



***Statement on
Auditing Standards***

June 2022

147

Issued by the Auditing Standards Board

***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])***

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Statement on Auditing Standards No. 147, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations*

Executive Summary

Overview

The Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 147, *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). SAS No. 147 amends 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

The amendments to AU-C section 210 are effective for audits of financial statements for periods beginning on or after June 30, 2023.

Introduction

This executive summary provides an overview of SAS No. 147. This document aims to highlight changes that are viewed to be of most interest (but is not inclusive of all changes).

Background

The ASB undertook this project to consider changes to AU-C section 210 to complement a related project by the AICPA's Professional Ethics Executive Committee (PEEC) regarding interpretations of the AICPA Code of Professional Conduct. Coinciding with the issuance of SAS No. 147, PEEC has adopted ["Responding to Noncompliance With Laws and Regulations" interpretations \(ET sec. 1.180.010 and ET sec. 2.180.010\).](#)

Fundamental Aspects of SAS No. 147

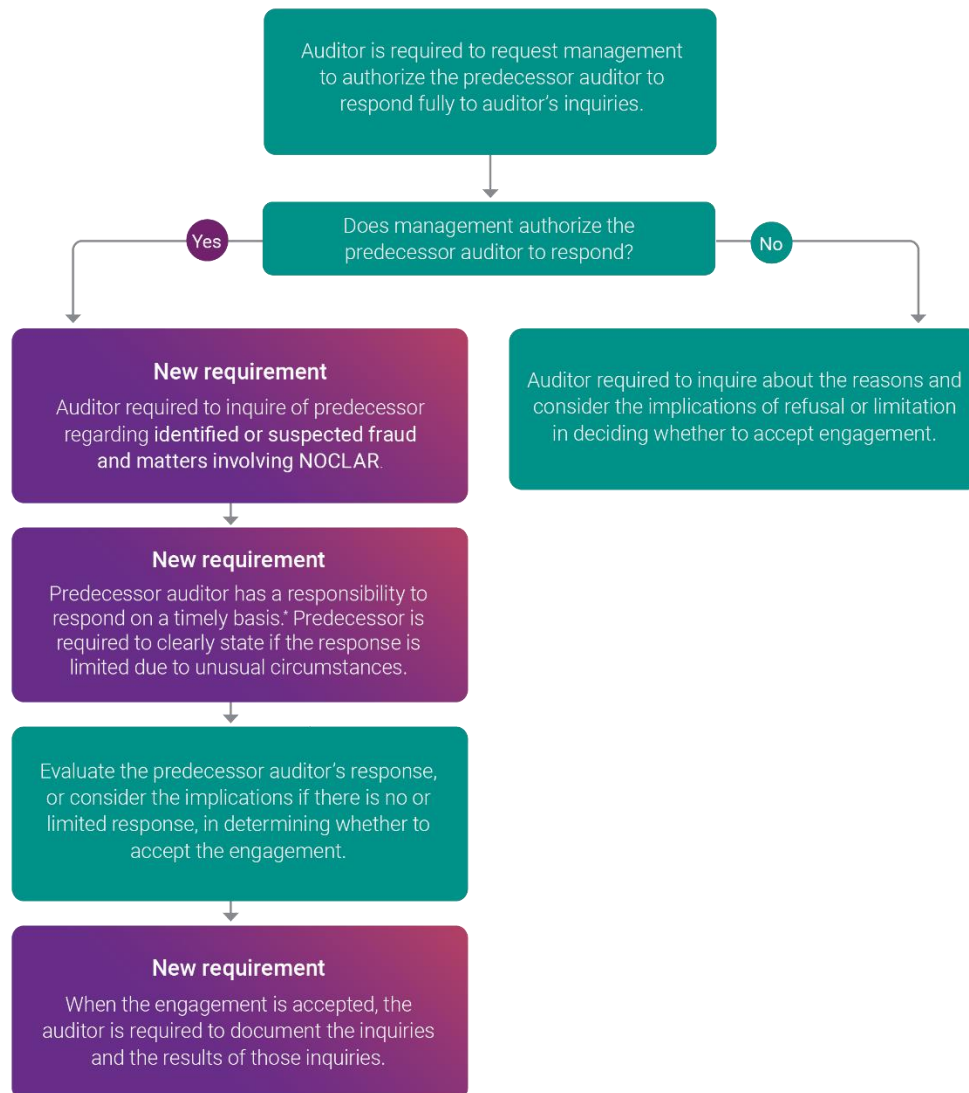
SAS No. 147 clarifies requirements and guidance related to the auditor's inquiries of a predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement. In doing so, SAS No. 147 narrowly revises auditing standards generally accepted in the United States 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. In addition, SAS No. 147 clarifies that once an engagement is accepted, the auditor should document the inquiries of the predecessor auditor and the results of those inquiries.

¹ All AU-C sections can be found in AICPA *Professional Standards*.

SAS No. 147 does not revise the 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.

The following flowchart illustrates the narrow revisions to GAAS. The additional procedures introduced by SAS No. 147 are in purple.

Before engagement acceptance



* Prior to the issuance of SAS No. 147, this was stated as application guidance based on the AICPA Code of Professional Conduct statement that members have a responsibility to cooperate with each other.

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Note: *Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the AICPA designated to issue pronouncements on auditing matters. The “Compliance With Standards Rule” (ET sec. 1.310.001)² of the AICPA Code of Professional Conduct requires compliance with these standards in an audit of a nonissuer.*

² All ET sections can be found in *AICPA Professional Standards*.

Statement on Auditing Standards No. 147, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations*

Amendment to SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended, section 210, *Terms of Engagement* (AICPA, *Professional Standards*, AU-C sec. 210)

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

1. This amendment is effective for audits of financial statements for periods beginning on or after June 30, 2023.

[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 .A36)***

 - ***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, 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 *The AICPA Code of Professional Conduct states that members have a responsibility to cooperate with each other.² Accordingly, 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 has a responsibility to respond to the auditor's inquiries on a timely basis and on the basis of known facts, absent unusual circumstances and 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–.A34)*

² Paragraph .02 of ET section 0.300.020.

~~.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~~.A35)*

.15 *When the engagement is accepted, the auditor should document*

a. the inquiries of the predecessor auditor and

b. the results of those inquiries.

[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 matters that the predecessor auditor communicated with those charged with governance as required by AU-C section 240, Consideration of Fraud in a Financial Statement Audit,¹⁴ and AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements,¹⁵ respectively.*

¹⁴ Paragraph .40 of AU-C section 240, Consideration of Fraud in a Financial Statement Audit.

¹⁵ Paragraph .21 of AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements.

.A32 *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
- The predecessor auditor's understanding of the nature of the entity’s relationships and transactions with related parties and significant unusual transactions

.A32 ~~In accordance with 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.~~

.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~~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 .A35. The content is unchanged.]

.A36 ***In accordance with generally accepted governmental auditing standards, if the law or regulation requiring an audit specifically identifies the entities to be audited, 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.***

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