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Via e-mail: CommentLetters@aicpa-cima.com

Auditing Standards Board  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas, 27th Floor  
New York, NY 10105  
USA

**Re: Proposed Statement on Auditing Standards *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations***

Dear Members of the Auditing Standards Board,

BDO USA, LLP (“our” or “we”) appreciates the opportunity to respond to the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board’s (ASB or the Board) request for comments on the proposed Statement on Auditing Standards (SAS) *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations (NOCLAR)* to amend SAS No. 122, as amended, section 210, *Terms of Engagement*.

We are supportive of the Board’s objectives of protecting the public interest by enhancing the communication between the proposed successor auditor and the predecessor auditor on matters relating to identified or suspected fraud and NOCLAR. We find the Board’s proposed amendments to be in alignment with the current requirements in the Public Company Accounting Oversight Board (PCAOB) standards.

In general, we are supportive of the narrow revisions to the auditing standards, while acknowledging that the auditor’s compliance with the professional, ethical and legal requirements in this area remain complex and challenging. Our response to the specific request for comment by the Board is noted below with further suggestions and editorial comments identified in Appendix A.

- 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 requirement in paragraph .11 of extant AU-C section 210 for the auditor to request management to authorize the



predecessor auditor to respond fully to the auditor’s inquiries prior to the auditor’s acceptance of an initial audit or reaudit engagement. We find this requirement to be appropriate and practical in achieving the Board’s objectives.

As noted in the explanatory memorandum to the proposed SAS, the current AICPA Code of Professional Conduct<sup>1</sup> and most state laws and regulations in the United States prohibit, with limited exceptions, the disclosure of confidential client information in the absence of the client’s consent. Furthermore, if management is unwilling to provide their consent to authorize the predecessor auditor to respond fully, this should raise a “red flag” with the auditor and put them on notice that there could be potential issues, such as a suspected NOCLAR, that would influence the auditor’s acceptance of the engagement.

- 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.**

Other than the items described in Appendix A of this response, we find the proposed requirements appropriate and complete. We are in favor of providing an exception that permits the predecessor auditor to either decline or limit its response to the proposed successor auditor’s inquiries due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances so long as the predecessor auditor clearly states that the response is limited in nature.

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

With respect to paragraph .15 of the proposed SAS, we propose adding clarification or linkage to the incremental documentation requirement in paragraph .30 of proposed ET sec. 1.170.010, *Responding to Noncompliance With Laws and Regulations* in the AICPA Professional Ethics Division’s Exposure Draft (dated February 25, 2021) in instances of identified or suspected fraud and matters involving NOCLAR resulting from the auditor’s inquiries of the predecessor auditor.

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

We are supportive of the proposed effective date; however, we would like to highlight that early implementation presents challenges in practice given that the proposed SAS establishes new requirements for both the successor and predecessor auditor. An effective early implementation of the standard would require both parties to comply

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<sup>1</sup> The “Confidential Client Information Rule” (ET sec. 1.700.001)



with the new requirements. Therefore, we suggest that early implementation should not be permitted. We also recommend that consideration be given as to whether there are aspects to the AICPA Professional Ethics Division's proposed NOCLAR interpretation that would require coordination of the effective dates of the revised SAS and new ethics standard.

We appreciate the opportunity to comment on this proposed SAS. Please contact [Phillip Austin](#) (312) 259-0357 or [Ashwin Chandran](#) (214) 689-5667 for any inquiries or questions regarding our submission.

Sincerely,

BDO USA, LLP

BDO USA, LLP

## Appendix A: Suggestions and editorial comments

(Additions are shown in bold text and deletions are shown in strikethrough text.)

Proposed Amendment to SAS No. 122, as amended, section 210, <i>Terms of Engagement</i>	
Paragraph	Suggestions and editorial comments
.11	<p>The first bullet point in paragraph .11 of the proposed SAS establishes requirements for the auditor to perform procedures required in paragraphs .12 - .13; however, paragraph .13 establishes specific requirements that are applicable to the predecessor auditor as opposed to the proposed successor auditor. Therefore, we believe that the requirements directed at the auditor in the first bullet point in paragraph .11 should be limited to paragraph .12 only.</p> <p>The suggested revision to paragraph .11 is as follows:</p> <ul style="list-style-type: none"> <li>• <i>if management authorizes the predecessor auditor to respond to the auditor's inquiries, perform the procedures required in paragraphs- .12--13</i></li> </ul>
.13 and .A34	<p>The last two sentences in paragraph .A34 are substantially the same as the last two sentences in paragraph .13 of the proposed SAS. To address the redundancy in these two paragraphs, we recommend:</p> <ol style="list-style-type: none"> <li>deleting the second sentence in paragraph .A34 that begins with "<i>if, due to impending, threatened, or potential litigation;...</i>" and retaining the corresponding sentence in paragraph .13; and</li> <li>deleting the last sentence in paragraph .13, which states "<i>[s]uch circumstances are expected to be rare</i>" as the sentence seems unnecessary, particularly in the requirement section. Paragraph .13 of the proposed SAS seems sufficiently clear without this last sentence as to the limited or unusual circumstances in which the predecessor auditor may not fully respond to the auditor's inquiries. Alternatively, we suggest reiterating this point in paragraph .A34.</li> </ol> <p>The following section reflects these proposed changes, including one additional editorial change:</p> <p><i>.13 If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, the predecessor auditor should respond to the auditor's inquiries on a timely basis and, on the basis of known facts, unless prohibited by applicable law. However, <del>when</del> <i>if</i> the predecessor auditor decides, due to impending, threatened, or</i></p>

*potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the auditor's inquiries, the predecessor auditor should clearly state that the response is limited. Such circumstances are expected to be rare. (Ref: par. .A33-.A35)*

*.A34 Before responding to the auditor's inquiries made pursuant to paragraph .12, the predecessor auditor may consider it appropriate to obtain legal advice to determine whether any professional or legal requirements or unusual circumstances may limit the predecessor auditor's ability to respond. ~~If, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, the predecessor auditor does not fully respond to the auditor's inquiries, pursuant to paragraph .13 the predecessor auditor is required to clearly state that the response is limited. Such circumstances are expected to be rare.~~*