

For the attention of Jim Sylph
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY, 10017
USA

15 April 2008

Dear Sir

IAASB Exposure Draft – “Comparative Information”

We appreciate the opportunity to comment on the IAASB’s Proposed Redrafted ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* (“proposed redrafted ISA”).

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall comments

We support the proposed redrafted ISA and are satisfied that the clarity drafting conventions have been appropriately applied and that the resulting ISA is understandable and clear.

Our experience has been that readers often found the extant ISA 710 difficult to understand as the difference between corresponding figures and comparative financial statements was not very clear. The redrafted ISA has reorganised guidance from different parts of the extant ISA to provide a more cohesive description in the introductory and definitions sections of the nature of comparative information and the two different audit reporting approaches to it. This is a welcomed improvement.

We have responded to the requests for specific comments below. In the Appendix we also offer suggestions on specific paragraphs for IAASB’s consideration in finalising the wording of the ISA.

Request for Specific Comments

- 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?**

Yes, we agree with this view. On a recurring engagement, the auditor will have audited the previous period’s financial statements. Therefore, it is reasonable to presume that, from a work effort perspective, the same considerations would be given to any comparative information in the financial statements – whether that information be corresponding figures or full comparative financial statements. The extent of comparative information that included in the financial statements for comparative financial statements is likely to be more extensive, but the nature of procedures performed in relation to it would be similar.

- 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?**

Yes, we support the proposed structure. Although an auditor will have to look separately to the audit procedures and audit reporting requirements sections to find the requirements relevant to the audit

reporting approach required in the circumstances, the requirements only fill 3 pages altogether and, in an age of electronic dissemination of information, electronic links can be utilised to facilitate ease of use.

Furthermore, addressing the audit procedures for comparative information in one section reinforces the principle that the nature of the procedures performed is the same for both corresponding figures and comparative financial information. The presentation in the previous ISA was confusing in this regard because, although the bold lettered requirement was the same, the application material differed, which created ambiguity about whether the type of work effort expected was different.

Request for Comments on the Application of the Clarity Drafting Conventions

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

The objective wording focuses on obtaining sufficient appropriate audit evidence, which is consistent with the approach in other subject matter specific ISAs. In this case, however, the reporting implications of the different comparative information models are a key aspect of the ISA. Indeed, this ISA is numerically placed in the reporting series rather than in the ISAs dealing with Risk Assessment and Response to Assessments (series 300-402) or Audit Evidence (series 500-580). Therefore, we recommend that the objective for this ISA cover reporting as well as evidence.

*“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 to report in accordance with the findings, using the approach to comparative information required in the circumstances.**”*

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 judgement by auditors?*

Although the result of the Clarity redrafting in this particular ISA is that there is not a lot of application material relative to the number of requirements, this is not unexpected in an ISA largely focussing on reporting.

Subject to our comments in the accompanying appendix to this letter, we believe that the criteria have been applied appropriately and consistently and support the proposed requirements.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Roger Marshall (+44 20 7804 4866).

Yours faithfully,

PricewaterhouseCoopers

PROPOSED ISA 710

Paragraph	Comment on paragraph
	Requirements
Paragraph 2	<p>This paragraph implies that the financial reporting framework determines whether the approach is corresponding figures or comparative financial statements. Although the financial reporting framework may specify the comparative financial information that should be included in the financial statements, the auditor's reporting responsibilities in relation to the comparative information is generally dictated by the law or regulation governing the audit engagement (e.g., Company law, or the Statutory Audit requirements) or by established convention or market practice in the jurisdiction.</p> <p>For example, auditors reporting on financial statements prepared in accordance with IFRS might be required to use either corresponding figures, or comparative financial statements, depending on the circumstances. A Foreign Private Issuer filing in the US capital markets may prepare its financial statements in accordance with IFRS as issued by the IASB. The auditor of those financial statements would be required to express an opinion on each year separately in accordance with the SEC's regulatory requirements. In European jurisdictions, however, a statutory auditor reporting on IFRS financial statements would typically be under the corresponding figures approach.</p> <p>For these reasons, we believe that the implication in this paragraph that the difference is driven by the financial reporting framework is likely to confuse readers. We, therefore, recommend that the ISA clarify that it is the audit mandate, rather than the financial reporting framework, that drives the different regimes. In addition, we believe it correct to suggest that the approach is ordinarily corresponding figures unless the audit mandate specifically requires a separate audit opinion on more than one year.</p> <p>The following amendments to paragraph 2 would provide a better explanation:</p> <p>2. <i>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 <u>the presentation and reporting on comparative information in financial reporting frameworks</u>: 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. <u>The approach adopted is ordinarily corresponding figures, unless the auditor is required to express separate opinions on each year separately by the law or regulation governing the audit.</u> The essential audit reporting differences are:</i></p> <p><i>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</i></p> <p><i>b. For comparative financial statements, the auditor's report refers to each period for which financial statements are presented.</i></p> <p><i>This ISA addresses separately the auditor's reporting requirements for each circumstance.</i></p>
Paragraphs 7 and 11	<p>We find the requirement in paragraph 11 confusing and believe it could be improved with restructuring.</p> <p>Presumably, the auditor needs to follow the relevant requirements of ISA 560 (Redrafted) in the case of either corresponding figures or comparative financial statements if the auditor becomes aware of a material misstatement that affects the prior period on which the auditor has previously expressed an unmodified opinion. Thus, we recommend that this part of the requirement be moved up to paragraph 7 in the requirements for audit procedures.</p> <p>Similarly, we believe that in the case of both corresponding figures and comparative financial statements, the auditor would agree the amended financial statements for the previous period with any comparative financial information in the current period's financial statements.</p> <p>Accordingly, we recommend that paragraph 7 be amended as follows:</p> <p>7. <i>"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. <u>If the auditor had audited the previous period's financial statements, the auditor shall also follow the relevant requirements of ISA 560 (Redrafted).</u> If, as a result, the prior period's financial statements are amended and reissued, the</i></p>

