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])

February 25, 2021

Comments are requested by June 30, 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.

CONTENTS

Page

Explanatory Memorandum

Exposure Draft

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 an auditor, once management authorizes the predecessor auditor to respond to inquiries from the 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]"

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. 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*Quality Control for an Audit of Financial Statements*, which states, in part, "where the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code requires that the predecessor auditor, on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, provide 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 Auditing Standards Board (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.*

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 similar to the IESBA 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 because they were believed to be incompatible with most state laws and regulations on client and employer confidentiality. The AICPA code does not permit a

[1] All AU-C sections can be found in AICPA *Professional Standards.*
[2] Paragraph R360.22 of the IESBA code.

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 code:

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*.

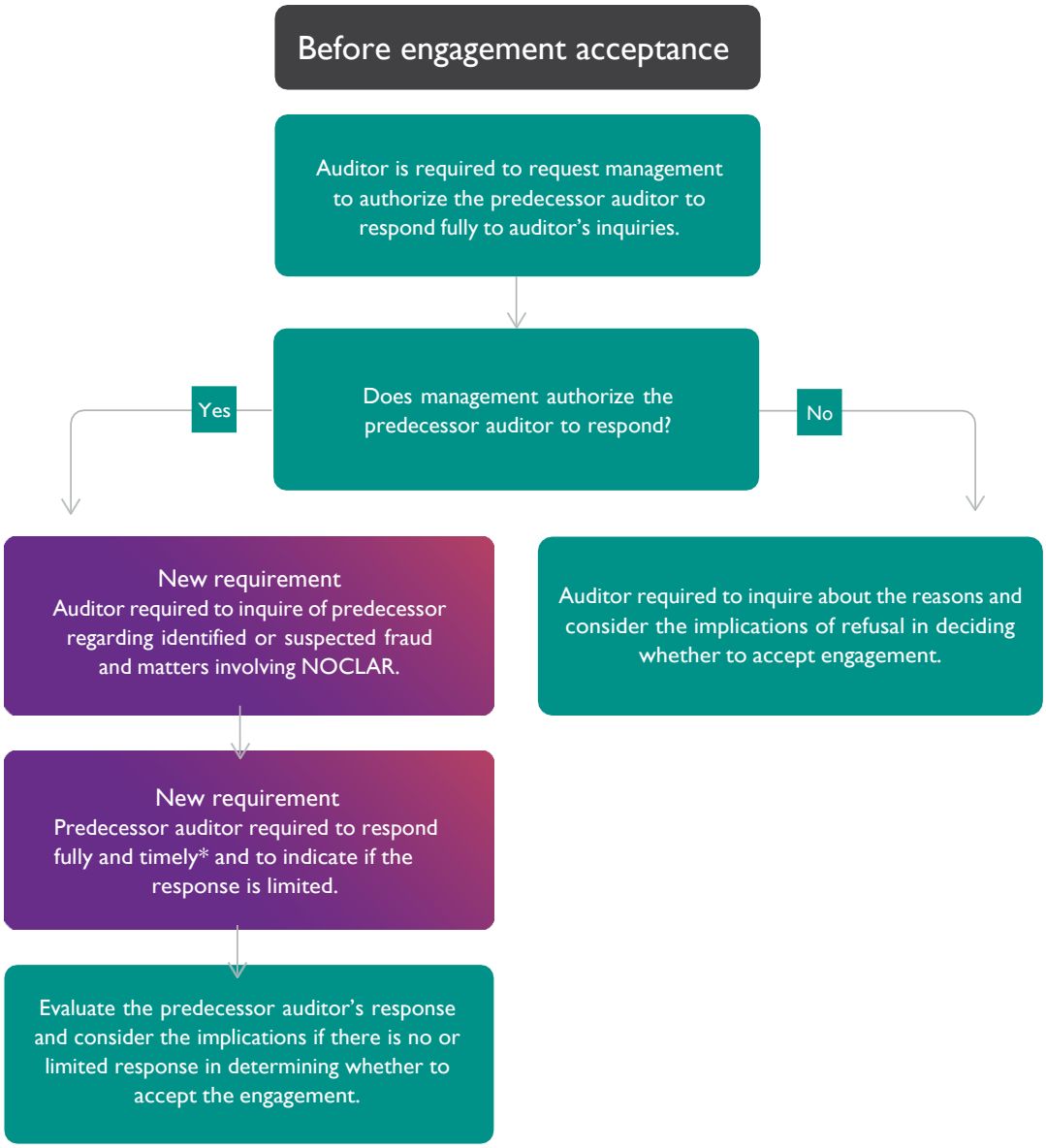
.02 This rule shall not be construed (1) to relieve a *member* of his or her professional obligations of the "Compliance With Standards Rule" [1.310.001] or the "Accounting Principles Rule" [1.320.001]

