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June 23, 2021

American Institute of Certified Public Accountants
Auditing Standards Board

Via email: CommentLetters@aicpa-cima.com

Re: Comments on Exposure Draft, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*, February 25, 2021

Dear Board Members:

CliftonLarsonAllen LLP (CLA) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) Exposure Draft, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*, released February 25, 2021.

We understand the purpose of the proposed amendments is to facilitate a transfer of knowledge from the predecessor auditor to the successor auditor related to fraud and matters involving noncompliance with laws and regulations (NOCLAR) identified or suspected by the predecessor auditor. This knowledge is intended to assist the successor auditor in determining whether to accept the engagement.

We also understand the proposed amendments are the result of the AICPA's Professional Ethics Executive Committee (PEEC)'s efforts to align the AICPA *Code of Professional Conduct* with the recent changes to the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (IESBA Code of Ethics) following its issuance of *Responding to Non-compliance with Laws and Regulations* (IESBA NOCLAR Standard).

General comments

We believe matters related to fraud and NOCLAR are important factors to be considered when determining whether to accept an engagement, and we support the ASB's efforts to assist with the transfer of knowledge to successor auditors.

Request for Specific Comment #1 — Management Authorization of Communication Between Auditor and Predecessor Auditor

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)?



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Response

We agree that it is appropriate to retain the requirement that the auditor request management to authorize the predecessor auditor to respond fully to the auditor's inquiries prior to accepting the engagement because we do not believe it would be appropriate for an auditor to communicate with the predecessor auditor without management's authorization. While not conclusive, we believe that management's refusal to authorize such communication would assist the auditor in determining whether to accept the engagement.

Request for Specific Comment #2 — Knowledge Transfer from Predecessor Auditor to Auditor

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 agree that the auditor should specifically inquire of the predecessor auditor about fraud and matters involving NOCLAR. We believe most auditors are currently making these inquiries and do not anticipate this requirement will change practice. We encourage the ASB to consider whether all of the matters currently in extant AU-C 210.A33 should be included as requirements.

We note a potential disconnect between the requirement for the successor to make inquiries about *suspected* fraud and *suspected* matters involving NOCLAR and the predecessor auditor's obligation to respond *on the basis of known facts*. To improve the transfer of knowledge, we suggest removing references to *suspected* from the required inquiries. We do not believe it is appropriate to request the predecessor auditor to disclose *suspected* matters involving fraud or NOCLAR to parties other than management because such disclosure potentially exposes the predecessor auditor to unnecessary legal risk.

We believe it is appropriate to include an exception permitting the predecessor auditor to decline to respond. We believe there are numerous possible scenarios in practice where it would be appropriate for the predecessor auditor to limit the response, and we believe it is unnecessary to include the sentence, "Such circumstances are expected to be rare." We believe any requirements for a predecessor auditor to cooperate with the successor auditor should reside in ET Section 1.700.020 of the AICPA *Code of Professional Conduct*.

Request for Specific Comment #3 — Documentation

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

Response

We agree that the proposed requirement is appropriate and will not be a significant change to current practice. We suggest the ASB consider providing additional guidance to clarify whether this requirement applies when the auditor does not accept the engagement.

Request for Specific Comment # 4 — Proposed Effective Date

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

Response

Given the limited impact on practice, we are supportive of the proposed effective date. We do request the ASB evaluate the significant number of standards that are planned to become effective in the next two years (risk assessment, estimates, quality management, etc.) and consider deferring the proposals for all of the audit standards until after the quality management standards are implemented to allow firms sufficient time to focus on training and implementation of all of the new standards.

* * *

CLA appreciates the opportunity to review and offer our comments on the proposed amendments. We would be pleased to discuss any questions that you or your staff may have regarding our comments.

Respectfully submitted,

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP