CAS 510

First-Year Audit Engagements & Opening Balances

Opening Balance Audit Procedures and Documentation

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SESSION ROADMAP

Learning Objectives

By the end of this session, participants should be able to:

1. Determine when CAS 510 applies
2. Identify high-risk opening balances
3. Assess the reliability of predecessor auditor evidence
4. Select appropriate audit procedures for review of opening balances
5. Evaluate whether sufficient audit evidence has been obtained
6. Identify reporting implications
7. Document conclusions clearly for the file

SETTING THE SCENE

Issues from Audit files – 2025

COMMON ISSUES FROM LAST YEAR FILES

- No Documentation of What Was Actually Reviewed and ignoring the PL
- Findings Are Summarized But No Impact on Current Audit
- Failure to Document Significant Prior-Year Adjustments
- No Assessment of Unresolved Review Issues (control issues, related party matters, estimates)
- No Evaluation of Significant Risks Identified by Predecessor

THE STANDARD

What Is CAS 510 Trying to Achieve?

The auditor must determine whether:

- Opening balances are materially correct
- Prior-year balances were properly carried forward
- Accounting policies remain appropriate
- Prior-year issues continue to affect current-year financial statements

A clean prior-year audit opinion does not eliminate the need for audit evidence over opening balances.

LIVE WALKTHROUGH

Working Paper & Financial Statement Review

Let's review a working paper and the financial statements to see how documentation is completed and how a new auditor gains comfort over opening balances in a first-year audit engagement.

Activity Time: 15 Minutes

Refer the workpaper

Risk Ranking Framework

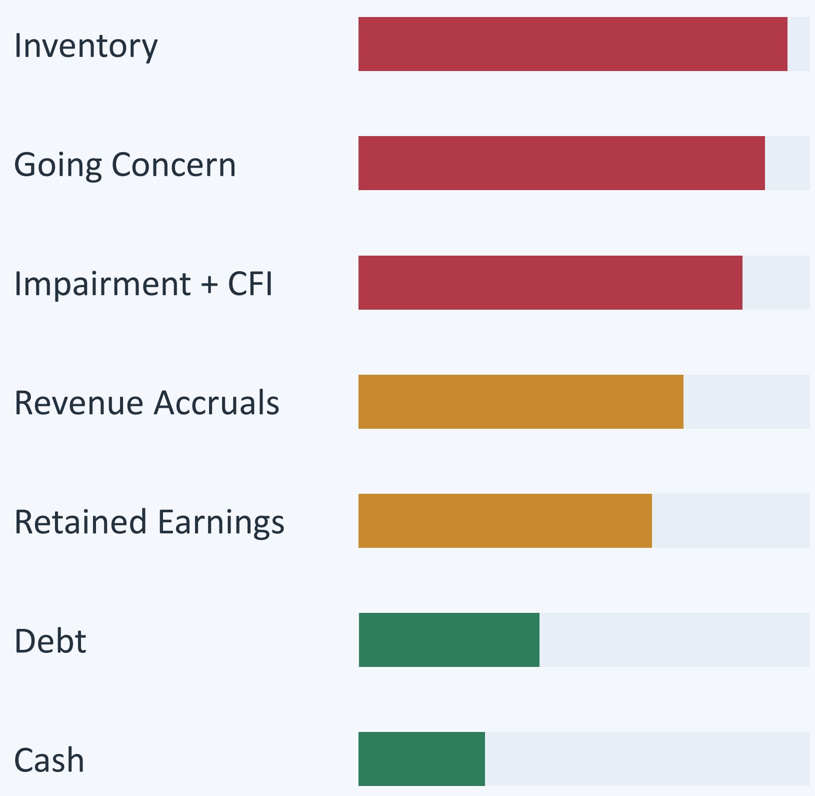
HIGHEST RISK BALANCES

Inventory and AR	*Existence and valuation*
Going Concern	*Cash flows, support letters, financing availanle*
Impairment of Assets ECL, Convertible notes	*Judgment-heavy*
Revenue accruals	*Cutoff risk, process*
Retained earnings	*Prior-year adjustments*

LOWER RISK BALANCES

Cash	*Easily confirmed*
Debt	*Third-party evidence available*

RISK HEAT MAP



PREDECESSOR RELIANCE

Information to Obtain

- Financial statements
- Audit opinion –clean, modified, MUGC
- Management letter
- Significant adjustments – quality and quantity
- Passed adjustments
- Working papers (where available)

DISCUSSION QUESTION

When should the team perform additional work even if the predecessor auditor issued an unmodified opinion?