In response to PEEC's 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. PEEC issued a revised exposure draft on February 25, 2021. That exposure draft is available at https://www.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposuredrafts/downloadabledocuments/2021/2021-Feb-NOCLAR-ED.pdf.

The ASB is not proposing a revision to the existing audit requirement that the auditor request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement. However as an option to address identified or suspected fraud and matters involving NOCLAR, the ASB is proposing narrow revisions to auditing standards generally accepted in the United States of America (GAAS) to require an auditor, once management authorizes the predecessor auditor to respond to inquiries from the 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 PCAOB's AS 2610, *Initial Audits – Communications Between Predecessor and Successor Auditors* (PCAOB AS 2610) that directs the auditor to make more specific inquiries of the predecessor auditor after requesting permission from management to make an inquiry of the predecessor auditor. Furthermore, the absence of authorization by management for an auditor to make inquiries of a predecessor auditor should alert the auditor to carefully consider engagement acceptance, irrespective of the basis for the lack of authorization.

The ASB is not currently 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 to existing GAAS. The proposed additional procedures are in purple.



*Stated as application guidance in extant based on AICPA 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 ending on or after December 15, 2022. Early implementation would be permitted.

Explanation of Proposed Changes

Management Authorization of Communication Between Auditor and Predecessor Auditor

The ASB decided to retain the requirement in paragraph .11 of extant AU-C section 210 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. The ASB did consider a requirement for the auditor to obtain, as either a precondition for the audit or as a required element of the terms of the engagement, management's agreement to this request. The ASB concluded to not propose such a requirement because of the following:

a. The ASB was concerned that such a requirement or precondition might result in an entity being unable to engage an auditor. The ASB concluded that this was not in the public interest, nor was it necessary, because the requirement to request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement would now be in the auditor's professional standards, which management would be broadly acknowledging.

b. The construct in extant AU-C section 210 enables management to provide its understanding of the reasons for the termination or resignation of the predecessor auditor to the auditor prior to the auditor learning of the predecessor auditor's understanding of the termination or resignation. The ASB believes that this construct is appropriate.

The ASB also considered an approach in which the auditor would be required to make inquiries of the predecessor auditor but would not be required to request management to authorize the predecessor auditor to respond fully to the auditor's inquiries. A majority of the ASB members concluded that such an approach would not be practical for the audit of financial statements of a nonpublic entity because the predecessor auditor may have no way of verifying that management was considering engaging the auditor, or the auditor may not be aware of the identity of the predecessor auditor.

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

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 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)?

Knowledge Transfer From Predecessor Auditor to Auditor

The ASB believes that it is in the public interest for a knowledge transfer to occur from the predecessor auditor to the 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 nonpublic entity, the ASB proposes that a requirement be added to AU-C section 210 whereby, if management authorizes the predecessor auditor to respond to the auditor's inquiries, the auditor makes specific 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 to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, the auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including (Ref: par. .A30–.A32)***

a. identified or suspected fraud involving

i. management,

ii. employees who have significant roles in internal control, or

iii. others, when the fraud 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 the matters are clearly inconsequential.

