Compiled Auditing Standard **ASA 510**

(June 2007)

Auditing Standard ASA 510 *Initial Engagements – Opening Balances*

This compilation was prepared on 27 June 2007 taking into account amendments made up to and including 27 June 2007

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

Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of Auditing Standards

The most recently compiled versions of Auditing Standards, original Standards and amending Standards (see Compilation Details) are available on the AUASB website: www.auasb.gov.au.

Alternatively, printed copies of Auditing Standards are available by contacting:

Auditing and Assurance Standards Board
Level 7
600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

ISSN 1833-4393

CONTENTS

COMPILATION DETAILS

Auditing Standard ASA 510 *Initial Engagements - Opening Balances* as Amended

This compilation takes into account amendments up to and including 27 June 2007 and was prepared on 27 June 2007 by the staff of the Auditing and Assurance Standards Board (AUASB).

This compilation is not a separate Auditing Standard made by the AUASB. Instead, it is a representation of ASA 510 (April 2006) as amended by an other Auditing Standard which is listed in the Table below.

Table of Standards

Standard	**Date made**	**Operative date**
ASA 510	28 April 2006	1 July 2006
ASA 2007-1	27 June 2007	1 July 2007 (Auditor's reports signed and dated on or after 1 July 2007)

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
Appendix 1, Example 1	Amended	ASA 2007-1 [19, 20, 21, 23, 32]
Appendix 1, Example 2	Amended	ASA 2007-1 [19]

AUTHORITY STATEMENT

Auditing Standard ASA 510 *Initial Engagements – Opening Balances* (as amended 27 June 2007) is set out in paragraphs 1 to 21 and Appendix 1.

This Auditing Standard is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

AUDITING STANDARD ASA 510

The Auditing and Assurance Standards Board (AUASB) made Auditing Standard ASA 510 *Initial Engagement - Opening Balances,* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001,* on 28 April 2006.

This compiled version of ASA 510 incorporates subsequent amendments contained in an other Auditing Standard made by the AUASB up to and including 27 June 2007 (see Compilation Details).

AUDITING STANDARD ASA 510

Initial Engagements – Opening Balances

Application

1 This Auditing Standard applies to:

(a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and

(b) an audit of a financial report for any other purpose.

2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**
[Note: For operative dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Introduction

4 The purpose of this Auditing Standard is to establish mandatory requirements and to provide explanatory guidance regarding opening balances when the financial report is audited for the first time or when the financial report for the prior period was audited by another auditor. This Auditing Standard would also be considered when the auditor becomes aware of contingencies and commitments existing at the beginning of the period. Explanatory guidance on the audit and reporting requirements regarding comparatives is provided in ASA 710 *Comparatives*.

5 For initial audit engagements, the auditor shall obtain sufficient appropriate audit evidence that:

(a) the opening balances do not contain misstatements that materially affect the current period's financial report;

(b) the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and

(c) appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.

6 "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.

Audit Procedures

7 Ordinarily, the sufficiency and appropriateness of the audit evidence the auditor needs 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 report was 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 report.
- The materiality of the opening balances relative to the current period's financial report.

8 Under paragraph 5 of this Auditing Standard, the auditor needs to consider:

(a) whether opening balances reflect the application of appropriate accounting policies and that those policies are consistently applied in the current period's financial report; and

(b) when there are any changes in the accounting policies or application thereof, whether the accounting policies are appropriate and properly accounted for and adequately presented and disclosed.

9 When the prior period's financial report was 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, under ASA 600 *Using the Work of Another Auditor*, the current auditor needs to consider the professional competence and independence of the predecessor auditor. If the prior period's auditor's report was modified, under ASA 710, the auditor needs to pay particular attention in the current period to the matter which resulted in the modification.

10 Prior to communicating with the predecessor auditor, under ASA 220 *Quality Control for Audits of Historical Financial Information*, the current auditor needs to consider the requirements of the applicable code of professional conduct of a professional accounting body.[1]

11 When the prior period's financial report was not audited or when the auditor is not able to obtain sufficient appropriate audit evidence by using the audit procedures described in paragraph 9, the auditor ordinarily performs other audit procedures such as those discussed in paragraphs 12 and 13.

12 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, 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

[1] In Australia, the codes of conduct of the professional accounting bodies, as issued from time to time, are:

- CPA Australia and The Institute of Chartered Accountants in Australia, *Joint Code of Professional Conduct;* and
- National Institute of Accountants, *Pronouncements of the Board of Directors – Code of Ethics.*

procedures on gross profit and cut off. A combination of these audit procedures may provide sufficient appropriate audit evidence.

13 For non current assets and liabilities, such as fixed assets, investments and long-term debt, the auditor ordinarily examines 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.

Audit Conclusions and Reporting

14 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 shall include:

(a) a qualified opinion;

(b) a disclaimer of opinion; or

(c) an opinion which is qualified or disclaimed regarding the results of operations and unqualified regarding financial position.

15 Examples of modified auditor's reports are included at Appendix 1. See also ASA 701 *Modifications to the Auditor's Report*.

