

AU-C Section 510

Opening Balances — Initial Audit Engagements, Including Reaudit Engagements

Source: SAS No. 122; SAS No. 134; SAS No. 135; SAS No. 136; SAS No. 138.

Effective for audits of financial statements for periods ending on or after December 15, 2012, unless otherwise indicated.

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibilities relating to opening balances in an initial audit engagement, including a reaudit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When comparative financial statements are presented, the relevant requirements and guidance for comparative financial statements in section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, also apply. Section 300, *Planning an Audit*, includes additional requirements and guidance regarding activities prior to starting an initial audit. Section 708, *Consistency of Financial Statements*, also applies with respect to the auditor's evaluation of the consistency of accounting principles between the periods presented and covered by the auditor's opinion. Section 210, *Terms of Engagement*, includes requirements and guidance with respect to communications with a predecessor auditor before accepting an initial audit engagement, including a reaudit engagement. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

.02 This section, with respect to predecessor auditors, does not apply if the most recent audited financial statements are more than one year prior to the beginning of the earliest period to be audited.

Effective Date

.03 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.

Objective

.04 The objective of the auditor, in conducting an initial audit engagement, including a reaudit engagement, is to obtain sufficient appropriate audit evidence regarding opening balances about whether (Ref: par. .A1)

- a. opening balances contain misstatements that materially affect the current period's financial statements and

- b. appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Definitions

.05 For the purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Initial audit engagement. An engagement in which either (a) the financial statements for the prior period were not audited, or (b) the financial statements for the prior period were audited by a predecessor auditor.

Opening balances. Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

Predecessor auditor. The auditor from a different audit firm who has reported on the most recent audited financial statements or was engaged to perform but did not complete an audit of the financial statements. (Ref: par. .A2)

Reaudit. An initial audit engagement to audit financial statements that have been previously audited by a predecessor auditor.

Requirements

Audit Procedures

.06 The auditor should read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures, and consistency in the application of accounting policies.

.07 In instances in which the prior period financial statements were audited by a predecessor auditor, the auditor should request management to authorize the predecessor auditor to allow a review of the predecessor auditor's audit documentation and for the predecessor auditor to respond fully to inquiries by the auditor, thereby providing the auditor with information to assist in planning and performing the engagement. (Ref: par. .A3–.A11)

Opening Balances

.08 The auditor should obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by

- a. determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;
- b. determining whether the opening balances reflect the application of appropriate accounting policies; and

- c. evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances and performing one or both of the following: (Ref: par. .A7–.A9 and .A12–.A14)
 - i. When the prior year financial statements were audited, reviewing the predecessor auditor's audit documentation to obtain evidence regarding the opening balances
 - ii. Performing specific audit procedures to obtain evidence regarding the opening balances

.09 If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor should perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor should communicate the misstatements to the appropriate level of management and those charged with governance, in accordance with section 260, *The Auditor's Communication With Those Charged With Governance*. If the prior period financial statements were audited by a predecessor auditor, the auditor should also refer to paragraphs .12–.13.

Consistency of Accounting Policies

.10 The auditor should obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements and whether changes in the accounting policies have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Relevant Information in the Predecessor Auditor's Report

.11 If the prior period's financial statements were audited by a predecessor auditor, and a modification was made to the opinion, the auditor should evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements, in accordance with section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

Discovery of Possible Material Misstatements in Financial Statements Reported on by a Predecessor Auditor

.12 If the auditor becomes aware of information during the audit that leads the auditor to believe that financial statements reported on by the predecessor auditor may require revision, the auditor should request management to inform the predecessor auditor of the situation and arrange for the three parties to discuss this information and attempt to resolve the matter. The auditor should communicate to the predecessor auditor information that the auditor believes the predecessor auditor may need to consider, in accordance with section 560, *Subsequent Events and Subsequently Discovered Facts*, which addresses the auditor's responsibilities when facts become known to the auditor after the date of the auditor's report that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report. (Ref: par. .A15)

.13 If management refuses to inform the predecessor auditor that the prior period financial statements may need revision or if the auditor is not satisfied with the resolution of the matter, the auditor should evaluate (a) the implications on the current engagement and (b) whether to withdraw from the

engagement or, when withdrawal is not possible under applicable law or regulation, disclaim an opinion on the financial statements. (Ref: par. .A16)

Audit Conclusions and Reporting

.14 The auditor should not make reference to the report or work of the predecessor auditor as the basis, in part, for the auditor's own opinion.

