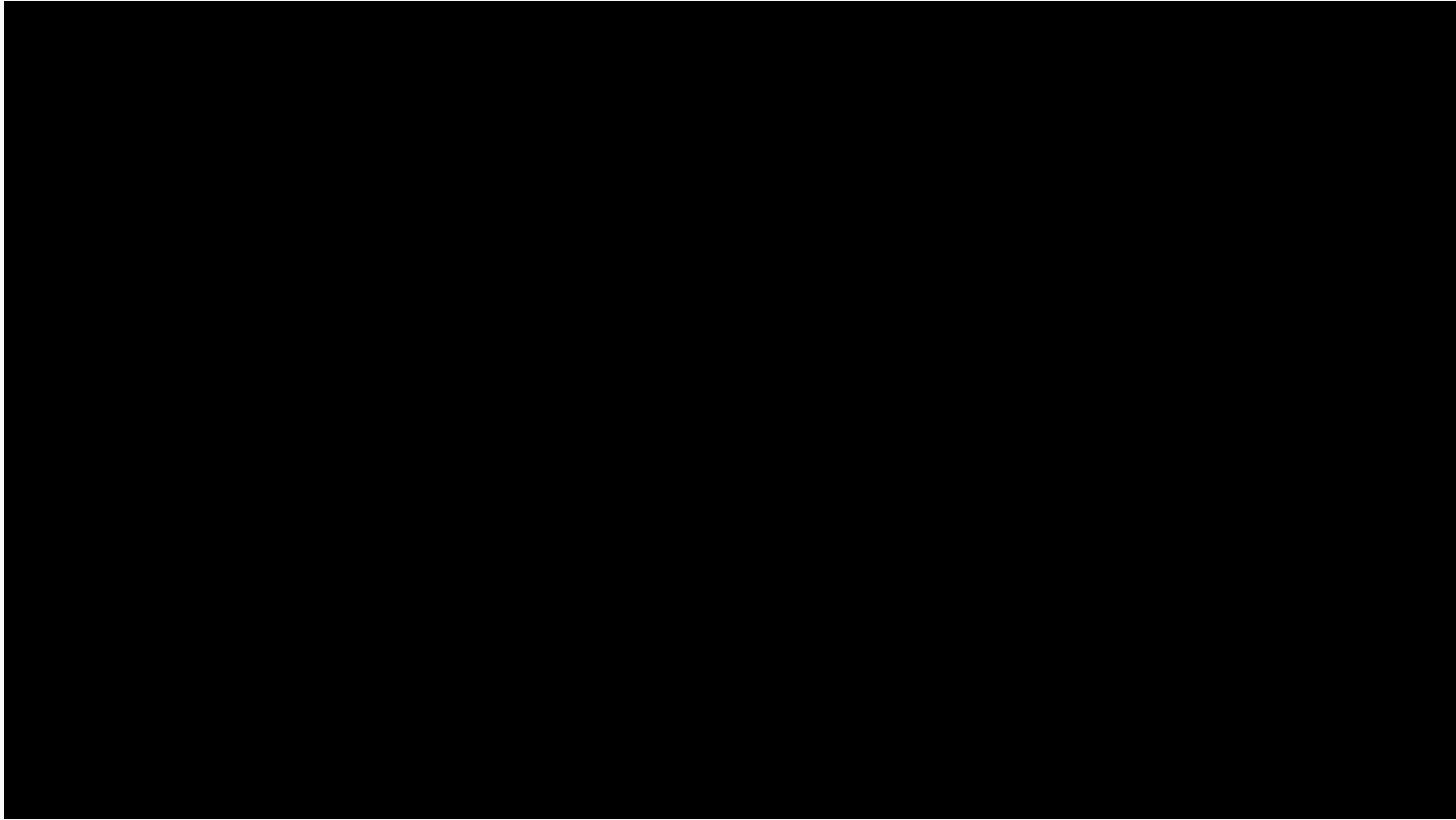


Standards for Tennessee CPAs



Updated March 2020

State Specific Ethics



State Specific Ethics

Agenda

- Overview of the Importance of Ethics
- Purpose of the Board
- License Requirements
- Continuing Professional Education
- Peer Review
- What's New?
- Rules of Professional Conduct
- Complaint Process
- Enforcement Case Examples

