

Audit handover

Guidance note



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1. Introduction

- 1.** This document provides guidance to auditors on managing the handover to 2022/23 audits. This guidance note complements the requirements and guidance contained in the letter of appointment, Code of audit practice, ISAs and planning guidance.
- 2.** Rotating the appointment of the external auditor may present risks for the audited body and both the predecessor and successor auditors if not properly managed. Auditors can minimise disruption to all parties and maximise the transfer of knowledge of the audited body by working in partnership with Audit Scotland and each other.
- 3.** This guidance note sets out the actions that auditors should take to ensure an efficient handover of audits that minimises disruption to audited bodies. Extracts from relevant standards are included for reference.
- 4.** Although it does not apply to audits carried out under appointment by the Auditor General or Accounts Commission auditors may wish to refer to the [Institute of Chartered Accountants in England and Wales's Technical Release AAF 01/08](#). Auditors should note that AAF 01/08 is explicitly concerned with arrangements for the handover of "statutory audit" as defined by the Companies Act 2006.
- 5.** The principles within the technical release are broadly the same as in this handover note. The relevant legislation on Scottish public sector audit provides for access to relevant documentation that is similar in nature to that described in AAF 01/08.

2. Predecessor auditors

Auditor cooperation

6. Auditors should work together to ensure that the knowledge built up by the predecessor auditor during the course of the audit is passed on to the successor auditor. Knowledge transfer may be accomplished by:

- predecessor auditors providing principal reports to successor auditors
- predecessor auditors holding a briefing meeting with the successor auditor
- predecessor auditors providing successor auditors access to working papers
- auditors agreeing on respective responsibilities during the handover period.

Principal reports

7. Audit Scotland publishes all Annual Audit Plans, Annual Audit Reports, statutory reports and Best Value Assurance Reports on its website, so predecessor auditors will not need to provide these to successor auditors. Where an audit is expected to complete late, predecessor auditors may wish to either provide the Annual Audit Report in draft form to the successor auditor or discuss emerging findings. Other reports that should be shared include the last financial year's:

- reports on local studies and projects
- reports to management or interim reports including reports on accounting systems weaknesses
- other documents as appropriate, including copies of correspondence with members, officers, the public and others relating to the accounts and the audit
- grant claims and returns (local government and others as appropriate), including copies of grant claim reports.

Briefing meeting

8. Predecessor auditors should provide a briefing that enables the successor auditor to fully understand all relevant circumstances for the audit. Predecessor and successor auditors should mutually agree which team members should attend the briefing, which may be the Engagement lead, manager and/or team

leader. Subjects to cover include, but are not limited to the auditor's opinions on:

- audit risks, including those pertaining to the audit dimensions
- statutory reporting, including where the audit team and Audit Scotland have discussed a statutory report but concluded against reporting
- accounting and auditing timetables
- governance and culture within the audited body
- principal staff within the audited body and Local Area Network contacts for local government, and their contact details
- the capability and level of involvement of those charged with governance in the audited body
- auditor's approach to data analytics and information on where systems cannot provide key data
- the audited body's approach to hybrid working and expectations of the auditor's in person attendance.

9. The briefing meeting also provides an opportunity for the successor auditor to explain any additional information requirements they may have.

Access to working papers

10. Access to working papers is for the purpose of auditing the 2022/23 accounts and no other purpose. The [Local Government in Scotland Act 1973](#) provides access rights to auditors irrespective of who holds the documentation, but the access remains solely for the audit of the accounts. [The Public Finance and Accountability \(Scotland\) Act 2000 \(Access to Documents and Information\) \(Relevant Persons\) Order 2003](#) specifies the people from whom information can be obtained beyond those within the audited body. This does not provide for access to documentation held by the predecessor auditor.

11. Successor auditors should be specific about what papers they need to see. A blanket request for all working papers would not be appropriate. Predecessor auditors may wish to provide successor auditors with a sufficient understanding of the content of working papers to enable them to ask for specific papers. Where a predecessor auditor has concerns about the need to see certain papers, they should discuss this with the successor auditor in the first place. Where disagreement remains, auditors should contact Audit Quality and Appointments for resolution.

