



June 30, 2021

Ms. Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10036-8775

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

We appreciate the opportunity to comment on the exposure draft addressing the Proposed Statement on Auditing Standards, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations* (the “proposed SAS” or “the proposed amendments to AU-C section 210”). We support the proposed SAS and the ASB’s objective of enhancing communications between predecessor and successor auditors in relation to matters such as non-compliance with laws and regulations (NOCLAR) and fraud. We believe the ASB’s approach aligns more closely to PCAOB AS 2610 and appropriately balances the desire for additional transparency about significant matters that are likely to influence the successor auditor’s determination of whether to accept the audit engagement with the long-standing principles of client confidentiality and client consent.

We believe only narrow scope amendments at this time are appropriate in light of the Professional Ethics Executive Committee’s (PEEC) ongoing revisions to the AICPA *Code of Professional Conduct* with respect to NOCLAR. As noted in Board member Heath’s dissent, both the ASB and PEEC should carefully consider the interactions between their respective professional standards, the Uniform Accountancy Act, and state law in setting out requirements for enhanced auditor communications about NOCLAR and fraud. We acknowledge that the finalization of the PEEC’s revisions may result in the need for further revisions to the ASB’s standards.

Request for Specific 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)?

Yes, we agree with the ASB’s determination that it is appropriate to retain the requirement for the auditor to request that management authorize the predecessor auditor to respond fully to the auditor’s inquiries for the reasons stated in the Explanatory Memorandum to the Exposure Draft. This requirement is also consistent with the PCAOB’s framework set out in AS 2610, which requires client consent before such communications.

We do not believe it would be appropriate to embed client consent in the terms of the engagement or otherwise make such consent a precondition for the audit. As discussed in the Explanatory Memorandum to the Exposure Draft, if management does not authorize the predecessor auditor to respond fully to the auditor’s inquiries, any refusal or limitation is made known to the successor auditor and is taken into



account in deciding whether to accept the engagement. This approach is preferable to one that would require or enable auditors to communicate without client consent, which could create legal risk for auditors, irrespective of whether such consent was deemed to be implicit in agreeing to the terms of the engagement. Judgments relating to client confidentiality and potential successor auditor communications about NOCLAR or fraud are complex and involve consideration of state law; therefore, we believe it is always necessary to obtain client consent prior to communicating with the successor auditor.

Request for Specific Comment #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 with enhancing the requirements for predecessor auditors to provide more transparency to auditors about NOCLAR and fraud, essentially by elevating application material in paragraph A33 of extant AU-C section 210 to a new requirement (paragraph 12 of the proposed SAS). In practice, we believe these matters are often communicated due to the more prescriptive communications requirements in PCAOB AS 2610. We also support the ASB’s decision to include the proposed communication requirement among matters required to be communicated to those charged with governance in accordance with AU-C sections 240 and 250. Those charged with governance are best placed to help a successor auditor understand the circumstances surrounding identified and suspected fraud and NOCLAR (including the nature of discussions previously held with the predecessor auditor).

Finally, we believe it is appropriate to continue to allow the auditor to exercise professional judgment in determining the nature and extent of communications about fraud and NOCLAR with the successor auditor. Both extant AU-C section 210 and PCAOB AS 2610 highlight that there may be unusual circumstances that may make it difficult for the predecessor auditor to fully respond, for example if there are any disagreements with management or those charged with governance about whether suspected NOCLAR or fraud actually occurred or the potential effect on the audited financial statements. We believe it is appropriate to continue to provide for the possibility that the predecessor auditor may decide to limit a response or decline to respond on the basis of the facts and circumstances of the engagement, recognizing the premise in the AICPA *Code of Professional Conduct* that members are expected to cooperate with each other.

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

Yes. The documentation requirement in paragraph .15 of the proposed SAS is appropriate and complete.

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

Yes. Given that the proposed SAS includes narrow scope amendments that we do not expect will substantially change current practice, we are supportive of the proposed effective date.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please contact Heidi Schuetze (heidi.i.schuetze@pwc.com) or Kathy Healy at (kathleen.k.healy@pwc.com) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

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