

SA 510 (AAS 22)

INITIAL ENGAGEMENTS - OPENING BALANCES

(Effective for all audits commencing on or after July 1, 2001)

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Standard on Auditing (SA) 510*, "Initial Engagements - Opening Balances" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of SAs.

* Issued in July, 2001.

¹ Published in the July 2007 issue of the Journal.

Handbook of Auditing Pronouncements-I

Introduction

1. The purpose of this Standard on Auditing (SA) is to establish standards regarding audit of opening balances in case of initial engagements, i.e., when the financial statements are audited for the first time or when the financial statements for the preceding period were audited by another auditor. This Standard would also be considered by the auditor so that he may become aware of contingencies and commitments existing at the beginning of the current period.
2. "Opening balances" means those account balances which exist at the beginning of the period. Opening balances are the closing balances of the preceding period brought forward to the current period and reflect the effect of:
 - (a) transactions and other events of the preceding periods; and
 - (b) accounting policies applied in the preceding period.
3. For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence that:
 - (a) the closing balances of the preceding period have been correctly brought forward to the current period;
 - (b) the opening balances do not contain misstatements that materially affect the financial statements for the current period; and
 - (c) appropriate accounting policies are consistently applied.
4. In an initial audit engagement, the auditor will not have previously obtained audit evidence supporting the opening balances.

Audit Procedures

5. For the purpose of this Statement, the sufficiency and appropriateness of the audit evidence, the auditor will need to obtain regarding opening balances, would depend on the following matters:
 - ◆ The accounting policies followed by the entity.
 - ◆ Whether the auditor's report contained an unqualified opinion, a qualified opinion, adverse opinion or disclaimer of opinion where the financial statements for the preceding period were audited.

Initial Engagements - Opening Balances

- ◆ The nature of the opening balances, including the risk of their misstatement in the financial statements for the current period.
- ◆ The materiality of the opening balances relative to the financial statements for the current period.

6. The auditor will need to consider whether the accounting policies followed in the preceding period, as per which the opening balances have been arrived at, were appropriate and that those policies are consistently applied in the financial statements for the current period and where such accounting policies are inappropriate, the same have been changed in the current period and adequately disclosed.

7. When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of 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.

8. When the financial statements of the preceding period were not audited or the auditor is not satisfied by using the procedures described in paragraph 7, the auditor will need to perform other procedures such as those discussed in paragraphs 9 and 10.

9. For current assets and liabilities, some audit evidence can ordinarily be obtained as part of the audit procedures performed during the current period. For example, the collection/payment of opening accounts receivable/accounts payable during the current period will provide some audit evidence as to their existence, rights and obligations, completeness and valuation at the beginning of the period.

10. For other assets and liabilities, such as fixed assets, investments and long-term debt, the auditor will ordinarily examine the records underlying the opening balances. In certain cases, the auditor may be able to obtain confirmation of opening balances from third parties, for example, for long-term debt and investments.

Audit Conclusions and Reporting

11. If, after performing procedures including those set out above, the auditor is unable to obtain sufficient appropriate audit evidence concerning opening balances, the auditor should, as appropriate, express:

- (a) a qualified opinion, or
- (b) a disclaimer of opinion.

The auditor may also express an opinion which is qualified or disclaimed regarding the profit or loss and unqualified regarding state of affairs, as appropriate.

12. If the opening balances contain misstatements which materially affect the financial statements for the current period and the effect of the same is not properly accounted for and adequately disclosed, the auditor should express a qualified opinion or an adverse opinion, as appropriate.

Effective Date

13. This Standard on Auditing becomes operative for all audits commencing on or after 1st July, 2001.