s reporting responsibility when (a) the prior period financial statements are misstated, (b) those financial statements have not been amended, (c) an auditor’s report has not been reissued and (d) the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements. In these circumstances, the auditor’s report may include an Emphasis of Matter paragraph describing the circumstances and referring to where relevant disclosures that fully described the matter can be found in the financial statements. The use of the word “may” concerns us because it provides the auditor with an alternative to not include an Emphasis of Matter paragraph, without which the user of the audited financial statements would not know whether the restatement or disclosure included in the corresponding figures has been audited. We therefore recommend paragraph A4 be elevated to a requirement by adding a new paragraph 11c, as shown below:

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), and:

**(c). If the prior period financial statements have not been amended and reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made, the Auditor shall include an Emphasis of Matter paragraph in the auditor’s report**

describing the circumstances and referring to where relevant disclosures that fully describe the matter can be found in the financial statements in accordance with ISA 706 (Revised and Redrafted) [FN]

[FN] [Proposed] ISA 706 (Revised and Redrafted) “Emphasis of Matter Paragraphs and Other Matter (s) Paragraphs in the Independent Auditor’s Report,” paragraphs 7 and 8.

Paragraph A4 would then be deleted.

### **Application and Other Explanatory Material**

#### *Audit Reporting – Corresponding Figures*

We believe paragraph 10a should include application guidance that explains when the matter giving rise to the modification is “unresolved.” To make this determination, the auditor needs to evaluate the impact of the matter on both current period earnings and closing balances, after which the auditor may determine that the matter is unresolved with respect to the opening balances and current period earnings but resolved with respect to closing balances. In these circumstances, we believe that the auditor should refer to current period earnings and the corresponding figures in the description of the matter giving rise to the modification in the Basis for Modification paragraph, as required by paragraph 10a.

Application guidance for paragraph 10 should provide clear guidance as to whether a qualified opinion, disclaimer of opinion or adverse opinion in a prior year will only affect opening balances and profit for the following year, and not the closing balance sheet. For example, if there was no audit in the prior year, it is common for auditors to qualify opening balances and current year profit, but the auditor also needs to evaluate the extent to which costs of assets, accumulated depreciation/amortization, and the completeness of liabilities in the closing balance sheet may continue to be affected. This area has not always been properly addressed by auditors in practice.

#### *Audit Reporting - Comparative Financial Statements*

Paragraph A6 discusses situations 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. Some jurisdictions require other reporting under this scenario (e.g., filing requirements that the prior period audit report should no longer be relied upon); therefore, we recommend guidance be included in paragraph A6 that highlights the fact that other reporting requirements may be required by certain jurisdictions.

## Appendix

### *All Examples*

In review of the conforming amendments in ISA 210 (Redrafted), *Agreeing the Terms of Audit Engagements*, paragraph 22 of ISA 700 (Redrafted), *The Independent Auditor's Report on General Purpose Financial Statements*, is proposing to amend the Management's Responsibility for the Financial Statements paragraph of the auditor's report. Specifically, the amendment proposes to delete the references to management's responsibility for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The conforming amendment in ISA 700 notes the illustrative auditor's report in the Appendix will be amended to indicate that for those reports it is assumed that management's responsibility for the financial statements is described in the terms of the audit engagement as amended in paragraph 22. Each of the examples in the Appendix of this ED does not reflect the proposed changes in ISA 700; therefore, we recommend similar disclosure that the examples in the appendix will be amended.

### *Examples A and D*

In the Basis for Qualified Opinion paragraph in examples A and D, an auditor's opinion on a departure from IFRS is described. In the examples in ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, the Basis for Qualified Opinion paragraph is more factual in describing the reason for the qualification. We suggest the following modifications to the first sentence in the Basis for Qualified Opinion paragraph in both examples A and D:

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.

### *Example C*

In the Other Matters paragraph in example C we recommend the following modification to be consistent with the language in the other ISAs:

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 unmodified~~ opinion on those statements.

### *Example E*

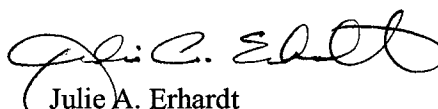
The scenario in example E is intended to describe the circumstances in paragraph 16 of the ED, in which the predecessor auditor's report on the prior period financial statements is reissued with the financial statements. However, the Basis for Qualified Opinion paragraph in example E references the predecessor auditor report, which is inconsistent with the guidance in paragraph 16 that states that a reference to the predecessor auditor's report is not required if the predecessor auditor's report is reissued with the financial statements. If the intent of this example is to illustrate a requirement for the auditor to refer to the predecessor auditor's report when modifications to the auditors' reports in both the current and prior periods are necessary, then the ED should be modified to reflect this. If this is not the intent, then we suggest the modifying example to match the requirements as listed in paragraph 16; therefore, reference to the predecessor report would be removed.

In addition, we recommend that the scenario indicate that the example illustrates a modified opinion in order for the reader to fully understand it.

In addition to the general comments we have made in the preceding text, Appendix A contains our responses to the questions in the Explanatory Memorandum accompanying ISA 710.

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Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding this comment letter, you may contact me or Susan Koski-Grafer at 202-551-5300, or any member of the IOSCO Standing Committee No. 1 Auditing Subcommittee.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1

## **Appendix A: Responses to Request for Specific Comments in the Exposure Draft**

- 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?**

As a general matter, we would support an approach which requires the auditor to obtain sufficient appropriate audit evidence about all information that is presented; however, we have raised some questions regarding what is meant by "corresponding figures" and about what procedures are expected to be done when prior period financial statements have been restated or reclassified. Please see our specific comments and questions in the main body of this letter.

- 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?**

We agree with the structure.

- 3. Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?**

See our specific comment related to the objective in the front part of our letter.

- 4. 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?**

We generally believe that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently; however, see our specific comments elsewhere in the letter.