



Agenda Item 1A

EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

INQUIRIES OF THE PREDECESSOR AUDITOR REGARDING FRAUD AND NONCOMPLIANCE WITH LAWS AND REGULATIONS

(Amends Statement on Auditing Standards [SAS] No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 210, Terms of Engagement [AICPA, Professional Standards, AU-C sec. 210])

November ~~January~~ XX, 20202021

Comments are requested by April 16, 2021

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.

Comments should be submitted in Word format and sent to CommentLetters@aicpa-cima.com.

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Explanatory Memorandum

Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations* to require a prospective successor auditor, once management authorizes the predecessor auditor to respond to inquiries from the prospective successor auditor, to inquire of the predecessor auditor regarding identified or suspected fraud or noncompliance with laws or regulation (NOCLAR). If issued as final, the proposed SAS will amend SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, section 210, *Terms of Engagement* (AICPA, *Professional Standards*, AU-C sec. 210).¹

Background

The International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code) requires a predecessor auditor to “provide all relevant facts and other information concerning the identified or suspected non-compliance (with laws and regulations) to the proposed accountant. The predecessor accountant shall do so even... where the client fails or refuses to grant the predecessor accountant permission to discuss the client’s affairs with the proposed accountant, unless prohibited by law or regulation.”² was revised in July 2016 to require, in the absence of any law prohibiting disclosure of confidential information to an outside party, the disclosure of identified or suspected noncompliance with laws and regulations (NOCLAR) to an appropriate authority even if not required by law where necessary in the public interest.

In 2016, the [International Auditing and Assurance Standards Board \(IAASB\)](#) revised ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, to reflect certain relevant changes as adopted in the IESBA Code of Ethics. For example, ISA 250 (revised) includes a conforming change to paragraph .A9 of ISA 220 (Revised), *Quality Control for an Audit of Financial Statements* which states, in part, “where the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code requires that the predecessor auditor, on request by a proposed successor auditor, provides all such facts and other information concerning such non-compliance that, in the predecessor auditor’s opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.” As the AICPA Code of Professional Conduct (AICPA code) has not been similarly revised, the ASB has not revised AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*. AU-C section 250 was last revised in October 2011 with the issuance of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*.

¹ All AU-C sections can be found in AICPA *Professional Standards*.

² Paragraph R360.22 of the IESBA Code.

In March 2017, the AICPA’s Professional Ethics Executive Committee (PEEC) issued an exposure draft with proposals for two new interpretations entitled “Responding to Non-Compliance with Laws and Regulations.” ~~Although While~~ similar to the IESBA’s ~~c~~Code, the exposure draft explained that certain differences were necessary to enhance the clarity of the proposed interpretations and make them relevant to AICPA members in the United States. Most notably, certain provisions were not included in the AICPA proposals ~~becauseas~~ they ~~would were believed~~ ~~to~~ be incompatible with most state laws and regulations on client and employer confidentiality. The AICPA ~~Code code of Professional Conduct (AICPA code)~~ does not permit a CPA to disclose confidential client information without client or employer consent unless required by professional standards. The following is the applicable excerpt from the ~~AICPA c~~Code ~~of Professional Conduct~~:

1.700.001 Confidential Client Information Rule

.01 A member in public practice shall not disclose any confidential client information without the specific consent of the client.

