

## Audit Working Papers Regulations 2023 – associated Guidance<sup>1</sup>

This guidance relates to the [Audit Working Papers Regulations 2023](#)<sup>2</sup> ('the Regulations') but is not part of the Regulations

The purpose of the Regulations is to assist in maintaining the effectiveness (including cost effectiveness) and the efficiency of the audit process in the context of a change of auditor. The Regulations are intended to reduce the (actual or perceived) risk of changing auditor.

Before requesting the audit working papers and relevant information the successor should consider the need to make a request to the predecessor under the Regulations, and the extent of that request. Relevant information may be wider than "audit working papers" and can include other information that can be confirmed by the successor to be necessary.

If auditing standards do not indicate the audit working papers to be prepared, this will have been determined by the predecessor.

If required, the predecessor should assist the successor by providing timely explanations to assist the latter's understanding of the audit working papers.

A successor may request information in addition to that within the period mentioned in section 4(3) of the Regulations. Any such additional information sought should be justified and described in writing, as precisely as possible.

Any written agreement between the successor and the predecessor regarding the audit working papers should be copied to the audited company.

A predecessor may allow the copying of working papers and would be expected to allow copying of extracts of the books and records of the audit client that are contained in the audit working papers.

A request for information should only be in connection with the successor's audit. The successor should not accept an additional engagement that would involve the use of the information obtained by it under the Regulations (such as to act as an expert witness or to review the quality of the predecessor's audit work). The successor should not comment on the quality of the predecessor's audit work unless required to do so by a legal or professional obligation.

The reference in the Regulations to the information not being disclosed to a third party includes to the company. This does not prevent the successor discussing the information with the company where to do so is a necessary part of its audit work. Nor does it prevent the successor providing the information to a third party if that is required by a legal or professional obligation.

For the avoidance of doubt, the Regulations apply only to audits of companies within the meaning of the Companies Act 1982 and the Companies Act 2006. Auditors are not required to allow access to audit working papers in respect of other audits.

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<sup>1</sup> This Guidance should be read in conjunction with the [Audit Working Papers Regulations 2023](#). Both the Regulations and Guidance are based on AR3.09 (see attached) of the United Kingdom's Audit Regulations <https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/working-in-the-regulated-area-of-audit/audit-regulations-and-guidance-effective-from-1-january-2021.ashx?la=en>, but the UK's requirements have no legal effect in the Isle of Man.

<sup>2</sup> [https://legislation.gov.uk/cms/images/LEGISLATION/SUBORDINATE/2023/2023-0199/AuditWorkingPapersRegulations2023\\_1.pdf](https://legislation.gov.uk/cms/images/LEGISLATION/SUBORDINATE/2023/2023-0199/AuditWorkingPapersRegulations2023_1.pdf)

## UK'S REQUIREMENTS – FOR INFORMATION ONLY

### UK's AR 3.09 - regulation and guidance

**“3.09 When a Registered Auditor (the ‘predecessor’) ceases to hold an audit appointment and another Registered Auditor (the ‘successor’) is appointed the predecessor must, if requested in writing by the successor, allow the successor access to all relevant information held by the predecessor in respect of its audit work. If relevant information is to be sought by the successor, it should be sought and provided in accordance with the following guidance. Any information obtained by the successor is for the purposes of its audit and must not be disclosed to a third party unless the successor is required to do so by a legal or professional obligation.**

#### **Guidance**

##### Origin and purpose

This audit regulation (“the Regulation”) gives effect to the obligation in the 2006 Act that RSBs must have adequate rules and practices designed to ensure that a person ceasing to hold office as a statutory auditor makes available to his successor in that office all relevant information which he holds in relation to that office. The requirement derives from Article 23(3) of the EU Audit Directive. The then Department for Business, Enterprise and Regulatory Reform (now the Department for Business, Energy and Industrial Strategy) stated that the Regulation should provide “the most appropriate minimum requirement in relation to access to relevant information”.

The purpose of the Regulation is to assist in maintaining the effectiveness (including cost effectiveness) and the efficiency of the audit process in the context of a change of auditor. The Regulation is intended to reduce the (actual or perceived) risk of changing auditors.

It takes time for a successor to develop a comprehensive understanding of the business of an audit client. A wide variety of different arrangements have existed to facilitate an effective handover between successor and predecessor, including exchanges of letters, discussion, exchange of audit committee papers and minutes, and shadowing of the predecessor at key meetings such as the final audit committee meeting. Before the Regulation it was however unusual for a predecessor to share audit working papers. This was due mainly to liability concerns.

Liability concerns formerly arose in the context of access to audit working papers being allowed voluntarily, but any access will now be compulsory. Further it is no part of the purpose or object of the Regulation to involve one auditor in liability for another’s audit. Also the Department for Business, Innovation & Skills confirmed its view that Article 23(3) and the 2006 Act provision implementing it do not alter the existing liability of each auditor in relation to its respective audit.

Provision is already made separately by statute for the making of representations, for the attendance and hearing at meetings, and for the making of a statement of circumstances, where the predecessor has been removed as auditor, where there has been a failure to reappoint the predecessor as auditor, where the predecessor has resigned as auditor, and where the predecessor has ceased to hold office. The Regulation and guidance do not seek to duplicate that framework, and are framed in recognition of the fact that that framework already exists.

