

Initial Audit Engagements – Opening Balances

SSA 510, *Initial Audit Engagements – Opening Balances* superseded SSA 510, *Initial Engagements – Opening Balances* in January 2010.

The Companies (Amendment) Act 2014 gave rise to conforming amendments in SSA 510 in June 2015. These amendments (terminology changes) are effective for reports dated on or after 1 July 2015.

The new and revised auditor reporting standards gave rise to conforming amendments in this SSA in July 2015. SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* gave rise to conforming amendments in this SSA in November 2015. These amendments are effective for audits of financial statements for periods ending on or after 15 December 2016.

The references to the Singapore Acts of Parliament have been updated to their revised short titles in July 2022 to be aligned to the 2020 Revised Edition of Acts. The revised short titles should be reflected in reports dated on or after 4 August 2022.

Updates to SFRS(I) 1-1 and FRS 1 give rise to conforming amendments in SSA 510 in July 2023. These amendments are effective for audits of financial statements for periods beginning on or after 1 January 2023.

SINGAPORE STANDARD ON AUDITING 510 INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES

(Effective for audits of financial statements for periods beginning on or after 1 January 2023)

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| Singapore Standard on Auditing (SSA) 510, "Initial Audit Engagements–Opening Balances" should be read in conjunction with SSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Singapore Standards on Auditing". |
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Foreword

This Standard is based on International Standard on Auditing 510, with such amendments as were considered appropriate for local adoption.

Introduction**Scope of this SSA**

1. This Singapore Standard on Auditing (SSA) 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 statements include comparative financial information, the requirements and guidance in SSA 710¹ also apply. SSA 300² includes additional requirements and guidance regarding activities prior to starting an initial audit.

Effective Date

2. This SSA is effective for audits of financial statements for periods beginning on or after 1 January 2023.

Objective

3. In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:
 - (a) Opening balances contain misstatements that materially affect the current period's financial statements; and
 - (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, 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 the SSAs, the following terms have the meanings attributed below:
 - (a) Initial audit engagement – 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.
 - (b) Opening balances – 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

¹ SSA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*.

² SSA 300, *Planning an Audit of Financial Statements*.

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 – The auditor from a different audit firm, who audited the financial statements 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 statements, 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 statements 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 statements were audited, reviewing the predecessor auditor's working papers to obtain evidence regarding the 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 statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with SSA 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 statements, 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.

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

Relevant Information in the Predecessor Auditor's Report

9. If the prior period's financial statements were 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 statements in accordance with SSA 315 (Revised).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 statements, as appropriate, in accordance with SSA 705 (Revised).⁵ (Ref: Para. A8)
11. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, 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 SSA 705 (Revised).

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,
- the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with SSA 705 (Revised).

Modification to the Opinion in the Predecessor Auditor's Report

13. If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements in accordance with SSA 705 (Revised) and SSA 710. (Ref: Para. A9)

⁴ SSA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*.

⁵ SSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

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 privatized, 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 or secrecy 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 statements 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 SSA 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 statements.
 - The significance of the opening balances relative to the current period's financial statements.
 - Whether the prior period's financial statements were audited and, if so, whether the predecessor auditor's opinion was modified.
- A4 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 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 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 cutoff.
- 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)

- A8. SSA 705 (Revised) establishes requirements and provides guidance on circumstances that may result in a modification to the auditor's opinion on the financial statements, 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 one of 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; or
 - (b) Unless prohibited by law or regulation, an opinion which is qualified or disclaimed, as appropriate, regarding the results of operations, and cash flows, where relevant, and unmodified regarding financial position.

The Appendix includes illustrative auditor's 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 statements. 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.

Illustration of Auditor's Report with Modified Opinion

Note: Throughout the illustrative auditor's report, the Opinion section has been positioned first in accordance with SSA 700 (Revised), 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.

Illustration 1:

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

- Audit of a complete set of financial statements of a Singapore incorporated company other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SSA 600 does not apply).
- The financial statements are prepared by management of the company in accordance with Financial Reporting Standards in Singapore (FRSs) (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SSA 210.
- 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 company's financial performance and cash flows.¹
- The financial position at year end is fairly presented.
- An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.
- The relevant ethical requirements that apply to the audit comprise the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements relating to the audit in Singapore, and the auditor refers to both.
- 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 SSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SSA 701.
- 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.
- Corresponding figures are presented, and the prior period's financial statements were 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 statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

¹ If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements²

Opinions

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at 31 December 20X1, and 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.

Qualified Opinion on the Financial Performance and Cash Flows

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying statement of comprehensive income and statement of cash flows are properly drawn up in accordance with the provisions of the Companies Act 1967 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial performance and cash flows of the Company for the year ended 31 December 20X1.

Opinion on the Financial Position

In our opinion, the accompanying statement of financial position is properly drawn up in accordance with the provisions of the Act and FRSs so as to give a true and fair view of the financial position of the Company as at 31 December 20X1.

Basis for Opinion, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows

We were appointed as auditors of the Company on 30 June 20X1 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 31 December 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 profit 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 Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.

Other Matter

The financial statements of the Company for the year ended 31 December 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 20X1.

² The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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

[Reporting in accordance with the reporting requirements in SSA 720 (Revised) – see Illustration 1 in Appendix 2 of SSA 720 (Revised).]

Responsibilities of Management and Directors for the Financial Statements

[Reporting in accordance with SSA 700 (Revised) – see Illustration 3 in SSA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with SSA 700 (Revised) – see Illustration 3 in SSA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with SSA 705 (Revised) – see Illustration 3 in SSA 705 (Revised).]

_____(Firm)
Public Accountants and
Chartered Accountants
Singapore

_____ (Date)