

SO YOU WANT TO SEE THE PRIOR AUDITOR'S WORKING PAPERS?



Niall Walsh looks at the practicalities of adhering to regulations introduced in 2010 concerning access to prior auditor information and clarifies exactly what should and should not be accessed from those that have gone before.

The Irish regulation providing auditors with access to prior auditor information about the entity being audited was issued just over two years ago. The regulations contained in S.I. No. 220/2010 – European Communities (Statutory Audits) (Directive 2006/43/EC) created an obligation on auditors to provide successor auditors with access to all relevant information concerning an audited entity. This became effective in

August 2010, three months after the 2010 regulations came into force. On first examination, the requirement appears relatively simple:

Incoming statutory auditor or audit firm to be afforded access to information

47(1) Where a statutory auditor or audit firm is replaced by another statutory auditor or audit firm, the former statutory auditor or

audit firm shall provide access to all relevant information concerning the audited entity to the incoming statutory auditor or audit firm.

Experience over the past two years, however, has shown that the application of the regulation is not so simple at a practical level. This has led to a number of differing approaches being used by auditors to access information about the entity under the

regulation and while some result in additional cost with minimal benefit, there are others that appear to be quite inappropriate!

To help in this regard, Chartered Accountants Ireland issued an information sheet in September 2011 (IS 02/2011 *Access to information by succeeding auditors*). This guidance should be read in conjunction with the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010.

The guidance is helpful and assists in understanding the obligations of both the successor and prior auditors when providing "access to all relevant information concerning the audited entity". It is important that:

- the successor auditor adheres to the 2010 Regulation;
- both prior and successor auditors do not go beyond the requirements of the regulation; and
- requests for access to relevant information are not made that go beyond the requirement.

At a practical level there can be misunderstanding of what exactly constitutes "relevant information concerning the audited entity". Relevant information is the *information received* by the prior auditor concerning the audited entity. This does not include the *information created or judgements made* in the course of previous audits of the entity.

The following examples indicate some of the approaches that can be used to access prior auditor's information within the guidelines of Regulation 2010.

SIMPLE REQUESTS FOR ACCESS TO PRIOR WORKING PAPERS

The successor auditor simply requests access to the prior auditor's working papers for the previous year. This is a simple and straightforward process. With the use of appropriately formatted requests and responses the files can be easily made available. In this

scenario, it is important that when looking at the audit file the successor auditor extracts and records information about the entity only and excludes other information that may be contained in the audit file. For risk management reasons, as a matter of practice, copies of documents or explanations should not be provided.

REQUESTS FOR SPECIFIC INFORMATION ABOUT THE ENTITY

In this scenario, the auditors can simply request access, using the example letters in the CAI guidance (IS 02/2011), to specified information about the entity. Where the request is focused and concerns information "about the entity" the request is easy to address. The prior auditor responds to the request in a standard format letter based on

the financial statements, particularly those that are not material. Furthermore, the prior auditor may not have information which relates to actions after the audit is completed such as information on annual returns, filing of financial statements and minutes of meetings. This information should not be requested from the prior auditor without determining whether the prior auditor is likely to possess such information.

While the prior auditor may have copies of certain client records (e.g. trial balances, financial statements, annual returns) and provides access to those copies as required under the 2010 Regulation, these records should ordinarily be part of the books and records of the company itself. Therefore, the sensible place for the successor auditor to obtain them is from their client – the company and/or its directors.

Requesting these from the prior auditor only increases cost and duplicates effort, unless some issue has been identified regarding the entity's books and records. It should also be noted that auditors are not obliged to provide copies – only access. This again indicates that the best source for successor auditors to obtain

books and records is directly from their client.

As a general rule, in all cases the successor auditor should seek required information from the entity itself where such information is held in the entity's books and records rather than request it from the prior auditor which adds to costs and consumes resources for both auditors. Some examples of items which would be best obtained from the audited entity include:

IS 02/2011. The successor auditor may visit the prior auditor's premises to access (look at) the information requested. This requires the prior auditor to extract the information from the audit file. This is a simple process and easily administered by both parties.

