SA – 510 (Revised) "INITIAL AUDIT ENGAGEMENTS – Opening Balances"

Meaning of Initial Audit Engagement: An Engagement in which F. S. for prior period are not audited or were audited by predecessor auditor.

Meaning of Opening balance – A/c balance that exist at beginning of period & also includes disclosures exists at beginning of period.

Audit Procedures

Opening Balance

- Read most recent F.S. and auditor report thereon.
- Obtain S.A. audit evidence w.r.t. existence of any material misstatement by
  - Determining correct b/f of prior period closing balance.
  - Determining application of appropriate accounting policies.
- If any misstatement detected perform additional procedures to determine their effect on current Period financial statements.
- If misstatement exists in Current Period F.S. communicate to Mngt & TCWG.

Consistency of Accounting Policies

→ Obtain sufficient & appropriate Audit Evidence

→ w.r.t. consistent application or Properly accounting & disclosure for changes.

Modification in Predecessor Auditor's Report

→ Evaluate the effect of modification

→ In assessing risk of material misstatement in Current period F.S.

Audit Conclusion & Reporting

Opening Balance

- Unable to obtain Sufficient & Appropriate Audit Evidence → Qualified / Disclaimer
- Contain material misstatements not properly accounted / disclosed in current year F. S. → Qualified / Adverse Report

Consistency of Accounting Policies

→ Inconsistency exists or Changes not properly accounted or disclosed → Qualified / Adverse Report

Modification in Predecessor Auditor's Report

→ Modification remains relevant & material for Current Period F.S.

→ Modify Current Year Audit Report accordingly

Compiled by: Pankaj Garg (CA, CS, CWA – All India Topper, Gold Medalist). Classes at: Smartteach CA (IMA – ITO); IndiaCan Education (ETENCA satellite Centres)

SA – 530 (Revised) “AUDIT SAMPLING”

Meaning of Audit Sampling

Application of audit procedures to < 100 % of items within a population

Sampling risk

Risk that auditor’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to same audit procedure.

Test of controls

- Controls are more effective than they actually are
- Controls are less effective than they actually are

Tests of details

- Material misstatements does not exist when in fact it does.
- Material misstatement exists when in fact it does not

Controls are more effective than they actually are / Material misstatements does not exist when in fact it does: Affects ***audit effectiveness*** and is more likely to lead to an inappropriate audit opinion.

Controls are less effective than they actually are / Material misstatement exists when in fact it does not: Affects ***audit efficiency*** as it would lead to additional work to establish that initial conclusions were incorrect.

Auditor’s Duties

1. Sample design, size and selection of items
2. Perform audit procedures
3. Evaluation of results of audit sampling

Sample Selection Methods

- Random Selection
- Systematic Selection
- Monetary Unit Sampling
- Haphazard Selection
- Block Selection