

Compiled Auditing Standard

ASA 510
(March 2023)

Auditing Standard ASA 510

Initial Audit Engagements –Opening Balances

This compilation was prepared on 22 March 2023 taking into account amendments made by ASA 2015-1, ASA 2020-2, ASA 2020-1 and ASA 2023-1.

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



Australian Government

Auditing and Assurance Standards Board

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COMPILATION DETAILS

Auditing Standard ASA 510 *Initial Audit Engagements–Opening Balances* (as Amended)

This compilation takes into account amendments made up to and including 15 March 2023 and was prepared on 22 March 2023 by 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 (October 2009) as amended by other Auditing Standards which are listed in the Table below.

Table of Standards

Standard	Date made	Operative Date
ASA 510	27 October 2009	Financial reporting periods commencing on or after 1 January 2010
ASA 2015-1	1 December 2015	Financial reporting periods ending on or after 15 December 2016
ASA 2020-2	30 June 2020	Financial reporting periods ending on or after 15 July 2020
ASA 2020-1	3 March 2020	Financial reporting periods commencing on or after 15 December 2021*
ASA 2023-1	15 March 2023	Financial reporting periods commencing on or after 1 January 2023

Legislation History

Standard	Registration Number	Registration Date	Commencement Date
ASA 510	F2009L04089	16 November 2009	17 November 2009
ASA 2015-1	F2015L02032	16 December 2015	17 December 2015
ASA 2020-2	F2020L00885	7 July 2020	8 July 2020
ASA 2020-1	F2020L00252	13 March 2020	14 March 2020
ASA 2023-1	F2023L00295	21 March 2023	22 March 2023

* Early adoption, in conjunction with ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, permitted.

Table of Amendments

Paragraph affected	How affected	By ... [paragraph]
A8(b)	Amended	ASA 2015-1 [148]
Appendix 1	Amended	ASA 2015-1 [149]
Appendix 1	Amended	ASA 2020-2 [37] to [40]
9 Footnote 4	Amended	ASA 2020-1 [8]
Appendix 1	Amended	ASA 2023-1 [18] to [19]

AUTHORITY STATEMENT

Auditing Standard ASA 510 *Initial Audit Engagements -Opening Balances* (as amended to 15 March 2023) is set out in paragraphs Aus 0.1 to A9 and Appendix 1.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied. This Auditing Standard 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*.

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 510 *Initial Audit Engagements—Opening Balances* 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 ISA 510.

AUDITING STANDARD ASA 510

The Auditing and Assurance Standards Board (AUASB) made Auditing Standard ASA 510 *Initial Audit Engagements-Opening Balances* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*, on 27 October 2009.

This compiled version of ASA 510 incorporates subsequent amendments contained in other Auditing Standards made by the AUASB up to and including 15 March 2023 (see Compilation Details).

AUDITING STANDARD ASA 510

Initial Audit Engagements -Opening Balances

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, or a complete set of financial statements, 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 ending on or after 1 January 2010. [Note: For operative dates of paragraphs changed or added by an Amending Standard, see Compilation Details.]

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibilities relating to opening balances in 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 710¹ also apply. ASA 300² 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 *Comparative Information—Corresponding Figures and Comparative Financial Reports*.

² See ASA 300 *Planning an Audit of a Financial Report*.

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 appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Definitions

4. For the purposes of this Auditing Standard, 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.

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;

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Initial Audit Engagements—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 charged with governance in accordance with ASA 450.³

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 appropriately 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 315.⁴

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 disclaim an opinion on the financial report, as appropriate, in accordance with ASA 705.⁵ (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 appropriately 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.

Consistency of Accounting Policies

12. If the auditor concludes that:
- (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 appropriately accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework,

³ See ASA 450 *Evaluation of Misstatements Identified during the Audit*, paragraphs 8 and 12.

⁴ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

⁵ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

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Initial Audit Engagements—Opening Balances

the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with ASA 705.

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 and ASA 710. (Ref: Para. A9)

* * *

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 a predecessor auditor. For example, if a public sector entity that has previously been audited by a statutorily appointed auditor (for example, 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 a newly appointed auditor that is in the private sector may be constrained by privacy laws or regulations. 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.
 - 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

* See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

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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.

Audit Conclusions and Reporting

Opening Balances (Ref: Para. 10-11)

A8. ASA 705 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 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.
- (b) [Deleted by the AUASB. Refer [Aus] Illustration 2A]

Appendix 1 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.

Appendix 1

(Ref: Para. A8)

Illustrations of Auditors' Reports with Modified Opinions

- Illustration 1: An auditor's report containing a qualified opinion due to the inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances—the financial report is not prepared under the *Corporations Act 2001*.
- Illustration 2: [Example Auditor's Report deleted by the AUASB—not applicable in Australia.]
- [Aus] Illustration 2A: An auditor's report containing a qualified opinion due to the inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances—the financial report is prepared under the *Corporations Act 2001*.

Note: Throughout these illustrative auditor's reports, the *Opinion* section has been positioned first in accordance with ASA 700, and the *Basis for Opinion* section is positioned immediately after the *Opinion* section. Also, the first and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new *Basis for Opinion* section.

