



National Association of State Boards of Accountancy

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June 21, 2021

Auditing Standards Board  
American Institute of Certified Public Accountants (AICPA)  
1345 Avenue of the Americas  
New York, NY 10105

Via email: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

**Re: *Proposed Statement on Auditing Standards – Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations (NOCLAR)***

Dear Members of the AICPA Auditing Standards Board (ASB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the proposed Statement on Auditing Standard (SAS) – Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations (the proposed SAS). NASBA’s mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following general comments and comments on the specific requests for consideration as presented in the explanatory memorandum to the proposed SAS.

**General Comments:**

The International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) paragraph R360.22 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.”

The Confidential Client Information Rule (ET sec. 1.700.001) of the AICPA Code of Professional Conduct (Code) prohibits the disclosure of NOCLAR without the client’s consent unless the

communication meets one of the specific exceptions set forth in the rule. One such exception is compliance with professional standards.

AICPA members agree to follow the Code; however, membership in the AICPA is voluntary and lacks the force of law. State Boards have the ultimate legal authority for regulating the CPAs and firms practicing in their states and may set laws and regulations that differ or go beyond the requirements of the Code. NASBA analyzed the laws and regulations of the 55 State Boards and found that 52 State Boards specifically provide an exception to their confidentiality provisions if the CPA follows professional standards.

We appreciate the intention of the proposed SAS to start to address the professional responsibilities of a predecessor auditor. However, we believe that, as currently drafted, the proposed SAS does not meaningfully change the requirements for communications between predecessor and successor auditors that already exist.

NASBA firmly believes that it is in the public interest to allow the predecessor auditor to freely discuss matters involving NOCLAR with the successor auditor.

#### **Request for Specific Comment 1:**

*Does the respondent agree with the ASB's determination that it is appropriate to retain the requirements 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 reiterate our comment above. NASBA also agrees that if the successor auditor is required to request that management authorize the predecessor's full response to his or her inquiries about NOCLAR, and management declines, that action should trigger a red flag to the successor auditor.

#### **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.*

The exception that allows a predecessor auditor to *not* respond to the successor's inquiries due to "potential litigation" and "other unusual circumstances" leaves endless opportunities for an unprincipled and/or risk-averse auditor to avoid his or her professional responsibilities under the

proposed SAS. We suggest that when the predecessor auditor chooses this option, in addition to stating that the response is limited, he or she should provide information sufficient to allow the successor to determine the general nature for the lack of response, for example, by disclosing whether the limitation is self-imposed or imposed by the former client.

The qualification in paragraph .13 that “such circumstances are expected to be rare” lacks specificity and imposes no specific requirement on the auditor to limit his or her exercise of the exception. Therefore, we believe it is highly unlikely that it would compel a predecessor auditor to cooperate with a successor. The lack of a specific requirement means State Boards will be unable to enforce this provision.

**Request for Specific Comment 3:**

The proposed SAS includes the following requirement:

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

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

We agree with the proposed requirement that the auditor should document its inquiries and the results of those inquiries with the predecessor auditor.

**Request for Specific Comment 4:**

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

Yes. We are supportive of the proposed effective date.

**Other Matters:**

We offer the following additional comments on the proposed SAS for the ASB’s consideration:

Paragraph .12 provides that the successor auditor should “inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement including:

- 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."

A successor auditor bases decisions for accepting a new audit client (in part) on knowledge about NOCLAR (including instances of fraud), whether such instances are material or immaterial. Even immaterial matters of NOCLAR (especially fraud) could influence a successor auditor's decision of whether or not to accept a client. We also note that frauds are often committed by employees who have had little or nothing to do with internal controls.

Paragraph b. refers to matters that are "clearly inconsequential." We recommend adding the qualifying language from the IESBA standard: "Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client its stakeholders, and the general public." We suggest the word *clearly* be removed; the definition of inconsequential is "of no significance" so, the word *clearly* is not relevant.

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We appreciate the opportunity to comment on the proposed SAS.

Very truly yours,



A. Carlos Barrera, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO