Agenda Item 3-C

Proposed Disposition of the Present Tense and Other Statements in the Proposed ISA 510 (Redrafted)

I. Those That Have Been Elevated to a Requirement

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
5	The auditor will need to consider whether opening balances reflect the application of appropriate accounting policies and that those policies are consistently applied in the current period's financial statements. When there are any changes in the accounting policies or application thereof, the auditor would consider whether they are appropriate and properly accounted for and adequately presented and disclosed.	10	The appropriateness of the accounting policies and the consistent application thereof is critical to the understandability of the financial statement presentation and disclosure. The paragraph of the extant ISA was also redrafted to make the requirement clearer. The second sentence in paragraph 5 was also a repetition of the requirement in paragraph 2 (c) of the extant ISA.
6	When the prior period's financial statements were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by reviewing the predecessor auditor's working papers. In these circumstances, the current auditor would also consider the professional competence and independence of the predecessor auditor. If 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.	7 A2 A4	This sentence contains a vital procedure (highlighted) which the auditor can perform, unless prohibited by law or regulation. This sentence although containing present statements (see highlighted) provides practical application of the requirement contained in the extant ISA, paragraph 4 (bullet 2). **(See paragraph 6 of II. Those That Have Been Treated as Application Material and Redrafted.)**
8	When the prior period's financial statements were not audited or when the auditor is not able to be satisfied by using the audit procedures described in paragraph 6, the auditor will need to perform other audit procedures such as those discussed in paragraphs 9 and 10.	8	This paragraph contains a requirement (see highlighted) that, when the auditor is unable to obtain sufficient appropriate audit evidence from the predecessor auditor's working papers, the auditor has to perform other audit procedures. The examples included in paragraphs 9 and 10 have been moved to the application and other explanatory material.
12	If the opening balances contain misstatements which could materially affect the current period's financial statements, the auditor would inform management and, after having obtained management's authorization, the predecessor auditor, if any. **If the effect of the misstatement is not properly accounted for and adequately presented and disclosed, the auditor**	9	The plain text has been elevated to a requirement in light of the fact that the auditor shall inform management of significant matters (ISA 260). As such the entire paragraph is considered a

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
	should express a qualified opinion or an adverse opinion, as appropriate.		requirement (the first part in the section on Audit Procedures, paragraph 9, and the second part in Audit Conclusions and Reporting, paragraph 12)
14	If the entity's prior period auditor's report was modified, the auditor would consider the effect thereof on the current period's financial statements. FOR EXAMPLE, IF THERE WAS A SCOPE LIMITATION, SUCH AS ONE DUE TO THE INABILITY TO DETERMINE OPENING INVENTORY IN THE PRIOR PERIOD, THE AUDITOR MAY NOT NEED TO QUALIFY OR DISCLAIM THE CURRENT PERIOD'S AUDIT OPINION. **However, if a modification 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.**	14	The bold type text is a requirement in the extant ISA, however the plain text is a qualifying statement to this requirement and contains present tense statement (highlighted). The plain type text has been elevated to a requirement. The example, however, (re-formatted in uppercase) has been moved to application material (**see paragraph 14 of II. Those That Have Been Treated as Application Material and Redrafted**).

II. Those That Have Been Treated as Application Material and Redrafted

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
6	In these circumstances, the current auditor would also consider the professional competence and independence of the predecessor auditor. If 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.	A2 A4	This sentence although containing present statements (see highlighted) provides practical application of the requirement contained in the extant ISA, paragraph 4 (bullet 2).
7	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.	A3	This paragraph although containing present statements (see highlighted) provides practical application of the requirement contained in the extant ISA, paragraph 4 (bullet 2).
9	For current assets and liabilities some audit evidence can ordinarily 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	A5	This paragraph although containing present statements (see highlighted) provides practical application of the types of procedures referred to in paragraph 4 bullets 3 and 4 of the

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
	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 necessary such as observing a current physical inventory taking and reconciling it back to the opening inventory quantities, performing audit procedures on the valuation of the opening inventory items, and performing audit procedures on gross profit and cutoff. A combination of these audit procedures may provide sufficient appropriate audit evidence.		extant ISA.
10	For noncurrent assets and liabilities, such as fixed assets, investments and long-term debt, the auditor will ordinarily examine 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.	A6	This paragraph although containing present statements (see highlighted) provides practical application of the types of procedures referred to in paragraph 4 bullets 3 and 4 of the extant ISA.
11	**If, after performing audit procedures including those set out above, the auditor is unable to obtain sufficient appropriate audit evidence concerning opening balances, the auditor's report should include:** (a) **A qualified opinion**, for example: "We did not observe the counting of the physical inventory stated at XXX as at December 31, 19X1, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of physical inventory and satisfy ourselves as to the opening balance of inventory, the financial statements give a true and fair view of (present fairly, in all material respects,) the financial position of ... as at December 31, 19X2 and the results of its operations and its cash flows for the year then ended in accordance with ...;" (b) **A disclaimer of opinion; or** (c) **In those jurisdictions where it is permitted, an opinion which is qualified or disclaimed**	7 A7 Appendix (example 1) A7	The requirement to consider the effect on the audit opinion is retained as a requirement, while the types of audit opinions in bold type (a) to (c) provide practical application of guidance in ISA 705 (closed off) and have been moved to the application and other explanatory material. The examples relating to (a) and (c) of the paragraph are practical examples of the respective qualifications and have therefore been included in an appendix to the ISA.

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
	regarding the results of operations and unqualified regarding financial position, for example: "We did not observe the counting of the physical inventory stated at XXX as at December 31, 19X1, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures. Because of the significance of the above matter in relation to the results of the Company's operations for the year to December 31, 19X2, we are not in a position to, and do not, express an opinion on the results of its operations and its cash flows for the year then ended. In our opinion, the balance sheet gives a true and fair view of (or 'presents fairly in all material respects,') the financial position of the Company as at December 31, 19X2, in accordance with ..."	A7 Appendix (example 2)	