Opening Balances

.15 If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor should express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*. (Ref: par. .A17)

.16 If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or adequately presented or disclosed, the auditor should express a qualified opinion or an adverse opinion, as appropriate, in accordance with section 705.

Consistency of Accounting Policies

.17 If the auditor concludes that

- a. the current period's accounting policies are not consistently applied regarding opening balances, in accordance with the applicable financial reporting framework, or
- b. a change in accounting policies is not appropriately accounted for or adequately presented or disclosed, in accordance with the applicable financial reporting framework,

the auditor should express a qualified opinion or an adverse opinion, as appropriate, in accordance with section 705.

Modification to the Opinion in the Predecessor Auditor's Report

.18 If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor should modify the auditor's opinion on the current period's financial statements, in accordance with section 705. (Ref: par. .A18)

Application and Other Explanatory Material

Objective (Ref: par. .04)

.A1 Audit evidence regarding opening balances and the consistency of accounting principles may include the most recent audited financial statements, the predecessor auditor's report thereon, the results of inquiry of the predecessor auditor, the results of the auditor's review of the predecessor auditor's audit documentation relating to the most recently completed audit, and audit procedures performed on the current period's transactions that may provide evidence about the opening balances or consistency.

Definitions

Predecessor Auditor (Ref: par. .05)

.A2 Two predecessor auditors may exist: the auditor who reported on the most recent audited financial statements and the auditor who was engaged to perform, but did not complete, an audit of any subsequent financial statements.

Audit Procedures (Ref: par. .07)

.A3 The auditor may initiate communications with management to authorize review of the predecessor auditor's audit documentation and for the predecessor auditor to respond fully to inquiries by the auditor, either before or after accepting the engagement. Relevant ethical and professional requirements guide the auditor's communications with the predecessor auditor.

.A4 The predecessor auditor may request a consent and acknowledgment letter from the entity to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized. Exhibit B, "Illustrative Entity Consent and Acknowledgment Letter," contains an illustrative entity consent and acknowledgment letter.

.A5 It is customary for the predecessor auditor to make himself or herself available to the auditor and to make available for review certain audit documentation. The predecessor auditor determines which audit documentation is to be made available for review and which may be copied. The predecessor auditor ordinarily permits the auditor to review audit documentation, including documentation of planning; risk assessment procedures; further audit procedures; audit results; and other matters of continuing accounting and auditing significance, such as the schedule of uncorrected misstatements, working paper analysis of balance sheet accounts, and those relating to contingencies, related parties, and significant unusual transactions. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 135.]

.A6 Before permitting access to the audit documentation, the predecessor auditor may request written confirmation of the auditor's agreement regarding the use of the audit documentation. Exhibit C, "Illustrative Successor Auditor Acknowledgment Letter," contains an illustrative successor auditor acknowledgment letter.

.A7 The extent, if any, to which a predecessor auditor permits access to the audit documentation or responds to inquiries from the auditor is a matter of the predecessor auditor's professional judgment. The predecessor auditor's denial or limitation of access may affect the auditor's assessment of risk regarding the opening balances or the nature, timing, and extent of the auditor's procedures with respect to the opening balances and consistency of accounting principles. (Ref: par. .07 and .08c)

