



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 and .A37)**
 - **if management authorizes the predecessor auditor to respond to the auditor's inquiries, perform the procedures required in paragraph .12**
 - ~~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.
- .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.**
 - ~~c. Other communications, during or subsequent to the audit, to those charged with governance with respect to identified or suspected fraud or noncompliance or suspected noncompliance with laws and regulations.~~
- .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, in accordance with the AICPA Code of Professional Conduct statement that members have a responsibility to cooperate with each other, 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, if 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 unusual circumstances are expected to be rare. (Ref: par. .A33–.A35A34)

.4214 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~~A35)

.15 *The auditor should document the inquiries and the results of those inquiries with the predecessor auditor and include as part of the audit documentation if the engagement is accepted.*

[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)

.A31A30 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 the predecessor auditor 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.*

.A33A32 The communication with the predecessor auditor may be either written or oral. **In addition to the inquiries specified in paragraph .12a–b**, matters 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 ~~17~~ the 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.

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~~.A34–A33~~ 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.

~~.A30.A35.A30.A34~~ 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 accepted the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph .12.

Considerations Specific to Governmental Entities

[Former paragraph .A34 is renumbered to paragraph ~~.A36.A35~~. The content is unchanged.]

~~.A37–A36~~ In accordance with generally accepted governmental auditing standards, the governmental environment if the law or regulation requiring an audit specifically identifies the entities to be audited, auditors may find it is necessary to obtain authorization from parties in addition to management, the auditor may find it necessary to obtain authorization from those individuals contracting for or requesting the audit and from those legislative committees, if any that have ongoing oversight responsibilities for the audited entity. for inquiries to predecessor auditors about suspected fraud and noncompliance with laws and regulations. Such parties may include those charged with governance or those contracting for or requesting the audit.

[Former paragraphs .A35–.A44 are renumbered to paragraphs ~~.A38.A37–.A47.A46~~. The content is unchanged. No further amendment to AU-C section 210.]