

October 31, 2007

Mr. James Sylph  
Executive Director, IAASB  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

**Re: Exposure Draft: *Proposed Redrafted International Standard on Auditing (ISA) 510, "Initial Audit Engagements – Opening Balances"***

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to have the opportunity to comment on the above referenced exposure draft.

We would like to commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of this exposure draft. We believe that the exposure draft clarifies the auditor's responsibilities and we support its issuance. We believe the objective to be achieved by the auditor and the related requirements are appropriate. Further, we support the removal of the restriction on the issuance of a split opinion that resides in extant ISA 510.

Our comments and recommendations are included in the accompanying appendix.

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If you have any questions regarding the comments in this letter, please contact Sharon Walker at +1-212-596-6026, [swalker@aicpa.org](mailto:swalker@aicpa.org).

Respectfully submitted,

/s/ Harold L. Monk, Jr.  
Chair, AICPA Auditing Standards Board

## APPENDIX – PARAGRAPH LEVEL COMMENTS

We offer the following paragraph level comments for your consideration. Suggested new language is shown in boldface; suggested deleted language is shown by strikethrough. Italicized text is used to add emphasis.

**Paragraph 1** – The example of contingencies and commitments in the redrafted ISA is confusing. In the interests of clarity we recommend that “such as contingencies and commitments” be deleted from the second sentence.

**Paragraph 3(b)** – We believe that the objective in paragraph 3(b) needs to address both accounting and disclosure. We recommend redrafting paragraph 3(b) as follows:

...Appropriate accounting policies have been consistently applied or changes thereto are properly accounted for and disclosed.

**Paragraph 6** – To be consistent with the use of the singular in the second sentence, change the first sentence of paragraph 6 as follows:

If the auditor obtains audit evidence that the opening balances contain **a** misstatements ~~which~~ **that** could materially affect the current period’s financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances.

**Paragraph 10** – Change the first line as follows:

If the auditor concludes that the opening balances contain **a** misstatements that materially affect the current period’s financial statements,...

**Paragraph A1, last bullet** – Delete the comma after *audited* and insert commas after *and* and *if so*.

**Paragraph A2** – We recommend adding the following sentence to paragraph A2 to make it clear that applying procedures to opening balances does not constitute an audit of the opening balances.

Applying procedures to opening balances does not constitute an audit or re-audit of the opening balance sheet sufficient to enable the current year auditor to report thereon.

**Paragraph A4, first bullet** – Observing a current physical inventory ~~taking~~ **count** and reconciling it ~~back~~ to the opening inventory quantities.

**Illustrative Report - First bullet** – change as follows:

Auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient ~~other~~ **appropriate** audit evidence regarding the opening balances of inventory.

**Illustrative Report - Basis for qualified opinion** – The language in the auditor’s report is very specific as to the impact of the auditor’s inability to observe the physical inventory. We believe that in reality, the auditor’s inability to observe the physical inventory will impact not only on the auditor’s considerations regarding the quantity of inventory, but also on other considerations with respect to inventory, such as obsolescence. Accordingly, we recommend that the explanation in the basis for qualified opinion be broadened to address the inventory balance rather than being specific to inventory quantities.

**Other**

Paragraph 7 requires the auditor to obtain sufficient appropriate audit evidence 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 properly accounted for and adequately presented and disclosed. While we recognize that providing additional guidance to this requirement may be outside the scope of the clarity redrafting conventions, we recommend that when the IAASB revises ISA 510 additional guidance be provided in this regard.