.A8 If the predecessor auditor permits access to the audit documentation, the auditor may review the predecessor auditor's audit documentation for information relevant to planning and performing the audit. The auditor's determination whether to use information resulting from such review as part of the auditor's risk assessment procedures or as evidence regarding the opening balances is influenced by the auditor's assessment of the professional competence and independence of the predecessor auditor. Although the predecessor auditor is not a component auditor, as defined in section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, the auditor may make inquiries similar to those listed in section 600

concerning the professional competence and independence of the predecessor auditor.¹ (Ref: par. .07 and .08c)

.A9 The auditor's review of the predecessor auditor's audit documentation may provide audit evidence about the opening balances and consistency of accounting principles. However, the nature, timing, and extent of audit work performed and the conclusions reached are solely the responsibility of the auditor, as required by section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*. (Ref: par. .07 and .08c)

Considerations Specific to Governmental Entities (Ref: par. .07)

.A10 In audits of governmental entities, law or regulation may limit the information that the auditor can obtain from a predecessor auditor. Certain information may be identified as classified or otherwise prohibited from disclosure by federal, state, or local laws or public safety or security concerns. For example, if a governmental entity that has previously been audited by a government audit organization (for example, the U.S. Government Accountability Office, a federal inspector general, an elected or statutorily appointed state auditor general, or other suitably qualified audit organization) engages a public accounting firm, the amount of access to audit documentation or other information that the government audit organization can provide an incoming auditor may be constrained by privacy or confidentiality laws or regulations. In situations when communications with a predecessor auditor are restricted, audit evidence may need to be obtained through other means and, if sufficient appropriate audit evidence cannot be obtained, consideration given to the effect on the auditor's opinion, in accordance with the requirement in paragraph .15.

.A11 If a government audit organization engages a public accounting firm in an agency capacity to perform an audit of a governmental entity and such firm did not audit the financial statements of the governmental entity in the prior period, this is usually regarded as a change in auditors; therefore, this section applies.

Opening Balances (Ref: par. .08c)

.A12 The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such matters as the following:

- The accounting policies followed by the entity
- The nature of the account balances, classes of transactions and disclosures, and the risks of material misstatement in the current period's financial statements
- The significance of the opening balances relative to the current period's financial statements
- Whether the prior period's financial statements were audited and, if so, whether the predecessor auditor's opinion was modified

.A13 For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures. For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness, and valuation at the beginning

¹ Paragraph .22 of section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

of the period. In the case of inventories, however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures, such as one or more of the following, may be necessary to obtain sufficient appropriate audit evidence:

- Observing a current physical inventory count and reconciling it to the opening inventory quantities
- Performing audit procedures on the valuation of the opening inventory items
- Performing audit procedures on gross profit and cutoff

.A14 For noncurrent assets and liabilities, such as property, plant, and equipment; investments; and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances. In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties (for example, for long-term debt and investments). In other cases, the auditor may need to carry out additional audit procedures.

Discovery of Possible Material Misstatements in Financial Statements Reported on by a Predecessor Auditor

.A15 Section 560 provides reporting guidance to the predecessor auditor who is requested to reissue a previously issued report on financial statements of a prior period when those financial statements are to be presented on a comparative basis with audited financial statements of a subsequent period.² Section 700 and section 703, as applicable, provides reporting guidance to the auditor reporting on comparative financial statements when the predecessor auditor is unable or unwilling to reissue the auditor's report on prior period financial statements that have been restated.³ (Ref: par. .12) [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

.A16 If management refuses to inform the predecessor auditor that the prior period financial statements may need revision, or if the auditor is not satisfied with the resolution of the matter, the auditor may seek legal advice in determining an appropriate course of action, including evaluating whether to withdraw from the engagement when withdrawal is possible under applicable law or regulation. (Ref: par. .13)

Audit Conclusions and Reporting

Opening Balances (Ref: par. .15)

.A17 Section 705 addresses circumstances that may result in a modification to the auditor's opinion on the financial statements, the type of opinion appropriate in the circumstances, and the content of the auditor's report when the auditor's opinion is modified. The inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances may result in one of the following modifications to the opinion in the auditor's report:

² Paragraphs .19–.20 of section 560, *Subsequent Events and Subsequently Discovered Facts*.