16 If the opening balances contain misstatements which could materially affect the current period's financial report, under ASA 260 *Communication of Audit Matters with Those Charged With Governance*, the auditor needs to inform those charged with governance and management and, after having obtained management's authorisation, the predecessor auditor, if any.

17 If the effect of the misstatement is not properly accounted for and adequately presented and disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate.

18 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 shall express a qualified opinion or an adverse opinion as appropriate.

19 **If a modification regarding the prior period's financial report remains relevant and material to the current period's financial report, the auditor shall modify the current period's auditor's report accordingly.**

20 If the entity's prior period auditor's report was modified, the auditor needs to consider the effect thereof on the current period's financial report under paragraph 19 of this Auditing Standard. 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.

Conformity with International Standards on Auditing

21 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 510 *Initial Engagements – Opening Balances*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main difference between this Auditing Standard and ISA 510 is:

- this Auditing Standard includes examples of modified auditor's reports at Appendix 1, whereas ISA 510 includes examples of modification to the auditor's report in explanatory guidance paragraphs.

Compliance with this Auditing Standard enables compliance with ISA 510.

APPENDIX 1

EXAMPLES OF MODIFIED AUDITOR'S REPORTS

Under paragraph 14 of this Auditing Standard, when the auditor is unable to obtain sufficient audit evidence concerning opening balances the auditor's report needs to include:

(a) a qualified opinion;

(b) a disclaimer of opinion; or

(c) an opinion which is qualified or disclaimed regarding the results of operations and unqualified regarding financial position.

Example 1 illustrates a qualified opinion (a) above and Example 2 illustrates an opinion which is qualified or disclaimed regarding the results of operations and unqualified regarding financial position (c) above. For illustrations of modified opinions regarding (b) above, see ASA 701.

EXAMPLE 1: QUALIFIED OPINION

INDEPENDENT AUDITOR'S REPORT[2]

To the members of [name of entity]

Report on the Financial Report[3]

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.[4]

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian

[2] See ASA 700 for the requirements for an auditor's report for audits conducted in accordance with the Auditing Standards and both the Auditing Standards and the *Corporations Act 2001*.

[3] The subheading 'Report on the Financial Report' is unnecessary in circumstances when the second subheading 'Report on Other Legal and Regulatory Requirements' is not applicable.

[4] As noted in ASA 700, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.[*]]

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[5] An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

* Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101.

5 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances."

Independence[6]

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.[7]

Basis for Qualified Auditor's Opinion

We did not observe the counting of the physical inventory stated at $XXX as at 30 June 20X0, 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. Inventories, which are recorded at $XXX at 30 June 20X0 represent XX% of the entity's recorded assets at that date.

Qualified Auditor's Opinion

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 report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

OR

[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:

6 Refer ASIC Class Order 05/83 and the Summary of Audit Reporting Requirements of the *Corporations Act 2001* for details of when an independence paragraph in required in an auditor's report.

7 Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

(a) the financial report of [name of entity] is in accordance with the *Corporations Act* 2001, including:

   (i) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.[†]]

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature][8]

[Date of the auditor's report]

[Auditor's address]

[†] Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101 and the auditor agrees with the entity's statement. If the auditor does not agree with the statement, the auditor refers to ASA 701.

[8] Under ASA 700, the auditor's report needs to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

EXAMPLE 2: OPINION WHICH IS QUALIFIED OR DISCLAIMED REGARDING THE RESULTS OF OPERATIONS AND UNQUALIFIED REGARDING FINANCIAL POSITION

INDEPENDENT AUDITOR'S REPORT[9]

To the members of [name of entity]

Report on the Financial Report[10]

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.[11]

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of

9 See ASA 700 for the requirements for an auditor's report for audits conducted in accordance with the Auditing Standards and both the Auditing Standards and the *Corporations Act 2001*.
10 The subheading 'Report on the Financial Report' is unnecessary in circumstances when the second subheading 'Report on Other Legal and Regulatory Requirements' is not applicable.
11 As noted in ASA 700, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[12] An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence[13]

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.[14]

Basis for Qualified Auditor's Opinion

We did not observe the counting of the physical inventory stated at $XXX as at 30 June 20X0, 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. Inventories, which are recorded at $XXX at 30 June 20X0 represent XX% of the entity's recorded assets at that date.

Qualified Auditor's Opinion

In our opinion. because of the significance of the above matter in relation to the results of the [company/registered scheme/disclosing entity]'s operations for the year to 30 June 20X1, we are not in a position to, and do not, express an opinion on the comparatives for 20X0 and the results of its operations and its cash flows for the year ended on that date.

---

12 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances."

13 Refer ASIC Class Order 05/83 and the Summary of Audit Reporting Requirements of the *Corporations Act 2001* for details of when an independence paragraph in required in an auditor's report.

14 Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

In our opinion, the balance sheet of [name of entity/registered scheme/disclosing entity] is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature][15]

[Date of the auditor's report]

[Auditor's address]

[15] Under ASA 700, the auditor's report needs to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.