

EXPOSURE DRAFT

ED 19/08
(November 2008)

**Proposed Auditing Standard
ASA 510
*Initial Audit Engagements—
Opening Balances (Revised
and Redrafted)*
(Re-issuance of ASA 510)**

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



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 15 December 2008. Comments should be addressed to:

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA
E-mail: edcomments@auasb.gov.au

A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

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This Exposure Draft is available on the AUASB website: www.auasb.gov.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until no later than 15 December 2008 by contacting:

The 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

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PREFACE

Reasons for Issuing ED 19/08

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard ASA 510 *Initial 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 AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has undertaken a programme to redraft, in “clarity” format, the entire suite of International Standards on Auditing (ISAs). In some cases, and in accordance with normal practice, the ISAs have been revised in addition to being redrafted. The redrafted ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009.

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 IAASB for the revision and enhancement of the ISAs and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

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Main Proposals

This proposed Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material regarding the auditor's responsibilities relating to opening balances when conducting an initial audit engagement.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 January 2010.

Main changes from existing ASA 510 *Initial Engagements—Opening Balances* (April 2006—as amended)

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 510 *Initial Engagements—Opening Balances* (April 2006—as amended), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard ASA 510, *Initial Engagements—Opening Balances* by no later than 15 December 2008. The AUASB is seeking comments on the main changes from the existing ASA 510. In addition, respondents are asked to consider and respond to the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

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5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the main changes to the Requirements of this proposed Auditing Standard are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

AUASB Information Note

The IAASB's "Clarity" project is not yet complete and accordingly there is a possibility that the equivalent underlying ISA to this Exposure Draft will include conforming amendments arising from standards not yet approved by the IAASB. While all currently known conforming amendments are incorporated into this Exposure Draft, readers are advised that the AUASB may decide to make further conforming amendments in line with those of the IAASB.

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 510 *Initial Audit Engagements—Opening Balances (Revised and Redrafted)* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 100 *Preamble to AUASB Standards (Revised and Redrafted)*, which sets out the intentions of the AUASB on how the Australian Auditing Standards are to be understood, interpreted and applied.

AUDITING STANDARD ASA 510

Initial Audit Engagements—Opening Balances (Revised and Redrafted)

Application

- Aus 0.1 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 the *Corporations Act 2001*; and
 - (b) an audit of a financial report for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

Introduction

Scope of this ASA

1. This Auditing Standard deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the financial report includes comparative financial information, the requirements and guidance in ASA 710 (Revised and Redrafted)¹ also apply. ASA 300 (Revised and Redrafted)² includes additional requirements and guidance regarding activities prior to starting an initial audit.

Effective Date

2. [Deleted by the AUASB. Refer Aus 0.3]

¹ See ASA 710 (Revised and Redrafted) *Comparative Information—Corresponding Figures and the Comparative Financial Reports*.

² See ASA 300 (Revised and Redrafted) *Planning an Audit of a Financial Report*.

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Objective

3. In conducting an initial audit engagement, the objective of the auditor is to obtain sufficient appropriate audit evidence about whether:
- (a) Opening balances contain misstatements that materially affect the current period's financial report; and
 - (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial report, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Definitions

4. For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:
- (a) Initial audit engagement means an engagement in which either:
 - (i) The financial report for the prior period was not audited; or
 - (ii) The financial report for the prior period was audited by a predecessor auditor.
 - (b) Opening balances means those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
 - (c) Predecessor auditor means the auditor from a different audit firm, who audited the financial report of an entity in the prior period and who has been replaced by the current auditor.

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Requirements

Audit Procedures

Opening Balances

5. 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.
6. The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report by: (Ref: Para. A1–A2)
 - (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;
 - (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and
 - (c) Performing one or more of the following: (Ref: Para. A3–A7)
 - (i) Where the prior year financial report was audited, reviewing the predecessor auditor's working papers to obtain evidence regarding the opening balances;
 - (ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
 - (iii) Performing specific audit procedures to obtain evidence regarding the opening balances.
7. 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 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

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charged with governance in accordance with ASA 450 (Revised and Redrafted).³

Consistency of Accounting Policies

8. The auditor shall obtain sufficient appropriate audit evidence about 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 in accordance with the applicable financial reporting framework.

Relevant Information in the Predecessor Auditor's Report

9. If the prior period's financial report was audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial report in accordance with ASA 315 (Revised and Redrafted).⁴

Audit Conclusions and Reporting

Opening Balances

10. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with ASA 705 (Revised and Redrafted).⁵ (Ref: Para. A8)
11. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial report, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with ASA 705 (Revised and Redrafted).

Consistency of Accounting Policies

12. If the auditor concludes that:

³ See ASA 450 (Revised and Redrafted) *Evaluation of Misstatements Identified during the Audit* paragraphs 8 and 12.

⁴ See ASA 315 (Revised and Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*.

⁵ See ASA 705 (Revised and Redrafted) *Modifications to the Opinion in the Independent Auditor's Report*.