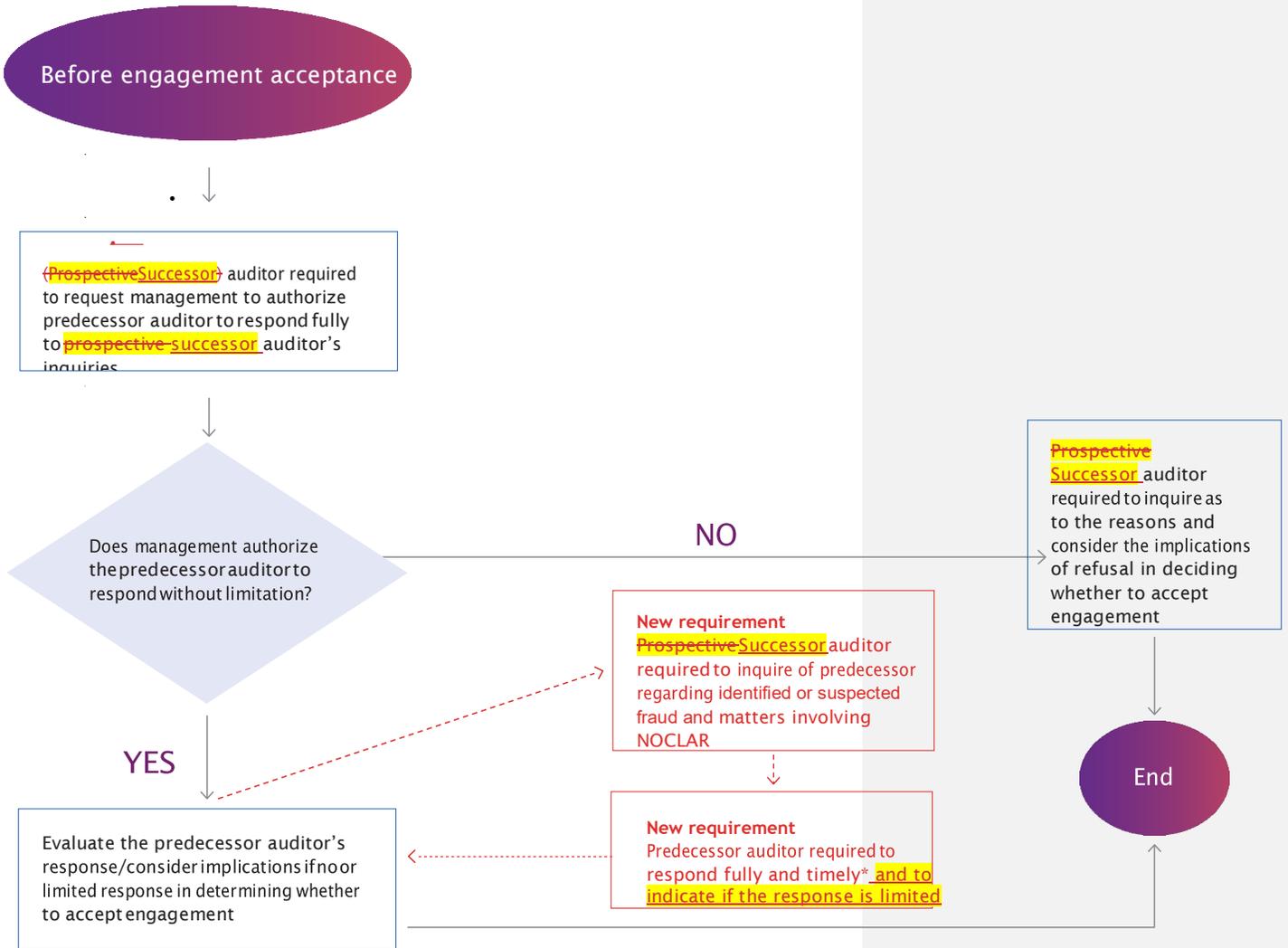
.02 This rule shall not be construed (1) to relieve a member of his or her professional obligations of the “Compliance With Standards Rule” [1.310.001] or the “Accounting Principles Rule” [1.320.001]

In response to the PEEC exposure draft, comments were received expressing concern that the proposed language would discourage CPAs from acting in the public interest even after the CPA demonstrated compliance with all relevant professional standards ~~and may also be construed as either limiting or prohibiting a NOCLAR disclosure without written client consent.~~

