

Auditing and Assurance Standard (AAS) 25

Comparatives²

{The following is the text of the Auditing and Assurance Standard (AAS) 25, “Comparatives”, issued by the Council of the Institute of Chartered Accountants of India. This Auditing and Assurance Standard should be read in conjunction with the “Preface to the Statements on Standard Auditing Practices”, issued by the Institute.¹

Introduction

1. The purpose of this Auditing and Assurance Standard (AAS) is to establish standards on the auditor’s responsibilities regarding comparatives. It does not deal with situations when summarized financial statements or data are presented with the audited financial statements.
 2. The auditor should determine whether the comparatives comply, in all material respects, with the financial reporting framework relevant to the financial statements being audited.
 3. The existence of differences in financial reporting frameworks 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 that are referred to in this AAS are 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 AAS).
- 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; and
- (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.
4. Comparatives are presented in compliance with the relevant 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 AAS establishes standard on the auditor’s responsibilities for comparatives and for reporting on them under the ‘corresponding figures’ framework. This AAS does not establish standards on the auditor’s responsibilities when the ‘comparative financial statements’ framework is used for presen-

*Issued in September, 2002.

¹ With the formation of the Auditing Practices Committee {now known as the Auditing and Assurance Standards Board} in 1982, the Council of the Institute has been issuing a series of Statements on Standard Auditing Practices (SAPs). SAPs have recently been renamed as Auditing and Assurance Standards (AASs). Statements on Standard Auditing Practices (now AASs) lay down the principles governing an audit. These principles apply whenever an independent audit is carried out. Auditing and Assurance Standards become mandatory on the dates specified in the respective AAS. Their mandatory status implies that, while discharging their attest function, it will be the duty of the members of the Institute to ensure that the AASs are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with the AASs, his report should draw attention to the material departures therefrom. The Auditing and Assurance Standards have the same authority as that is attached to the Statements on Standard Auditing Practices.

tation of comparative financial information. It is recognised that such framework for presentation of comparative financial information is not widely prevalent in India. Appendix 1 to this AAS discusses these different reporting frameworks.

Auditor's Responsibilities

6. **The auditor should obtain sufficient appropriate audit evidence that the corresponding figures meet the requirements of the relevant 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 audit or assessing 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 should assess whether the corresponding figures meet the conditions specified in paragraph 6 above. The auditor should also comply with the requirements of Statement on Standard Auditing Practices (SAP) 22, "*Initial Engagements-Opening Balances*".
8. When the financial statements of the prior period have not been audited, the incoming auditor nonetheless should assess whether the corresponding figures meet the conditions specified in para-

graph 6 above. The auditor should also comply with the requirements of Statement on Standard Auditing Practices (SAP) 22, "*Initial Engagements-Opening Balances*".

9. If the auditor becomes aware of a possible material misstatement in the corresponding figures when performing the current period audit, the auditor should perform such additional procedures as are appropriate in the circumstances.

Reporting

10. **When the comparatives are presented as corresponding figures, the auditor's report should not specifically identify comparatives because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures.** However, the auditor's report would make specific reference to the corresponding figures in the circumstances described in paragraphs 11, 12, 14(b), 15 and 16.
11. **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 in the audit report² 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.
12. When the auditor's report on the prior period, as pre-

² A separate Auditing and Assurance Standard on "*The Auditor's Report on Financial Statements*", which is being formulated, would deal with the concept of "modified audit report". An auditor's report is considered to be modified in the following situations:

Matters That Do Not Affect the Auditor's Opinion

- (a) emphasis of matter

Matters That Do Affect the Auditor's Opinion

- (a) qualified opinion,
- (b) disclaimer of opinion, or
- (c) adverse opinion.

viously 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.

13. 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.
14. **In such circumstances, the auditor should examine that:**
 - (a) appropriate disclosures have been made; or
 - (b) if appropriate disclosures have not been made, the auditor should issue a modified report on the current period financials modified with respect to the corresponding figures included therein.
15. If, in the circumstances described in paragraph 13, 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. Appropriate disclosures could be in the form of proforma comparative information being presented in the notes to the financial statements. Proforma comparative information would help the reader of the financial statements to clearly perceive the effect of misstatement on the corresponding figures.

Incoming Auditor—Additional Requirements

Prior Period Financial Statements Not Audited

16. **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 procedures regarding opening balances of the current period. Disclosure in the financial statements that the corresponding figures are unaudited is encouraged.

Effective Date

17. This Auditing and Assurance Standard becomes operative for all audits relating to accounting periods beginning on or after April 1, 2003.

Compatibility with International Standard on Auditing (ISA) 710

Comparative Financial Statements Framework

This Auditing and Assurance Standard does not establish standards on the auditor's responsibilities when the 'comparative financial statements' framework is used for presentation of comparative financial information. This is a material departure from the standards set out in ISA 710 "Comparatives". It is recognised that such framework for presentation of comparative financial information is not widely prevalent in India.

Incoming Auditor—Additional Requirements

ISA 710 requires that 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, the auditor appropriately modifies the audit report. This requirement of ISA does not find a place in AAS 25 in view of the current legal position prevailing in the Country under which the auditor is not expected to request the management to revise the corresponding figures.

ISA 710 recognises that in some reporting frameworks 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. According to the ISA, 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.

In India, the incoming auditor is not permitted to refer to the predecessor auditor's report on the corresponding figures in his audit report. Therefore, this requirement of ISA has not been made part of AAS 25.