Example Auditor’s Report
Qualified Opinion—Jurisdiction Prohibits a Qualified Opinion on Performance
and Cash Flows and an Unmodified Opinion on Financial Position
(Fair Presentation Framework)

Illustration 1:

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of the financial report of an entity other than a listed entity. The audit is not a group audit (i.e., ASA 600⁶ does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial report in ASA 210.⁷
- 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.⁸
- The financial position at year end is fairly presented.
- In this 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 relevant ethical requirements that apply to the audit are the Accounting Professional & Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ASA 570.⁹
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.¹⁰
- Corresponding figures are presented, and the prior period’s financial report was audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor’s report on the corresponding figures and has decided to do so.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.*
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.

⁶ See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

⁷ See ASA 210 *Agreeing the Terms of Audit Engagements*.

⁸ [Footnote deleted by the AUASB—not applicable in Australia.]

⁹ See ASA 570 *Going Concern*.

¹⁰ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*.

* See ASA 720 *The Auditor’s Responsibilities Relating to Other Information*.

INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report¹¹

Qualified Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, and the declaration by those charged with governance.*

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the Entity as at 30 June 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Qualified Opinion

We were appointed as auditors of the Entity on 31 December 20X0 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 30 June 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 income for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720.#]

Other Matter

The financial report of the Entity for the year ended 30 June 20X0 was audited by another auditor who expressed an unmodified opinion on the financial report on 30 September 20X0.

¹¹ The sub-title “Report on the Audit of the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

* Or other appropriate assertion by management or those charged with governance.

Paragraph 22 of ASA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705. See ASA 720, Appendix 3, [Aus] Illustration 6A, for circumstances where the matter giving rise to a qualified opinion impacts on the conclusion provided on the other information.

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Initial Audit Engagements—Opening Balances

Responsibilities of Management and Those Charged with Governance for the Financial Report¹²

[Reporting in accordance with ASA 700 – see [Aus] Illustration IA in the Appendix of ASA 700.]

Auditor’s Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration IA in the Appendix of ASA 700.]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ASA 700 – see [Aus] Illustration IA in the Appendix of ASA 700.]

*[Signature]**

[Date of the auditor’s report]#

[Auditor’s address]

¹² Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

* The auditor’s signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate.

The date of the auditor’s report is the date the auditor signs the report.

Example Auditor’s Report
An Opinion that is Qualified Regarding the Financial Performance and Cash
Flows and Unmodified Regarding Financial Position

Illustration 2:

- [Example Auditor’s Report deleted by the AUASB]—not applicable in Australia.
- Refer ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph 11(a).
- The *Corporation Act 2001* does not provide for split opinions.*

* [Footnotes deleted by the AUASB. Refer text box above.]

Example Auditor’s Report
Qualified Opinion—Jurisdiction Prohibits a Qualified Opinion on Performance
and Cash Flows and an Unmodified Opinion on Financial Position
Corporations Act 2001
(Fair Presentation Framework)

[Aus] Illustration 2A:

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of the financial report of a single listed company. The audit is not a group audit (i.e., ASA 600¹³ does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors responsibility for the financial report in ASA 210.¹⁴
- 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.
- The financial position at year end is fairly presented.
- In this 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 relevant ethical requirements that apply to the audit are the Accounting Professional & Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern in accordance with ASA 570.¹⁵
- Key audit matters have been communicated in accordance with ASA 701.¹⁶
- Corresponding figures are presented, and the prior period’s financial report was audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor’s report on the corresponding figures and has decided to do so.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.*
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

¹³ See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

¹⁴ See ASA 210 *Agreeing the Terms of Audit Engagements*.

¹⁵ See ASA 570 *Going Concern*.

¹⁶ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*.

* See ASA 720 *The Auditor’s Responsibilities Relating to Other Information*.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Qualified Opinion

We have audited the financial report of ABC Company Ltd., (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, and the directors’ declaration.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company’s financial position as at 30 June 20X1 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

We were appointed as auditors of the company on 31 December 20X0 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 30 June 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 income for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company would be in the same terms if given to the directors as at the time of this auditor’s report.[#]

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

Key Audit Matters

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in the Appendix of ASA 700.]

* The sub-title “Report on the Audit of the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements”, or other appropriate sub-title, is not applicable.

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.

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720.†]

Other Matter

The financial report of the Company for the year ended 30 June 20X0 was audited by another auditor who expressed an unmodified opinion on the financial report on 30 September 20X0.

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in the Appendix of ASA 700.]

Auditor’s Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in the Appendix of ASA 700.]

Report on the Remuneration Report*

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in the Appendix of ASA 700.]

[Auditor’s name and signature]#

[Name of Firm]

[Date of the auditor’s report]§

[Auditor’s address]

† Paragraph 22 of ASA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705. See ASA 720, Appendix 3, [Aus] Illustration 6A, for circumstances where the matter giving rise to a qualified opinion impacts on the conclusion provided on the other information.

* The Report on the Remuneration Report is an example of “other reporting responsibilities”. Any additional “other reporting responsibilities” that the auditor needs to address, will also be included in a separate section of the auditor’s report following the opinion paragraph on the financial report. Under paragraph 38 of ASA 700, the sub-title “Report on Other Legal and Regulatory Requirements” or other sub-title as appropriate to the section, is used.

The auditor’s report needs to be signed in one or more of the following ways: name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

§ The date of the auditor’s report is the date the auditor signs the report.