12. Auditing standards are silent on how access to working papers for successor auditors should be given. Where access may involve access to integrated proprietary software, the predecessor may need to consider how it provides appropriate means of access to relevant audit documentation. Auditors should consider whether this can be achieved remotely to reduce the need for travel.

13. The provision of access to any intellectual property of the predecessor or any material in which the predecessor has copyright does not amount to permission to the successor to use or exploit that intellectual property or copyright in any way.

14. The predecessor is under no obligation to allow copying of its audit working papers, but it would be reasonable to allow, as a minimum, the copying of extracts of the books and records of the audited body. It would also be reasonable and indeed helpful to allow copying of papers such as: breakdown of analyses of financial statement figures and documentation of the client's systems and processes. While there is no obligation to allow copying of papers that show judgements or the nature, scope and results of tests conducted to form an audit opinion and to which access has been provided, it would be for the predecessor and the successor to discuss and arrive at an agreement between them of what it is reasonable to copy.

15. Predecessor auditors should be prepared to answer questions on a timely basis. Successor auditors should allow predecessor auditors sufficient time to answer more complex questions.

16. The kind of documentation that might be requested includes:

- working papers to provide audit comfort over opening balances
- details of the main financial IT applications used for preparing the financial statements
- details of controls and weaknesses identified in the systems of internal control in 2021/22
- working papers related to identified significant risks of material misstatement
- evidence obtained in support of audit dimension conclusions
- details of follow-up work on implementing previous audit recommendations
- copies of recent complaints (and objections for local government sector audits) together with the audit response and any background information.

Scheduling

17. Audit deadlines have still not fully returned to pre-pandemic dates. Some bodies continue to struggle to accommodate the revised deadlines. Bringing the deadlines forward when the previous year's audit was to a later deadline puts pressures on auditors to complete the audit in less time than was previously available.

18. This means that there may be circumstances when an audit has not been completed by the deadline and any handover arrangements may need to be planned to accommodate this. Predecessor auditors should contact successor

auditors if they do not expect to meet the deadlines. Successor auditors should schedule their work to accommodate delayed completion of prior year work.

19. Audit Scotland recognises that a late start to an audit may add to the risk that the first year of the audit may not meet the deadlines. In such circumstances, auditors should continue to prioritise audit quality over meeting deadlines.

20. Access should normally only be requested after the predecessor's audit is complete. In the normal course, requests for access will be made soon after the audit is complete at the planning stage of the successor auditor's first audit. Correspondingly, the predecessor should grant access within a reasonable amount of time of receipt of the request. The timing of access should have regard to the following:

- the point at which the audit file will be complete (ISA (UK) 230 allows the predecessor up to 60 days after the date of the audit report to complete the assembly of its final audit file); and
- the successor's reporting timetable.

21. Requests for access need to be reasonable without causing either the predecessor or the successor undue resourcing or timing difficulties.

22. There will need to be cooperation between the predecessor and the successor regarding when the requests for access are made and the period during which the successor can have access to the audit working papers. The period needs to be reasonable.

Respective responsibilities

23. The predecessor auditor should complete all grant claims relating to their period of appointment. However if, exceptionally, a claim cannot be completed within a reasonable timescale the outgoing and incoming auditor should agree which claims will be dealt with by the incoming auditor.

24. In most cases, the audit will be fully complete at the date on which the audit opinion is signed and the Annual Audit Report is published so the successor auditor can take over with no crossover. There may be circumstances, such as HB certification in councils, WGA certification in the largest bodies and statutory reporting, where the predecessor auditor retains some involvement after issuing the Annual Audit Report.

25. Predecessor auditors should discuss with the successor auditors any responsibilities that they retain beyond the signing of the accounts and publication of the Annual Audit Report. Both auditors should agree on respective responsibilities on the basis of the predecessor auditor retaining responsibility in all cases unless the audit work would be more appropriately undertaken by the successor auditor.