~~The Auditing Standards Board (ASB) is not proposing a revision to the requirement that the successor auditor request management to authorize the predecessor auditor to respond fully to the successor auditor’s inquiries regarding matters that will assist the successor auditor in determining whether to accept the engagement. However Therefore,~~ as an option to address ~~identified or suspected fraud certain and matters with respect to involving~~ NOCLAR, the ASB is considering narrow revisions to auditing standards generally accepted in the United States of America (GAAS) to require a ~~prospective~~ successor auditor, once management authorizes the predecessor auditor to respond to inquiries from the ~~prospective~~ successor auditor, to inquire of the predecessor auditor regarding identified or suspected fraud and matters involving NOCLAR. ~~The ASB believes this approach is similar to the approach included in the Public Company Auditing Oversight Board’s AS 2610, Initial Audits – Communications Between Predecessor and Successor Auditors (PCAOB AS 2610) that directs the successor auditor to make more specific inquiries of the predecessor auditor after requesting permission from the prospective client to make an inquiry of the predecessor auditor. Furthermore, the absence of authorization for a potential successor auditor to make inquiries of a predecessor auditor should give rise to sufficient questions from the prospective successor auditor with respect to engagement acceptance irrespective of the basis for the lack of authorization.~~ Until further PEEC deliberations ~~regardingwith regard to~~ the interaction with state law and potential changes to the AICPA ~~c~~Code ~~of Professional Conduct~~ take place, the

ASB is not considering revisions to GAAS that would require auditors to report fraud or NOCLAR to other outside parties, such as the appropriate authorities.

The following flowchart illustrates the proposed narrow revisions. The procedures in black are currently required by GAAS. The proposed additional procedures are in red.



*Stated as application guidance in extant based on Code of Professional Conduct statement that members have a responsibility to cooperate with each other.

Effective Date

If issued as final, the proposed amendment to AU-C section 210 will be effective for audits of financial statements for periods ~~beginning ending on or after March-December 15, 2022. Early implementation is permitted.~~

Explanation of Proposed Changes

Management authorization of communication between successor and predecessor auditors

~~In accordance with extant AU-C section 210, prior to accepting an initial or a reaudit engagement, a prospective auditor is required to request management to authorize the predecessor auditor to respond fully to the prospective auditor's inquiries. The ASB determined to retain the requirement in paragraph .11 of extant AU-C section 210 for the successor auditor, prior to accepting an initial or a reaudit engagement, to request management to authorize the predecessor auditor to respond fully to the successor auditor's inquiries. The ASB did consider a requirement for the successor auditor to obtain the client's explicit consent as either a precondition for the audit or as a required element of the terms of the engagement. The ASB is concerned that such a requirement or precondition may result in a potential client being unable to engage an auditor and concluded that that was not in the public interest, nor was it necessary as the requirement would now be in the auditor's professional standards, which the client would be broadly acknowledging. The ASB also considered an approach where the successor auditor would be required to communicate with the predecessor auditor but would not be required to request management to authorize the predecessor auditor to respond fully to the successor auditor's inquiries. The ASB concluded that such an approach is not practical with respect to the financial statements of a non-public entity as the successor auditor may not be aware of the identity of the predecessor auditor and the predecessor auditor would have no basis to conclude that the management is considering engaging the purported successor auditor.~~

~~Further, the ASB believes that the requirement for the successor auditor to inquire about the reasons for a refusal to authorize the predecessor auditor to respond fully to the successor auditor's inquiries and to consider the implications of that refusal or limitation in deciding whether to accept the engagement results in sufficiently drawing attention to potential issues prior to engagement acceptance.~~

~~The requirement is consistent with the requirements in PCAOB AS 2610 for audits of financial statements of issuers.~~

Request for Specific Comment #1

Does the respondent agree with the ASB's determination that it is in the public interest to retain the requirement for the successor auditor, prior to accepting an initial or a reaudit engagement, to request management to authorize the predecessor auditor to respond fully to the successor auditor's inquiries? If not, why not and how would the respondent revise the requirement (for example, make the client providing consent a precondition for the successor auditor to accept the engagement or requiring the successor auditor to communicate with the predecessor auditor without the client's authorization)?

