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The CPA Ireland Skillnet provides excellent value CPE (continual Professional Education) in accountancy, law, tax and strategic personal development to accountants working both in practice and in industry. However our attendees are not limited to the accountancy field as we welcome all interested parties to our events.



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Trainee Accountant Webinar Series

March 2016

Initial Engagements, Opening Balances, Corresponding Figures & Comparatives

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The Institute of Certified Public Accountants in Ireland



Introduction

- This webinar will cover the following linked areas and is of relevance to students studying P2 Audit Practice & Assurance Services:
 - Initial Engagements,
 - Opening Balances,
 - Corresponding Figures
 - Comparatives and
 - Accounting periods of varying length.



Introduction

- Audit Acceptance
 - New Engagements
 - Continuing Engagements
- Audit Planning
 - Audit Strategy
 - Audit Plan – Nature, Timing, Extent



Audit Acceptance

1) Should I Act: Is it wise to accept this engagement considering:

a) Client Integrity Are there any questions over the potential client that will create unacceptable risk?

2. Can I Act? Is there any reason why I cannot accept this engagement considering:

(b) Competence and Resources Do I have the competency and resources to perform this Engagement?

(c) Ethics Will this contravene any ethical requirements?

(d) Outgoing Auditors Have I contacted the outgoing auditors? Statement of Circumstances? Has outgoing auditors termination been properly conducted?

Questions are asked of new and existing clients!



Audit Engagement Letters

Integrity of the Client

- Client reputation
- Nature of client operations
- Attitudes of key players (aggressive standards interpretation; internal controls; low audit fees; limiting scope of audit work)
- Money laundering
- Outgoing auditors

Competency of the Audit Firm to Perform the Engagement

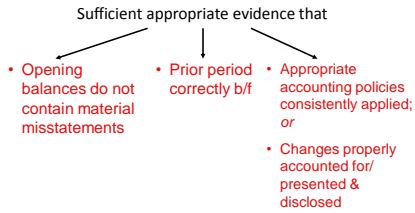
- Knowledge of industry/ and subject matter
- Experience with relevant statutory reporting requirements
- Sufficient personnel and time/capacity
- Experts where necessary
- Ability to perform quality control review

Exiting Auditors – statement of circumstances

Ethical Considerations – independence of the Audit firm and individual personnel

All above OK?
If "Yes" then issue the engagement letter

CPA SKILLNET ISA 510—Opening balances



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CPA SKILLNET Opening balances

- Prior period audited by another auditor
- Prior period not audited
- First period of trading

CPA SKILLNET Prior period audited by another auditor

- In this case the steps required in relation to open balances are as follows:
 - Obtain as much information as possible from the previous auditor and review for evidence regarding opening balances (ISA 510)
 - Read the previous auditor's report.
 - Confirm opening balances in financial statement and client's records to previous year closing balances
 - Note the applicable accounting policies in previous year accounts



Prior period audited by another auditor

- Ensure consistency in accounting policies from previous period. Otherwise, consider need for a prior period adjustment.
- Scrutinise client records for any evidence of misstatement of opening balances. Apply professional scepticism.
- If any opening balances are particularly material and/or risky consider the need to perform specific substantive procedures in regard to these.

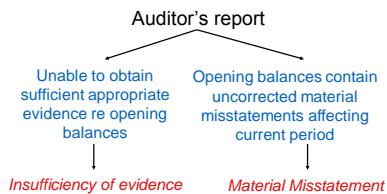


Prior period not audited

- In this case, it will be necessary to obtain sufficient, appropriate audit evidence in relation to opening balances.
- This will require a degree of retrospective audit.
- The extent to which this is possible will depend on the circumstances.
- This will have the following consequences re audit report



ISA 510 Opening balances (cont'd)- Previous period not audited



CPA SKILLNET Previous period not audited – Other matter paragraph

- Also, the corresponding figures are regarded as an intrinsic part of the financial statements.
- Therefore, in a situation where they are not audited, in addition to any possible modification of audit report (see previous slide), an “other matter” paragraph should be added to explain that the previous years have not been audited.

CPA SKILLNET First period of trading

- If we are auditing the financial statements for an entity in its first period of trading there will obviously be no corresponding or comparative figures.
- This gives rise to slightly different problems.
- We will need to establish the position on the first day of trading considering transactions that have occurred in advance of that date such as raising share and loan capital, acquiring assets, such as PPE and inventories.

CPA SKILLNET First period of trading

- Auditors will, by definition, have no prior experience of the client.
- Analytical Review will be much more difficult in the first year. However, AR is mandatory at the planning stage and the final review stage. (ISA 520).
- Obviously, we will have no corresponding or comparative figures to use as a benchmark. Comparison to budgets may be possible but may also be unreliable.

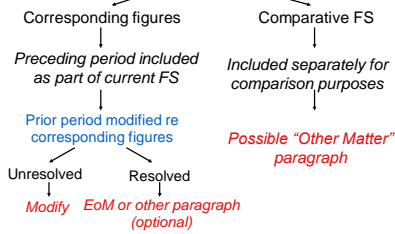


First period of trading

- Systems and controls will need to be documented from scratch, or if already document by management or internal audit will need to be verified by walk-through testing and, if we plan to rely on the systems for audit evidence extensive tests of controls will need to be carried out.



Comparatives (ISA 710)



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Accounting periods of varying length

- In theory, accounting periods of varying length do not matter to the auditor.
- Most companies produce financial statements for a 12-month period but there are many variations.
- Completing financial statements for a different period may have implications in terms of corporation tax, or annual returns.
- Let us look at some examples.



Example 1

Case Study

- XYZ Ltd which has a December 31 year end requests that you audit financial statements made up for the period 1 Jan to October 31 2016. The reason for this is because it has suffered heavy operating losses from October onwards and wants to apply for extra borrowing facilities quickly. The scope of the audit is not restricted in any way.



Solution to Example 1

An unqualified opinion may be issued for the September 30 financial statements if the audit meets generally accepted auditing standards.

- For example, the auditor must be satisfied regarding the physical inventory, assuming it is material.
- To prevent the financial statements from being misleading, the heavy operating losses incurred during the period after the date of the FS's should be disclosed.



Example 2

- The circumstances are similar but XYZ asks you to audit FS's prepared up to 12 December 2016.



Example 2 solution

- Statements may properly be prepared as of any day of any month. In this situation the auditor should be able to carry out all required audit procedures, and therefore, an unmodified opinion could be issued for the December 12 financial statements. For example, the physical inventory taking could be observed at a date shortly after December 12.
- Similarly, financial statements could be prepared for a period of longer than one year.



Summary- Opening balances

ISA 510 – *Initial Engagements – Opening Balances* and
 ISA 710 *Comparatives*

Auditors must confirm amounts from previous year do not contain material misstatements

- Check brought forward correctly
- Check corresponding amounts classified and disclosed
- Accounting policies consistent
- Audit report not modified – if so has issue been resolved?





Opening balances and comparatives

If preceding period not audited or audited by another auditor

- Review previous period's accounts, records and control procedures
- Consult with client's management
- Consult with previous auditors and obtain copies of working papers

Note – if evidence of opening position not satisfactory - final report has to be modified





Comparative figures

- ISA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements* requires that comparative figures comply with the identified financial reporting framework and that they are free from material misstatement.

Must be

- Based on consistent accounting policies
- Agree with amounts presented in prior periods
- Where adjusted or restated appropriate notes disclosed
