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# Communications between predecessor and successor auditors; Statement on auditing standards, 007

American Institute of Certified Public Accountants. Auditing Standards Executive Committee

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# Statement on Auditing Standards

Issued by the Auditing Standards Executive Committee

AICPA American Institute of Certified Public Accountants

## Communications Between Predecessor and Successor Auditors

*(Supersedes Statement on Auditing Standards No. 1, section 543.18)*

1. The purpose of this Statement is to provide guidance on communications between predecessor and successor auditors when a change of auditors has taken place or is in process. The term "predecessor auditor" refers to an auditor who has resigned or who has been notified that his services have been terminated. The term "successor auditor" refers to an auditor who has accepted an engagement or an auditor who has been invited to make a proposal for an engagement. This Statement applies whenever an independent auditor has been retained, or is to be retained, to make an examination of financial statements in accordance with generally accepted auditing standards.

2. The initiative in communicating rests with the successor auditor. The communication may be either written or oral. Both the predecessor and successor auditors should hold in confidence information obtained from each other. This obligation applies whether or not the successor accepts the engagement.

3. Prior to acceptance of the engagement, the successor auditor should attempt certain communications that are described in paragraphs 4 through 7. Other communications between the successor

and the predecessor, described in paragraphs 8 and 9 are advisable. However, their timing is more flexible. The successor may attempt these other communications either prior to acceptance of the engagement or subsequent thereto.

## Communications Before Successor Accepts Engagement

4. Inquiry of the predecessor auditor is a necessary procedure because the predecessor may be able to provide the successor with information that will assist him in determining whether to accept the engagement. The successor should bear in mind that, among other things, the predecessor and the client may have disagreed about accounting principles, auditing procedures, or similarly significant matters.

5. The successor auditor should explain to his prospective client the need to make an inquiry of the predecessor and should request permission to do so. Except as permitted by the Rules of Conduct, an auditor is precluded from disclosing confidential information obtained in the course of an audit engagement unless the client consents. Thus, the successor auditor should ask the prospective client to authorize the predecessor to respond fully to the successor's inquiries. If a prospective client refuses to permit the predecessor to respond or limits the response, the successor auditor should inquire as to the reasons and consider the implications of that refusal in deciding whether to accept the engagement.

6. The successor auditor should make specific and reasonable inquiries of the predecessor regarding matters that the successor believes will assist him in determining whether to accept the engagement. His inquiries should include specific questions regarding, among other things, facts that might bear on the integrity of management; on disagreements with management as to accounting principles, auditing procedures, or other similarly significant matters; and on the predecessor's understanding as to the reasons for the change of auditors.

7. The predecessor auditor should respond promptly and fully, on

the basis of facts known to him, to the successor's reasonable inquiries. However, should he decide, due to unusual circumstances such as impending litigation, not to respond fully to the inquiries, he should indicate that his response is limited. If the successor auditor receives a limited response, he should consider its implications in deciding whether to accept the engagement.

## Other Communications

8. When one auditor succeeds another, the successor auditor must obtain sufficient competent evidential matter to afford a reasonable basis for expressing his opinion on the financial statements he has been engaged to examine as well as on the consistency of the application of accounting principles in that year as compared with the preceding year. This may be done by applying appropriate auditing procedures to the account balances at the beginning of the period under examination and in some cases to transactions in prior periods. The successor auditor's examination may be facilitated by (a) making specific inquiries of the predecessor regarding matters that the successor believes may affect the conduct of his examination, such as audit areas that have required an inordinate amount of time or audit problems that arose from the condition of the accounting system and records and (b) reviewing the predecessor auditor's working papers. In reporting on his examination, however, the successor auditor should not make reference to the report or work of the predecessor auditor as the basis, in part, for his own opinion.

9. The successor auditor should request the client to authorize the predecessor to allow a review of the predecessor's working papers. It is customary in such circumstances for the predecessor auditor to make himself available to the successor auditor for consultation and to make available for review certain of his working papers. The predecessor and successor auditors should agree on those working papers that are to be made available for review and those that may be copied. Ordinarily, the predecessor should permit the successor to review working papers relating to matters of continuing accounting significance, such as the working paper analysis of balance sheet accounts, both current and noncurrent, and those relating to contingencies.

Valid business reasons, however, may lead the predecessor auditor to decide not to allow a review of his working papers. Further, when more than one successor auditor is considering acceptance of an engagement, the predecessor auditor should not be expected to make himself or his working papers available until the successor has accepted the engagement.

## Financial Statements Reported on by Predecessor

10. If during his examination the successor auditor becomes aware of information that leads him to believe that financial statements reported on by the predecessor auditor may require revision, he should request his client to arrange a meeting among the three parties to discuss this information and attempt to resolve the matter.[1] If the client refuses or if the successor is not satisfied with the result, the successor auditor may be well advised to consult with his attorney in determining an appropriate course of further action.

11. When a predecessor auditor is to reissue his report on financial statements and he has not examined the financial statements for the most recent audited period, he should obtain a letter of representation from the successor auditor. This letter should state whether the successor's examination revealed any matters that, in the successor's opinion, might have a material effect on the financial statements reported on by the predecessor auditor.

## Effective Date

12. Statements on Auditing Standards generally are effective at the time of their issuance. However, since this Statement provides for practices that may differ in certain respects from practices heretofore considered acceptable it will be effective with respect to changes in auditors in which the successor auditor's consideration of acceptance of an engagement begins after November 30, 1975.

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[1]See sections 561 and 710.10–.11 of SAS No. 1 for guidance on action to be taken by the predecessor auditor.

*The Statement entitled "Communications Between Predecessor and Successor Auditors" was adopted unanimously by the twenty-one members of the Committee, of whom Mr. Lisk, assented with a qualification.*

Mr. Lisk qualifies his assent to the publication of this Statement because he believes the Statement should provide that the predecessor auditor is not expected to respond to the inquiries discussed in paragraph 7 until another auditor has been either selected or offered the opportunity to become the successor auditor. Paragraph 7 provides that the predecessor auditor will be expected to respond to as many successor auditors as authorized by the client. He believes, in some cases, this will place an unreasonable burden on the predecessor auditor.

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**Note:** *Statements on Auditing Standards are issued by the Auditing Standards Executive Committee, the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Ethics requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of generally accepted auditing standards, and requires that members be prepared to justify departures from such Statements.*