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- (a) the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework; or
- (b) a change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework,

the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with ASA 705 (Revised and Redrafted).

Modification to the Opinion in the Predecessor Auditor's Report

13. If the predecessor auditor's opinion regarding the prior period's financial report included a modification to the auditor's opinion that remains relevant and material to the current period's financial report, the auditor shall modify the auditor's opinion on the current period's financial report in accordance with ASA 705 (Revised and Redrafted) and ASA 710 (Revised and Redrafted). (Ref: Para. A9)

* * *

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Application and Other Explanatory Material

Audit Procedures

Considerations Specific to Public Sector Entities (Ref: Para. 6)

- A1. In the public sector, there may be legal or regulatory limitations on the information that the current auditor can obtain from the predecessor auditor. For example, if a public sector entity that has previously been audited by a statutorily appointed auditor (e.g., an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) is privatised, the amount of access to working papers or other information that the statutorily appointed auditor can provide an incoming auditor that is in the private sector may be constrained by privacy laws or regulation. In situations where such communications are constrained, audit evidence may need to be obtained through other means and, if sufficient appropriate audit evidence cannot be obtained, consideration given to the effect on the auditor's opinion.
- A2. If the statutorily appointed auditor outsources an audit of a public sector entity to a private sector audit firm, and the statutorily appointed auditor appoints an audit firm other than the firm that audited the financial report of the public sector entity in the prior period, this is not usually regarded as a change in auditors for the statutorily appointed auditor. Depending on the nature of the outsourcing arrangement, however, the audit engagement may be considered an initial audit engagement from the perspective of the private sector auditor in fulfilling their responsibilities, and therefore this Auditing Standard applies.

Opening Balances (Ref: Para. 6(c))

- A3. The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such matters as:
- The accounting policies followed by the entity.
 - The nature of the account balances, classes of transactions and disclosures and the risks of material misstatement in the current period's financial report.
 - The significance of the opening balances relative to the current period's financial report.

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- Whether the prior period's financial report was audited and, if so, whether the predecessor auditor's opinion was modified.
- A4. If the prior period's financial report was audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by reviewing the predecessor auditor's working papers. Whether such a review provides sufficient appropriate audit evidence is influenced by the professional competence and independence of the predecessor auditor.
- A5. Relevant ethical and professional requirements guide the current auditor's communications with the predecessor auditor.
- A6. For current assets and liabilities, some audit evidence about opening balances 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, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:
- Observing a current physical inventory count and reconciling it to the opening inventory quantities.
 - Performing audit procedures on the valuation of the opening inventory items.
 - Performing audit procedures on gross profit and cut-off.
- A7. For non-current assets and liabilities, such as property plant and equipment, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances. In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties, for example, for long-term debt and investments. In other cases, the auditor may need to carry out additional audit procedures.

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Audit Conclusions and Reporting

Opening Balances (Ref: Para. 10)

- A8. ASA 705 (Revised and Redrafted) establishes requirements and provides guidance on circumstances that may result in a modification to the auditor's opinion on the financial report, 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:
- (a) A qualified opinion or a disclaimer of opinion, as is appropriate in the circumstances; or
 - (b) Unless prohibited by law or regulation, an opinion which is qualified or disclaimed, as appropriate, regarding the results of operations, and cash flows, where relevant, and unmodified regarding financial position.

The Appendix includes illustrative auditors' reports.

Modification to the Opinion in the Predecessor Auditor's Report (Ref: Para. 13)

- A9. In some situations, a modification to the predecessor auditor's opinion may not be relevant and material to the opinion on the current period's financial report. This may be the case where, for example, there was a scope limitation in the prior period, but the matter giving rise to the scope limitation has been resolved in the current period.

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Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 510 *Initial Audit Engagements—Opening Balances* (Redrafted), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISA510510.

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Appendix 1

(Ref: Para.. A8)

AUASB Information Note

The example auditor's reports contained in this Appendix will be amended to conform with ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* (Revised and Redrafted) when that Auditing Standard has been approved by the AUASB. Accordingly, the AUASB does not expect respondents to this Exposure Draft to comment on these example auditor's reports unless there are substantive issues that respondents wish to bring to the attention of the AUASB.

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Illustrations of Auditors' Reports with Modified Opinions[♦]

Illustration 1:

Circumstances described in paragraph A8 (a) include the following:

- **The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**
- **The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.⁶**
- **The financial position at year end is fairly presented.**
- **In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.**

[♦] The *Reporting Standards* may give rise to conforming amendments to the illustrations of auditors' reports.

⁶ If the possible effects, in the auditor's judgement, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.

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INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements⁷

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation⁸ of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation⁹ of the

⁷ The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

⁸ Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

⁹ Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view 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.”