The proposed additional required inquiries are consistent with matters that the predecessor auditor is required to communicate to those charged with governance 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 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.

If management limits the predecessor auditor's response and such limitation relates to the matters that the auditor is required to inquire about pursuant to paragraph .12, paragraph .15 requires that the auditor document the inquiries and that the predecessor was not authorized by management to respond to the inquiries.

Further, although the AICPA code states that members have a responsibility to cooperate with each other and paragraph .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 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, 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, the predecessor auditor should clearly state that the response is limited. Such circumstances are expected to be rare. (Ref: par. .A33–.A35)***

The penultimate sentence in proposed paragraph .13 is intended to more explicitly state that the predecessor auditor is expected to respond fully to the auditor's inquiries while acknowledging that circumstances may exist in which the predecessor auditor may not fully respond to the auditor's inquiries. The proposed language from that sentence is taken from paragraph .A32 of extant AU-C section 210. The statement in the AICPA code that members are expected to cooperate with each other is not affected. The final sentence in proposed paragraph .13 is intended to further elaborate the ASB's intent that the situations in which the predecessor auditor may limit its response to the auditor's inquiries were expected to be infrequent while retaining the predecessor's ability to limit its responses when circumstances warrant.

The intent of the proposed required inquiries and response is to facilitate a knowledge transfer of identified or suspected fraud and matters involving NOCLAR from a predecessor auditor to an auditor.

If the predecessor auditor decides not to fully respond to the auditor's inquiries, paragraph .15 requires that the auditor document the inquiries and that the predecessor did not fully respond.

The ASB is unaware of significant practice issues involving predecessor auditors inappropriately limiting their responses and believes that the statement in the AICPA 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.

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.

Documentation

The proposed SAS includes the following requirement:

.15 ***The auditor should document its inquiries and the results of those inquiries with the predecessor auditor.***

Request for Specific Comment #3

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.

ASB Vote for Issuance of the Exposure Draft

Eighteen members voted to issue the proposed SAS as an exposure draft, but Mr. Jon Heath dissented to issuance of the exposure draft. Mr. Heath's reasons for dissenting are included on pages 14–18 of this explanatory memorandum. Please consider this dissent as you develop 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

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

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 June 30, 2021. Responses should be submitted in Word format, sent to commentletters@aicpa-cima.com, and received by June 30, 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 June 30, 2021.

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(2020–2021)

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Jon Heath's Dissent

I support the Auditing Standards Board (ASB) objectives in proposing amendments to the Statements on Auditing Standards (SASs) to enhance the role of AICPA members in protecting the public interest by requiring them to take certain actions to help address identified or suspected non-compliance with laws and regulations (NOCLAR). AICPA members proudly serve a vital role in protecting the public interest; and the ASB's objectives for the project to amend AU-C 210, *Terms of Engagement,* (AU-C 210) are an attempt to further those efforts and include:

- Aligning AU-C 210 with relatively recent changes to the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (the "IESBA Code of Ethics") April 2016 pronouncement, *Responding to Non-compliance with Laws and Regulations* (the "IESBA NOCLAR Standard"), and corresponding changes by the International Auditing and Assurance Standards Board (IAASB) to the International Standards on Auditing (ISAs); and
- Providing a "red flag" regarding or preventing an unscrupulous client from changing auditors to cover up illegal acts or non-compliance with regulations.

While both of these are noble objectives aimed at a desirable outcome, in the absence of requisite changes to the AICPA's Code of Professional Conduct (AICPA Code) and the Uniform Accountancy Act (UAA), the proposed changes could significantly increase risks to AICPA members (specifically creating confusion regarding conflicts when applying our relevant professional standards while also meeting legal or regulatory standards) and potentially work against the public interest.

