



## Did you know? Sharing information and ideas

### Question:

Is there a requirement to inform the predecessor auditor if we noted a material misstatement in the prior period financial statements (FS) on which the predecessor auditor had previously reported without modification?

### Answer:

Yes. As stated in PSA 710.18, if the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and those charged with governance and **request that the predecessor auditor be informed**. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period.

In addition, PSA 710.A11 clarified that the predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements. In which case, the adjustments will form part of our audit and an Other Matter paragraph of the auditor's report may indicate that the predecessor auditor reported on the financial statements of the prior period before amendment. In addition, if the auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied as to the appropriateness of the amendment, the auditor's report may also include the following paragraph:

As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to amend the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements taken as a whole.

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