

**EXPOSURE DRAFT****HONG KONG STANDARD ON AUDITING 710****COMPARATIVES**

(Effective for audits of financial statements  
for periods beginning on or after 15 December 2004)

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Hong Kong Standard on Auditing (HKSA) 710, "Comparatives" should be read in the context of the "Preface to the Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services" which sets out the application and authority of HKSAs.

## Introduction

1. The purpose of this Hong Kong Standard on Auditing (HKSA) is to establish standards and provide guidance on the auditor's responsibilities regarding comparatives. It does not deal with situations when summarized financial statements are presented with the audited financial statements (for guidance see HKSA 720, "Other Information in Documents Containing Audited Financial Statements" and ISA 800, "The Auditor's Report on Special Purpose Audit Engagements").
2. **The auditor should determine whether the comparatives comply in all material respects with the financial reporting framework applicable to the financial statements being audited.**
3. The existence of differences in financial reporting frameworks between countries results in comparative financial information being presented differently in each framework. Comparatives in financial statements, for example, may present amounts (such as financial position, results of operations, cash flows) and appropriate disclosures of an entity for more than one period, depending on the framework. The frameworks and methods of presentation are referred to in this HKSA as follows:
  - (a) *Corresponding figures* where amounts and other disclosures for the preceding period are included as part of the current period financial statements, and are intended to be read in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures" for the purpose of this HKSA). These corresponding figures are not presented as complete financial statements capable of standing alone, but are an integral part of the current period financial statements intended to be read only in relationship to the current period figures.
  - (b) *Comparative financial statements* where amounts and other disclosures for the preceding period are included for comparison with the financial statements of the current period, but do not form part of the current period financial statements.

(Refer to Appendix 1 to this HKSA for discussion of these different reporting frameworks.)
4. Comparatives are presented in compliance with the applicable financial reporting framework. The essential audit reporting differences are that:
  - (a) For corresponding figures, the auditor's report only refers to the financial statements of the current period; whereas
  - (b) For comparative financial statements, the auditor's report refers to each period that financial statements are presented.
5. This HKSA provides guidance on the auditor's responsibilities for comparatives and for reporting on them under the two frameworks in separate sections.
- 5-1. In Hong Kong the corresponding figures method of presentation as described in paragraph 3(a) is used.
  - (a) Financial statements of companies incorporated under the provisions of the Companies Ordinance are required to disclose corresponding amounts for most items in a company's balance sheet and profit and loss account. Paragraphs 12(16) and 17(5) of the Tenth Schedule to the Companies Ordinance require that corresponding amounts should be disclosed in respect of every item shown in a company's balance sheet (other than for the movements in fixed assets and reserves) and profit and loss account for the financial year immediately preceding that to which the balance sheet or profit and loss account relates.
  - (b) Appendix 16 to the Main Board Rules and Chapter 18.07(5) of the GEM Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd. require financial statements of listed issuers to include comparative figures for the balance sheet, income statement and cash flow statement for the corresponding previous period.

- (c) “Corresponding amounts” referred to by the Companies Ordinance and the “comparative figures” referred to by the Main Board Rules and GEM Rules are both referring to the corresponding figures as described in this HKSA.

The auditor’s consideration of comparative financial statements as described in paragraphs 3(b) and 20-31 is, therefore, not generally applicable to an audit performed on a Hong Kong incorporated company’s annual statutory financial statements in accordance with HKSAs.

## Corresponding Figures

### The Auditor’s Responsibilities

6. **The auditor should obtain sufficient appropriate audit evidence that the corresponding figures meet the requirements of the applicable financial reporting framework.** The extent of audit procedures performed on the corresponding figures is significantly less than for the audit of the current period figures and is ordinarily limited to ensuring that the corresponding figures have been correctly reported and are appropriately classified. This involves the auditor evaluating whether:
  - (a) Accounting policies used for the corresponding figures are consistent with those of the current period or whether appropriate adjustments and/or disclosures have been made; and
  - (b) Corresponding figures agree with the amounts and other disclosures presented in the prior period or whether appropriate adjustments and/or disclosures have been made.
7. When the financial statements of the prior period have been audited by another auditor, the incoming auditor evaluates whether the corresponding figures meet the conditions specified in paragraph 6 above and also follows the guidance in HKSA 510, “Initial Engagements—Opening Balances”.
8. When the financial statements of the prior period were not audited, the incoming auditor nonetheless assesses whether the corresponding figures meet the conditions specified in paragraph 6 above and also follows the guidance in HKSA 510.
9. If the auditor becomes aware of a possible material misstatement in the corresponding figures when performing the current period audit, the auditor performs such additional audit procedures as are appropriate in the circumstances.