	<p><u>auditor shall agree the comparative information in the current period's financial statements with the amended financial statements.</u></p> <p>With these amendments to paragraph 7, we recommend that paragraph 11 be amended as follows:</p> <p>11. "If, the auditor becomes aware of the auditor obtains audit evidence that a material misstatement that affects exists in the prior period financial statements on which an unmodified report has been previously issued, the auditor shall follow the relevant requirements of [proposed] ISA 560 (Redrafted), and:</p> <p>(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</p> <p>(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."</p>
<p>Paragraph 15</p>	<p>This requirement applies only when it is the auditor who has issued the opinion on the prior period financial statements, as paragraph 17 applies when there is a change in the prior period financial statements audited by a predecessor auditor. To avoid confusion, we suggest that the requirement be amended to make this clear, as follows:</p> <p>15. "When reporting on prior period financial statements in connection with the current period's audit, if the opinion issued by the auditor on such prior period financial statements differs from the opinion the auditor 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)."</p>
<p>Paragraph 17</p>	<p>This paragraph is based on extant paragraph 28. The proposed wording does not fully convey the intent of the extant paragraph – particularly given the changes made in the finalisation of the paragraph in ISA 510 (Redrafted) that is cross-referenced in this paragraph.</p> <p>The intent of the former wording was to suggest that the auditor should communicate with the predecessor auditor about the need to restate the prior period's financial statements, since it is the predecessor auditor's report that will continue to apply to the comparative financial information in the current period's financial statements.</p> <p>The reference to informing the predecessor auditor about a misstatement found in the opening balances was removed as part of the finalisation of ISA 510 because it did not influence the auditor's work effort on opening balances. It is relevant, however, in the context of comparative financial statements. Therefore, we recommend that the cross reference to ISA 510 be removed as it is no longer relevant, and that the reference to informing the predecessor auditor should be reinstated.</p> <p>In addition, it will be law or regulation, or the financial reporting framework, that determines management's responsibilities if previously issued financial statements are subsequently found to include a material misstatement. Thus, the reference to the auditor "proposing" certain action seems odd. The auditor can communicate the misstatement, and request that the predecessor auditor be informed. But then, the ISA only needs to provide direction on the reporting implications given the actions management and the other auditor take.</p> <p>To reflect these changes, we recommend that this requirement be amended as follows:</p> <p>17. <i>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 <u>communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed.</u> [proposed] ISA 510 (Redrafted)¹, propose that the prior period financial statements 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.</i></p>

<p>A7</p>	<p>Paragraph A7 provides guidance on the circumstance when the incoming auditor believes that a restatement of the previous period's financial statements is necessary, but the predecessor auditor either disagrees with the restatement or otherwise refuses or is unable to reissue their report. The incoming auditor would have obtained sufficient appropriate audit evidence regarding the adjustments in order to be satisfied that the restatement is necessary. However, in the comparative financial statement model, the incoming auditor's report refers to the current period numbers only. Thus, if the predecessor auditor does not revise and reissue its report, the adjustments appear to a reader, for all intents and purposes, to be unaudited.</p> <p>The extant ISA and proposed paragraph A7 permit the auditor to include the following in their audit report:</p> <p><i>"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".</i></p> <p>There are a number of questions regarding this wording. For example, it suggests that the adjustments have been "audited" on their own (i.e., they seem separate from the audit of the financial statements). This raises questions as to the materiality applied – is it in the context of the current period's financial statements or in the context of those adjustments alone? It is also unclear how it relates to "supplementary information covered by the auditor's opinion" in ISA 700.</p> <p>However, this wording is consistent with national auditing standards in jurisdictions that operate under the comparative financial statements model. In those jurisdictions, it is both used and understood. It also has the advantage of being transparent regarding the current auditor's involvement with the adjustments.</p> <p>In a PCOAB Q&A, similar language is recommended for situations in which a successor auditor audits any adjustments related to prior financial statements. However, the PCAOB wording goes on to say:</p> <p><i>"We were not engaged to audit, review, or apply any procedures to the [prior year] financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the [prior year] financial statements taken as a whole."</i></p> <p>This additional wording is useful in further clarifying the respective roles of the predecessor and successor auditors and addresses some of the concerns stated above. We believe this would be a useful addition to the illustrative wording in the application material and would bring it more in line with the principles in other ISAs.</p> <p>Accordingly, we recommend that the optional wording for the auditor's report in A7 read as follows:</p> <p><i>"As part of our audit of the 20X2 financial statements, 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. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements taken as a whole."</i></p> <p>Also, the opening sentence of A7 refers to the fact that 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. A common situation is that the predecessor auditor is no longer independent of the entity and, therefore, no longer able to issue an opinion on the restated prior period financial statements. To accommodate this common situation as well, we suggest rewording the opening sentence as follows:</p> <p><i>"The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements."</i></p>
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