Importance of Ethics

SEC Reporting and Disclosure Violations 2019

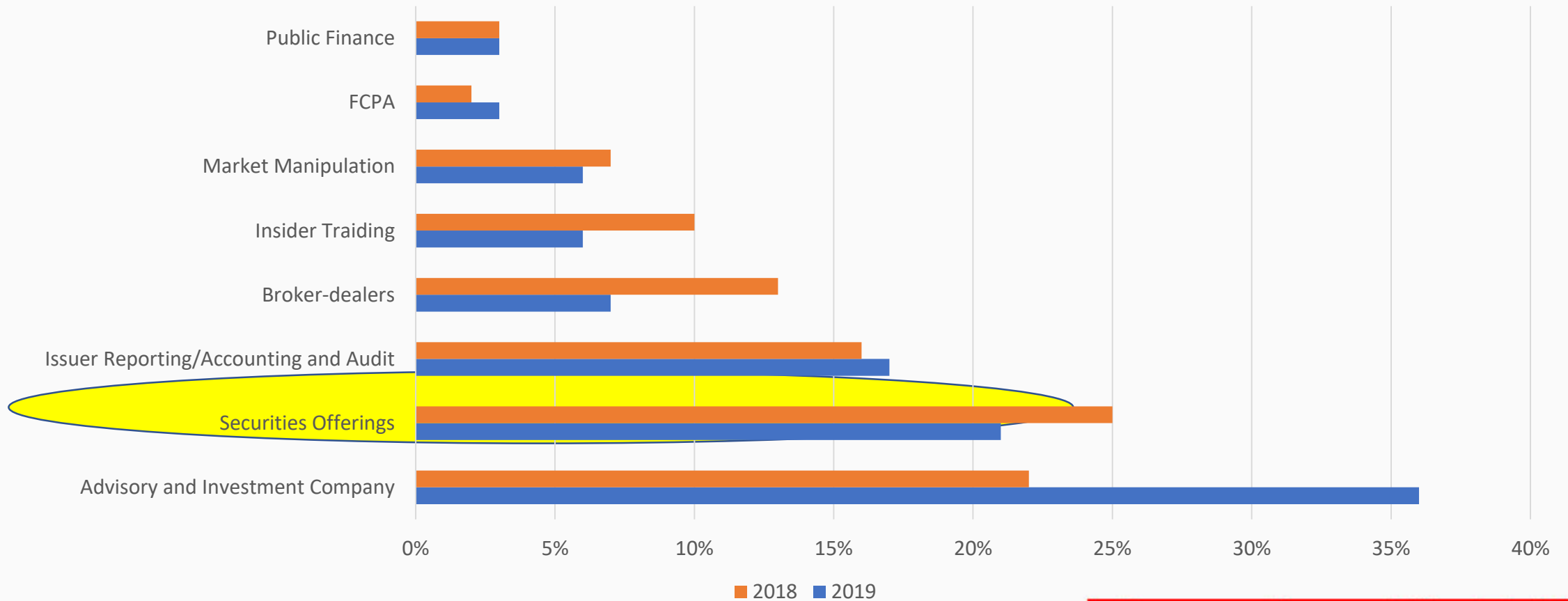
- 61 Entity Violations
- 83 Individual Violations



