

AR Section 400

Communications Between Predecessor and Successor Accountants

Issue date, unless
otherwise indicated:
December 1981

See section 9400 for interpretations of this section.

Source: SSARS No. 4; SSARS No. 7;
SSARS No. 9; SSARS No. 15; SSARS No. 17

.01 This section provides guidance on communications between a predecessor and successor accountant when the successor accountant decides to communicate with the predecessor accountant regarding acceptance of an engagement to compile or review the financial statements of a nonissuer.^[1] This section also provides guidance on inquiries a successor accountant may wish to make of a predecessor, and the predecessor's responses, to facilitate the conduct of the successor's compilation or review engagement. It also requires a successor accountant who becomes aware of information that leads him or her to believe the financial statements reported on by the predecessor accountant may require revision to request that the client communicate this information to the predecessor accountant. [As amended, effective for periods ending after December 15, 1993, by Statement on Standards for Accounting and Review Services (SSARS) No. 7. As amended, effective November 2002, by SSARS No. 9.]

.02 The following definitions apply for purposes of this section:

Successor accountant. An accountant who has been invited to make a proposal for an engagement to compile or review financial statements and is considering accepting the engagement or an accountant who has accepted such an engagement.

Predecessor accountant. An accountant who (a) has reported on the most recent compiled or reviewed financial statements or was engaged to perform, but did not complete, a compilation or review of the financial statements, and (b) has resigned, declined to stand for reappointment, or been notified that his or her services have been or may be terminated.

[As amended, effective November 2002, by SSARS No. 9.]

Inquiries Regarding Acceptance of an Engagement

.03 A successor accountant is not required to communicate with a predecessor accountant in connection with acceptance of a compilation or review engagement, but he or she may believe it is beneficial to obtain information that will assist in determining whether to accept the engagement. The successor

^[1] [Footnote deleted, November 2002, by the issuance of Statement on Standards for Accounting and Review Services (SSARS) No. 9.]

accountant may consider making inquiries of the predecessor accountant when circumstances such as the following exist:^[2]

- a. The information obtained about the prospective client and its management and principals is limited or appears to require special attention.
- b. The change in accountants takes place substantially after the end of the accounting period for which statements are to be compiled or reviewed.
- c. There have been frequent changes in accountants.

The successor accountant should bear in mind that the predecessor accountant and the client may have disagreed about accounting principles, procedures applied by the predecessor accountant, or similarly significant matters. [As amended, effective November 2002, by SSARS No. 9.]

.04 The successor accountant should request permission from the prospective client to make any inquiries of the predecessor accountant. Except as permitted by the AICPA Code of Professional Conduct, an accountant is precluded from disclosing any confidential information obtained in the course of an engagement unless the client specifically consents. Accordingly, if the successor accountant decides to communicate with the predecessor, the successor accountant should request the client to (a) permit the successor accountant to make inquiries of the predecessor accountant and (b) authorize the predecessor accountant to respond fully to those inquiries.³ If the prospective client refuses to permit the predecessor accountant to respond or limits the response, the successor accountant should inquire about the reasons and consider the implications of that refusal in connection with acceptance of the engagement. [As amended, effective November 2002, by SSARS No. 9.]

.05 When the successor accountant decides to communicate with the predecessor accountant, the inquiries may be oral or written. The inquiries should be specific and reasonable regarding matters that will assist the successor accountant in determining whether to accept the engagement. Matters subject to inquiry would include (a) information that might bear on the integrity of management (owners), (b) disagreements with management (owners) about accounting principles or the necessity for the performance of certain procedures or similarly significant matters, (c) the cooperation of management (owners) in providing additional or revised information, if necessary, (d) the predecessor's knowledge of any fraud or illegal acts perpetrated within the client, and (e) the predecessor's understanding of the reason for the change of accountants. [As amended, effective November 2002, by SSARS No. 9.]

.06 The predecessor accountant should respond promptly and fully to the inquiries, on the basis of known facts. However, if the predecessor accountant decides, due to unusual circumstances⁴ such as impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to respond fully to the inquiries, the predecessor accountant should indicate that the response is limited. The successor accountant should consider the implications of a limited response in connection with acceptance of the engagement. [As amended, effective November 2002, by SSARS No. 9.]

^[2] [Footnote deleted, November 1992, by the issuance of SSARS No. 7.]

³ The successor accountant is not precluded from making these inquiries before making a proposal for the engagement.

⁴ Unpaid fees, as discussed in paragraph .08, are not considered to be an unusual circumstance for purposes of this paragraph; however, see paragraph .08.

Other Inquiries

[.07] [Paragraph deleted, November 2002, by the issuance of SSARS No. 9.]

.08 The successor accountant also may wish to review the predecessor's engagement documentation (terms such as *working papers* or *workpapers* are also sometimes used).^[5] In these circumstances, the successor accountant should request the client to authorize the predecessor accountant to allow access. It is customary in such circumstances for the predecessor accountant to make himself or herself available to the successor accountant for consultation and to make available for review certain engagement documentation. The predecessor accountant should determine which documentation is to be made available for review and which may be copied. Ordinarily, the predecessor accountant should provide the successor accountant access to documentation relating to matters of continuing accounting significance and those relating to contingencies. Valid business reasons (including but not limited to unpaid fees), however, may lead the predecessor to decide not to allow access to the documentation.⁶ The predecessor accountant may decide to reach an understanding with the successor accountant about the use of the documentation.⁷ Further, when more than one accountant is considering acceptance of an engagement, the predecessor accountant should not be expected to make himself or herself or his or her documentation available until the client has designated one of those accountants as the successor accountant. [As amended, effective November 2002, by SSARS No. 9. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

Successor Accountant's Use of Communications

.09 The successor accountant should not make reference to the report or work of a predecessor accountant in his or her own report, except as specifically permitted by section 200, *Reporting on Comparative Financial Statements*, with respect to the financial statements of a prior period. [As amended, effective November 2002, by SSARS No. 9. As amended, effective for compilations and reviews of financial statements for periods ending on or after December 15, 2007, by SSARS No. 15.]

