

June 30, 2021

Ms. Sherry Hazel
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: ASB Proposed SAS, Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations (NOCLAR)

Dear Ms. Hazel:

As the nation's largest CPA-directed program of professional liability insurance for the accounting profession, CAMICO serves and advises over 8,000 CPA firms. As such and given its 35 years of experience and research regarding the general public's views of CPAs' work and the legal implications of that work, CAMICO offers a unique perspective.

We appreciate the opportunity to express our comments regarding the Proposed Auditing Standard, which, if adopted, would make landmark changes to the accounting profession.

The responses below reference and address the "Requests for Specific Comments" posed in the Exposure Draft's Explanation of Proposed Changes.

Specific Request #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?

Yes. Prior to accepting an engagement to audit or reaudit financial statements, auditors should request management to authorize the predecessor auditor to respond fully to the auditors' inquiries.

However, we believe this requirement should be expanded to require the auditor to (1) request management to authorize the predecessor auditor to not only respond fully to the successor auditor's inquiries, but also to speak openly with the successor auditor; and (2) regardless of whether the client authorizes the predecessor auditor to communicate with the successor auditor, the predecessor should be permitted to communicate concerns regarding Fraud and Noncompliance with Laws and Regulations.

International standards do not mute predecessor auditors when the client does not authorize the predecessor to communicate with the successor, and from a risk management perspective, we are supportive of this approach. It is CAMICO's understanding that the AICPA's Confidential Client Information Rule [ET 1.700.001] does not take precedence over the Compliance with Standards

Rule [ET 1.310.001], nor does it override the foundation to the AICPA's Code of Conduct detailed in the Code's Preamble [ET 0.300.010]. The following is an excerpt from the Preamble:

These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its *responsibilities to the public, to clients, and to colleagues*. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an *unswerving commitment to honorable behavior, even at the sacrifice of personal advantage*. [*emphasis added*]

The background section of the NOCLAR Exposure Draft distinguishes the AICPA proposal from the international standards, indicating "certain provisions were not included in the AICPA proposals because they were believed to be incompatible with most state laws and regulations on client and employer confidentiality."

However, by issuing a standard that does not agree with international standards, we believe our profession would be shirking its responsibilities to the public and to colleagues (two of the three groups to which accountants owe a duty), and the public could perceive that distinguishing the U.S. standards from international standards shirks the profession's commitment to honorable behavior. Accountants, state societies, boards of accounting and other stakeholders will be able to communicate or make the needed modifications to their rules by the effective date of the proposed standard.

It would be preferable if the Uniform Accountancy Act (UAA) were modified to incorporate NOCLAR requirements authorizing predecessors to voluntarily share their concerns regarding fraud and suspected noncompliance with laws and regulations before the effective date of this proposed standard. But these changes not already having been made should not be an impediment to taking the appropriate steps to serve the public and colleagues.

The professional standards the CPA profession promulgates should not impede CPAs from communicating knowledge or suspicions of fraud or noncompliance with laws and regulations to successors. A mantra CAMICO recommends CPAs follow is "to stay on the side of the angels," which means do not let innocent parties be harmed when conflicts exist in applying professional standards or legal standards. ET 1.000.020 of the AICPA Code of Conduct discusses *ethical conflicts* and uses the responsibility to maintain client confidentiality as an example of such a conflict. The Auditing Standards Board has an opportunity to address this conflict by permitting predecessor auditors to communicate these concerns to their successors.

In summary, CAMICO believes the AICPA should (1) adopt the IESBA Code requirement that predecessor auditors, when requested by a proposed successor auditor, should provide all information concerning NOCLAR that, in the predecessor auditor's opinion, the proposed successor auditor should be aware of before deciding whether to accept the audit engagement; and (2) advance changes to the UAA embracing these changes.

Specific Request #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 agree that the extant standard exception should be retained permitting predecessor auditors to limit their responses to successor auditors' inquiries when disciplinary proceedings, impending or threatened litigation, or other unusual circumstances exist, but (as detailed in our response above), we believe predecessors, when responding to inquiries from proposed successor auditors, should not require client consent to share their concerns regarding fraud or NOCLAR.

Specific Request #3

Is the proposed requirement appropriate?

Yes, the requirement that auditors document the responses to their inquiries of predecessor auditors is appropriate.

Specific Request #4

Are respondents supportive of the proposed effective date?

Yes. Being effective on or after December 15, 2022, is appropriate.

We appreciate this opportunity to comment on this proposal and would welcome any opportunities to be a resource for you. Questions about these comments may be addressed to me at dwill@camico.com or by telephone at (800) 652-1772.

Sincerely,



Duncan Will, CPA/ABV/CFF, CFE
Loss Prevention Manager and Accounting & Auditing Loss Prevention Specialist
CAMICO

cc: Suzanne Holl, CPA
Senior Vice President of Loss Prevention
CAMICO