Knowledge transfer from predecessor auditor to successor auditor

The ASB believes that it is in the public interest for a knowledge transfer from the predecessor auditor to the successor auditor with respect to identified or suspected fraud and matters involving NOCLAR. To effect such knowledge transfer with respect to the audit of the financial statements of a non-public entity, the ASB proposes ~~it is proposed~~ that a requirement be added to ~~ATAU-C~~ section 210 whereby, if management authorizes the predecessor auditor to respond to the ~~prospective~~ successor auditor without limitation, the ~~prospective~~ successor auditor makes a specific ~~inquiry~~ ~~inquiries~~ regarding identified or suspected fraud and matters involving noncompliance with laws and regulations:

.12 *If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond fully to the successor auditor's inquiries regarding matters that will assist the successor auditor in determining whether to accept the engagement, ~~The the~~ ~~successor~~ auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including, but not limited to, ~~The auditor should specifically inquire about:~~ (Ref: par. ~~A2&A30-~~ ~~A29A32~~)*

- a. ~~Identified~~ or suspected fraud involving
 - i. management,
 - ii. employees who have significant roles in internal control, or
 - iii. others, ~~where when~~ the fraud ~~results resulted~~ in a material misstatement in the financial statements.
- b. ~~m~~Matters involving noncompliance or suspected noncompliance with laws and regulations that ~~come came~~ to the predecessor auditor's attention during the audit, other than when the matters are clearly inconsequential.

The ~~communication requirements~~ ~~proposed additional required inquiries~~ are consistent with the matters that the predecessor auditor is required to ~~communication requirements~~ communicate to ~~for~~ those charged with governance ~~as required~~ by paragraph .40 of extant AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*, and paragraph .21 of AU-C section 250,

Consideration of Laws and Regulations in an Audit of Financial Statements.

If management does not authorize the predecessor auditor to respond or limits the predecessor's response, the requirement in extant AU-C section 210 for the prospective successor auditor to inquire about the reasons and consider the implications of that refusal or limitation in deciding whether to accept the engagement is not changed.

Further, while the AICPA Code of Professional Conduct states that members have a responsibility to cooperate with each other and paragraph .A30-A32 of extant AU-C section 210 states that, "therefore, the predecessor auditor is expected to respond to the auditor's inquiries promptly and, in the absence of unusual circumstances, fully, on the basis of known facts," the proposed revision would also include the following new requirement:

.13 *If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond fully to the successor auditor's inquiries regarding matters that will assist the successor auditor in determining whether to accept the engagement, In the absence of unusual circumstances, the predecessor auditor should respond to the successor auditor's inquiries on a timely basis and, on the basis of known facts, fully, unless prohibited by applicable law. However, when the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the successor auditor's inquiries, the predecessor auditor should clearly state that the response is limited. If the predecessor's response is limited, the predecessor should so indicate. (Ref: par. .A30-A33 — .A32-A35)*

Commented [MG1]: Deleted "with an explanation of the basis for such limitation" in response to review comments from ASB members.

The final sentence in proposed paragraph .13 is intended to make clear that the predecessor auditor is expected to respond fully to the successor auditor's inquiries while acknowledging that there are circumstances that make that expectation unrealistic. The language from that sentence is taken from paragraph .A30 of extant AU-C section 210. The statement in the AICPA code that members are expected to cooperate with each other is not impacted.

The intent of the proposed required inquiries and response is to facilitate a knowledge transfer of identified or suspected fraud and matters involving noncompliance with laws and regulations NOCLAR between a predecessor to a successor auditor. This The knowledge transfer would limit the ability of a client to avoid the consequences of such matters by simply changing auditors.

Request for Specific Comment #12

Are the proposed requirements appropriate and complete, including whether it is appropriate to provide and retain the predecessor auditor's ability to not respond fully to the successor auditor's inquiries due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances? If not, please suggest specific revisions.

Documentation

The proposed SAS includes the following requirement:

~~.415~~ *The **successor** auditor should include in the audit documentation the communications with the predecessor auditor.*

Request for Specific Comment #23

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

Proposed effective date

If issued as final, the ASB proposes that the revisions to AU-C section 210 be effective for audits of financial statements for periods ending on or after December 15, 2022. Practically, any auditor changes during the calendar year 2022 and thereafter would be subject to the proposed revisions to AU-C section 210.³ Early implementation would be permitted.