### Reporting

10. **When the comparatives are presented as corresponding figures, the auditor should issue an auditor’s report in which the comparatives are not specifically identified because the audit opinion is on the current period financial statements as a whole, including the corresponding figures.**
11. The auditor’s report would make specific reference to the corresponding figures only in the circumstances described in paragraphs 12, 13, 15(b), and 16-19.
12. **When the auditor’s report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is:**
  - (a) **Unresolved, and results in a modification of the auditor’s report regarding the current period figures, the auditor’s report should also be modified regarding the corresponding figures; or**
  - (b) **Unresolved, but does not result in a modification of the auditor’s report regarding the current period figures, the auditor’s report should be modified regarding the corresponding figures.**
13. When the auditor’s report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is resolved and properly dealt with in the financial statements, the current report does not ordinarily refer to the previous modification. However, if the matter is material to the

current period, the auditor may include an emphasis of matter paragraph dealing with the situation.

14. In performing the audit of the current period financial statements, the auditor, in certain unusual circumstances, may become aware of a material misstatement that affects the prior period financial statements on which an unmodified report has been previously issued.
15. **In such circumstances, the auditor should consider the guidance in HKSA 560, “Subsequent Events” and:**
  - (a) **If the prior period financial statements have been revised and reissued with a new auditor’s report, the auditor should obtain sufficient appropriate audit evidence that the corresponding figures agree with the revised financial statements; or**
  - (b) **If the prior period financial statements have not been revised and reissued, and the corresponding figures have not been properly restated and/or appropriate disclosures have not been made, the auditor should issue a modified report on the current period financial statements, modified with respect to the corresponding figures included therein.**
16. If, in the circumstances described in paragraph 14, the prior period financial statements have not been revised and an auditor’s report has not been reissued, but the corresponding figures have been properly restated and/or appropriate disclosures have been made in the current period financial statements, the auditor may include an emphasis of matter paragraph describing the circumstances and referencing to the appropriate disclosures. In this regard, the auditor also considers the guidance in HKSA 560.

#### **Incoming Auditor—Additional Requirements**

##### *Prior Period Financial Statements Audited by Another Auditor*

17. In some jurisdictions, the incoming auditor is permitted to refer to the predecessor auditor’s report on the corresponding figures in the incoming auditor’s report for the current period. **When the auditor decides to refer to another auditor, the incoming auditor’s report should indicate:**
  - (a) **That the financial statements of the prior period were audited by another auditor;**
  - (b) **The type of report issued by the predecessor auditor and, if the report was modified, the reasons therefor; and**
  - (c) **The date of that report.**
- 17-1. In Hong Kong the incoming auditor does not refer to the predecessor auditor’s report on the corresponding figures in the incoming auditor’s report for the current period other than in the limited situations described in paragraph 11 above. The incoming auditor assumes audit responsibility for the corresponding figures only in the context of the financial statements as a whole. The incoming auditor reads the preceding period’s financial statements and, using the knowledge gained during the current audit, considers whether they have been properly reflected as corresponding figures in the current period’s financial statements.
- 17-2. Although the incoming auditor is not required to re-audit the financial statements of the preceding period, if the incoming auditor becomes aware of a possible material misstatement of corresponding figures, the procedures in paragraphs 14-16 above apply.

##### *Prior Period Financial Statements Not Audited*

18. **When the prior period financial statements are not audited, the incoming auditor should state in the auditor’s report that the corresponding figures are unaudited.** Such a statement does not, however, relieve the auditor of the requirement to perform appropriate audit procedures regarding opening balances of the current period. Clear disclosure in the financial statements that the corresponding figures are unaudited is encouraged.

19. **In situations where the incoming auditor identifies that the corresponding figures are materially misstated, the auditor should request management to revise the corresponding figures or if management refuses to do so, appropriately modify the report.**

## Comparative Financial Statements

### The Auditor's Responsibilities

20. **The auditor should obtain sufficient appropriate audit evidence that the comparative financial statements meet the requirements of the relevant financial reporting framework.** This involves the auditor assessing whether:
- (a) Accounting policies of the prior period are consistent with those of the current period or whether appropriate adjustments and/or disclosures have been made; and
  - (b) Prior period figures presented agree with the amounts and other disclosures presented in the prior period or whether appropriate adjustments and disclosures have been made.
21. When the financial statements of the prior period have been audited by another auditor, the incoming auditor assesses whether the comparative financial statements meet the conditions in paragraph 20 above and also follows the guidance in HKSA 510.
22. When the financial statements of the prior period were not audited, the incoming auditor nonetheless assesses whether the comparative financial statements meet the conditions specified in paragraph 20 above and also follows the guidance in HKSA 510.
23. If the auditor becomes aware of a possible material misstatement in the prior year figures when performing the current period audit, the auditor performs such additional procedures as are appropriate in the circumstances.

