Florida Institute of Certified Public Accountants

June 25, 2021

American Institute of Certified Public Accountants
Auditing Standards Board (ASB)

Via email : commentletters@aicpa-cima.com

Re: Proposed Statement on Auditing Standards (SAS), *Amendments to AU-C section 210, Terms of Engagement:* Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations

Dear Members of the ASB,

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the above-referenced proposal. The Committee is a technical committee of the FICPA and has reviewed the ASB's exposure draft regarding such proposal (the Exposure Draft). The FICPA has more than 19,600 members, with its membership comprising primarily CPAs in public practice and industry. The Committee consists of 26 members, of whom 42% are from local or regional firms, 19% are from large multi-office firms, 19% are sole practitioners, 4% are from international firms, 8% are in education, and 8% are in industry.

The Committee has the following comments to the requests included in the Exposure Draft:

Request for 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)?*

Generally, the Committee supports the ASB's determination to retain the requirement. Regarding the alternatives referenced, the Committee was persuaded that the successor-verification and predecessor-identification challenges, as raised in the Exposure Draft, weigh against removing the requirement, *at least at this time*. The Committee was less sympathetic, however, to the concern that a "requirement or precondition might result in an entity being unable to engage an auditor." Similarly, some questioned why a generally applicable requirement or precondition couldn't be implemented, subject to limited exceptions and accompanying documentation requirements. Even so, the Committee defers to the ASB's reasoning on this issue. Indeed, the Committee recognizes that the ASB is well-positioned and better-informed than the Committee regarding the manageability and significance of such impact on auditor availability.

However, the Committee is troubled by the ASB's retreat from its initially considered application material regarding auditors' discretion in handling authorization requests. In particular, the Committee believes

that many predecessor and successor auditors, alike, will not be satisfied by management's "broad acknowledgments" of the professional standards applicable to audits. Consider the following:

During its conference call on December 6, 2019, the ASB considered the audit-precondition and engagement letter alternatives for AU-C §210 paragraphs .06 and .10, respectively. *See generally* Agenda Item 3, Discussion Memorandum. At its meeting on January 13-16, 2020, the NOCLAR Task Force (the Task Force) proposed forgoing a requirement and, instead, incorporating application material that recognized the auditor's discretion to request explicit consent. *See* Agenda Item 3, Discussion Memorandum, Issue 2 re: proposed par. A.27.

Subsequently, at its meeting on July 20-23, 2020, the Task Force reassigned such material to proposed paragraph A.23 (relating to optional engagement letter provisions). The guidance remained in the drafted proposal as of the meeting on October 19-22, 2020, but it was then removed, without revision or adequate explanation, by the meeting on January 11-14, 2021. Even if implications of the wording warranted a revision, the Committee believes that its removal, without replacement, diminishes the potential of the proposal to effect a shift in norms and practices toward greater transparency.

The Committee believes that application material linked to AU-C §210.10 would greatly enhance the auditor's ability to "understand [the amendments'] objectives and to apply [their] requirements properly," within the meaning of AU-C §200.21. Even if such material were excluded, the SAS would lead to varying levels of proactiveness with which auditors address the issue of consent in their engagement terms. Recognizing the inevitable diversity, the ASB should utilize amended application material to consider potential approaches to managing authorization requests, which may entail a list of discretionary factors. It further warrants mention that practice aids, on which nonpublic company auditors rely extensively, draw upon application material in their templates and forms. To promote an understanding of the range of permissible approaches, the ASB should recognize the significance that application material may play in informing nonpublic company auditor judgments in this context.

Request for Comment # 2 – *Are the proposed requirements [related to knowledge transfer from predecessor auditor to successor auditor] 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.*

Regarding the proposed requirements, the Committee acknowledges that the language derives largely from extant paragraph A.32 and is consistent with members' responsibilities stated in the AICPA Code of Professional Conduct. Without reservation, the Committee supports exceptions related to "to impending [or] threatened litigation." Additionally, although recognizing the potential for overgeneralization in practice, the Committee supports the exception related to "potential litigation." (Some believe that an exception more akin to "reasonably foreseeable litigation" would achieve preferable results in *most* instances.)

As to the catch-all exception of "other unusual circumstances," the Committee echoes the ASB's concerns regarding potential misuse, as raised at its October and December, 2020 meetings. *See* Meeting Highlights. Indeed, the Committee does not believe the proposed paragraph .13, even with explicit reference to expectations of "rare" usage, adequately addresses such concerns.