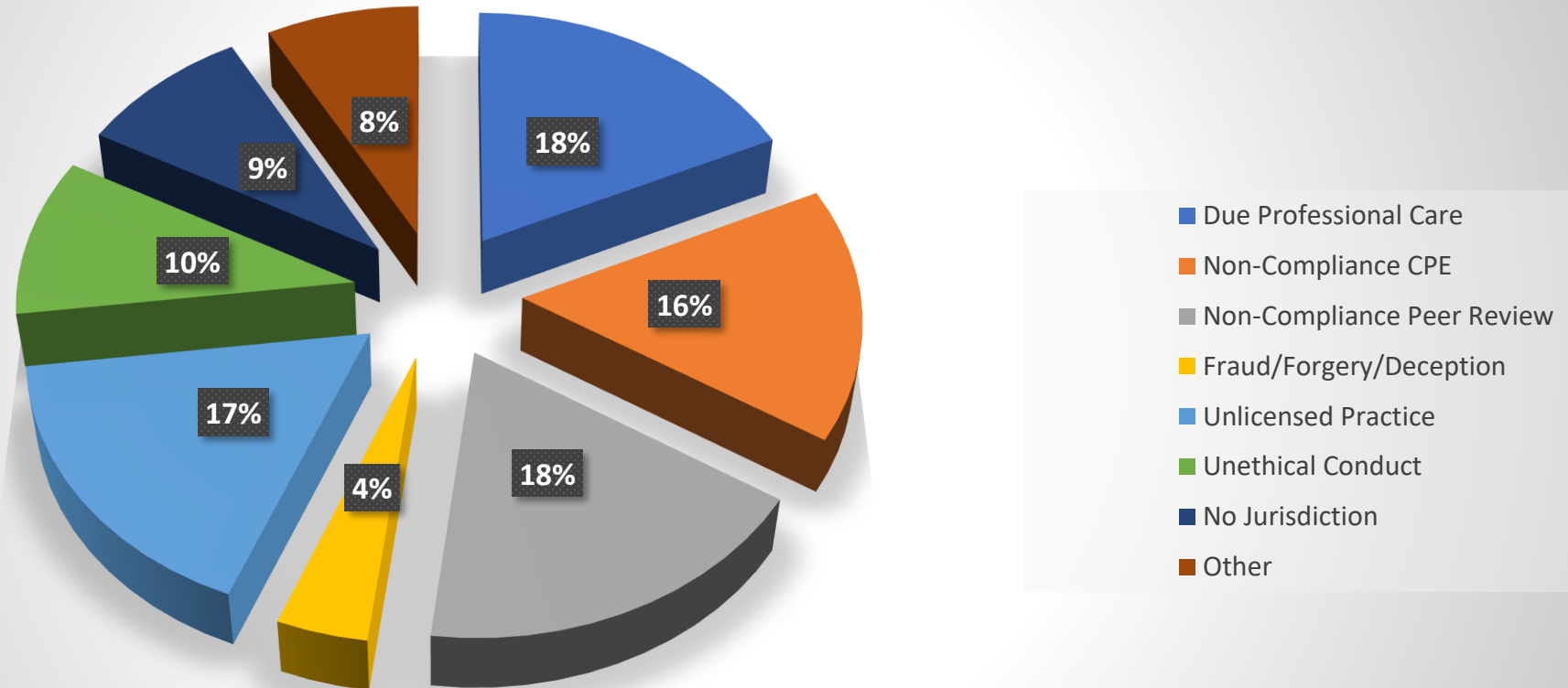
Most
Common
Violations

State Specific Ethics

FY 2019 versus FY2018 SEC Cases



TN State Board of Accountancy 2019 Complaints



Why are Standards and Principles Critical?

At long last, someone has stood up in defense of the accounting profession ("Let's Have Fair Play for the C.P.A.," Forum, Dec. 29). Certainly bad apples exist in any profession or occupation and C.P.A.'s are no exception. But I challenge any other profession or occupation to demonstrate a level of commitment to quality that is equal to that of C.P.A.'s. Mandatory quality review (essentially, an audit of the auditor) and continuing education are two of the profession's many requirements instituted to insure a high minimum standard of quality.