### Reporting

24. **When the comparatives are presented as comparative financial statements, the auditor should issue a report in which the comparatives are specifically identified because the audit opinion is expressed individually on the financial statements of each period presented.** Since the auditor's report on comparative financial statements applies to the individual financial statements presented, the auditor may express a qualified or adverse opinion, disclaim an opinion, or include an emphasis of matter paragraph with respect to one or more financial statements for one or more periods, while issuing a different report on the other financial statements.
25. **When reporting on the prior period financial statements in connection with the current year's audit, if the opinion on such prior period financial statements is different from the opinion previously expressed, the auditor should disclose the substantive reasons for the different opinion in an emphasis of matter paragraph.** This may arise when 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.

### Incoming Auditor—Additional Requirements

#### *Prior Period Financial Statements Audited by Another Auditor*

26. **When the financial statements of the prior period were audited by another auditor:**
- (a) **The predecessor auditor may reissue the auditor's report on the prior period with the incoming auditor only reporting on the current period; or**
  - (b) **The incoming auditor's report should state that the prior period was audited by another auditor and the incoming auditor's report should indicate:**
    - (i) **That the financial statements of the prior period were audited by another auditor;**

- (ii) **The type of report issued by the predecessor auditor and if the report was modified, the reasons therefore; and**
  - (iii) **The date of that report.**
27. In performing the audit on the current period financial statements, the incoming auditor, in certain unusual circumstances, may become aware of a material misstatement that affects the prior period financial statements on which the predecessor auditor had previously reported without modification.
28. **In these circumstances, the incoming auditor should discuss the matter with management and, after having obtained management’s authorization, contact the predecessor auditor and propose that the prior period financial statements be restated. If the predecessor agrees to reissue the auditor’s report on the restated financial statements of the prior period, the auditor should follow the guidance in paragraph 26.**
29. If, in the circumstances discussed in paragraph 27, the predecessor does not agree with the proposed restatement or refuses to reissue the auditor’s report on the prior period financial statements, the introductory 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 incoming auditor is engaged to audit and applies sufficient procedures to be satisfied as to the appropriateness of the restatement adjustment, the auditor may also include the following paragraph in the report:
- “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.”

*Prior Period Financial Statements Not Audited*

30. **When the prior period financial statements are not audited, the incoming auditor should 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 procedures regarding opening balances of the current period. Clear disclosure in the financial statements that the comparative financial statements are unaudited is encouraged.
31. **In situations where the incoming auditor identifies that the prior year unaudited figures are materially misstated, the auditor should request management to revise the prior year’s figures or if management refuses to do so, appropriately modify the report.**

**Effective Date**

32. This HKSA is effective for audits of financial statements for periods beginning on or after 15 December 2004.

**Conformity and Compliance with International Standards on Auditing**

33. As of [*date of issue*] (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 710 “Comparatives”. Compliance with the requirements of this HKSA ensures compliance with ISA 710.
34. Additional local guidance is provided in paragraphs 5-1, 17-1 and 17-2.

**Discussion of Financial Reporting Frameworks for Comparatives**

1. Comparatives covering one or more preceding periods provide the users of financial statements with information necessary to identify trends and changes affecting an entity over a period of time.
2. Under financial reporting frameworks (both implicit and explicit) prevailing in a number of countries, comparability and consistency are desirable qualities for financial information. Defined in broadest terms, comparability is the quality of having certain characteristics in common and comparison is normally a quantitative assessment of the common characteristics. Consistency is a quality of the relationship between two accounting numbers. Consistency (for example, consistency in the use of accounting principles from one period to another, the consistency of the length of the reporting period, etc.) is a prerequisite for true comparability.
3. There are two broad financial reporting frameworks for comparatives: the corresponding figures and the comparative financial statements.
4. Under the corresponding figures framework, the corresponding figures for the prior period(s) are an integral part of the current period financial statements and have to be read in conjunction with the amounts and other disclosures relating to the current period. The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.
5. Under the comparative financial statements framework, the comparative financial statements for the prior period(s) are considered separate financial statements. Accordingly, the level of information included in those comparative financial statements (including all statement amounts, disclosures, footnotes and other explanatory statements to the extent that they continue to be of significance) approximates that of the financial statements of the current period.

