Agenda Item 3-B

PROPOSED INTERNATIONAL STANDARD ON AUDITING 510 (REDRAFTED)

INITIAL ENGAGEMENTS—OPENING BALANCES

Legend:

Light shaded text	Indicates elevations

Extant ISA 510 Reference	ISA 510 Redrafted for Clarity
	Introduction
	Scope of this ISA
Para 1	1. ~~The purpose of this~~This International Standard on Auditing (ISA) ~~is to establish standards and provide guidance~~deals with the auditor's responsibilities ~~regarding~~ relating to opening balances when conducting an initial audit engagement. ~~the financial statements are audited for the first time or when the financial statements for the prior period were audited by another auditor.~~ *[Note: second part of the first sentence moved to Definitions paragraph 4 (a) (i) and (ii).]* ~~This ISA would also be considered when the auditor becomes aware of~~ In addition to financial statement amounts, opening balances include contingencies and commitments requiring disclosure that ~~existing~~ existed at the beginning of the period. *[Note: the second sentence is also included in Definitions paragraph 4 (b)]* ~~Guidance on~~ ISA 710, "Comparatives", deals with the ~~audit and reporting requirements~~auditor's responsibilities regarding comparatives and for reporting on them.~~is provided in ISA 710, "Comparatives."~~
	Effective Date
New	2. This ISA is effective for audits of financial statements for periods beginning on or after [date]. [1]

[1] This date will not be earlier than December 15, 2008.

	Objective
New	3. The objective of the auditor is, in conducting an initial audit engagement, to obtain sufficient appropriate audit evidence about whether:
New	(a) Misstatements that materially affect the current period's financial statements arising from the opening balances exist;
New	(b) Appropriate accounting policies have been consistently applied or changes thereto are properly accounted for.
	Definitions
New	4. For the purposes of the ISAs the following terms have the meanings attributed below:
New	(a) Initial audit engagement – An engagement in which either:
Para 1.1	(i) ~~when~~ the financial statements are audited for the first time; or
Para 1.1	(ii) ~~when~~ the financial statements for the prior period were audited by another auditor.
Para 3 From Para 1.2	(b) ~~"~~Opening balances~~"~~ ~~–~~ ~~means t~~Those account balances which exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of~~:~~ ~~(i)~~ transactions of prior periods and ~~(ii)~~ accounting policies applied in the prior period.~~:~~ Opening balances also include contingencies and commitments requiring disclosure that existed at the beginning of the period.
Para 3	~~In an initial audit engagement, the auditor will not have previously obtained audit evidence supporting such opening balances.~~ *[Note that this sentence has been deleted as it is superfluous.]*
New	(c) Predecessor auditor – The auditor who was previously the auditor of an entity and who has been replaced by an incoming auditor.

	Requirements
	Audit Procedures
	Opening balances
Para 2 (b)	5. The auditor shall determine whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated.
Para 2 (a) and 2 (c)	6. ~~For initial audit engagements,~~ The~~the~~ auditor ~~should~~ shall also obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements and whether the opening balances reflect the application of appropriate accounting policies. (Ref: Para. A1)~~:~~
Para 2 (a)	(a) ~~The opening balances do not contain misstatements that materially affect the current period's financial statements~~; *[Moved to paragraph 6 above (mark-up in paragraph 6 shows changes to the wording).]*
Para 2 (b)	(b) ~~The prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and~~ *[Moved to paragraph 5 above (mark-up in paragraph 5 shows changes to the wording).]*
Para 2 (c)	(c) ~~Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.~~ *[First part moved to paragraph 6 above; remainder deleted as it is repetitive of paragraph 5 in extant 510, which is now in paragraph 10.]*
Para 6.1	7. When the prior period's financial statements were audited by a~~another~~ predecessor auditor, in~~the current auditor may be able to~~ obtaining sufficient appropriate audit evidence, the auditor shall, unless prohibited by law or regulation,~~regarding opening balances by~~ review~~ing~~ the predecessor auditor's working papers. (Ref: Para. A2 – A3) *[Note remainder of paragraph 6 moved to paragraph A2.]*
Para 8	8. When ~~the prior period's financial statements were not audited or when~~ the auditor is ~~not~~ unable to ~~be satisfied~~obtain sufficient appropriate audit evidence by ~~using the audit procedures described in paragraph 6~~ reviewing the predecessor auditor's working papers or when the prior period's financial statements were not audited, the auditor ~~will need to~~shall perform ~~other~~ such

		additional audit procedures as necessary to obtain sufficient appropriate evidence regarding the opening balances. ~~such as those discussed in paragraphs 9 and 10.~~ (Ref: Para. A5-A6)
Para 12.1 and ISA 710.9	9.	~~If~~ When the auditor obtains audit evidence that the opening balances contain misstatements which could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances. When the auditor concludes that such a misstatement exists, the auditor ~~would~~ shall inform management and, ~~after having obtained~~ subject to obtaining management's authorization, the predecessor auditor, if any.
	Accounting policies	
Para 5	10.	The auditor ~~will need to consider~~shall obtain sufficient appropriate audit evidence whether the accounting policies reflected in the opening balances ~~reflect the application of appropriate accounting policies and that those policies are~~ have been consistently applied in the current period's financial statements~~. When there are any~~, or whether changes in the accounting policies ~~or application thereof, the auditor would consider whether they are appropriate and~~ have been properly accounted for and adequately presented and disclosed. (Ref: Para. A1)
	Audit Considerations and Reporting	
Para 11	11.	~~If, after performing audit procedures including those set out above,~~When the auditor is unable to obtain sufficient appropriate audit evidence ~~concerning~~ regarding the opening balances, the auditor shall consider the effect thereof on the opinion in the auditor's report. ~~(~~Ref: Para. A7)~~should shall include:~~ *[Note extant paragraph 11 (a) – (c) moved to A7.]*
Para 12.2	12.	When the auditor concludes that the opening balances contain misstatements which could that materially affect the current period's financial statements, ~~If~~ and the effect of the misstatement is not properly accounted for and adequately presented and disclosed, the auditor shall~~should~~ express a qualified opinion or an adverse opinion, as appropriate. (Ref: Para. A7) *[Note the first sentence in extant paragraph 12 moved to paragraph 9.]*
Para 13	13.	~~If~~When the current period's accounting policies have not been consistently applied in relation to opening balances ~~and~~ or ~~if~~ the change in accounting policies has not been properly accounted for and adequately presented and disclosed, the auditor shall~~should~~ express a qualified opinion or an adverse opinion as appropriate. (Ref: Para. A7)

