

SA 510 Revised – INITIAL AUDIT ENGAGEMENTS— OPENING BALANCES

Q. What is an Initial Engagement?

According to SA 510(Revised) Initial audit engagement means an engagement in which either:

- (i) The financial statements for the prior period were not audited; or
- (ii) The financial statements for the prior period were audited by a predecessor auditor.

Q. Define Opening Balances?

According to SA 510(Revised) 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.

Q. What is Auditor's duty in relation to opening Balances?

Following are the duties of Auditor in SA510 Revised

1. **To read the latest Audited Financial Statement:-** The auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.
2. **To obtain sufficient and appropriate audit evidences:-** The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by:
 - Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;
 - Determining whether the opening balances reflect the application of appropriate accounting policies; and
 - Performing one or more of the following:
 - (i) Where the prior year financial statements were audited, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements;
 - (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.

Q. Describe the other audit procedure required if previous year FS were un audited or if audited still auditor required to apply additional procedures?

If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements such as supporting schedules to the audited financial statements. Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated. Following Audit procedures may be applied if previous year FS were unaudited or if audited auditor still wishes to apply additional procedures:-

1. **current assets and liabilities:-** 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.
2. **Inventories:-** 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:

- i. • Observing a current physical inventory count and reconciling it to the opening inventory quantities.
 - ii. • Performing audit procedures on the valuation of the opening inventory items.
 - iii. • Performing audit procedures on gross profit and cut-off.
3. **Non-current assets and liabilities:-** In case of 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.

How auditor will conclude and report on Opening Balances?

Following three situations can arise to conclude and report:-

1. **If the auditor is unable to obtain sufficient appropriate audit evidence:-** In such case the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with Proposed SA 705

2. **If the auditor concludes that the opening balances contain a misstatement:-** If such misstatement materially affects the current period's financial statements, 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 Proposed SA 705.

3. **Conclusions about Accounting Policies:-** 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 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 proposed SA 705.