



Introduction

Review of a predecessor auditor's file on initial audit engagements is governed by ISA 510 "Initial Audit Engagements - Opening Balances". ISA 510 states that where the prior period's financial statements were audited by a predecessor auditor, the incumbent may be able to obtain sufficient appropriate audit evidence regarding the opening balances by reviewing the predecessor auditor's working papers.

Assessment

ISA 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing" state that audit evidence is necessary to support the auditor's opinion and report. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion as appropriate, in accordance with IAS 705 "Modifications to the Opinion" in the independent auditor's report.

IAS 200 emphasizes the need to gather audit evidence that is both sufficient and appropriate. It goes on to state that both terms, sufficiency and appropriateness, are interrelated. Sufficiency is the measure of the *quantity* of audit evidence whereas appropriateness is the measure of the *quality* of audit evidence. Further, the quantity of audit evidence necessary is affected by the auditor's assessment of the risks of misstatements as well as the quality of such audit evidence obtained. The reliability of evidence which is influenced by its source and nature is also considered.

ISA 330 "The Auditor's Responses to Assessed Risks" requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained. ISA 200 further prescribes that reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risks to an acceptably low level. Whether sufficient appropriate evidence has been obtained to reduce audit risk to an acceptably low level, thereby enabling the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgement. Additionally, whether such a review provides sufficient appropriate audit evidence is influenced by the professional competence and independence of the predecessor auditor.

Before acceptance of a new engagement, any professional or ethical reasons preventing acceptance are considered. This normally entails making a formal written request of the predecessor auditor to provide assurances whether any such reasons exist.

In the conduct of the current year's audit, assurance is required on the opening balances, and therefore procedures would be considered which would give sufficient appropriate evidence on the balances. Reading the most recent financial statements are a start, but are not considered sufficient in the circumstances, therefore we would consider one or more other procedures.

We have to consider if the opening balances have been accurately brought forward and whether the opening balances reflect the application of appropriate accounting policies. ISA 510 also suggests one or more of the following procedures:

1. Where the prior year financial statements were audited, reviewing the predecessor's working papers to obtain evidence regarding the opening balances
2. Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balance; or
3. Performing specific audit procedures to obtain evidence regarding the opening balances

Testing opening balances is not always possible due to lack of access granted by the predecessor auditor, lack of sufficient information available in the predecessor auditor's working papers, lack of sufficient time to perform the procedures and lack of suitable co-operation from the outgoing auditor. Where sufficient appropriate audit evidence on opening balances cannot be obtained from the review of the predecessor auditor's working papers it is the responsibility of the current auditor to obtain such evidence through other procedures.

Review of the prior year working papers need to show evidence of the understanding which would have been made by the predecessor auditor, the resulting risk assessment and the audit procedures performed and conclusions. Failure to obtain all the necessary information could result in a lack of sufficient appropriate audit evidence, and if other procedures would have been insufficient, modification in line with ISA 705, would again have to be considered.

It is important to consider this if misstatements are discovered from current year's procedures it would be helpful to know what would have been the impact on the predecessor's audit opinion given that a different materiality and misstatement threshold could have been used by the outgoing auditor. Having a clear understanding of the unadjusted misstatements identified by the outgoing auditor from review of their workpapers and how they would have been assessed and adjusted would indicate if the brought forward figures are reasonable.

Conclusion

Having considered all the factors above, a review of the predecessor's working papers is an important step in gathering sufficient appropriate evidence on the opening balances. It allows the incumbent to assess the impact on the current audit by highlighting any misstatements previously identified, and how they would have been resolved. It also allows the incumbent to identify the major risks on the engagement and to determine if sufficient and appropriate audit procedures were performed to address these risks.

Practitioners are encouraged to include this step in the audit plan for their initial audit engagements and extend the necessary courtesies to the successor auditor to enable this to be done.