This guidance is separate from and additional to the Institute’s Code of Ethics which sets out procedures to be followed before accepting a professional appointment.

##### Timing

A request for relevant information may be made by a successor once the successor has been formally appointed to the audit client. In all cases the provision of information should be on a timely basis.

##### “Audit”

It should be borne in mind that the 2006 Act sets out a number of functions that are required of the registered auditor in specific circumstances. These are within the definition of an audit (and so fall within the definitions of audit report and audit work). The situations in which they arise currently include the following:

- section 92 a company applying to re-register as a public company;

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- section 428 statement on summary financial statements issued by a quoted company;
- section 449 abbreviated accounts;
- section 714 when a private company makes a payment out of capital for the redemption or purchase of its own shares;
- section 837 when a distribution is to be made by a company and the audit report was qualified; or
- section 838 when initial accounts are prepared for a proposed distribution by a public company.

(Where the registered auditor is appointed to an entity that is not a company similar reporting requirements may apply.)

### Procedure

Before making a request for relevant information the successor should as part of its planning consider the need to make a request to the predecessor under the Regulation, and the extent of that request. This will involve judgement by the successor in each case, so as to ensure that necessary request is made and an unnecessary request is not. It is also important to assess what information will be relevant in each case and what will not.

It does not follow that a successor is required or expected to request information in every case, or to request extensive information in a case in which only limited information is necessary. The successor's consideration will include consideration of what work it would do with any information provided to it pursuant to a request. There are specific references to reviewing the predecessor's audit work in ISA 510 (opening balances), ISA 710 (comparatives) and ISA 300 (planning). Accordingly, information is likely to be necessary in particular for such purposes.

The provision of information under this regulation will be achieved more efficiently where the successor auditor is as specific as possible as to the nature of the information being sought. The successor should therefore, wherever possible, avoid a request framed simply as a request for "all relevant information held by the predecessor and concerning the audited entity" or "all relevant information held by the predecessor in relation to the office of auditor".

Thus the successor should strive to identify the information required, or the type of information required, as precisely as possible.

For example, where relevant information is requested by the successor, the information will normally be that contained in the working papers produced by the predecessor, and the appropriate request may therefore be for some or all of those working papers. In some audits there will be Institute or FRC guidance indicating the working papers expected for such an audit. For example in the case of a financial statement audit, ISAs will indicate the audit working papers to be prepared. In other cases, where there is no guidance, the predecessor will have determined the working papers to be prepared.

Where the information related to audit work is requested by the successor but is not filed on the current audit file but, for example, on a 'permanent' or 'systems' file, or there is a reference to a prior audit file, access should be provided by the predecessor to this information.

The predecessor should be prepared to assist the successor by providing oral or written explanations on a timely basis to assist the latter's understanding of the audit working papers.

In addition to providing access to all relevant information held about its audit work, the predecessor must provide additional information where the client is a public interest entity, namely any reports to the audit committee, any reports to competent authorities who exercise a supervisory role over the entity and the firm's own transparency reports.

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### Period

Normally the period for which relevant information is requested would be in respect of any audit report relating to a period falling between the beginning of the last financial statements on which the predecessor reported and the date of cessation of the predecessor's audit appointment. The request would include any subsequent review conducted by the predecessor in accordance with guidance published by the FRC in relation to published interim reports.

A successor may consider that it needs to have information in addition to that within the period mentioned above. In the normal case, in the interests of cost and efficiency, the successor should first review the information already provided. If after that review a judgment is made that additional information is needed, the additional information sought should be described in writing, as precisely as possible. The successor should be prepared to provide reasons which demonstrate that the additional information is "relevant" information and therefore within the Regulation. Here as elsewhere the successor should be prepared to confirm that the information is needed to aid its audit work for the audit client and not for some other purpose.

### Other points

The request for information may be made of the immediate predecessor only.

Because (as indicated above) it is no part of the purpose or object of the Regulation to involve one auditor in liability for another's audit, it would be usual for the basis on which the information is to be provided to be documented in writing by an exchange of letters between the two registered auditors, copied to the audited entity. Guidance on suitable letters is available on each Institute's website as part of a technical release.

There is no obligation to allow the copying of working papers but it would be usual to allow copying of extracts of the books and records of the audit client that are contained in the audit working papers. Generally speaking, where access to relevant information is necessary, the practical arrangements to allow that access to be provided in a cost effective and efficient way should be discussed and agreed between the successor and the predecessor.

A request for information under the Regulation should not be made other than in connection with the successor's audit. The successor should refuse to accept an additional engagement, such as to act as an expert witness or to review the quality of the predecessor's audit work, where the engagement would involve the use of the information obtained by it under the Regulation. In any event, the successor should not comment on the quality of the predecessor's audit work unless required to do so by a legal or professional obligation.

The reference in the Regulation to the information not being disclosed to a third party includes to the audit client. This does not prevent the successor discussing the information with the client where to do so is a necessary part of its audit work. Nor does it prevent the provision of this information to any third party if that is required of the successor by a legal or professional obligation.

Section 1210 of the 2006 Act sets out a list of appointments to which this Regulation and guidance apply. Section 1210(h) allows additional types of appointments to be added to the list. Registered auditors are not required to allow access to their working papers in respect of other appointments."