



June 22, 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:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

AU-C 210.A33 includes matters the successor auditor *may* inquire of the predecessor, including communications to those charged with governance regarding fraud and noncompliance with laws and regulations (NOCLAR) by the entity. TIC appreciates the effort of the Auditing Standards Board (ASB) to *require* an auditor, once management authorizes the predecessor auditor to respond to inquiries from the auditor, to inquire of the predecessor auditor regarding fraud and matters involving NOCLAR. However, TIC believes the current audit requirements are working as intended and the proposed amendments do not change where red flags and knowledge transfer occur.

TIC believes PEEC should first address the issues with regard to all members' responsibilities related to NOCLAR and, then, the ASB can determine what changes, if any, need to be made to the auditing standards. If changes are made to the auditing standards, TIC believes the inquiries and responses should be limited to matters communicated with those charged with governance. While this is addressed in paragraph .A31 of the exposure draft, TIC believes this should be made clear in paragraph 12 and not in the application material.

TIC's detailed comments in response to the questions posed in the ED are provided as follows.

Question 1: *Does the respondent agree with 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, TIC believes the requirement for the auditor, prior to accepting the engagement, including a reaudit engagement, to request management to authorize the predecessor auditor to fully respond to the auditor's inquiries should be retained.

Question 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?*

TIC agrees with continuing to allow for the exception when the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the auditor's inquiries, and the predecessor auditor should clearly state that the response is limited.

However, TIC has concerns with the wording in paragraph .12 related to noncompliance with laws and regulations that indicate the following, in part:

“...matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor auditor's attention during the audit, other than when the matters are clearly inconsequential.”

TIC believes that the wording related to “suspected noncompliance” should be limited to the existing auditor reporting responsibilities in AU-C 240 and AU-C 250. Without limiting the matters required to be communicated to suspected noncompliance which were reported to management and, when appropriate, those charged with governance, TIC is concerned the scope is too broad and that predecessors may be put in a position of speculating on potential noncompliance that would be beyond the level of expertise and/or knowledge of most auditors.

Question 3: *Is the proposed requirement appropriate and complete?*

TIC believes the requirement for the successor auditor to document its inquiries and the results of the inquiries with the predecessor auditor is appropriate.

Question 4: *Are respondents supportive of the proposed effective date?*

TIC believes the proposed effective date for audits of financial statements for periods ending on or after December 15, 2022 is appropriate if ASB decides to move forward with issuance of these proposed changes.

TIC appreciates the opportunity to present these comments on behalf of PCPS Member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Bryan Bodnar

Chair, On Behalf of the PCPS Technical Issues Committee