³ Paragraph .A75 of section 700, *Forming an Opinion and Reporting on Financial Statements*, and paragraph .A129 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 136.]

- a. A qualified opinion or a disclaimer of opinion, as is appropriate in the circumstances.
- b. An opinion that is qualified or disclaimed, as appropriate, regarding the results of operations and cash flows, when relevant, and unmodified regarding financial position. Exhibit A, "Illustration of Report With Disclaimer of Opinion on Results of Operations and Cash Flows and Unmodified Opinion on Financial Position," includes such an illustrative report.

.A18 If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. [Paragraph added, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

Modification to the Opinion in the Predecessor Auditor's Report
(Ref: par. .18)

.A19 In some situations, a modification to the predecessor auditor's opinion may not be relevant and material to the opinion on the current period's financial statements. This may be the case when, for example, there was a scope limitation in the prior period but the matter giving rise to the scope limitation has been resolved in the current period. [Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

.A20

Exhibit A—Illustration of Report With Disclaimer of Opinion on Results of Operations and Cash Flows and Unmodified Opinion on Financial Position

Circumstances include the following:

- Audit of a complete set of general purpose financial statements. The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material and pervasive to the entity's results of operations and cash flows.¹
- The financial position at year-end is fairly presented.
- A disclaimer of opinion regarding the results of operations and cash flows and an unmodified opinion regarding financial position is considered appropriate in the circumstances.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements²

Opinions

We have audited the balance sheet of ABC Company as of December 31, 20X1, and were engaged to audit the related statements of income, changes in

¹ If the possible effects, in the auditor's professional judgment, are considered to be material but not pervasive to the entity's results of operations and cash flows, the auditor would express a qualified opinion on the results of operations and cash flows.

² The subtitle "Report on the Audit of Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Disclaimer of Opinion on the Results of Operations and Cash Flows

We do not express an opinion on the results of operations and cash flows of ABC Company for the year ended December 31, 20X1. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Results of Operations and Cash Flows section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended December 31, 20X1.

Opinion on the Financial Position

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We were not engaged as auditors of the Company until after December 31, 20X0, and, therefore, did not observe the counting of physical inventories at the beginning of the year. We were unable to satisfy ourselves by performing other auditing procedures concerning the inventory held at December 31, 20X0. Since opening inventories enter into the determination of net income and cash flows, we were unable to determine whether any adjustments might have been necessary in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the cash flow statement.

We conducted our audit of the balance sheet in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with auditing standards generally accepted in the United States of America. However, because of the matters described in the Basis for Opinions section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to

fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards (GAAS) will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control.³ Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

³ In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed." [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134.]

[Paragraph renumbered and amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 134. As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 138.]

.A21

Exhibit B—Illustrative Entity Consent and Acknowledgment Letter (Ref: par. .07 and .A4)

Paragraph .07 requires that the auditor request management to authorize the predecessor auditor to allow a review of the predecessor auditor's audit documentation and for the predecessor auditor to respond fully to inquiries by the auditor, thereby providing the auditor with information to assist in planning and performing the engagement. Paragraph .A4 states that the predecessor auditor may request a consent and acknowledgment letter from the entity to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized. The following letter is presented for illustrative purposes only and is not required by professional standards.

[Date]

ABC Enterprises

[Address]

You have given your consent to allow [*name of successor CPA firm*], as independent auditors for ABC Enterprises (ABC), access to our audit documentation for our audit of the December 31, 20X1, financial statements of ABC. You also have given your consent to us to respond fully to [*name of successor CPA firm*] inquiries. You understand and agree that the review of our audit documentation is undertaken solely for the purpose of obtaining an understanding about ABC and certain information about our audit to assist [*name of successor CPA firm*] in planning and performing the audit of the December 31, 20X2, financial statements of ABC.

Please confirm your agreement with the foregoing by signing and dating a copy of this letter and returning it to us.

