STATEMENT 3.253

AUDITING GUIDELINE

AMOUNTS DERIVED FROM THE PRECEDING FINANCIAL STATEMENTS

Introduction

1. This guideline gives guidance to the auditor with regard to his responsibility for amounts taken from the preceding period's financial statements used in the current period's financial statements on which he is expressing an opinion. Operational aspects relating thereto are not considered to present any particular problems for the auditor and consequently this guideline does not consider these matters in detail.

2. The guideline is supplementary to and should be read in conjunction with Auditing Standards Nos. 3.101 and 3.102, and the Explanatory Foreword to Auditing Standards and Guidelines.

3. Consideration of the financial statements of the preceding period is necessary in the audit of the current period's financial statements in relation to the following three aspects, namely:

   (a) the opening position: obtaining satisfaction that those amounts which have a direct effect on the current period's results or closing position have been properly brought forward;

   (b) accounting policies: determining whether the accounting policies adopted for the current period are consistent with those of the previous period; and

   (c) corresponding amounts: determining that the corresponding amounts, which are commonly known as comparative figures, are properly shown in the current period's financial statements.

4. Financial statements of companies incorporated under the provisions of the Companies Ordinance are required to disclose corresponding amounts for all items in a company's balance sheet and profit and loss account.* In other cases, financial statements usually contain corresponding amounts as a matter of law, regulation or good practice. Their purpose, unless stated otherwise, is to complement the amounts relating to the current period and not to re-present the complete financial statements for the preceding period.

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* 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 or profit and loss account for the financial year immediately preceding that to which the balance sheet or profit and loss account relates. Where a corresponding amount is not comparable with the amount to be shown for the item in question in respect of the financial year to which the balance sheet or profit and loss account relates, it may be appropriate to adjust the former amount and to disclose particulars of the adjustment and the reasons for the adjustment in a note to the accounts.

5. The auditor is not required to express an opinion on the corresponding amounts as such. His responsibility is to ensure that they are the amounts which appeared in the preceding period's financial statements or, where appropriate, have either been properly restated to achieve consistency and comparability with the current period's amounts, or have been restated due to a change of accounting policy or a correction of a fundamental error as required by SSAP 2.

Procedures

General

6. If the auditor himself has issued an unqualified report on the preceding period's financial statements and his audit of the current period has not revealed any matters which cast doubt on those financial statements, he should not need to extend his audit procedures beyond:

   (a) satisfying himself that balances have been correctly brought forward and incorporated in the accounting records of the current period; and

   (b) ensuring that the amounts from the preceding period's financial statements are consistently classified and properly disclosed as corresponding amounts.

   If he is satisfied with the results of these procedures, it should not be necessary for him to make any reference to amounts taken from the preceding period's financial statements in his report on the current period's financial statements.

7. Additional considerations may apply in the following circumstances:

   (a) the opening position and corresponding amounts are derived from financial statements which have not been audited by the present auditor; or

   (b) the audit report on the financial statements of the preceding period was qualified.

Preceding period not audited by the present auditor

8. The new auditor will have to satisfy himself as to the opening position as disclosed by the preceding period's balance sheet in order to express an opinion on the current period's profit or loss and statement of changes in financial position. He will need also

to ensure that there is consistency in accounting policies and classification of balances. His lack of prior knowledge of the preceding period's financial statements will require him to apply additional procedures to them in order to obtain the necessary assurance on these matters.

9. The additional procedures that should be performed by the auditor may include any of the following:

   (a) consultations with the client's management;

   (b) review of the client's records, working papers and accounting and control procedures for the preceding period, particularly in so far as they affect the opening position;

   (c) audit work on the current period, which will usually provide some evidence regarding opening balances; and

   (d) in exceptional circumstances, substantive testing of the opening balances, if he does not consider the results of procedures (a) to (c) to be satisfactory.

10. In addition, the auditor may be able to hold consultations with the previous auditor. Outgoing auditors normally afford reasonable co-operation to their successors, since Statement of Professional Ethics No. 1.207 places them under a specific obligation to make certain information available to these successors. Consultations would normally be limited to seeking information concerning the previous auditor's examination of particular areas which are important to his successor, and to obtaining clarification of any significant accounting matters which are not adequately dealt with in the client's records. If, however, such consultations are not possible or alternatively, if the preceding period's financial statements were unaudited, the only evidence about the opening position available to the auditor will be that generated by procedures such as those set out in paragraph 9 above.

11. Under normal circumstances the auditor will be able to satisfy himself as to the opening position by performing the work set out in paragraphs 9 and 10. If he is not able to satisfy himself in any material respect he will need to qualify his report for the possible effect on the financial statements. A form of report is set out in Example B.1.3 in Statement 3.330 which might be suitable where the area of difficulty was material but not fundamental. If the area of difficulty was fundamental then the auditor would need to consider whether to disclaim an opinion on the profit and changes in financial position.

Preceding period's qualifications

12. If the audit report on the preceding period's financial statements was qualified, but the matter giving rise to the qualification has been resolved and properly dealt with in the financial statements, then normally no reference need be made to the previous qualification in the current period's audit report. If, however, the matter which gave rise to the qualification remains unresolved and is material in relation to the current period's financial statements, the audit report should be qualified. In such a case, the notes to the financial statements should adequately disclose the circumstances surrounding the qualification. The auditor may consider it advisable to refer to the previous qualification so as to make it clear that the matter giving rise to the qualification did not arise in the current period. One possible form of report which includes a reference to a previous qualification is set out in Example B.1.7 in Statement 3.330.

Misstated corresponding amounts

13. The auditor should refer in his audit report to an actual or possible material misstatement in the corresponding amounts even though the misstatement does not directly affect the current period's figures. Such a misstatement may result from:

    (a) uncertainty affecting the preceding period's profit and loss account, but not the balance sheet;

    (b) misclassification of amounts in the preceding period's financial statements; or

    (c) restatement of the preceding period's figures where the auditor does not concur with the restatement, or if in his opinion a restatement is necessary but has not been made.

    The reference in the audit report should be made as an "emphasis of matter" for the circumstances in (a) and (b) above and the audit report should be qualified for the circumstances in (c) above. An example of an audit report on the financial statements, which has been qualified on one of the grounds in (c) above, is set out in Example B.3.3 in Statement 3.330.