Quote from a Letter to the Editor of the NY Times January 26, 1992

State Specific Ethics

Common Ethical Obstacles



Transformation
Programs



Incentives and
Pressure to
Achieve a Target



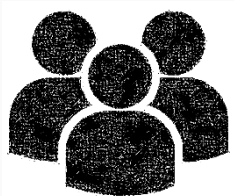
Cross Cultural
Differences



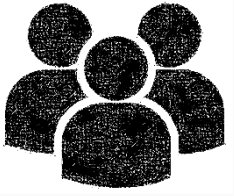
State Specific Ethics

TN State Board of Accountancy

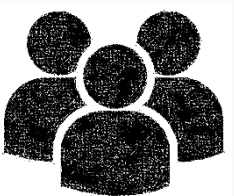
Board Members



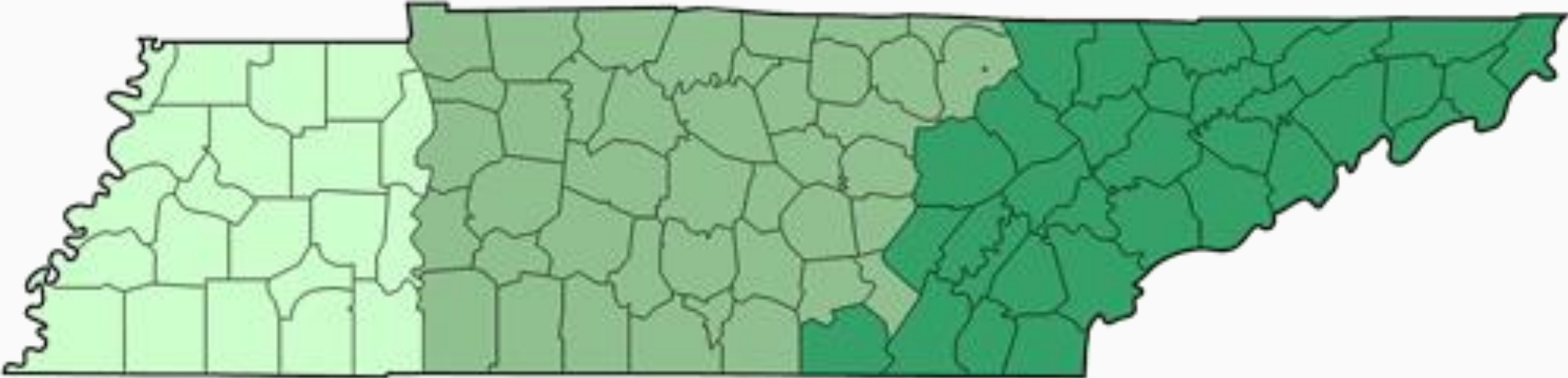
West Tennessee



Middle Tennessee



East Tennessee



Attorney



At Large Member

State Specific Ethics

Tennessee Accountancy Act

- The current accountancy law can be found in the Tennessee Code Annotated, Title 62: Professions, Business and Trade, Chapter 1
- The law can be found at [Legal Resources from the Office of the State](#)
- A link to the website:
<https://www.tn.gov/commerce/regboards/accountancy.html>

The Board Adopts Rules For:

