

AICPA ISSUES NEW STANDARD ON COMMUNICATIONS BETWEEN PREDECESSOR AND SUCCESSOR AUDITORS

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SAS No. 84, *Communications Between Predecessor and Successor Auditors*, supersedes SAS No. 7, and establishes new standards for the auditor in documenting communications between the successor and predecessor auditors. It also provides guidance when possible misstatements are discovered in financial statements reported on by a predecessor auditor. This Statement applies whenever an auditor is considering accepting an engagement to audit financial statements in accordance with Generally Accepted Auditing Standards (GAAS), and after such auditor has been appointed to perform such an engagement. (Editor's note: this Statement is necessary as a result of the changing relationship between client and auditor, and recognizes the reality that auditors now rarely select the client; the clients now select the auditor.)

For purposes of SAS No. 84, the term *predecessor auditor* refers to an auditor who has either reported on the most recent audited financial statements, was engaged to perform, but did not complete an audit of any subsequent financial statements, or has resigned, declined to be reappointed, or has been terminated. The term *successor auditor* refers to an auditor who is considering accepting an engagement but has not communicated with the predecessor auditor and to an auditor who has accepted such an engagement.

An auditor should not accept an engagement until the communications required by SAS No. 84 have been evaluated. An auditor may make a proposal for an audit engagement, but should reserve final acceptance until after the required communications have been evaluated. SAS No. 84 also provides new guidance to the predecessor auditor by clarifying that during a proposal process with multiple proposers, the predecessor auditor should not be expected to respond to inquiries until the successor auditor has been selected. All communications between predecessor and successor

Executive Summary

“SAS No. 84, Communications Between Predecessor and Successor Auditors, supersedes SAS No. 7, and among other things, (a) revises the definitions of predecessor and successor auditors, (b) adds additional inquiries that the successor must make of the predecessor before an engagement can be accepted, (c) clarifies the successor auditor’s responsibility with respect to obtaining evidence, (d) expands the predecessor’s working papers normally made available to the successor, and (e) provides an example client consent and acknowledgment letter and an example successor auditor acknowledgment letter. SAS No. 84 is effective with respect to acceptance of an engagement after, March 31, 1998, with earlier application encouraged.”

auditors should be held in strict confidence.

The initiative for communicating rests with the successor auditor, and may be either written or oral. The successor auditor should request permission from the prospective (at this point) client to make an inquiry of the predecessor auditor, and request that the predecessor auditor be authorized to communicate. Without express consent from the client, the predecessor auditor does not have authorization to discuss confidential information. The inquiries that should be made of the predecessor auditor include:

- C Information that might bear on the integrity of management
- C Disagreement with management as to accounting principles, auditing procedures, or other significant matters



***AICPA Issues New Standard on Communications
Between Predecessor and Successor Auditors (continued)***

- C communications to audit committees or other with equivalent authority and responsibility regarding fraud, illegal acts by clients, or internal control related matters
- C The predecessor's understanding as to the reasons for the change in auditors.

The predecessor auditor is required to respond promptly and fully, on the basis of known facts, to the successor auditor's reasonable inquiries. If the predecessor auditor decides, due to unusual circumstances such as pending litigation, not to respond fully to the inquiries, the reason the response is limited should be clearly stated.

While the successor auditor may request to review the predecessor auditor's working papers, the predecessor auditor should permit this only with express authorization from the client, and should exercise his or her judgment as to the extent access is permitted. While it is customary that access be granted, the predecessor should determine which work papers will be available for review, and which will be allowed to be copied. Access is generally provided to review working papers related to audit planning, documentation of internal control, audit results, analysis of balance sheet accounts, and other matters of continuing accounting or audit significance.

The successor auditor's review of communications with the predecessor auditor are a part of the "sufficient competent evidential matter" obtained as a part of the overall audit process. Any conclusions reached as a part of this review are solely the responsibility of the successor auditor. The successor auditor should not make a reference to the report or work of the predecessor auditor as the basis for the successor auditor's own opinion.

If the successor auditor becomes aware of information that leads him to believe that the financial statements reported on by the predecessor auditor may require

revision, the successor auditor should request that the client inform the predecessor auditor and arrange for the parties to meet to resolve the matter. The successor auditor should communicate to the predecessor auditor any information that the predecessor auditor may need to consider that may have affected the audited financial statements previously reported on. If the client refuses to inform the predecessor auditor, or if the successor auditor is not satisfied with the resolution of the matter, the successor should evaluate the possible implications on the engagement, or consider resigning from the engagement.

The statement is effective with respect to acceptance of an engagement after, March 31, 1998, with earlier application encouraged.

SAS no. 84 will likely require that all auditors modify their standard communication letter to include the required components listed above. Many auditors have been very lax about performing the required communications, but SAS No. 84 clearly reemphasizes the requirement to document this important process. Guidance in the form of illustrative letters is provided in the appendix to SAS No. 84.