

ASA 510
(October 2009)

Explanatory Statement

ASA 510 Initial Audit Engagements—Opening Balances

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Reasons for Issuing Auditing Standard ASA 510 *Initial Audit Engagements—Opening Balances*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 510 *Initial Audit Engagements—Opening Balances* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

The Auditing Standard conforms with ISA 510 *Initial Audit Engagements—Opening Balances*.

Operative Date

ASA 510 *Initial Audit Engagements—Opening Balances* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 510 *Initial Audit Engagements—Opening Balances*

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material to auditors regarding their responsibilities relating to opening balances in an initial audit engagement.

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Main Features

The Auditing Standard:

- (a) establishes requirements and provides guidance regarding opening balances when the financial report for the prior period was not audited, or the financial report for the prior period was audited by a predecessor auditor;
- (b) provides audit procedures for the auditor to obtain audit evidence about:
 - whether the opening balances contain misstatements;
 - whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial report; and
 - whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed; and
- (c) establishes requirements and provides guidance on audit conclusions and the auditor's report.

Preamble and Overall Objectives

ASA 510 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 510 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;

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- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC’s Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor’s obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix “Aus”, AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 19/08 *Proposed Auditing Standard: Initial Audit Engagements—Opening Balances* (Re-issuance of ASA 510), was issued on 10 November 2008 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and

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- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulation Impact Statement

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including ASA 510 *Initial Audit Engagements—Opening Balances*.

The RIS considered both expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

Main Differences from ASA 510 *Initial Engagements—Opening Balances* (June 2007)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 510 *Initial Engagements—Opening Balances* (June 2007), are:

1. Auditing Standard ASA 510 is written in the “clarity” format using the equivalent International Standard on Auditing (ISA 510 *Initial Audit Engagements—Opening Balances*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following requirements included in the Auditing Standard are in part, or full, additional to the extant Auditing Standard:
 - (a) The auditor shall read the most recent financial report, if any, and the predecessor auditor’s report thereon, if any, for information relevant to opening balances, including disclosures; (Ref: Para. 5) and
 - (b) If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period’s financial report, the auditor shall perform such additional audit procedures as are appropriate

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in the circumstances to determine the effect on the current period's financial report. If the auditor concludes that such misstatements exist in the current period's financial report, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with ASA 450. (Ref: Para. 7)

3. Certain guidance material in the extant Auditing Standard has been elevated to requirements.
4. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
5. Application and other explanatory material linked to the additional requirements listed in 2. above is also included in the Auditing Standard.