Examples of information which may be in the auditor's files which are not easily available from the audited entity include:

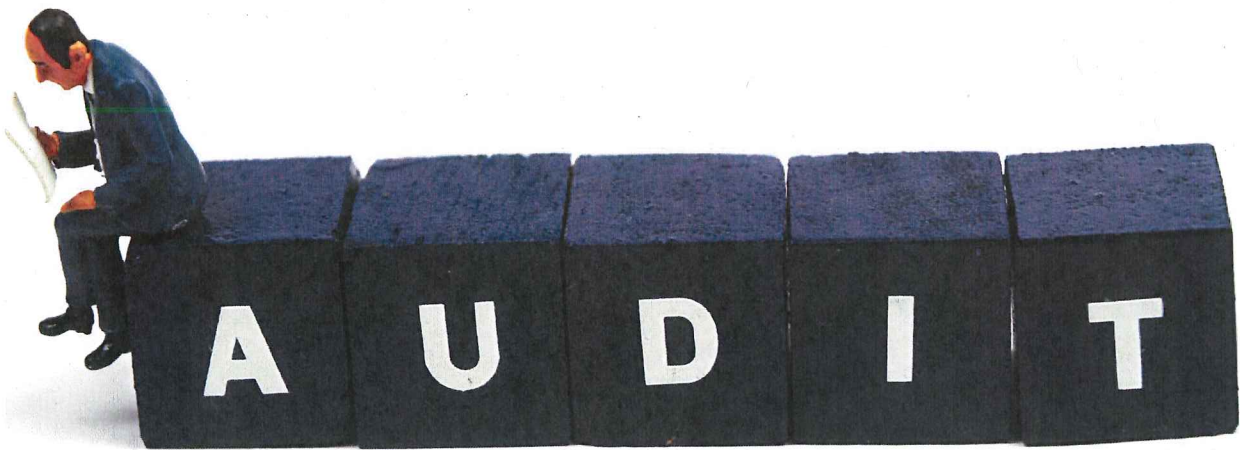
- Client systems and process descriptions documented during the audit;
- Client journals;
- Audit adjustments and journals;
- Unadjusted errors.

Successor auditors should bear in mind that some information may not necessarily be in the prior auditor's files. For example, the auditor may not have a lead sheet for each and every balance and transaction in

- Financial statements;
- Trial balance;
- Fixed asset register;
- Audited abridged financial statements filed in the Companies Office;
- Tax returns, computations and supporting schedules (to be obtained from the tax agents or the entity being audited).

“SUCCESSOR AUDITORS ARE REQUIRED BY AUDITING STANDARDS TO DEVELOP THEIR OWN JUDGEMENTS WHEN PLANNING AND PERFORMING THEIR AUDITS.”

“IN MAKING THE REQUESTS TO ACCESS RELEVANT INFORMATION IT WOULD APPEAR THAT SOME AUDITORS ARE INCORRECTLY ATTEMPTING TO IDENTIFY THE PRIOR AUDITOR’S JUDGEMENTS AND CONSULTATIONS – EITHER TO SHORT CUT THEIR AUDIT PROCESS... OR POTENTIALLY TO RELY ON JUDGEMENTS OF PRIOR AUDITS RATHER THAN DEVELOP THEIR OWN JUDGEMENTS.”



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REQUESTS FOR DOCUMENTS RECORDING AUDIT JUDGEMENTS

In some cases requests from successor auditors for access to information regarding audit judgments have been observed. It is important to recognise that the 2010 Regulation does not entitle the successor auditor to information about the audit, or the auditor’s judgments.

The law is confined to a right access to information about the entity and not about the audit of the entity.

Examples of successor auditors inappropriately requesting specific information on audit judgments and audit processes include requests for:

- Descriptions of critical matters identified in prior audits, including key audit judgments and results of any consultations;
- Details of significant risks, including fraud risks, and related audit procedures from the prior audit;

- Audit work for significant financial statement areas;
- Reports to management/board.

In these cases, as the request is for information beyond the entitlement under the 2010 Regulation, the former auditor needs to consider whether or not to provide access to the information. In making the requests to access relevant information it would appear that some auditors are incorrectly attempting to identify the prior auditor’s judgments and consultations – either to shortcut their audit process in identifying audit risks and planning further procedures or potentially to rely on judgments of prior audits rather than develop their own judgments. Successor auditors are required by auditing standards to develop their own judgments when planning and performing their audits. Relying on the 2010 Regulation to identify the prior auditor’s judgments and consultations is unwise and successor auditors are cautioned to form their own

independent judgement to ensure full compliance with auditing standards.

CONCLUSION

While there have been some issues relating to the nature of the information requested by successor auditors, in general the guidance in IS 02/2011, as issued by Chartered Accountants Ireland, has facilitated a straightforward mechanism to apply the requirements in the 2010 Regulation. Where the successor auditor scopes the request appropriately the process is straightforward and generally accepted by all parties.

One question, however, remains open to considerable debate: Is there truly any value in the information obtained by the successor auditor from the prior auditor of an entity under the regulation? But that is another article. ■

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