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financial statements 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.¹⁰ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

We were appointed as auditors of the company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the cash flow statement.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, (or “give a true and fair view of”) the financial position of ABC Company as of December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Company for the year ended December 31, 20X0, were audited by another auditor whose report dated March 31, 20X1 expressed an unmodified opinion on those statements.

¹⁰ 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 statements, 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 statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 9, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”

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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]

[Date of the auditor's report]

[Auditor's address]

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Illustration 2:

Circumstances described in paragraph A8(b) include the following:

- **The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**
- **The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.¹¹**
- **The financial position at year end is fairly presented.**
- **An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements¹²

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation¹³ of these financial statements in accordance with International Financial Reporting

¹¹ If the possible effects, in the auditor's judgement, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.

¹² The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹³ Depending on the circumstances, this sentence may read: "Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards."

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Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation¹⁴ of the financial statements 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.¹⁵ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.

¹⁴ Depending on the circumstances, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view 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."

¹⁵ 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 statements, 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 statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 14, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

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Basis for Qualified Opinion on the Financial Performance and Cash Flows

We were appointed as auditors of the company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the cash flow statement.

Qualified Opinion on the Financial Performance and Cash Flows

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Income Statement and Cash Flow Statement present fairly, in all material respects (or “give a true and fair view of”) the financial performance and cash flows of ABC Company for the year ended December 31, 20X1 in accordance with International Financial Reporting Standards.

Opinion on the financial position

In our opinion, the balance sheet presents fairly, in all material respects (or “gives a true and fair view of) the financial position of ABC Company as of December 31, 20X1 in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Company for the year ended December 31, 20X0, were audited by another auditor whose report dated March 31, 20X1 expressed an unmodified opinion on those statements.

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]

[Date of the auditor’s report]

[Auditor’s address]

Tables of Differences — ASA 510 (Revised and Redrafted) and Extant ASA 510

Underlying Standard

ISA 510 *Initial Audit Engagements—Opening Balances* (Redrafted) is used as the underlying Auditing Standard for the purpose of re-drafting this proposed Auditing Standard. The underlying Auditing Standard will be amended for the following matters:

- Australian Laws and Regulations (including the *Corporations Act 2001*);
- Changes considered necessary because this Auditing Standard is a legislative instrument; and
- Changes considered necessary in the public interest.

Summary of Main Differences — ASA 510 (Revised and Redrafted) and Extant ASA 510

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and extant ASA 510.

Requirements in ASA (Revised and Redrafted) not in Extant ASA

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Objective			
1	3	In conducting an initial audit engagement, the objective of the auditor is to obtain sufficient appropriate audit evidence about whether: <ul style="list-style-type: none"> (a) Opening balances contain misstatements that materially affect the current period's financial report; and (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial report, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. 	New Objective.

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Definitions			
2	4	<p>For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:</p> <ul style="list-style-type: none"> (a) Initial audit engagement means an engagement in which either: <ul style="list-style-type: none"> (i) The financial report for the prior period was not audited; or (ii) The financial report for the prior period was audited by a predecessor auditor. (b) Opening balances means those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. (c) Predecessor auditor means the auditor from a different audit firm, who audited the financial report of an entity in the prior period and who has been replaced by the current auditor. 	New Definitions.

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Audit Procedures			
3	5	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.	Shaded text has no extant ASA equivalent.
4	6	<p>The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period’s financial report by:</p> <p>(a) Determining whether the prior period’s closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;</p> <p>(b) Determining whether the opening balances reflect the application of appropriate accounting policies; and</p> <p>(c) Performing one or more of the following:</p> <p>(i) Where the prior year financial report was audited, reviewing the predecessor auditor’s working papers to obtain evidence regarding the opening balances;</p> <p>(ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or</p> <p>(iii) Performing specific audit procedures to obtain evidence regarding the opening balances.</p>	<p>Unshaded text is equivalent in meaning to the extant ASA. Extant ASA Requirement para. 5(a)</p> <p>Extant ASA Requirement para. 5(b)</p> <p>Extant ASA Requirement para. 5(c) and elevation of extant ASA Explanatory Guidance [Extant ASA 510 para 8(a)—equivalent Explanatory Guidance]</p> <p>Shaded text is elevation of extant ASA Explanatory Guidance</p> <p>[Extant ASA 510 para 9—equivalent Explanatory Guidance]</p> <p>[Extant ASA 510 paras 12 & 13—equivalent Explanatory Guidance]</p> <p>[Extant ASA 510 paras 12 & 13—equivalent Explanatory Guidance]</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
5	7	<p>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 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 (Revised and Redrafted).</p>	<p>Unshaded text is elevation of extant ASA Explanatory Guidance [Extant ASA 510 para 16—equivalent Explanatory Guidance] Shaded text has no extant equivalent.</p>
6	9	<p>If the prior period's financial report was audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial report in accordance with ASA 315 (Revised and Redrafted).</p>	<p>Elevation of extant ASA Explanatory Guidance [Extant ASA 510 para 9—equivalent Explanatory Guidance]</p>