Para 14.1 and 14.3	14. ~~If~~ When there was a modification to the opinion in the entity's prior period auditor's report ~~was modified~~, the auditor ~~would~~ shall evaluate~~consider~~ the effect thereof on the current period's financial statements. ~~However~~, ~~if~~ When a modification to the prior period's auditor's opinion regarding the prior period's financial statements remains relevant and material to the current period's financial statements, the auditor should modify the current auditor's report accordingly. (Ref: Para. A8) *[Note the second sentence in extant paragraph 14 moved to A8.]*
	*******
	Application and Other Explanatory Material
	Audit Procedures
Para 4	A1. The nature and extent of audit procedures necessary to obtain sufficient~~cy and~~ appropriate~~ness of the~~ audit evidence ~~the auditor will need to obtain regarding opening balances~~ depends on such matters as ~~the following~~: • The accounting policies followed by the entity. • The nature of the accounts and the risk of material misstatement in the current period's financial statements. • The materiality of the opening balances relative to the current period's financial statements. • Whether the prior period's financial statements were audited, and if so whether the auditor's report was modified. (Ref: Para. 6 and 10)
Para 6.1 and 6.2	A2. When the prior period's financial statements were audited by ~~another~~ a predecessor auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by reviewing the predecessor auditor's working papers. ~~In these circumstances, the current auditor would also consider~~ Whether such a review provides sufficient appropriate audit evidence is influenced by the professional competence and independence of the predecessor auditor. (Ref: Para. 7)
Para 7	A3. Relevant ethical and professional requirements guide the current auditor's communications with ~~Prior to communicating with~~ the predecessor auditor~~, the current auditor will need to consider the *Code of Ethics for Professional Accountants* issued by the International Federation of Accountants~~. (Ref: Para. 7)
Para 6.3	A4. ~~If~~ When the prior period's auditor's report was modified, ~~the auditor would pay particular attention in the current period to~~ the matter which resulted in

		the modification is relevant to the auditor's risk assessment in the current year's audit in accordance with ISA 315, 'Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment".
Para 9	A5.	For current assets and liabilities some audit evidence ~~can ordinarily~~may be obtained as part of the current period's audit procedures. For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period. In the case of inventories; however, it is more difficult for the auditor to be satisfied as to inventory on hand at the beginning of the period. Therefore, additional audit procedures ~~are ordinarily~~may be necessary, such as:
		• ~~observing~~ Observing a current physical inventory taking and reconciling it back to the opening inventory quantities~~,~~;
		• ~~performing~~ Performing audit procedures on the valuation of the opening inventory items~~,~~; and
		• ~~performing~~ Performing audit procedures on gross profit and cutoff.
		A combination of these audit procedures may provide sufficient appropriate audit evidence. (Ref: Para. 8)
Para 10	A6.	For non current assets and liabilities, such as fixed assets, investments and long-term debt, ~~the auditor will ordinarily~~some audit evidence may be obtained by ~~examine~~ examining the accounting records and other information underlying the opening balances. In certain cases, the auditor may be able to obtain confirmation of opening balances with third parties, for example, for long-term debt and investments. In other cases, the auditor may need to carry out additional audit procedures. (Ref: Para. 8)
		Audit Conclusions and Reporting
New	A7.	[Proposed] ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report" establishes requirements and provides guidance on circumstances that may result in a modification to the auditor's opinion on the financial statements, the type of opinion appropriate in the circumstances, and the content of the auditor's report when the auditor's opinion is modified. The inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances may result in one of the following modifications to the opinion in the auditor's report:
Para 11 (a)		(a) A qualified opinion~~,~~; or

– (c)	(b) A disclaimer of opinion; or (c) ~~In those jurisdictions where it is permitted, a~~An opinion which is qualified or disclaimed regarding the results of operations and unqualified regarding financial position.~~, for example~~
New	The appendix contains illustrations of auditors' reports illustrating auditors' reports with modifications to the opinion where the auditor was unable to obtain sufficient appropriate evidence. (Ref: Para. 11-13) *[Note that the illustrative report wording in extant paragraph 11 (a) and (c) has been moved to new appendices and complete reports illustrated rather than just the modified opinion and the description of the basis for the modification.]*
Para 14.2	A8. In some situations a modification to the prior period's auditor's opinion may not be relevant and material to the current period's financial statements. For example, if there was a scope limitation in the prior period, ~~such as one~~ due to the inability to ~~determine~~obtain sufficient appropriate audit evidence regarding opening inventory ~~in the prior period~~, the auditor may not need to ~~qualify or disclaim~~modify the current period's audit opinion. (Ref: Para. 14)

[Blank Page]