

Communications between predecessor and successor auditors

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Section 315 Communications Between Predecessor and Successor Auditors

(Supersedes SAS No. 7.) Source: SAS No. 84; SAS No. 93. Effective

with respect to acceptance of an engagement after March 31, 1998, unless

otherwise indicated. Introduction . 01 This section provides guidance on

communications between predecessor and successor auditors when a

change of auditors is in process or has taken place. It also provides

communications guidance when possible misstatements are discovered in ?

ancial statements reported on by a predecessor auditor. This section applies

whenever an independent auditor is considering accepting an engagement

to audit or reaudit (see paragraph . 14 of this section) ? nancial statements

in accordance with generally accepted auditing standards, and after such

auditor has been appointed to perform such an engagement. . 02 For the

purposes of this section, the term predecessor auditor refers to an auditor

who (a) has reported on the most recent audited ? nancial statements¹ or

was engaged to perform but did not complete an audit of the ? nancial

statements² and (b) has resigned, declined to stand for reappointment, or

been noti? ed that his or her services have been, or may be, terminated. The

term successor auditor refers to an auditor who is considering accepting an

engagement to audit ? nancial statements but has not communicated with

the predecessor auditor as provided in paragraphs . 07 through . 10 and to

an auditor who has accepted such an engagement. [As amended, effective

for audits of ? nancial statements for periods ending on or after June 30,

2001, by Statement on Auditing Standards No. 3.] Change of Auditors . 03

An auditor should not accept an engagement until the communications

described in paragraphs . 07 through . 10 have been evaluated. 3 However, an auditor may make a proposal for an audit engagement before communicating with the predecessor auditor. The auditor may wish to advise the prospective 1 The provisions of this section are not required if the most recent audited ? nancial statements are more than two years prior to the beginning of the earliest period to be audited by the successor auditor. There may be two predecessor auditors: the auditor who reported on the most recent audited ? nancial statements and the auditor who was engaged to perform but did not complete an audit of any subsequent ? nancial statements. [As amended, effective for audits of ? nancial statements for periods ending on or after June 30, 2001, by Statement on Auditing Standards No. 93.] 3 When the most recent ? nancial statements have been compiled or reviewed in accordance with the Statements on Standards for Accounting and Review Services, the accountant who reported on those ? nancial statements is not a predecessor auditor. Although not required by this section, in these circumstances the successor auditor may ? nd the matters described in paragraphs . 08 and . 09 useful in determining whether to accept the engagement. AU §315. 03 156 The Standards of Field Work client (for example, in a proposal) that acceptance cannot be ? nal until the communications have been evaluated. . 04 Other communications between the successor and predecessor auditors, described in paragraph . 11, are advisable to assist in the planning of the engagement.

However, the timing of these other communications is more ? exible. The successor auditor may initiate these other communications either prior to acceptance of the engagement or subsequent thereto. . 05 When more than

one auditor is considering accepting an engagement, the predecessor auditor should not be expected to be available to respond to inquiries until a successor auditor has been selected by the prospective client and has accepted the engagement subject to the evaluation of the communications with the predecessor auditor as provided in paragraphs . 07 through . 10. 06 The initiative for communicating rests with the successor auditor. The communication may be either written or oral. Both the predecessor and successor auditors should hold in confidence information obtained from each other. This obligation applies whether or not the successor auditor accepts the engagement. Communications Before Successor Auditor Accepts Engagement . 07 Inquiry of the predecessor auditor is a necessary procedure because the predecessor auditor may be able to provide information that will assist the successor auditor in determining whether to accept the engagement.

The successor auditor should bear in mind that, among other things, the predecessor auditor and the client may have disagreed about accounting principles, auditing procedures, or similarly significant matters. . 08 The successor auditor should request permission from the prospective client to make an inquiry of the predecessor auditor prior to final acceptance of the engagement. Except as permitted by the Rules of the Code of Professional Conduct, an auditor is precluded from disclosing confidential information obtained in the course of an engagement unless the client specifically consents.

Thus, the successor auditor should ask the prospective client to authorize the predecessor auditor to respond fully to the successor auditor's inquiries. If a prospective client refuses to permit the predecessor auditor to respond or limits the response, the successor auditor should inquire as to the reasons and consider the implications of that refusal in deciding whether to accept the engagement. . 09 The successor auditor should make speci? c and reasonable inquiries of the predecessor auditor regarding matters that will assist the successor auditor in determining whether to accept the engagement.

