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May 19, 2021

Ms. Jennifer Burns
Audit and Attest Standards
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10105

RE: Proposed Statement on Auditing Standards, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*

Dear Ms. Burns:

We appreciate the opportunity to provide comments on the Auditing Standards Board’s (the Board) proposed Statement on Auditing Standards, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations* (proposed SAS).

We are supportive of the Board’s proposed SAS to **require** an auditor, after receiving management authorization, to inquire of the predecessor auditor regarding identified or suspected fraud or noncompliance with laws or regulation (NOCLAR). We note that this is currently included in the application guidance of SAS 122, and in practice, many auditors include this as an inquiry of the predecessor auditor as a matter of policy. Additionally, as the Board is not proposing revisions to the auditing standards that would expand an auditor’s responsibilities to report fraud or NOCLAR to other outside parties, and the predecessor auditor can, when unusual circumstances exist, continue to decide not to respond fully to the auditor’s inquiries, we do not believe that the proposed SAS will significantly affect auditors’ policies and practices in this area. However, the proposed SAS will result in a more consistent and informed engagement acceptance process across the profession which is in the public interest.

The **Appendix** contains our detailed recommendations and responses to comments on which the Board has requested feedback.

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We appreciate the Board’s and Staff’s consideration of our comments in support of NOCLAR. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Matt Doyle (212-954-2187 or mrdoyle@kpmg.com).

Sincerely,

KPMG LLP

Appendix – Responses to comments

Request for Specific Comment #1

Does the respondent agree with the ASB’s determination that it is appropriate to retain the requirement for the auditor, prior to accepting an initial audit, including a reaudit engagement, to request management to authorize the predecessor auditor to respond fully to the auditor’s inquiries? If not, why not, and how would the respondent revise the requirement (for example, by making the procurement of management’s agreement a precondition for the auditor to accept the engagement or requiring the auditor to communicate with the predecessor auditor without management’s authorization)?

Response: We agree with the Board’s proposal to retain the requirement for the auditor to request management to authorize the predecessor auditor to respond fully to the auditor’s inquiries. This requirement allows the predecessor auditor to communicate with the potential successor auditor without breaching their responsibilities over confidential information. Further, should management not authorize the inquiry, the requirement makes the auditor consider the implications of that refusal in deciding whether to accept the engagement.

Request for Specific Comment #2

Are the proposed requirements appropriate and complete, including whether it is appropriate to continue to provide an exception that permits the predecessor auditor to decline to respond to the auditor’s inquiries due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances? If not, please suggest specific revisions to the proposals.

Response: We believe that the inquiry requirements of the auditor and predecessor auditor are appropriate and complete. Specifically, we agree with the Board on the following matters:

- It is in the public interest for a knowledge transfer to occur from the predecessor auditor to the auditor with respect to identified or suspected fraud and matters involving NOCLAR; therefore, requiring the auditor to inquire with the predecessor auditor.
- When management fails to provide the predecessor auditor with authorization to respond fully, or when there is a limitation of the predecessor auditor’s response, requiring the auditor to consider the implications on whether to accept the engagement is appropriate.
- The proposed SAS is clear that the predecessor auditor is expected to respond fully to the auditor’s inquiries, while acknowledging that circumstances may exist in which the predecessor auditor may not fully respond to those inquiries.

Request for Specific Comment #3

Is the proposed requirement appropriate and complete? If not, please suggest specific revisions.

Response: We believe that clarification of the documentation requirement, as described in paragraph 15 is needed to allow for an auditor to comply. Specifically, it is not clear whether the auditor is required to document and retain the results of its inquiries only if the engagement is ultimately accepted, or if the proposed change would require that documentation even if the engagement is declined. There is no existing guidance on maintaining documentation for a proposal that does not become an engagement, and we believe that is outside the scope of the auditing standards. As such, we recommend limiting this

requirement to retaining documentation of the inquiries and results in scenarios where the auditor accepts the engagement. Specifically, we recommend the following (edits are noted in **bold underline**):

- .15 The auditor should document its inquiries and the results of those inquiries with the predecessor auditor **and include as part of the audit documentation if the engagement is accepted.**

Request for Specific Comment #4

Are respondents supportive of the proposed effective date? If you are not supportive, please provide reasons for your response.

Response: We are supportive of the proposed effective date. The proposed SAS is sufficiently narrow such that a longer transition period is not necessary.

Other recommendations:

- 1- Paragraph A35 provides conditions before the predecessor auditor may be available to respond to inquiries. These conditions include (a) the auditor being selected by the entity and (b) the auditor planning to accept the engagement, subject to inquiries with the predecessor auditor.

We propose revisions to paragraph A35 because it is unlikely that a predecessor auditor knows the status of the potential successor auditor's engagement acceptance process, or that the only barrier to acceptance is the results of these inquiries. Specially, we recommend the following (deleted text is noted in ~~strikethrough~~):

A35 When more than one auditor is considering accepting an engagement, the predecessor auditor is not expected to be available to respond to inquiries until an auditor has been selected by the entity ~~and plans to accepted the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph 14.~~