FILE REVIEW

What Should You Look For?

Area	Key Question
Significant Risks	What did the predecessor identify?
Adjustments	What errors were discovered?
Estimates	What required significant judgment?
Review Notes	What issues remained unresolved?

RED FLAGS

- Weak conclusions
- Missing support
- Recurring adjustments
- Scope limitations

METHODOLOGY

Audit Approach

1. Agree opening trial balance to prior financial statements
2. Identify significant accounts
3. Consider current-year evidence
4. Perform additional procedures where necessary
5. Conclude on sufficiency of evidence

Each step builds the audit trail needed to support the opinion on opening balances — skipping a step weakens the conclusion that follows.

How Current-Year Testing Supports Opening Balances

Account	Assertions Supported	Current-Year Evidence
AR	Existence, Valuation	Subsequent collections
AP	Completeness, Valuation	Subsequent payments
Inventory	Existence, Valuation	Roll-back procedures
PP&E	Existence, Valuation	Current depreciation testing
Debt	Completeness, Accuracy	Loan repayments
Provisions	Completeness, Valuation	Subsequent settlements

Current-year evidence may support opening balances, but may not address every assertion.

FILLING THE GAPS

Working Papers Unavailable

- Confirmations
- Contract reviews
- Invoices and payment support
- Board minutes
- Legal correspondence
- Recalculation of estimates
- Analytical review

DISCUSSION QUESTION

What evidence would you obtain if inventory working papers were unavailable?

FOCUS AREAS

Complex Areas in First-Year Engagements

Inventory

- Prior count not observed
- Roll-back challenges
- Valuation concerns

Estimates and Others

- Accruals and Litigations
- Impairment
- Going Concern

Revenue

- Prior cutoff errors
- Recurring adjustments

These areas require additional audit attention because they combine judgment, limited third-party corroboration, and a starting point the current team did not test.

APPLY WHAT YOU'VE LEARNED

Case Study: Manufacturing Client

First-year engagement — opening balances:

$1.8M	$1.2M	$4.5M	$3.0M	$600K
Inventory	AR	PP&E	Debt	Warranty Provision

Prior auditor:
Unmodified opinion; working papers unavailable

Your task: apply the risk framework from today's session

EXERCISE — IDENTIFY:

1. Highest-risk balances
2. Additional procedures required
3. Potential documentation issues

CASE STUDY DEBRIEF

Expected Audit Response

Inventory

- Roll-back testing
- Valuation testing
- Movement testing

Warranty Provision

- Historical claims analysis
- Subsequent settlements
- Assumption testing

AR

- Subsequent collections
- Confirmation procedures

DISCUSSION QUESTION

Has sufficient appropriate audit evidence been obtained?

Documentation Expectations

A Strong CAS 510 Workpaper Should Include:

- Why engagement is first-year
- Risk assessment
- Opening balance testing
- Evidence obtained
- Reliance on predecessor
- Accounting policy assessment
- Conclusion reached

COMMON DEFICIENCY

"Documenting procedures performed without documenting the conclusion."

Reporting Implications

Sufficient evidence obtained

Unmodified opinion

Evidence is limited

Possible qualified opinion

Limitation is material and pervasive

Possible disclaimer

Situation	Example	Report Impact
Sufficient evidence obtained	Alternative procedures support opening balances	✅ Unmodified Opinion
Evidence limited, impact confined to one area	Opening inventory/A/R cannot be fully verified	⚠️ Qualified Opinion
Evidence unavailable for multiple key balances	Opening balances cannot be verified at all	❌ Disclaimer of Opinion
Material opening balance error identified and uncorrected	Opening inventory materially overstated	🚫 Adverse Opinion

WRAP UP

Key Takeaways

1. CAS 510 is fundamentally about trust in the opening balances.

2. Prior-year audit opinions are useful but are not audit evidence.

3. Opening balance testing should be risk-driven.

4. Current-year procedures may provide evidence, but not for every assertion.

5. Documentation must explain both the work performed and the conclusion reached.

6. Unresolved opening balance issues may affect the audit opinion.

Questions & Discussion

Thank you for your participation today.

The floor is open for questions.