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SENT VIA EMAIL: CommentLetters@aicpa-cima.com

Ms. Jennifer Burns
Chief Auditor
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105

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

Dear Ms. Burns:

We appreciate the opportunity to share our views on the proposed Statement on Auditing Standards, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations* (proposed SAS).

Moss Adams LLP is one of the 15 largest US accounting and consulting firms in the United States with more than 3,400 professionals, including more than 340 partners. Founded in the Pacific Northwest in 1913, the firm has steadily expanded to serve public and private middle-market business, not-for-profit, and governmental organizations across the nation and globally through specialized industry and service teams.

We support the efforts of the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) to enhance the role of CPAs in protecting the public interest, however we take considerable exception to the extension of presumptively mandatory communications by the predecessor auditor in proposed paragraph .13 to AU-C section 210, *Terms of Engagement*.

We do not believe it is necessary to modify generally accepted auditing standards (GAAS) to achieve the desired outcome of information exchange between a predecessor and successor auditor, even in the areas of fraud and noncompliance with laws or regulations (NOCLAR). The proposed SAS materials cite the ASB's observation that it is unaware of significant practice issues involving predecessor auditors inappropriately limiting their response while following the extant professional standards, and its belief that the statement in the AICPA Code of Professional Conduct (Code) that members are expected to cooperate with each other helps protect against the potential of a predecessor auditor inappropriately limiting the response to the auditor's inquiries. We agree entirely with these observations. The Code clearly states that members are expected to cooperate with each other, which we believe is well understood and followed, including in the realm of responding to successor auditor inquiries. Introducing a presumptively mandatory requirement for the predecessor auditor to respond to successor auditor inquiries (except for rare instances) attempts to address a nonexistent practice issue. In turn, the establishment of this requirement introduces numerous questions and interpretations as to what

knowledge would be subject to response (further discussed in “Request for Specific Comment #2”) and potential negative impacts to clients. Thus, we strongly recommend eliminating paragraph .13 of the proposed SAS.

Our responses to specific requests for comments posed in the proposed SAS and additional comments and observations follow.

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)?

We agree with the ASB’s determination to retain the existing requirement (paragraph .11 of extant AU-C section 210) for the potential successor auditor to request management to authorize the predecessor auditor to fully respond to the potential successor auditor’s inquiries. We have not experienced any issues in practice that would necessitate changes, and we believe it remains important for the predecessor auditor to obtain management’s informed consent before responding.

In addition, we concur with the additional language in paragraph .11 of the proposed SAS that a predecessor auditor exist for the requirement to apply, and with the clarification in the second bullet point to consider the implications of a refusal or limitation in deciding whether to accept the engagement.

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.

Proposed paragraph .12 provides specific inquiries the successor auditor should make in the requirements section. We do not object to the inclusion of these types of inquiries, although, the scope of matters to communicate should be limited to those that relate to the financial statements, or a similar scope as what would be considered under AU-C section 250. Paragraph 12.b should be revised to reference NOCLAR other than when the matters are clearly inconsequential *to the financial statements*. However, if the goal of the ASB is to bring awareness to inquiries of fraud and NOCLAR that could also be effectively accomplished through enhancements to application guidance rather a new requirement for inquiries to be made.

As stated in our introductory remarks, we suggest eliminating the proposed changes in paragraph .13 of AU-C section 210 requiring the predecessor auditor to respond to the successor auditor’s inquiries except in limited circumstances. Other than the request from the AICPA Professional Ethics Executive Committee (PPEC), it is unclear why the ASB would attempt to use GAAS to impose these requirements on a predecessor auditor. In our view this approach creates more issues than it solves. In extant GAAS, the application of GAAS requirements to a predecessor auditor focuses on items that would affect either

the financial statements the predecessor auditor reported on or the predecessor auditor's report (for example, subsequent events, subsequent discovery of facts, and reissuance of the auditor's report). The proposed SAS would extend the predecessor auditor's responsibilities under GAAS to apply to another auditor's potential engagement. We are concerned this extension sets a new and unfavorable precedent.