Request for Specific Comment #4

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

Guide for Respondents

Respondents are asked to comment on the proposed changes to AU-C section 210.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA for one year, beginning April 16, 2021. Responses should be submitted in Word format, sent to commentletters@aicpa-cima.com, and received by April 16, 2021. Respondents may also submit a PDF version of their response for posting to the AICPA website.

Comment Period

The comment period for this exposure draft ends April 16, 2021.

³ *This proposed effective date is provisional but will not be earlier than December 15, 2022.*

**Auditing Standards Board
(2020–2021)**

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Proposed Amendment to SAS No. 122, as amended, AU-C Section 210, Terms of Engagement (AICPA, Professional Standards, AU-C sec. 210)

1. This amendment is effective for **audits engagements beginning of financial statements for periods ending on or after March-December** 15, 2022.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

[No proposed amendment to paragraphs .01–.0803. ~~Paragraphs .09–.10 are included for contextual purposes.~~]

Definitions

.04 For purposes of generally accepted auditing standards (GAAS), the following terms have the meanings attributed as follows:

...

Successor auditor. ***An auditor who is considering accepting an engagement to audit financial statements but has not communicated with the predecessor auditor as provided in paragraphs .11 through .14, as well as an auditor who has accepted such an engagement.***

Commented [MG2]: Definition is consistent with paragraph .02 of AS 2610.

[No proposed amendment to paragraphs .05–.10.]

Agreement on Audit Engagement Terms

- ~~.09~~ The auditor should agree upon the terms of the audit engagement with management or those charged with governance, as appropriate. (Ref: par. ~~.A20–.A21~~)
- ~~.10~~ The agreed upon terms of the audit engagement should be documented in an audit engagement letter or other suitable form of written agreement and should include the following: (Ref: par. ~~.A22–.A26~~)
- ~~a.~~ The objective and scope of the audit of the financial statements
 - ~~b.~~ The responsibilities of the auditor
 - ~~c.~~ The responsibilities of management
 - ~~d.~~ A statement that because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with GAAS

- ~~e. Identification of the applicable financial reporting framework for the preparation of the financial statements~~
- ~~f. Reference to the expected form and content of any reports to be issued by the auditor and a statement that circumstances may arise in which a report may differ from its expected form and content~~

Initial Audits, Including Reaudit Engagements – Communications Between Predecessor and Successor Auditors

.11 Before accepting an engagement for an initial audit, including a reaudit engagement, the successor auditor should, *if a predecessor auditor exists*, request management to authorize the predecessor auditor to respond fully to the successor auditor’s inquiries regarding matters that will assist the successor auditor in determining whether to accept the engagement and: . (Ref: par. .A29)

- If management authorizes the predecessor auditor to respond fully to the successor auditor’s inquiries, the requirements in paragraphs .12-.13 apply; or
- ~~–If management refuses to authorize the predecessor auditor to respond, or limits the response, the successor auditor should inquire about the reasons and consider the implications of that refusal or limitation in deciding whether to accept the engagement. (Ref: par. .A27)~~

Commented [MG3]: This was “the (successor) auditor should make those inquiries required by paragraphs .12-.13”

.12 If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond fully to the successor auditor’s inquiries regarding matters that will assist the successor auditor in determining whether to accept the engagement, ~~the~~ the successor auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including but not limited to: (Ref: par. ~~.A28.A30—~~.A29.A32)

- a. ~~Identified or suspected fraud involving~~
 - i. management,
 - ii. employees who have significant roles in internal control, or
 - iii. others, ~~where~~ when the fraud ~~results resulted~~ in a material misstatement in the financial statements.
- b. ~~matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor auditor’s attention during the audit, other than when matters are clearly inconsequential.~~

~~.13~~ If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond fully to the successor auditor's inquiries regarding matters that will assist the successor auditor in determining whether to accept the engagement. In the absence of unusual circumstances, the predecessor auditor should respond to the successor auditor's inquiries on a timely basis and, on the basis of known facts, fully, unless prohibited by applicable law. However, when the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the successor auditor's inquiries, the predecessor auditor should so indicate clearly state that the response is limited. ~~(Ref: par. ~~.A30~~~~A33~~~~.A32~~~~A35~~)~~

Commented [MG4]: Deleted phrase "with an explanation of the basis for such limitation" at the end of the sentence.