The other auditing standards established in this AAS are generally consistent in all material respects with those set out in ISA 710 "Comparatives".

Appendix 1

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), 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.

³ Alternatively, instead of giving the comments on Manufacturing and Other Companies (Auditor's Report) Order, 1988 in an Annexure, the comments may be contained in the body of the main report. Members' attention in this regard is invited to the Statement on Manufacturing and Other Companies (Auditor's Report) Order, 1988 [issued under Section 227(4A) of the Companies Act, 1956], issued by the Institute of Chartered Accountants of India.

Appendix 2

Illustrative Auditor's Report

Illustration 1. Illustrative Audit Report for the circumstances described in Paragraph 11(a). (Prepared under the reporting framework of Section 227 of the Companies Act, 1956)

Auditor's Report to the Members of
.....(name of the Company)

1. We have audited the attached balance sheet of.....(name of the Company), as at 31st March, 20X1 and also the profit and loss account for the year ended on that date annexed thereto. 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.
2. We conducted our audit in accordance with auditing standards generally accepted in India. 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.
3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of subsection (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure 3 a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and

- belief were necessary for the purposes of our audit;
- (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books (and proper returns adequate for the purposes of our audit have been received from the branches not visited by us. The Branch Auditor's Report(s) have been forwarded to us and have been appropriately dealt with);
 - (iii) The balance sheet and profit and loss account dealt with by this report are in agreement with the books of account (and with the audited returns from the branches);
 - (iv) On the basis of written representations received from the directors, as on 31st March, 20X1, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 20X1 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - (v) As discussed in Note YY of Schedule ZZ to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with Accounting Standard 6 on Depreciation issued by the Institute of Chartered Accountants of India. 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 period ended 31st March 20X1 should be increased by Rs.XXXX and the loss for the previous period ended 31st March 20X0 should be increased by Rs.XXXX. The fixed assets as at 31st March 20X1 should be reduced by accumulated depreciation of Rs.XXXX and the fixed assets for the previous period ended 31st March 20X0 should be reduced by accumulated depreciation of Rs.XXXX. The accumulated loss should be increased by Rs.XXXX for the period ended 31st March 20X1 and by Rs.XXXX for the previous period ended 31st March 20X0.

- (vi) Except for non-provision of depreciation referred to the preceding paragraph in our opinion, the balance sheet and profit and loss account comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
5. In our opinion, and to the best of our information and according to the explanations given to us, except for the effect on the financial statements of non-provision of depreciation referred to in paragraph 4(vi) foregoing, the said financial statements, read together with the other notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
- (a) In the case of the balance sheet, of the state of affairs of the Company, as at 31st March 20X1, and
 - (b) in the case of the profit and loss account, of the loss for the year ended on that date.

For ABC and Co.
Chartered Accountants
Signature
Name of the Member Signing the Audit Report
Designation⁴

Address:
Date:

Illustration 2. Illustrative Report for the circumstances described in Paragraph 11(b).
(Prepared under the reporting framework of Section 227 of the Companies Act, 1956)

Auditor's Report to the Members of
.....(name of the Company)

1. We have audited the attached balance sheet of.....(name of the Company), as at 31st March, 20X1 and also the profit and loss account for the year ended on that date annexed thereto. 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.

⁴ Partner or Proprietor, as the case may be.

2. We conducted our audit in accordance with auditing standards generally accepted in India. 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.
3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure⁵ a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books (and proper returns adequate for the purposes of our audit have been received from the branches not visited by us. The Branch Auditor's Report(s) have been forwarded to us and have been appropriately dealt with);
 - (iii) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account (and with the audited returns from the branches);
 - (iv) It was not possible for us to obtain external confirmations about accounts receivable balances amounting to Rs. XXXXXX as at 31st March 20X0. Owing to the nature of company's records, we were unable to satisfy ourselves about the valuation and existence of accounts receivable and provisioning thereon. Since provisioning on accounts receivable enter into the determination of the results of operations and

the balances are included in determination of state of affairs, we were unable to determine the effect of valuation and provisioning on the financial statements for the period ended 31st March 20X0. Our audit report on the financial statements for the period ended 31st March 20X0 was modified accordingly.

- (v) In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
- (vi) On the basis of written representations received from the directors, as on 31st March 20X1, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 20X1 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

5. In our opinion, and to the best of our information and according to the explanations given to us, except for the effect on the corresponding figures for period ended 31st March 20X0 of the adjustments, if any, to the results of operations for the ended 31st March 20X0 and to the state of affairs as on that date, which we might have determined to be necessary had we been able to obtain external confirmations about accounts receivable balances amounting to Rs. XXXXXX as at 31st March 20X0, the said financial statements, read together with the other notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) In the case of the balance sheet, of the state of affairs of the Company, as at 31 March, 20X1, and
- (b) in the case of the profit and loss account, of the loss for the year ended on that date.

For ABC and Co.
Chartered Accountants
Signature
Name of the Member Signing the Audit Report
Designation⁶

Address:
Date:

⁵ Alternatively, instead of giving the comments on Manufacturing and Other Companies (Auditor's Report) Order, 1988 in an Annexure, the comments may be contained in the body of the main report. Members' attention in this regard is invited to the Statement on Manufacturing and Other Companies (Auditor's Report) Order, 1988 [issued under Section 227(4A) of the Companies Act, 1956], issued by the Institute of Chartered Accountants of India.

⁶ Partner or Proprietor, as the case may be.