We fully support the exchange of knowledge between predecessor and successor auditors, including the expectation that the predecessor auditor responds to successor auditor inquiries to support the objective of providing the successor auditor information pertinent to their acceptance decision. However, including a presumptively mandatory requirement for the predecessor auditor to comply with successor auditor inquiries introduces unnecessary complications. The predecessor auditor should be allowed to consider facts and circumstances and determine whether and to what extent to respond to the successor's inquiries beyond the exceptions listed in the ED. Thus, we disagree with the requirements in proposed paragraph .13 and believe they should not be imposed.

In addition to the overall objection to paragraph .13 above, we have the following specific significant concerns related to it.

Requirements for Predecessor Auditor Response Should Correlate only to the Required Audit Inquiries.

Paragraph .13 of the proposed SAS advises the predecessor auditor to "respond to the auditor's inquiries" regarding matters that will assist the auditor in determining whether to accept the engagement, establishing a requirement for a predecessor auditor to **fully** respond to **all** inquiries made by a successor auditor except in rare instances. As written, this includes **all** successor auditor inquiries contemplated by extant and proposed paragraph .11, made in the interest of making an acceptance decision, such as those described in the extant AU-C section 210 paragraph .A33. This greatly increases the predecessor auditor's breadth of required response, beyond a response regarding fraud and NOCLAR.

While we are not in favor of retaining proposed paragraph .13, the requirement to fully respond should only extend to the specific new required auditor inquiries described in paragraph .12, not to those described in extant paragraph .A33. Any requirements related to a predecessor auditor response should be very narrowly focused and directly correlate to the required inquiries of the successor auditor in paragraph .12 related to fraud and NOCLAR.

Further, the proposed SAS indicates that circumstances in which the predecessor auditor decides not to fully respond are expected to be rare. We reiterate our support for the exchange of knowledge between predecessor and successor auditors, including responding to inquiries in support of the objective of providing the successor auditor information pertinent to their acceptance decision. However, the predecessor auditor should be allowed to consider how detailed and comprehensive a response to provide, based on the nature and extent of the successor auditor's inquiries, the relationship with the client and management, and other factors related to the transition.

Finally, with regard to the predecessor auditor's response to inquiries, especially those beyond the fraud and NOCLAR inquiries, we support the reinstatement of the application guidance in extant .A32 which sets an expectation that the predecessor auditor responds to the successor auditor's inquiries based on a member's responsibilities outlined in the Code of Professional Conduct.

Differing Thresholds. As mentioned in the dissent to the proposed SAS, the proposed requirement in AU-C section 210 creates a different threshold than the one used in AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

- AU-C section 250 provides guidance as to the auditor's responsibility to obtain reasonable assurance whether the financial statements are free from *material* misstatement, taking into account issues of NOCLAR, with materiality considered in the context of the financial statements and the needs of the users of the financial statements.
- AU-C section 210 as proposed reduces the threshold for both identified and suspected NOCLAR to anything that is *more than inconsequential* and contemplates that parties outside of management or those charged with governance are the users of the information provided.

We understand that there are different objectives of these AU-C sections. AU-C section 250 helps guide an auditor during an audit engagement in evaluating the impact of NOCLAR on the financial statements. In our view, the proposed SAS creates an expectation that auditors make a secondary determination (either during the audit in contemplation of a successor, or after a successor is identified) about whether such items that are less than material are more than inconsequential, solely to achieve completeness of responses to successor auditor inquiries. We are concerned about the practice issues resulting from attempting to gather complete information to comply with the proposed requirement. The different thresholds are likely to lead to confusion, may result in incomplete responses to the inquiry, and may require additional assessment after the audit is complete to fully respond to the inquiry.

Suspected Fraud or NOCLAR. Requiring the predecessor to respond about *suspected* fraud or NOCLAR is likely to result in diversity in practice. Determining what constitutes a suspected instance of fraud or NOCLAR requiring communication to the successor auditor is dependent on individual interpretation. We foresee practice issues related to consistently determining what 'suspected' means. Further, as noted in our comment 'Client Informed Consent and Awareness', with the proposed SAS it is possible the predecessor auditor may be required to communicate *suspected* fraud or NOCLAR to a successor auditor that had not been communicated to management or those charged with governance.

Time Period Covered. It is unclear what time period is subject to the successor auditor's inquiries. If identified or suspected fraud or NOCLAR occurred prior to the most recent period audited by the predecessor auditor, would those be subject to disclosure to the successor auditor? Alternatively, if a predecessor auditor became aware of identified or suspected fraud or NOCLAR after issuing the report and concluded there was no material impact to the financial statements they audited, would such instances be subject to disclosure to the successor auditor?