~~.14~~ ~~The (successor) auditor should include in the audit documentation the inquiries of the predecessor auditor.~~

~~.12~~ ~~.15~~ 14 The **successor** auditor should evaluate the predecessor auditor's response, or consider the implications if the predecessor auditor provides no response or a limited response, in determining whether to accept the engagement. (Ref: par. ~~.A27~~ ~~A29~~ ~~.A32~~ ~~A34~~ ~~.A33~~ ~~A36~~)

~~.14~~ 15 ~~The (successor) auditor should~~ document its include in the audit documentation the inquiries of communications with the predecessor auditor in the audit documentation.

[Former Paragraphs .13–.18 are renumbered to as paragraphs .16–.21. The content is unchanged.]

Application and Other Explanatory Material

[No amendment to paragraphs .A1–.A21. Paragraph .A22 is included for contextual purposes.]

~~Audit Engagement Letter or Other Form of Written Agreement~~^{fn-10} (Ref: par. .10)

~~.A22~~ Both management and the auditor have an interest in documenting the agreed-upon terms of the audit engagement before the commencement of the audit to help avoid misunderstandings with respect to the audit. For example, it reduces the risk that management may inappropriately rely on the auditor to protect management against certain risks or to perform certain functions that are management's responsibility.

^{fn-10} In the paragraphs that follow, any reference to an audit engagement letter is to be taken as a reference to an audit engagement letter or other suitable form of written agreement. [Footnote omitted for purposes of this proposed SAS.]

Form and Content of the Audit Engagement Letter

~~.A23~~ The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.^{fn 11} Paragraph .06b of this section addresses the description of the responsibilities of management. In addition to including the matters required by paragraph .10, an audit engagement letter may make reference to, for example, the following:

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- ~~Elaboration of the scope of the audit, including reference to applicable legislation, regulations, GAAS, and ethical and other pronouncements of professional bodies to which the auditor adheres~~
- ~~*The auditor's responsibility to communicate matters to a successor auditor or to those charged with governance, including identified or suspected fraud and matters involving noncompliance with laws and regulations that come to the auditor's attention during the audit.*~~
- ~~*The agreement of management to explicitly consent to the auditor's communication of matters to a successor auditor, including identified or suspected fraud and matters involving noncompliance with laws and regulations that come to the auditor's attention during the audit.*~~
- ~~The form of any other communication of results of the audit engagement~~
- ~~Arrangements regarding the planning and performance of the audit, including the composition of the audit team~~
- ~~The expectation that management will provide written representations (see also paragraph .A11)~~
- ~~The agreement of management to make available to the auditor draft financial statements and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timetable~~
- ~~The agreement of management to inform the auditor of events occurring or facts discovered subsequent to the date of the financial statements, of which management may become aware, that may affect the financial statements~~

^{fn 11} Paragraphs .04-.10 of section 200.

- ~~• The basis on which fees are computed and any billing arrangements~~
- ~~• A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein, as may be evidenced by their signature on the engagement letter~~

~~[No amendment to Paragraphs A24A1–A26A29. are included for contextual purposes.]~~

~~A24~~ When relevant, the following points also could be made in the audit engagement letter:

- ~~• Arrangements concerning the involvement of other auditors and specialists in some aspects of the audit~~
- ~~• Arrangements concerning the involvement of internal auditors and other staff of the entity~~
- ~~• Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit~~
- ~~• Any restriction of the auditor’s liability when not prohibited~~
- ~~• Any obligations of the auditor to provide audit documentation to other parties~~
- ~~• Additional services to be provided, such as those relating to regulatory requirements~~
- ~~• A reference to any further agreements between the auditor and the entity~~

~~A25~~ Reference to the expected form and content of any reports to be issued by the auditor may include a description of the types of reports to be issued. The auditor need not describe the type of opinion expected to be expressed. An example of an audit engagement letter is set out in the exhibit “Example of an Audit Engagement Letter.”