I dissent to the proposed changes to AU-C 210 for the following reasons:

1. The order of their issuance;
2. The current standards' contemplation of this scenario;
3. The interplay between the various standards and matters of public interest;
4. Alignment with AU-C 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* (AU-C 250); and
5. The lack of a differential approach in the AICPA Code.

The Order of Their Issuance

The fact that IESBA adopted changes to the IESBA Code of Ethics prior to any corresponding IAASB changes to the ISAs is significant (i.e., the order of issuance matters).

Shortly after the IESBA NOCLAR Standard was released, the AICPA Professional Ethics Executive Committee (PEEC) proposed interpretations, each entitled *Responding to Non-Compliance with Laws and Regulations*, under relevant AICPA Code sections (the "PEEC Proposals").

In response to the PEEC Proposals, the National Association of State Boards of Accountancy (NASBA) commented on May 9, 2017: "We seriously question the notion that confidentiality is preeminent to the degree that it must override all other ethical considerations, especially when public protection is threatened. …***we recommend tabling this project until such time as UAA language is developed to incorporate NOCLAR requirements.***" (emphasis added)

The NASBA UAA Committee Chair told the joint task force on July 30, 2017: "We want to increase public protection, enhance the public's perception of the CPA, and provide clarity to the profession as to the protocol to use when NOCLAR is encountered. However, we want to go about this task in a manner that does not harm the CPA professional."

The PEEC Proposals were not adopted and no subsequent NOCLAR-related changes have been made to AICPA Code nor the UAA. One of the primary reasons cited for the pause is the need for further deliberations with regard to the interaction with state law and the proposed changes to the AICPA Code and UAA. It seems clear that both PEEC and NASBA believed a pause was warranted in order to come to an appropriate answer.

During our ASB deliberations, one of the primary drivers for us taking on this project was a request from the PEEC to address changes through the auditing standards. This brings me pause for three reasons. First, as described more fully in the section **The Interplay between the Various Standards and Matters of Public Interest**, I don't believe that is how our rules are intended to operate. Next, it feels to me that, as I have stated in our deliberations, the ASB is being asked to "fix" a problem that is outside our purview. If an issue exists, then it rests with the interaction between the UAA, Code, and state law, not with the operation of the current auditing standards. The ASB cannot repair the conflicts through auditing standards. Finally, when one recognizes that the comments made by both PEEC and NASBA were made almost four years ago, I'm not sure why there seems to be an urgency to make changes to a mature standard that seems to operate as intended.

PEEC has a current project. The ASB's approach is to propose changes simultaneously with the new PEEC proposal; this approach has benefits. This approach provides respondents the opportunity to provide comprehensive comments (i.e., those that might affect both proposals). An equally valid argument is that the ASB should continue to rely on an operable, mature standard and make changes to AU-C 210 after the new PEEC proposal is finalized. While the ASB proposal may not, and probably will not, affect the new PEEC proposal, the new PEEC proposal will most certainly affect the ASB proposal.

Given that the PEEC proposal is approximately four years in the making, I'm not convinced that speed is the ASB's ally. Giving respect to the considerable time that PEEC and NASBA have taken, a slower pace seems appropriate. Therefore, I suggest that the ASB suspend its efforts until the PEEC proposal is completed.

The Current Standards' Contemplation of This Scenario

The current UAA, AICPA Code, and extant standards are fully aligned and work in harmony to provide a mechanism for preventing an unscrupulous client from changing auditors to cover up

illegal acts or non-compliance with regulations. In fact, AICPA Code Section *1.700.001 Confidential Client Information Rule,* paragraph .03 states (emphasis added) "The "Confidential Client Information Rule" [1.700.001] **is not intended to help an unscrupulous client cover up illegal acts or otherwise hide information by changing CPAs."**

The current framework functions as follows:

- Each member is expected to cooperate with another in the event of a change in accountant.
- When the successor evaluates the acceptance of the engagement, they should ask the client to allow the predecessor to respond fully.
- If the client does not allow full disclosure, that should be a "red flag" to the successor.
- The predecessor accountant should respond fully (as noted previously), unless they have a valid reason for not doing so. In that case, they should indicate that the response is limited.
- If the predecessor accountant specifies that the response is limited, that is also a "red flag."