**Example Auditor's Reports****Example A      CORRESPONDING FIGURES****Example report for the circumstances described in paragraph 12(a)**

AUDITOR'S REPORT  
(APPROPRIATE ADDRESSEE)

We have audited the accompanying<sup>1</sup> balance sheet of the XYZ Company as of 31 December 20X1, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 ...<sup>2</sup>. 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.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of 31 December 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with ...<sup>2</sup> (and comply with ...<sup>3</sup>).

AUDITOR

Date  
Address

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<sup>1</sup> The reference can be by page numbers.

<sup>2</sup> Indicate Hong Kong Financial Reporting Standards or International Financial Reporting Standards .

<sup>3</sup> Reference to applicable statutes or laws.



**Example B      CORRESPONDING FIGURES**  
**Example report for the circumstances described in paragraph 12(b)**

AUDITOR'S REPORT  
 (APPROPRIATE ADDRESSEE)

We have audited the accompanying<sup>4</sup> balance sheet of the XYZ Company as of 31 December 20X1, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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.

In our opinion, except for the effect on the corresponding figures for 20X0 of the adjustments, if any, to the results of operations for the (period) ended 20X0, which we might have determined to be necessary had we been able to observe beginning inventory quantities as at ..., the financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of 31 December 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with ...<sup>5</sup> (and comply with ....<sup>6</sup>).

AUDITOR

Date  
 Address

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<sup>4</sup> The reference can be by page numbers.

<sup>5</sup> Indicate Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

<sup>6</sup> Reference to applicable statutes or laws.

**Example C      CORRESPONDING FIGURES**  
**Example report for the circumstances described in paragraph 17**

AUDITOR'S REPORT  
(APPROPRIATE ADDRESSEE)

We have audited the accompanying<sup>7</sup> balance sheet of the XYZ Company as of 31 December 20X1, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of 31 December 20X0, were audited by another auditor whose report dated 31 March 20X1, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of 31 December 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with ...<sup>8</sup> (and comply with ..<sup>9</sup>).

AUDITOR

Date  
Address

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<sup>7</sup> The reference can be by page numbers.

<sup>8</sup> Indicate Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

<sup>9</sup> Reference to applicable statutes or laws.

**Example D      COMPARATIVE FINANCIAL STATEMENTS**  
**Example report for the circumstances described in paragraph 24**

AUDITOR'S REPORT  
 (APPROPRIATE ADDRESSEE)

We have audited the accompanying<sup>10</sup> balance sheets of the XYZ Company as of 31 December 20X1 and 20X0, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 ....<sup>11</sup>. 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.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of (or present fairly, in all material respects) the financial positions of the Company as of 31 December 20X1 and 20X0, and of the results of its operations and its cash flows for the years then ended in accordance with ...<sup>11</sup> (and comply with ....<sup>12</sup>).

AUDITOR

Date  
 Address

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<sup>10</sup> The reference can be by page numbers.

<sup>11</sup> Indicate Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

<sup>12</sup> Reference to applicable statutes or laws.

**Example E      COMPARATIVE FINANCIAL STATEMENTS**  
**Example report for the circumstances described in paragraph 26(b)**

AUDITOR'S REPORT  
 (APPROPRIATE ADDRESSEE)

We have audited the accompanying<sup>13</sup> balance sheet of the XYZ Company as of 31 December 20X1, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of 31 December 20X0, were audited by another auditor whose report dated 31 March 20X1, expressed a qualified opinion due to a disagreement as to the adequacy of the provision for doubtful receivables.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The receivables referred to above are still outstanding at 31 December 20X1 and no provision for potential loss has been made in the financial statements. Accordingly, the provision for doubtful receivables at 31 December 20X1 and 20X0 should be increased by xxx, the net profit for 19X0 decreased by xxx and the retained earnings at 31 December 20X1 and 20X0 reduced by xxx.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the 20X1 financial statements referred to above give a true and fair view of (or present fairly, in all material respects) the financial position of the Company as of 31 December 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with ...<sup>14</sup> (and comply with ...<sup>15</sup>).

AUDITOR

Date  
 Address

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<sup>13</sup> The reference can be by page numbers.

<sup>14</sup> Indicate Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

<sup>15</sup> Reference to applicable statutes or laws.