~~A26~~ *Audits of components.* When the auditor of a parent entity is also the auditor of a component, the factors that may influence the decision whether to obtain a separate audit engagement letter from the component include the following:

- ~~• Who engages the component auditor~~
- ~~• Whether a separate auditor’s report is to be issued on the component~~
- ~~• Legal requirements regarding the appointment of the auditor~~
- ~~• Degree of ownership by parent~~
- ~~• Degree of independence of the component management from the parent entity~~

Initial Audits, Including Reaudit Engagements – *Communications Between Predecessor and Successor Auditors* (Ref: par. .11–.13–14 and .12.15)

~~.A27 An auditor may make a proposal for an audit engagement before being granted permission to make inquiries of a predecessor auditor. The auditor may advise management in the proposal or otherwise that the auditor’s acceptance of the engagement cannot be final until the inquiries have been made and the responses of the predecessor auditor have been evaluated.~~

~~.A29~~~~.A28~~~~A31~~~~A30~~ Relevant ethical and professional requirements guide the **successor** auditor’s communications with the predecessor auditor and management, as well as the predecessor auditor’s response. Such requirements provide that, except as permitted by the rules of the AICPA Code of Professional Conduct an auditor is precluded from disclosing confidential information obtained in the course of an engagement unless management specifically consents. ~~Such~~ **Relevant ethical and professional** requirements also provide that both the **successor** auditor and the predecessor auditor hold in confidence information obtained from each other. This obligation applies regardless of whether the auditor accepts the engagement.

~~.A31~~ ***The inquiries specified in paragraph .12a-b are consistent with the requirements to communicate with those charged with governance as required by paragraph .40 of AU-C section 240, Consideration of Fraud in a Financial Statement Audit, and paragraph .21 of AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements, respectively.***

~~.A31~~~~.A29~~~~A33~~~~A32~~ The communication with the predecessor auditor may be either written or oral. **In addition to the inquiries specified in paragraph .12a–b, A**matters subject to the **successor** auditor’s inquiry of the predecessor auditor may include the following:

- Information that might bear on the integrity of management
- Disagreements with management about accounting policies, auditing procedures, or other similarly significant matters
- ~~• Communications to those charged with governance regarding fraud and noncompliance with laws or regulations by the entity~~
- Communications to management and those charged with governance regarding significant deficiencies and material weaknesses in internal control
- The predecessor auditor’s understanding about the reasons for the change of auditors

~~.A30~~~~A33~~ In accordance with ~~the~~ **AICPA Code of Professional Conduct, which** states that members have a responsibility to cooperate with each other, ~~the predecessor auditor, in the absence of unusual circumstances, is expected to respond to the auditor’s~~

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inquiries promptly ~~on a timely basis and, on the basis of known facts, fully, unless prohibited by applicable law~~ in the absence of unusual circumstances, fully, on the basis of known facts. ~~If, due to unusual circumstances, such as pending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, the predecessor auditor decides not to respond fully to the inquiries, the predecessor auditor is expected to clearly state that the response is limited.~~

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Commented [MG6]: Elevated to paragraph .12.

~~.A31-.A34~~ *Prior to Before* responding to the **successor** auditor's inquiries made pursuant to paragraph .12, the predecessor auditor may ~~consult~~ **consider it appropriate to obtain legal counsel advice** to determine whether any professional or legal requirements ~~exist in the circumstances restrict the predecessor auditor's ability to respond.~~

~~.A28.A32.A30.A35~~ When more than one auditor is considering accepting an engagement, the predecessor auditor is not expected to be available to respond to inquiries until an auditor has been selected by the entity and ~~has~~ **plans to** accepted the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph ~~.A21.A1214~~.

Considerations Specific to Governmental Entities

~~.A32.A33~~ When the auditor is required by law or regulation to audit a governmental entity, inquiries of the predecessor auditor for the purpose of obtaining information about whether to accept the engagement may not be relevant. However, inquiries of the predecessor auditor may still be relevant for the purpose of obtaining information that is used by the auditor in planning and performing the audit.

[Former Paragraphs ~~.A33.A34-.A42-A44~~ are renumbered to paragraphs ~~.A34.A36-.A43.A46~~. The content is unchanged. No further amendment to AU-C section 210.]