The current system works as intended. The proposed amendments don't change where the "red flags" and knowledge transfer occur. However, they DO increase the risk regarding what information is shared. The risks are the same ones noted during the PEEC and NASBA deliberations. So, there is no benefit to the change occurring now, but there is a risk. Given that the UAA, AICPA Code, and extant AU-C 210 are currently aligned, it seems premature for the ASB to make stand-alone changes to AU-C 210.

The Interplay between the Various Standards and Matters of Public Interest

The current UAA, AICPA Code, and extant standards are fully aligned in that each effectively state that a member must keep client information confidential in the absence of client consent or an overriding legal or other appropriate requirement to disclose. Reading both the letter and the spirit of each rule indicates that *client confidentiality is also a public interest*. This public interest does compete, in this situation, with the public interest to disclose. While we can decide that disclosure and transparency are more important than keeping client information confidential, I don't believe that is prudent in this situation. There has always been, and will always be, a balance between these competing public interests. I am afraid that the proposed changes tip the scales in an unhealthy manner.

Additionally, the current basis for making the proposed changes to AU-C 210 appears to be predicated on the following from the UAA "*…however, that nothing herein shall be construed as prohibiting the disclosure of information required to be disclosed by the standards of the public accounting profession in reporting on the examination of financial statements…."* Effectively, the argument is that if the audit rules allow disclosure, that's a pathway to disclosure under the ethical rules.

Given that each set of guidance **starts** with the importance of client confidentiality and then allows for disclosure under limited circumstances, my response is that this argument is in conflict with both the spirit of the extant guidance and how our rules are intended to operate.

Alignment with AU-C 250

The position of the IESBA and PEEC is that the member is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. With this in mind, AU-C 250 provides the appropriate framework in terms of defining the role of the auditor vis-à-vis the role of legal counsel in determining whether non-compliance with laws and regulations has occurred at the client and what further actions are necessary. Further, AU-C 250.A5 indicates that "[w]hether an act constitutes noncompliance with laws and regulations is a matter for legal determination, which ordinarily is beyond the auditor's professional competence to determine."

AU-C 250 gives clear guidance that it is the auditor's responsibility to obtain reasonable assurance whether the financial statements are impacted by NOCLAR related to laws and regulations that have a direct or indirect **material** effect on the financial statements or disclosures. The current proposal:

- Reduces the threshold for disclosure for both **known and suspected NOCLAR** to anything **that is more than inconsequential** and to parties outside of management or those charged with governance.
- Gives no guidance relative to direct or indirect violations or possible violations, even though the procedures for identifying each vary.
- Makes disclosure mandatory, rather than judgment based.

AU-C 250A.28 indicates "The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected noncompliance with laws and regulations to a party outside the entity. However, the auditor's legal responsibilities vary by jurisdiction, and in certain circumstances, the duty of confidentiality may be overridden by statute, the law, or courts of law…. Because potential conflicts with the auditor's ethical and legal obligations for confidentiality may be complex, the auditor may consult with legal counsel before discussing noncompliance with parties outside the entity."

Requiring the predecessor to disclose rather than allowing the predecessor to evaluate and act accordingly puts the predecessor in jeopardy (and more importantly potentially jeopardizes their former client's rights). Why take this risk when mechanisms, as noted above, exist and seem to operate appropriately?

Requiring disclosure of "suspected" NOCLAR to parties outside of management creates another layer of risk to the professional; after all, the client is innocent until proven guilty. What are the impacts on the client's rights to client-attorney privilege, if an auditor discloses to a separate third-party?

