Agenda Item 3-D

MAPPING DOCUMENT

This mapping document demonstrates how the material in the extant ISA 510 has been reflected in the proposed redrafted ISA. Highlight material identifies material that is proposed to be eliminated or repositioned to another ISA (as needed) as a result of redrafting. An explanation of the proposed deletion and other comments are provided, where appropriate.

Extant ISA 510	**New Para. Ref.**	**Comment on proposed deletion of highlighted material, significant edits, and other notes.**
Introduction		
1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance regarding opening balances when the financial statements are audited for the first time or when the financial statements for the prior period were audited by another auditor.	1	This sentence has been redrafted.
This ISA would also be considered when the auditor becomes aware of contingencies and commitments existing at the beginning of the period.	1 4(b)	This sentence has been redrafted. It has also been included in the definition of opening balances.
Guidance on the audit and reporting requirements regarding comparatives is provided in ISA 710, "Comparatives."	1	This sentence has been redrafted.
2. For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence that:	6	The bold type paragraph has been retained as requirements, but divided into separate requirements in paragraph 5 and 6 in the redrafted ISA.
(a) **The opening balances do not contain misstatements that materially affect the current period's financial statements;**	6	
(b) **The prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and**	5	

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(c) **Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.**	6 & 10	The highlighted section under sub-paragraph (c) is reflected in paragraph 10.
3. "Opening balances" means 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: (a) Transactions of prior periods; and (b) Accounting policies applied in the prior period. In an initial audit engagement, the auditor will not have previously obtained audit evidence supporting such opening balances.	4	Definition. Sub-paragraphs (a) and (b) have been combined with second sentence. The highlighted text has been deleted as it is a superfluous statement.
Audit Procedures		
4. The sufficiency and appropriateness 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. • Whether the prior period's financial statements were audited, and if so whether the auditor's report was modified. • The nature of the accounts and the risk of material misstatement in the current period's financial statements.	A1 A1 A1	The bullet points have been reorganized

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• The materiality of the opening balances relative to the current period's financial statements.	A1	
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	This paragraph has been retained in paragraph 10. As it was a repetition of sub-paragraph (c) of paragraph 2 which was a requirement in the extant ISA 510 it has been elevated as a requirement in the redrafted ISA. Furthermore please note that the requirements of the extant ISA have been split into opening balances and accounting policies.
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	Although reviewing a predecessor auditor's working papers is an example of an audit procedure that can be performed, it has also been elevated to a requirement, *where the auditor is permitted to perform such a procedure in the respective*

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		jurisdictions. The last two sentences were moved to the application material as they build on requirements in other ISAs and have, therefore, been redrafted.
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 provides additional explanation of the application of paragraph A1 in terms of application of ethical and professional requirements of the auditor. The wording has been redrafted to be consistent with references to relevant ethical and professional requirements in other redrafted ISAs.
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 has been has been elevated to be a requirement and redrafted.
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 inventories; however,	A5	This paragraph has been redrafted and now reflects a list of possible additional procedures in bullet form so

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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.		as to ensure that reader understands that the list is not an exhaustive list.
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 example is included as application and other explanatory material.
Audit Conclusions and Reporting		
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 ...;"	11 A7 Append	The bold type introductory sentence has been retained as a requirement. The bold type lettering in the three "numbered" paragraphs has been moved to the application and other explanatory material. The detail under the numbered paragraphs has been moved to the appendix and expanded to include full example reports.

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(b) **A disclaimer of opinion; or** (c) **In those jurisdictions where it is permitted, an opinion which is qualified or disclaimed 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 A7 Append	These full example reports have been redrafted to reflect consequential changes in other ISAs
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 should express a qualified opinion or an adverse opinion, as appropriate.**	9 12	Both the plain type text and bold type text have been included as requirements. However, the first has been moved forward as it describes an audit procedure whereas the bold type requirement in the extant ISA 510 has been included under conclusions and reporting. The task force believes that

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		it should be a requirement to inform management and the predecessor auditor, with managements authorization, where the opening balances contain misstatements that could materially affect the current year's financial statements.
13. If the current period's accounting policies have not been consistently applied in relation to opening balances and if the change has not been properly accounted for and adequately presented and disclosed, the auditor should express a qualified opinion or an adverse opinion as appropriate.	13	Bold type text retained as a requirement.
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.	14	This text has been raised as a requirement. Complements bold type text.
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.	A8	Example included in application and other explanatory material
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	Bold type text retained as a requirement.

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