Scope of Matters Known to the Firm, Pertaining to the Financial Statements, or Resulting from the Audit Engagement. It is unclear whether the proposed SAS requires the predecessor auditor to communicate:

- all identified and suspected instances of fraud or NOCLAR known by the entire firm
- only those that may have an impact on the financial statements or
- only those that arose from the audit engagement.

The proposed PEEC exposure draft, *Responding to Noncompliance With Laws and Regulations*, provides requirements for members providing nonattest services for a financial statement attest client to inform the attest engagement partner of identified or suspected NOCLAR. Thus, the audit engagement partner

would have knowledge of identified or suspected fraud or NOCLAR beyond what was identified in the audit. For example, there may be instances when a client hires the audit firm to perform nonattest work related to regulatory compliance. If the findings of noncompliance resulting from such an engagement have no direct or indirect material impact on the financial statements but are more than inconsequential, it is unclear if they would be required to be communicated to the successor auditor. Depending on what is intended, this may create significant practice issues in gathering the information to communicate, as well as inhibiting the nonattest services a client invites its financial statement audit firm to provide.

If the intended scope of matters to communicate are only those that relate to the financial statements, paragraph 12.b should be revised to reference NOCLAR other than when the matters are clearly inconsequential *to the financial statements*.

Client Informed Consent and Awareness. We question what education or counsel a successor auditor has the duty to provide management and those charged with governance when requesting their authorization for the predecessor auditor to respond to the inquiries contemplated in the proposed SAS. Management and those charged with governance may not be fully aware of the expanded inquiries to include identified and suspected fraud and NOCLAR, at a lower threshold than they may have been informed of in connection with the audit, when authorizing a predecessor to respond to the auditor's inquiries.

It is also unclear what the predecessor auditor's duty is to management regarding matters communicated to the successor auditor. Under the proposed SAS the successor auditor is required to inquire about identified or suspected NOCLAR other than when matters are clearly inconsequential. If the predecessor auditor was aware of identified or suspected NOCLAR but concluded it did not have a material impact to the financial statements, it is possible that management and those charged with governance may not be aware of the issue. This raises an additional practice issue regarding whether to inform management and those charged with governance when the predecessor auditor discloses NOCLAR to the successor not previously disclosed to the client.

Request for Specific Comment #3

Is the proposed requirement (paragraph .15) appropriate and complete? If not, please suggest specific revisions.

We support the proposed documentation requirement in paragraph .15. However, the proposed SAS is not clear how the documentation requirement would apply if the inquiring auditor ultimately concludes not to engage. We recommend that paragraph .15 state an exception to the requirement to retain such documentation if the auditor does not engage.

Request for Specific Comment #4

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

As the inquiries addressed in paragraph .12 of the proposed SAS are setting new requirements for the successor auditor, firms and quality control materials (QCM) providers will have to incorporate these inquiries (and related documentation) into their QCM. Firms that rely on external resource providers may be challenged to apply the new requirements in time to comply with the proposed effective date, and this

may depend heavily on the cycle of updates by QCM providers who are relied on significantly by the majority of audit firms.

Other Comment

We provide the following additional comment on the proposed SAS for your consideration. The grammatical construct of paragraph .11 is not parallel in the bullets that follow. In the first bullet, the “should” in the first part of the sentence dictates both requirements. In the second bullet, there is an additional “should” within the bullet. We raise it for your consideration. Our suggestion is to remove “the auditor should” in the second bullet if the “should” in the first part of the sentence (italicized here) is designed to apply to “inquire about the reasons.”

...the auditor should request management to authorize the predecessor auditor to respond... and

- if management authorizes the predecessor auditor to respond to the auditor’s inquiries, perform the procedures required in paragraphs. .12–.13
- if management refuses to authorize the predecessor auditor to respond, or limits the response, the auditor should inquire about the reasons and consider the implications of that refusal or limitation in deciding whether to accept the engagement.

If you require further information regarding our response, please contact Erica Forhan, Partner in our Professional Practice Group, at 206-302-6826 or by e-mail at Erica.Forhan@mossadams.com.

Respectfully,

Moss Adams LLP

CC: Ms. Tori Lee-Andrews, American Institute of Certified Public Accountants