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Ms. Sherry Hazel
Audit and Attest Standards – Public Accounting
American Institute of Certified Public Accountants
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Via email: commentletters@aicpa-cima.com

Proposed Statements on Auditing Standards – Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations

Dear Ms. Hazel,

Ernst & Young LLP (EY US) is pleased to submit this comment letter to the Auditing Standards Board (ASB or the Board) in response to the ASB's request for comment on its proposed Statement on Auditing Standards (SAS), *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations*.

We support the proposed SAS and believe it would increase transparency and sharing of information between predecessor and successor auditors as part of the successor auditor's client acceptance process. We are especially supportive of the proposed amendments to require the successor auditor to inquire of the predecessor auditor regarding identified or suspected fraud or noncompliance with laws and regulations (NOCLAR), once management authorizes the predecessor auditor to respond to inquiries from the successor auditor.

In Attachment A, we provide responses to the ASB's requests for comment. Attachment B includes other editorial comments. We would be pleased to discuss our comments with members of the ASB or its staff.

Sincerely yours,

Ernst + Young LLP

Attachment A – Responses to requests for comments

1. 1. Does the respondent agree with the ASB's determination that it is in the public interest to retain the requirement for the successor auditor, prior to accepting an initial or a reaudit engagement, to request management to authorize the predecessor auditor to respond fully to the successor auditor's inquiries? If not, why not and how would the respondent revise the requirement (for example, make the client providing consent a precondition for the successor auditor to accept the engagement or requiring the successor auditor to communicate with the predecessor auditor without the client's authorization)?

Yes, as highlighted by the Board, the requirement for the successor auditor, prior to accepting an initial or a reaudit engagement, to request that management authorize the predecessor auditor to respond fully to the successor auditor's inquiries is an important step in helping the successor auditor determine whether to accept the engagement while allowing the predecessor auditor to fulfill its professional duty to maintain the confidentiality of the information of its former client.

2. Are the proposed requirements appropriate and complete, including whether it is appropriate to provide and retain the predecessor auditor's ability to not respond fully to the successor auditor's inquiries due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances? If not, please suggest specific revisions.

Yes, we agree that, in some rare circumstances, it would be appropriate to limit responses by predecessor auditors. Therefore, we support requiring the predecessor auditor to clearly state in these situations that the response is limited because this notification would provide the successor auditor with relevant information to determine whether to perform other procedures in connection with the acceptance of the audit engagement.

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

Yes, we believe the requirement in paragraph 15 of the proposed SAS is appropriate and complete.

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

Yes, we believe the proposed effective date provides sufficient time for auditors to implement these changes.

Attachment B – Recommendations for other edits and improvements

Proposed Amendment to SAS No. 122, as amended, section 210, <i>Terms of Engagement</i>	
Paragraph	Observation
A31	<p>We recommend the following revision to clarify that the inquiries are consistent with the matters that the predecessor auditor is required to communicate with those charged with governance:</p> <p>The inquiries specified in paragraph .12a-b are consistent with items that the predecessor auditor are communicated with those charged with governance as required by paragraph .40 of AU-C section 240, Consideration of Fraud in a Financial Statement Audit, and paragraph .21 of AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements, respectively.</p>
A35	<p>We recommend the following revision to clarify the party that plans to accept the engagement:</p> <p>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 that auditor plans to accept the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph .14.</p>