Matters subject to inquiry should include— • • • Information that might bear on the integrity of management. Disagreements with management as to accounting principles, auditing procedures, or other similarly signi? cant matters. Communications to those charged with governance regarding fraud and illegal acts by clients. [4] [4] [Footnote deleted to re? ect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 114.] AU §315. 04 Communications Between Predecessor and Successor Auditors 157 • • Communications to management and those charged with governance regarding signi? ant de? ciencias and material weaknesses in internal control. 5 The predecessor auditor's understanding as to the reasons for the change of auditors. The successor auditor may wish to consider other reasonable inquiries. [Revised, May 2006, to re? ect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 112. Revised, April 2007, to re? ect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 114.] . 10 The predecessor

auditor should respond promptly and fully, on the basis of known facts, to the successor auditor's reasonable inquiries.

However, should the predecessor auditor decide, due to unusual circumstances such as impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to respond fully to the inquiries, the predecessor auditor should clearly state that the response is limited. If the successor auditor receives a limited response, its implications should be considered in deciding whether to accept the engagement. Other Communications . 11 The successor auditor should request that the client authorize the predecessor auditor to allow a review of the predecessor auditor's working papers.

The predecessor auditor may wish to request a consent and acknowledgment letter from the client to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized. 6 It is customary in such circumstances for the predecessor auditor to make himself or herself available to the successor auditor and make available for review certain of the working papers. The predecessor auditor should determine which working papers are to be made available for review and which may be copied.

The predecessor auditor should ordinarily permit the successor auditor to review working papers, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working paper analysis of balance sheet accounts, and those relating to contingencies. Also, the predecessor auditor

should reach an understanding with the successor auditor as to the use of the working papers. 7 The extent, if any, to which a predecessor auditor permits access to the working papers is a matter of judgment.

Successor Auditor's Use of Communications . 12 The successor auditor must obtain sufficient appropriate audit evidence to afford a reasonable basis for expressing an opinion on the financial statements he or she has been engaged to audit, including evaluating the consistency of the application of accounting principles. The audit evidence used in analyzing the impact of the opening balances on the current-year financial statements and consistency of accounting principles is a matter of professional judgment. Such audit evidence may include the most recent audited financial 5 See section 316, Consideration of Fraud in a Financial Statement Audit; section 317, Illegal Acts by Clients; and section 325, Communicating Internal Control Related Matters Identified in an Audit. [Footnote revised, May 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 112.] 6 Appendix A [paragraph . 24] contains an illustrative client consent and acknowledgment letter. 7 Before permitting access to the working papers, the predecessor auditor may wish to obtain a written communication from the successor auditor regarding the use of the working papers.

Appendix B [paragraph . 25] contains an illustrative successor auditor acknowledgment letter. AU §315. 12 158 The Standards of Field Work statements, the predecessor auditor's report thereon, 8 the results of inquiry of the predecessor auditor, the results of the successor auditor's review of

the predecessor auditor's working papers relating to the most recently completed audit, and audit procedures performed on the current period's transactions that may provide evidence about the opening balances or consistency.

For example, evidence gathered during the current year's audit may provide information about the realizability and existence of receivables and inventory recorded at the beginning of the year. The successor auditor may also apply appropriate auditing procedures to account balances at the beginning of the period under audit and to transactions in prior periods. [As amended, effective for audits of financial statements for periods ending on or after June 30, 2001, by Statement on Auditing Standards No. 93.

Revised, March 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 105.] . 13 The successor auditor's review of the predecessor auditor's working papers may affect the nature, timing, and extent of the successor auditor's procedures with respect to the opening balances and consistency of accounting principles. However, the nature, timing, and extent of audit work performed and the conclusions reached in both these areas are solely the responsibility of the successor auditor.

In reporting on the audit, the successor auditor should not make reference to the report or work of the predecessor auditor as the basis, in part, for the successor auditor's own opinion. Audits of Financial Statements That Have Been Previously Audited . 14 If an auditor is asked to audit and report on financial statements that have been previously audited and reported on

(henceforth referred to as a reaudit), the auditor considering acceptance of the reaudit engagement is also a successor auditor, and the auditor who previously reported is also a predecessor auditor.