To be sure, the Committee acknowledges that the “unusual circumstances” language, in extant paragraph A.32, predated the NOCLAR project. Furthermore, like the ASB, the Committee is similarly “unaware of significant practice issues involving predecessor auditors inappropriately limiting their responses.”

However, the proposed SAS reasonably contemplates at least *some* incremental improvement in the knowledge transfer from predecessor to successor auditor. Aware of the heightened significance of the knowledge transfer, but recognizing the availability of an “unusual circumstances” exception, the predecessor auditor may, in turn, become more inclined to limit responses, especially when targeted, potentially sensitive NOCLAR inquiries are raised.

Ultimately, the Committee recognizes the appeal and desirability of a catch-all exception. If there is no alternative language that is more objectively determinable than “unusual circumstances,” the ASB should consider whether a list of circumstances that are presumptively “not unusual” warrants consideration.

Finally, the Committee raises the potential for unanticipated effects of the “clearly inconsequential” language in the proposed paragraph .12 inquiries. In particular, such threshold, if left intact and without linked application material, could undermine the proposed SAS’s objective of “preventing an unscrupulous client from changing auditors to cover up illegal acts or non-compliance with regulations.”

In this regard, consider that the objectives of AU-C §§210 and 250, in paragraphs .03 and .10, respectively, are fundamentally different, even if they share certain overarching purposes. As mentioned in the Exposure Draft, AU-C §250.21 similarly carves out “clearly inconsequential” matters, but it does so in the context of the auditor’s communications with those charged with governance (TCWG). Because TCWG are the *intended recipients* of NOCLAR information for such purpose, paragraph A.26 sensibly provides that “[t]he auditor may reach agreement in advance with [TCWG] on the nature of matters that would be considered clearly inconsequential and, thus, need not be communicated.”

Previously, the ASB considered a variation of the permissible “agreement” language for the application material to AU-C §210. *See* Agenda Item 3A to the January 13-16, 2020 meeting re: proposed par. A.31. In contrast, there is no “agreement” paragraph bearing on the “clearly inconsequential” threshold in the *currently proposed* amendments. The Committee was partially relieved by such exclusion.

However, the Committee remains uneasy that a predecessor auditor who, during her prior engagement, had reached an agreement with TCWG may, upon the transition to a successor auditor, fail to distinguish the objectives of AU-C §210 from those of §250. In practice, when responding to a successor auditor’s inquiries that are qualified by “clearly inconsequential” language, she may inappropriately defer to the agreement, with respect to such threshold, that she had previously established with TCWG. As a result, the successor auditor would receive information that had been filtered by a threshold that was formed, in part, by the audit client for purposes unrelated to the objectives of AU-C §210. If these events materialized, the knowledge transfer may be impeded, thereby undercutting the SAS’s core intentions.

To respond to the potentially undesirable effects of conflating such thresholds, the Committee recommends a warning in the application material. Specifically, it should caution that for purposes of responding to a successor auditor’s NOCLAR inquiries qualified by the “clearly inconsequential” threshold, exclusive reliance on prior agreements with TCWG, even if appropriate for previous AU-C

§250.21 communications, may deprive the successor auditor of information relevant to her engagement acceptance decision. (Some in the Committee would prefer that, if the "clearly inconsequential" language is retained, certain classes of NOCLAR be presumptively declared "consequential," such as circumstances implicating data privacy or breach notification laws, even if a relatively limited financial impact would ensue.) Regardless, the Committee encourages the ASB to expand upon the application of this threshold. If nothing else, a simple statement comparable to paragraph 360.7 A2 of the IESBA code would be welcome. Even if PEEC continues to refrain from defining "clearly inconsequential" in the AICPA Code of Professional Conduct, the ASB's reference to basic criteria relevant to such determination, without more, should not pose a conflict.

Request for Comment # 3 – *Is the proposed [documentation] requirement appropriate and complete? If not, please suggest specific revisions.*

The Committee believes the documentation requirement is appropriate but does not comment as to whether it is complete.

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

The Committee supports the proposed effective date.

The Committee appreciates this opportunity to respond to the proposed SAS. Members of the Committee are available to discuss any questions or concerns raised by this response.

Respectfully submitted,

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