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Initial Audit Engagements — Opening Balances

Companies Sec 143

Scope of SA :→

Objective of the auditor :→

To Obtain SAAE about whether

(a) opening balance → Contain MS that materially affect Current Period FS.

(b) Appropriate a/cing policies → have consistently applied in current Period FS.

Definitations :→

(i) Initial Audit Engagement :→ an engagement in which either (i) FS for the Prior Period were not audited or

Nov 18 (ii) FS for the Prior Period were audited by a predecessor auditor.

(ii) Predecessor Auditor → the auditor from a diffⁿ audit firm, who audited the FS of any entity in the prior period & who has been replaced by the current Auditor

(iii) Opening Balances :→ Those a/c balances exist at the begining of the Period.

Procedure adopted by the auditor to obtain AE regarding Opening Balance.

(i) Nature & extent of AP [What matters should be considered while determining the nature & extent of AP to be performed approach]

(a) alcing Policies followed by entity.

(b) the significance of op bal related to current FS.

(c) The a/c bal, class of Tx^n, & disclosure & the RMM involved.

(d) whether Prior Period FS were audited, & whether predecessor auditor has expressed a modified opinion

(ii) If the Prior Period FS were audited by a Predecessor auditor

(iii) CA & CL

(iv) Non CA & Non CL.

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I. Opening Balances. may22

1. AP to obtain SAAE regarding op Bal.
   (a) Auditor should carefully read the recent audited FS & Predecessor auditors report, if it is available.
   (b) Auditor should determine whether Prior Period Cl Bal have been correctly b/f to the current Period
   (Tracing op bal amount with PY cl Bal)
   (c) Auditor should perform one or more of the following procedures specially for op Bal:-
      (i) Auditor should peruse (carefully go through) the copies of audited FS along with other relevant documents which are related to prior period FS.
      eg:- Communication of important matters by previous auditor to the mgmt.
      (ii) Auditor should design his AP for Current Period txn that provides evidences relevant to op bal.
      (iii) Perform specific AP to obtain AE regarding op bal.
      eg:- Checking provisions made for pending litigation in PY.

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2. Evaluation of AE Obtained
After obtaining AE regarding op bal auditor should evaluate whether there exist a MMs which can materialy affect Current Period FS. If Yes then he should perform additional AP to conclude whether MMs exist or not. Auditor should communicate about these Ms with appropriate level of mgmt & TCWG as per SA 450.

3. Audit reporting & Conclusion
(a) If auditor is unable to obtain SAAE regarding op bal. The auditor shall express Qualified or Disclaimer of Opinion

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(b) If the auditor conclude that the opbal contain a ms that materialy affect the current period FS & the effect not properly accounted or presented or disclosed the auditor shall express a Qualified or Adverse Opinion in accordance with SA 705.

II. Consistency of Accounting Policies

1- Auditor should obtain SAAE regarding accounting policies to evaluate whether accounting policies reflected in opbal are consistently followed or applied in the current Period.

2- If there are changes in accounting policies then it should be appropriatly adjusted for & adequately presented & disclosed in accordance with AFRF.

3. Impact on Audit Report:

If auditor conclude that

(a) Current period accounting policies are not consistent with the policies applied in opening balances or.

(b) A change in accounting policy is not properly accounted for or disclosed as required by AFRF.

In both the above cases auditor shall express Qualified or Adverse Opinion as required by SA 705.

III Report of Predecessor Auditor.

1. If there was a modification in the Predecessor Auditor Report, then, auditor shall evaluate the effect of that matter in current Period FS considering the SA 315.

2. If the auditor conclude that the matter which gave rise to modification in the PY is still relevant & material to the current period FS, then auditor shall modify his Opinion as per SA 705 & 710.

Note:

Ordinarily Auditor can place reliance on cl bal of PY audit by a predecessor auditor, except when auditor during the performance of procedure on current Period believes that a MS can be possible in op bal.