In addition to the communications described in paragraphs . 07 through . 10, the successor auditor should state that the purpose of the inquiries is to obtain information about whether to accept an engagement to perform a reaudit. . 15 If the successor auditor accepts the reaudit engagement, he or she may consider the information obtained from inquiries of the predecessor auditor and review of the predecessor auditor's report and working papers in planning the reaudit. However, the information obtained from those inquiries and any review of the predecessor auditor's report and working papers is not sufficient to afford a basis for expressing an opinion. The nature, timing, and extent of the audit work performed and the conclusions reached in the reaudit are solely the responsibility of the successor auditor performing the reaudit. . 16 The successor auditor should plan and perform the reaudit in accordance with generally accepted auditing standards. The successor auditor should not assume responsibility for the predecessor auditor's work or issue a report that reflects divided responsibility as described in section 543, Part of Audit Performed by Other Independent Auditors.

Furthermore, the predecessor auditor is not a specialist as defined in section 336, Using the Work of a Specialist, or an internal auditor as defined in section 322, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements. . 17 If the successor auditor has audited the current period, the results of that audit may be considered in planning and

performing the reaudit of the 8 The successor auditor may wish to make inquiries about the professional reputation and standing of the predecessor auditor.

See section 543, Part of Audit Performed by Other Independent Auditors, paragraph . 10a. AU §315. 13 Communications Between Predecessor and Successor Auditors 159 preceding period or periods and may provide audit evidence that is useful in performing the reaudit. [Revised, March 2006, to re? ect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 105.] . 18 If, in a reaudit engagement, the successor auditor is unable to obtain suf? cient appropriate audit evidence to express an opinion on the ? nancial tatements, the successor auditor should qualify or disclaim an opinion because of the inability to perform procedures the successor auditor considers necessary in the circumstances. [Revised, March 2006, to re? ect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 105.] . 19 The successor auditor should request working papers for the period or periods under reaudit and the period prior to the reaudit period. However, the extent, if any, to which the predecessor auditor permits access to the working papers is a matter of judgment. See paragraph . 11 of this section.) . 20 In a reaudit, the successor auditor generally will be unable to observe inventory or make physical counts at the reaudit date or dates in the manner discussed in paragraphs . 09 through . 11 of section 331, Inventories. In such cases, the successor auditor may consider the knowledge obtained from his or her review of the predecessor auditor's working papers and inquiries of the

predecessor auditor to determine the nature, timing, and extent of procedures to be applied in the circumstances.

The successor auditor performing the reaudit should, if material, observe or perform some physical counts of inventory at a date subsequent to the period of the reaudit, in connection with a current audit or otherwise, and apply appropriate tests of intervening transactions. Appropriate procedures may include tests of prior transactions, reviews of records of prior counts, and the application of analytical procedures, such as gross profit tests.

Discovery of Possible Misstatements in Financial Statements Reported on by a Predecessor Auditor . 21 If during the audit or reaudit, the successor auditor becomes aware of information that leads him or her to believe that financial statements reported on by the predecessor auditor may require revision, the successor auditor should request that the client inform the predecessor auditor of the situation and arrange for the three parties to discuss this information and attempt to resolve the matter.

The successor auditor should communicate to the predecessor auditor any information that the predecessor auditor may need to consider in accordance with section 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report, which sets out the procedures that an auditor should follow when the auditor subsequently discovers facts that may have affected the audited financial statements previously reported on. 9 . 22 If the client refuses to inform the predecessor auditor or if the successor auditor is not satisfied with the resolution of the matter, the successor auditor should evaluate (a) possible implications on the current engagement and (b)

whether to resign from the engagement. Furthermore, the successor auditor may wish to consult with his or her legal counsel in determining an appropriate course of further action. Effective Date . 23 This section will be effective with respect to acceptance of an engagement after March 31, 1998. Earlier application is permitted. 9 See section 508, Reports on Audited Financial Statements, paragraphs . 70 through . 74, for reporting guidance. AU §315. 23 160 . 24

The Standards of Field Work Appendix A Illustrative Client Consent and Acknowledgment Letter 1. Paragraph . 11 of this section states, " The successor auditor should request that the client authorize the predecessor auditor to allow a review of the predecessor auditor's working papers. The predecessor auditor may wish to request a consent and acknowledgment letter from the client to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized. " The following letter is presented for illustrative purposes only and is not required by professional standards. Date] ABC Enterprises [Address] You have given your consent to allow [name of successor CPA ? rm], as successor independent auditors for ABC Enterprises (ABC), access to our working papers for our audit of the December 31, 19X1, ? nancial statements of ABC. You also have given your consent to us to respond fully to [name of successor CPA ? rm] inquiries. You understand and agree that the review of our working papers is undertaken solely for the purpose of obtaining an understanding about ABC and certain information about our audit to assist [name of successor CPA ? m] in planning the audit of the December 31, 19X2, ? nancial statements of ABC. Please con? rm your agreement with the

foregoing by signing and dating a copy of this letter and returning it to us. Attached is the form of the letter we will furnish [name of successor CPA ? rm] regarding the use of the working papers. Very truly yours, [Predecessor Auditor] By: _____ Accepted: ABC Enterprises By: _____

_____ Date: _____ AU §315. 24

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Appendix B Illustrative Successor Auditor Acknowledgment Letter .