Lowering the threshold for disclosure outside of management to items that are "more than inconsequential," seems overly broad and misaligned with AU-C 250's threshold of items having a material effect on the financial statements or disclosures.

The Lack of a Differential Approach

The IESBA NOCLAR Standard adopted a differential approach; when encountering identified or suspected NOCLAR, a different level of expectation exists for accountants performing audits of financial statements than for those accountants providing services other than audits of financial statements. The AICPA Code provides uniform guidance and rules to all members in the performance of their professional responsibilities; the guidance is service agnostic (i.e., there is no differential approach). No distinction exists between those providing auditing services and those providing other services under U.S. guidelines.

The current model is clear; the same "general" rules apply no matter the service. Changing one rule unilaterally may create unintended consequences. If we unilaterally amend the auditing rules, we introduce the potential for confusion. That potential extends further if the firm is providing multiple services to an audit client. What if the non-compliance was identified in the execution of a consulting or tax engagement for an audit client? This has not been, in my opinion, fully debated.

The scenario above becomes even more complicated when it is combined with the points made above in **Alignment with AU-C 250**. What is the audit engagement team's responsibility to address non-compliance that is simply "more than inconsequential" if it is identified by the tax engagement team? This is one simple scenario, but I'm sure there are more; for instance, the same could be said about moving the threshold from known to suspected NOCLAR. Because the audit engagement team has historically been focused on material issues affecting the financial statements rather than those that are "more than inconsequential" or "suspected," most firms would need to create new mechanisms to meet these new thresholds. I am afraid the combination of potential issues noted in **Alignment with AU-C 250** along with the lack of a differential approach could work against the public interest, our clients, and our profession. Again, I feel that unilaterally or prematurely changing the auditing standards is not in the public interest.

While I've introduced five reasons above, my dissent can be summarized as follows:

- I believe that we put the public interest, our clients, and practitioners at risk if the ASB acts prematurely; and
- While I support the objectives of the project, the timing is not right. We have a working model. Waiting for the finalization of the new PEEC proposal seems more prudent.

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

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

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

[No proposed amendment to paragraphs .01–.10. Paragraph .12 is renumbered to paragraph .14 but is otherwise unchanged and is included for contextual purposes.]

Initial Audits, Including Reaudit Engagements — *Communications With the Predecessor Auditor*

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

- ***if management authorizes the predecessor auditor to respond to the auditor's inquiries, perform the procedures required in paragraphs. .12–.13***

- ***i***~~I~~f 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.

.12 ***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 auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including (Ref: par. .A30–.A32)***

a. identified or suspected fraud involving

i. management,

ii. employees who have significant roles in internal control, or

iii. others, when the fraud 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 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, 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, the predecessor auditor should clearly state that the response is limited. Such circumstances are expected to be rare. (Ref: par. .A33–.A35)***

.~~12~~*14* The 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. ~~.A29 – .A34.~~***A36***)

.15 ***The auditor should document its inquiries and the results of those inquiries with the predecessor auditor.***

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

Application and Other Explanatory Material

[No amendment to paragraphs .A1–.A29.]

Initial Audits, Including Reaudit Engagements — *Communications With the Predecessor Auditor* **(Ref: par. .11–*.14*)**

.A31*A30* Relevant ethical and professional requirements guide the 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 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 items that are communicated 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.***

.A33*A32* The communication with the predecessor auditor may be either written or oral. ***In addition to the inquiries specified in paragraph .12a–b,*** ~~M~~***m***atters subject to the 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

.~~A32~~*A33* ~~In accordance with t~~***T***he AICPA Code of Professional Conduct~~, which~~ states that members have a responsibility to cooperate with each other~~,~~**.** ~~the predecessor auditor is expected to respond to the auditor's inquiries promptly 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.~~

.*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.***

.~~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*** accept~~ed~~ the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph .~~12~~***14***.

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