26. Where auditors agree to transfer responsibility, they should contact Audit Quality and Appointments, and explain the resource cost of any such transfer of responsibility. Such work should not ordinarily be added to the 2022/23 audit

fee. Audit Quality and Appointments may adjust the predecessor auditor's remuneration for any such transfers of responsibility if the work forms a normal part of the appointed audit.

3. Successor auditors

27. The successor auditors should consider adopting some or all of the following:

- attending the final 2021/22 audit committee (where they have not already taken place)
- holding a pre-meeting with the audited body.

Audit committee attendance

28. The successor auditor should consider attending the final audit committee covering the approval of the audited financial statements, where possible. This will provide an opportunity to observe the audit committee in operation, but also allow the audit committee to meet their new auditor.

29. Auditors may need to make contact with the body to request permission to attend the audit committee where they are not held as open meetings. Predecessor auditors may be able to facilitate this. Successor auditors should inform the predecessor auditor where they will attend the audit committee.

Pre-meeting with the audited body

30. The new audit team should arrange to meet the audited body early to introduce one another, and discuss each others' expectations, needs and priorities.

31. Principal areas of discussion might include:

- the detailed listing of expectations in relation to working papers
- timescales for the audit, including risk assessment and audit planning, interim audit and the audit of the financial statements
- expectations for on site and/or virtual attendance by auditors
- responsibilities of the audit team and their contact details
- responsibilities of the finance team and their contact details
- arranging for early contact with key parties including Chief Executives/Accountable Officers, directors, audit committee chair/members, Council/Board chairs, and convenors, as appropriate.

32. Successor auditors should aim to have such meetings after meeting the predecessor auditors, especially where the 2020/22 audit is not complete, to manage timing of handover and agree respective responsibilities.

4. Relevant standards

2016 Letter of appointment

33. Paragraph 3.5 states:

“At the end of the auditor’s appointment, the auditor will take all reasonable steps to assist any successor external auditor appointed to the bodies mentioned in this letter. Such assistance shall include making available to the successor auditor any permanent information about the bodies and about the audit that the successor and outgoing auditor believe would enhance Audit Scotland’s partnership working ethos. This information might typically include, but may not be limited to:

- information about the bodies’ Financial sustainability, Financial management, Governance and transparency and Value for money
- audit reports, management letters and correspondence exchanged with the audited bodies during the period of appointment.”

ISA (UK) 300 Planning an audit of financial statements

34. Paragraph 13 states:

"The auditor shall undertake the following activities prior to starting an initial audit:

...(b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22)"

35. Paragraph A22 states:

"... For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor’s working papers."

ISA (UK) 510 Initial Engagements - opening balances

36. Paragraph 5 states:

"The auditor shall read the most recent financial statements, if any, and the predecessor auditor’s report thereon, if any, for information relevant to opening balances, including disclosures."

37. Paragraph 6 states:

"The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by: (Ref: Para. A1–A2)

...(c) Performing one or more of the following: (Ref: Para. A3–A7)

(i) Where the prior year financial statements were audited, reviewing the predecessor auditor's working papers to obtain evidence regarding the opening balances; or..."

38. Paragraph A4 states:

"If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by reviewing the predecessor auditor's working papers. Whether such a review provides sufficient appropriate audit evidence is influenced by the professional competence and independence of the predecessor auditor."

ISA (UK) 710 Comparative Information

39. Paragraphs A7-1 & A7-2 highlight that predecessor auditors are not referred to in the UK. We expect auditors to comply with the UK application guidance of ISA 710.

"In the UK the incoming auditor does not refer to the predecessor auditor's report on the corresponding figures in the incoming auditor's report for the current period. The incoming auditor assumes audit responsibility for the corresponding figures only in the context of the financial statements as a whole. The incoming auditor reads the preceding period's financial statements and, using the knowledge gained during the current audit, considers whether they have been properly reflected as corresponding figures in the current period's financial statements.

Although the incoming auditor is not required to re-audit the financial statements of the preceding period, if the incoming auditor becomes aware of a possible material misstatement of corresponding figures, the requirement and guidance in paragraphs 12 and A6 apply."

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