Attached is the form of the letter we will furnish [*name of successor CPA firm*] regarding the use of the audit documentation.

Very truly yours,

[*Predecessor Auditor*]

By: _____

Accepted:

ABC Enterprises

By: _____

Date: _____

[Paragraph renumbered by the issuance of SAS No. 134, May 2019.]

.A22

Exhibit C—Illustrative Successor Auditor Acknowledgment Letter (Ref: par. .A6)

Paragraph .A6 states that the predecessor auditor may request that the auditor confirm in writing his or her agreement regarding the use of the predecessor auditor's audit documentation before permitting access to it. The following letter is presented for illustrative purposes only and is not required by professional standards.

[Date]

[Successor Auditor]

[Address]

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the December 31, 20X1, financial statements of ABC Enterprises (ABC). We rendered a report on those financial statements and have not performed any audit procedures subsequent to the audit report date. In connection with your audit of ABC's 20X2 financial statements, you have requested access to our audit documentation prepared in connection with that audit. ABC has authorized our firm to allow you to review that audit documentation.

Our audit, and the audit documentation prepared in connection therewith, of ABC's financial statements were not planned or conducted in contemplation of your review. Therefore, items of possible interest to you may not have been specifically addressed. Our use of professional judgment and the assessment of audit risk and materiality for the purpose of our audit mean that matters may have existed that would have been assessed differently by you. We make no representation about the sufficiency or appropriateness of the information in our audit documentation for your purposes.

We understand that the purpose of your review is to obtain information about ABC and our 20X1 audit results to assist you in planning and performing your 20X2 audit of ABC. For that purpose only, we will provide you access to our audit documentation that relates to that objective.

Upon request, we will provide copies of audit documentation that provides factual information about ABC. You agree to subject any such copies or information otherwise derived from our audit documentation to your normal policy for retention of audit documentation and protection of confidential entity information. Furthermore, in the event of a third-party request for access to your audit documentation prepared in connection with your audits of ABC, you agree to obtain our permission before voluntarily allowing any such access to our audit documentation or information otherwise derived from our audit documentation, and to obtain on our behalf any releases that you obtain from such third party. You agree to advise us promptly and provide us a copy of any subpoena, summons, or other court order for access to your audit documentation that include copies of our audit documentation or information otherwise derived therefrom.

Please confirm your agreement with the foregoing by signing and dating a copy of this letter and returning it to us.

Very truly yours,

[Predecessor Auditor]

By: _____

Accepted:

[*Successor Auditor*]

By: _____

Date: _____

Even with management's consent, access to the predecessor auditor's audit documentation may still be limited. Experience has shown that the predecessor auditor may be willing to grant broader access if given additional assurance concerning the use of the audit documentation. Accordingly, the auditor might consider agreeing to the following additional limitations on the review of the predecessor auditor's audit documentation in order to obtain broader access:

- The auditor will not comment, orally or in writing, to anyone as a result of the review about whether the predecessor auditor's engagement was performed in accordance with generally accepted auditing standards.
- The auditor will not provide expert testimony or litigation support services or otherwise accept an engagement to comment on issues relating to the quality of the predecessor auditor's audit.
- The auditor accepts sole responsibility for the nature, timing, and extent of audit work performed and the conclusions reached in expressing an opinion on the 20X2 financial statements of ABC.

The following paragraph illustrates the previous text:

Because your review of our audit documentation is undertaken solely for the purpose described previously and may not entail a review of all our audit documentation, you agree that (1) the information obtained from the review will not be used by you for any other purpose, (2) you will not comment, orally or in writing, to anyone as a result of that review about whether our audit was performed in accordance with generally accepted auditing standards, (3) you will not provide expert testimony or litigation support services or otherwise accept an engagement to comment on issues relating to the quality of our audit, and (4) you accept sole responsibility for the nature, timing and extent of audit work performed and the conclusions reached in expressing your opinion on the 20X2 financial statements of ABC.

[Paragraph renumbered by the issuance of SAS No. 134, May 2019.]