Paragraph . 11, footnote 7, of this section states, " Before permitting access

to the working papers, the predecessor auditor may wish to obtain a written

communication from the successor auditor regarding the use of the working

papers. " The following letter is presented for illustrative purposes only and

is not required by professional standards. [Successor Auditor] [Address] We

have previously audited, in accordance with auditing standards generally

accepted in the United States of America, the December 31, 20X1, ? nancial

statements of ABC Enterprises (ABC). We rendered a report on those ? nancial

statements and have not performed any audit procedures subsequent to the

audit report date. In connection with your audit of ABC's 20X2 ? nancial

statements, you have requested access to our working papers prepared in

connection with that audit. ABC has authorized our ? rm to allow you to

review those working papers. Our audit, and the working papers prepared in

connection therewith, of ABC's ? nancial statements were not planned or

conducted in contemplation of your review. Therefore, items of possible

interest to you may not have been speci? cally addressed. Our use of

professional judgment and the assessment of audit risk nd materiality for the

purpose of our audit mean that matters may have existed that would have

been assessed differently by you. We make no representation as to the sufficiency or appropriateness of the information in our working papers for your purposes. We understand that the purpose of your review is to obtain information about ABC and our 19X1 audit results to assist you in planning your 19X2 audit of ABC. For that purpose only, we will provide you access to our working papers that relate to that objective. Upon request, we will provide copies of those working papers that provide factual information about ABC.

You agree to subject any such copies or information otherwise derived from our working papers to your normal policy for retention of working papers and protection of confidential client information. Furthermore, in the event of a third-party request for access to your working papers prepared in connection with your audits of ABC, you agree to obtain our permission before voluntarily allowing any such access to our working papers or information otherwise derived from our working papers, and to obtain on our behalf any releases that you obtain from such third party.

You agree to advise us promptly and provide us a copy of any subpoena, summons, or other court order for access to your working papers that include copies of our working papers or information otherwise derived therefrom. Please confirm your agreement with the foregoing by signing and dating a copy of this letter and returning it to us. AU §315.25 162 Very truly yours, [Predecessor Auditor] The Standards of Field Work By:

_____ Accepted: [Successor Auditor] By:
 _____ Date: _____ Even with the client's

consent, access to the predecessor auditor's working papers may still be limited.

Experience has shown that the predecessor auditor may be willing to grant broader access if given additional assurance concerning the use of the working papers. Accordingly, the successor auditor might consider agreeing to the following limitations on the review of the predecessor auditor's working papers in order to obtain broader access: • • • The successor auditor will not comment, orally or in writing, to anyone as a result of the review as to whether the predecessor auditor's engagement was performed in accordance with generally accepted auditing standards.

The successor auditor will not provide expert testimony or litigation support services or otherwise accept an engagement to comment on issues relating to the quality of the predecessor auditor's audit. The successor auditor will not use the audit procedures or results thereof documented in the predecessor auditor's working papers as audit evidence in rendering an opinion on the 19X2 financial statements of ABC Enterprises, except as contemplated in Statement on Auditing Standards No. 84. The following paragraph illustrates the above:

Because your review of our working papers is undertaken solely for the purpose described above and may not entail a review of all our working papers, you agree that (1) the information obtained from the review will not be used by you for any other purpose, (2) you will not comment, orally or in writing, to anyone as a result of that review as to whether our audit was performed in accordance with generally accepted auditing standards, (3) you

will not provide expert testimony or litigation support services or otherwise accept an engagement to comment on issues relating to the quality of our audit, and (4) you will not use the audit procedures or results thereof documented in our working papers as audit evidence in rendering your opinion on the 19X2 financial statements of ABC, except as contemplated in Statement on Auditing Standards No. 84. [Revised, October 2000, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 93. Revised, March 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 105.]

AU §315. 25