Financial Statements Reported on by Predecessor Accountant

.10 If, during the engagement, the successor accountant becomes aware of information that leads him or her to believe that financial statements reported on by the predecessor accountant may require revision, the successor accountant should request the client to communicate this information to the

^[5] [Footnote deleted, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19].

⁶ See the "Records Request" interpretation (ET sec. 1.400.200) under the "Acts Discreditable Rule" (ET sec. 1.400.001), for guidance on what constitutes an accountant's working papers. [Footnote added, April 30, 1982, by the Accounting and Review Services Committee. Footnote revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

⁷ Before permitting access to the documentation, the predecessor accountant may wish to obtain a written communication from the successor accountant regarding the use of the documentation. The exhibit contains an illustrative successor accountant acknowledgment letter. [Footnote added, effective November 2002, by SSARS No. 9. Footnote revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

predecessor accountant. Paragraphs .47–.52 of section 80, *Compilation of Financial Statements*, and paragraphs .54–.59 of section 90, *Review of Financial Statements*, provide guidance to the predecessor accountant in determining an appropriate course of action with respect to compilation and review engagements, respectively. [As amended, effective November 2002, by SSARS No. 9. Revised, May 2004, to reflect conforming changes necessary due to the issuance of SSARS No. 10. Revised, July 2005, to reflect conforming changes necessary due to the issuance of SSARS No. 12. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]

.11 If the client refuses to communicate with the predecessor accountant or if the successor accountant is not satisfied with the predecessor accountant's course of action, the successor accountant should evaluate (a) possible implications for the current engagement and (b) whether to resign from the engagement. Furthermore, the successor accountant may decide to consult with legal counsel in determining an appropriate course of further action. [Paragraph added, effective November 2002, by SSARS No. 9.]

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Exhibit

Illustrative Successor Accountant Acknowledgment Letter

Paragraph .08 footnote 7 states, "Before permitting access to the documentation, the predecessor accountant may wish to obtain a written communication from the successor accountant regarding the use of the documentation." The following letter is presented for illustrative purposes only and is not required by professional standards.

[Date]

[Successor Accountant]

[Address]

We have previously [reviewed or compiled], in accordance with Standards for Accounting and Review Services the December 31, 20X1, financial statements of ABC Enterprises (ABC). In connection with your [review or compilation] of ABC's 20X2 financial statements, you have requested access to our documentation prepared in connection with that engagement. ABC has authorized our firm to allow you to review that documentation.

Our [review or compilation], and the documentation prepared in connection therewith, of ABC's financial statements was not planned or conducted in contemplation of your [review or compilation]. Therefore, items of possible interest to you may not have been specifically addressed. Our use of professional judgment for the purpose of this engagement means that matters may have existed that would have been assessed differently by you. We make no representation about the sufficiency or appropriateness of the information in our documentation for your purposes.

We understand that the purpose of your review of our documentation is to obtain information about ABC and our 20X1 [compilation or review] procedures to assist you in planning your 20X2 [compilation or review] of the financial statements of ABC. For that purpose only, we will provide you access to our documentation that relate to that objective.

Upon request, we will provide copies of the documentation that provide factual information about ABC. You agree to subject any such copies, or information otherwise derived from our documentation, to your normal policy for retention of documentation and protection of confidential client information. Furthermore, in the event of a third-party request for access to your documentation prepared in connection with your (reviews or compilations) of ABC, you agree to obtain our permission before voluntarily allowing any such access to our documentation or information otherwise derived from our documentation, 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 documentation that include copies of our documentation 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.

Very truly yours,

[Predecessor Accountant]

By: _____

Accepted:

[Successor Accountant]

By: _____ Date: _____

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Even with the client's consent, access to the predecessor accountant's documentation may still be limited. Experience has shown that the predecessor accountant may be willing to grant broader access if given additional assurance concerning the use of the documentation. Accordingly, the successor accountant might consider agreeing to the following limitations on the review of the predecessor accountant's documentation in order to obtain broader access:

- The successor accountant will not comment, orally or in writing, to anyone as a result of the review about whether the predecessor accountant's engagement was performed in accordance with Statements on Standards for Accounting and Review Services.
- The successor accountant will not provide expert testimony or litigation services or otherwise accept an engagement to comment on issues relating to the quality of the predecessor accountant's engagement.

The following paragraph illustrates the above:

Because your review of our documentation is undertaken solely for the purpose described above and may not entail a review of all our documentation, 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 about whether our engagement was performed in accordance with Statements on Standards for Accounting and Review Services, (3) you will not provide expert testimony or litigation services or otherwise accept an engagement to comment on issues relating to the quality of our engagement.

[Paragraph added, effective November 2002, by SSARS No. 9. Revised, September 2005, to reflect conforming changes necessary due to the Accounting and Review Services Committee. Revised, December 2010, to reflect conforming changes necessary due to the issuance of SSARS No. 19.]
