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June 30, 2021

Auditing Standards Board
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10019

Via Email to CommentLetters@aicpa-cima.com

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

Dear Board members and staff:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Statement on Auditing Standards (SAS), *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*.

We acknowledge the changes made by IFAC's International Ethics Standards Board of Accountants (IESBA) to the *International Code of Ethics for Professional Accountants* (IESBA Code) described in the exposure draft. However, we question whether it is necessary for the Auditing Standards Board (ASB) to reflect IESBA changes related to communications between successor and predecessor auditors in auditing standards generally accepted in the United States (US GAAS). As discussed in more detail below, if the ASB determines that changes are truly necessary, we believe a better approach would be to appropriately strengthen the AICPA Code of Professional Conduct (AICPA Code) as opposed to amending US GAAS.

For over 20 years, US GAAS has required the successor auditor to make inquiries of the predecessor auditor about a variety of matters, including noncompliance with laws and regulations (NOCLAR), a requirement that does not exist in International Standards on Auditing (ISAs). We believe the existence of this incremental requirement further supports the argument that enhancing the AICPA Code is the most appropriate approach for convergence with the changes to the IESBA Code. Further, we are unaware of current deficiencies or audit quality issues in our jurisdiction with successor and predecessor auditor communications and, therefore, encourage the Board to be judicious about any additional requirements it introduces within US GAAS.

We respectfully submit our responses to the requests for comment listed in the exposure draft for the Board's consideration.

Responses to requests for comment

Question 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)?

We recommend retaining the successor auditor requirement to obtain management’s authorization for the predecessor auditor to respond to the successor auditor’s inquiries as it appears currently in paragraph 11 in AU-C Section 210, *Terms of Engagement*. We do not agree with the revisions to paragraph 11 as set forth in the Proposed SAS. We believe the proposed edits overcomplicate a requirement that is generally well understood in the profession, create unnecessary repetition with the proposed requirements stated in paragraphs 12 and 13, and diminish the importance of other inquiries.

In addition, we believe that the proposed requirement to make the procurement of management’s agreement a precondition for the auditor to accept the engagement is not practical and may impair audit quality with respect to communications with management. We also disagree with including a requirement within US GAAS for the successor auditor to communicate with the predecessor auditor without management’s authorization, as such requirement would seem inappropriate from an ethical perspective and could potentially expose the predecessor auditor to legal liability.

Question 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.

We do not believe the proposed predecessor auditor requirements are appropriate. The predecessor auditor’s responsibilities related to the audit end with the issuance of the auditor’s report or the auditor’s dismissal, unless subsequent events or discoveries of fact necessitate reissuing the report or the auditor is otherwise involved with a report reissuance. Further, we believe that ongoing predecessor auditor responsibilities related to communicating or cooperating with successor auditors are ethical responsibilities guided by the AICPA Code and not by US GAAS.

If the Board decides to move forward with its proposal, however, we believe it is essential to retain the exception permitting the predecessor auditor to decline to respond to the successor’s inquiries under certain circumstances. This language exists in US GAAS and is consistent with the standards of the PCAOB. We are unaware of audit quality issues indicating that predecessor auditors are inappropriately using this exception; rather, it appears that this exception is used judiciously by auditors when deemed necessary. Therefore, we believe it is most appropriate to retain the proposed exception if the Board moves forward and to further clarify the predecessor auditor’s responsibilities in the AICPA Code.

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

We found the proposed documentation requirement to be potentially duplicative and unnecessary. We believe AU-C Section 230, *Audit Documentation*, sufficiently addresses the successor auditor's responsibilities to appropriately document the results of inquiries made of the predecessor auditor.

Further, the Board may need to reconsider the predecessor auditor's documentation responsibilities considering the new US GAAS requirements that would be imposed on the predecessor auditor by the Proposed SAS. If US GAAS requires the predecessor auditor to respond to the successor auditor's inquiries and the successor auditor documents the results of these inquiries, we would expect that the predecessor auditor would also need to retain documentation of their responses to the successor auditor's inquiries.

If the Board elects to adopt the proposed requirement, we recommend that the term "its" be replaced with "the" or "the auditor's" in the proposal for clarity. We believe it is inconsistent with clarity drafting conventions to refer to the auditor as "it."

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

Due to our reservations with the proposed revisions, as discussed in our responses herein, we do not have a specific comment on the proposed effective date. However, we ask the Board to work closely with the Professional Ethics Executive Committee (PEEC) on this topic to coordinate efforts and to help inform PEEC's potential updates to the AICPA Code regarding this topic. Refer to our firm's response letter to PEEC's Proposed Interpretations and Definition, "Responding to Noncompliance with Laws and Regulations."

We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality, at (404) 475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP