

# CANADIAN AUDITING STANDARDS

## CAS 510

### initial audit engagements – opening balances

#### Basis for Conclusions

(Effective for audits of financial statements for periods ending on or after December 14, 2010)

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Canadian Auditing Standard (CAS) 510, *Initial Audit Engagements — Opening Balances*, should be read in conjunction with [CAS 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards](#).

#### **Introduction**

##### **Scope of this CAS**

1. This Canadian Auditing Standard (CAS) 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 [CAS 710](#) 1 also apply. [CAS 300](#) 2 includes additional requirements and guidance regarding activities prior to starting an initial audit.

##### **Effective Date**

2. This CAS is effective for audits of financial statements for periods ending on or after December 14, 2010.

##### **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 purposes of the CAs, 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 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 [CAS 450](#). 3 [Former paragraph [CAS 510.7 retained in Archived Pronouncements](#).]

#### *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.

#### *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 [CAS 315](#). 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 [CAS 705](#). 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 [CAS 705](#).

#### *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 [CAS 705](#).

#### *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 [CAS 705](#) and [CAS 710](#). (Ref: Para. [A9](#))

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## 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 the auditor's responsibilities, and therefore this CAS 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. [CAS 705](#) 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 auditors' 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.

**Appendix**  
(Ref: Para. [A8](#))

**Illustrations of Auditors' Reports with Modified Opinions**

Note: Throughout these illustrative auditor's reports, the Opinion section has been positioned first in accordance with [CAS 700](#), 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 an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., [CAS 600](#) 1 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in [CAS 210](#).<sup>2</sup>
- 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 entity's financial performance and cash flows.<sup>3</sup>
- The financial position at year end is fairly presented
- In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.
- The relevant ethical requirements that apply to the audit are those of Canada.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist in accordance with [CAS 570](#).<sup>4</sup>
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with [CAS 701](#).<sup>5</sup>
- 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.

[Former wording retained in [Archived Pronouncements](#).]

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Audit of the Financial Statements 6**

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 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. \* [Former paragraph retained in [Archived Pronouncements](#).]

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December

31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

#### **Basis for Qualified Opinion**

We were appointed as auditors of the company on June 30, 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 December 31, 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 Canadian generally accepted auditing standards. 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 ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### **Going Concern**

##### *No Material Uncertainty Related to Going Concern<sup>7</sup>*

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

#### **Other Matter**

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

#### **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 CAS 720 – see [Illustration 1](#) in Appendix 2 of CAS 720.]

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements 8**

[Reporting in accordance with CAS 700 9 – see [Illustration 1](#) in CAS 700.]

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

[Reporting in accordance with CAS 700 – see [Illustration 1](#) in CAS 700.]

#### **Report on Other Legal and Regulatory Requirements**

[Reporting in accordance with CAS 700 – see [Illustration 1](#) in CAS 700.]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

#### Illustration 2:

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

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., [CAS 600](#) does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in [CAS 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 entity's financial performance and cash flows. 10
- 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 are those of Canada.

- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist in accordance with [CAS 570](#).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with [CAS 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.

[Former wording retained in Archived Pronouncements.]

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements 11

#### Opinions

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 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. \* [Former paragraph retained in Archived Pronouncements.]

#### *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 present fairly, in all material respects, the financial performance and cash flows of the Company for the year ended December 31, 20X1 in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

#### *Opinion on the Financial Position*

In our opinion, the accompanying statement of financial position presents fairly, in all material respects, the financial position of the Company as at December 31, 20X1 in accordance with IFRS Accounting Standards as issued by the IASB.

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

We were appointed as auditors of the Company on June 30, 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 December 31, 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 Canadian generally accepted auditing standards. 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 ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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.

#### Going Concern

##### *No Material Uncertainty Related to Going Concern*12

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

#### Other Matter

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

#### 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 CAS 720 – see [Illustration 1](#) in Appendix 2 of CAS 720]

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements 13**

[*Reporting in accordance with CAS 700 – see [Illustration 1](#) in CAS 700.*]

### **Auditor's Responsibilities for the Audit of the Financial Statements**

[*Reporting in accordance with CAS 700 – see [Illustration 1](#) in CAS 700.*]

### **Report on Other Legal and Regulatory Requirements**

[*Reporting in accordance with CAS 700 – see [Illustration 1](#) in CAS 700.*]

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

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# **Footnotes**

1. [CAS 710](#), *Comparative Information — Corresponding Figures and Comparative Financial Statements*

2. [CAS 300](#), *Planning an Audit of Financial Statements*

3. CAS 450, *Evaluation of Misstatements Identified during the Audit*, paragraphs [9](#) and [13](#)

4. [CAS 315](#), *Identifying and Assessing the Risks of Material Misstatement*

5. . [CAS 705](#), *Modifications to the Opinion in the Independent Auditor's Report*

1. [CAS 600](#), *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*

2. [CAS 210](#), *Agreeing the Terms of Audit Engagements*

3. 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.

4. [CAS 570](#), *Going Concern*

5. [CAS 701](#), *Communicating Key Audit Matters in the Independent Auditor's Report*

6. The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second subtitle "Report on Other Legal and Regulatory Requirements" is not applicable.

\*. This wording applies to audits of financial statements prepared in accordance with IFRS Accounting Standards, including the amendments to IAS 1 *Presentation of Financial Statements* which are effective for annual reporting periods beginning on or after January 1, 2023.

7. This additional subtitle may be useful to enhance intended users' understanding about the nature of the matters addressed in the Going Concern section of the auditor's report.

8. Throughout these illustrative auditor's reports, the terms "management" and "those charged with governance" may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

9. [CAS 700](#), *Forming an Opinion and Reporting on Financial Statements*

10. 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 the opinion on the financial performance and cash flows.

11. The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second subtitle "Report on Other Legal and Regulatory Requirements" is not applicable.

\*. This wording applies to audits of financial statements prepared in accordance with IFRS Accounting Standards, including the amendments to IAS 1 *Presentation of Financial Statements* which are effective for annual reporting periods beginning on or after January 1, 2023.

12. This additional subtitle may be useful to enhance intended users' understanding about the nature of the matters addressed in the Going Concern section of the auditor's report.

13. Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

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