Governing board's meetings



Conduct of investigations and hearings



Educational and experience qualifications



Controlling the quality and probity of services

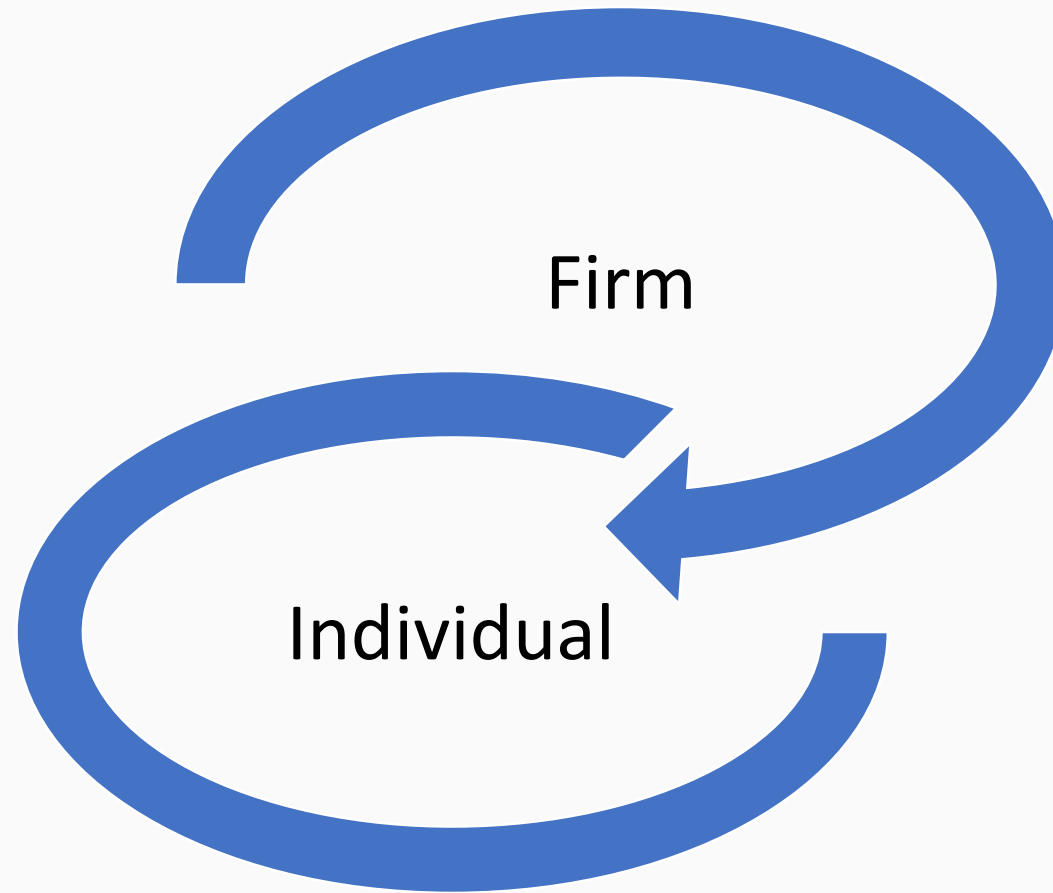


Peer Reviews

State Specific Ethics

License Requirements

License Types




State Specific Ethics

Firm and License Statistics

As of April 1, 2020

Active Licenses	11,249
Expired Licenses	2,915
Inactive	4,240
Retired 65	1,061
Revoked Licenses	73
Retired	108
Suspended	5
Active Firms	1,832
Expired Firm Permits	305
Revoked Firm Permits	23

Firm Permit Requirements

- 
- Majority of ownership should hold a CPA license. Owners should be “active individual participants” in the firm.
 - Must comply with rules promulgated by the board
 - Individuals who sign the audit report must meet experience requirements set forth in professional standards
 - Designates a licensee/owner to provide ownership and resident manager information to the Board if the firm has non-licensure owners

Firm Permits

Required if:

Provide Attest
Services

Use titles:

CPAs, CPA Firm, PAs
or PA Firm,
Accountant,
Accounting

Required for:

Each Office Location

Permits Expire:

Annually on
December 31

During permit renewal, firms that provide attest services must upload their most recent peer review report and acceptance letter.

State Specific Ethics

Firm Name Rules

Firm names must be registered and approved by the Board

- Names of owners/partners allowed
- Name cannot mislead:
 - Structure of firm
 - Nature of services performed
 - Presence of CPAs on staff
- May not contain:
 - Names of suspended or revoked CPAs
 - Name of individual who is not a CPA

CPA License Status

Active

CPE

Renewal

Inactive

Renewal



**Special
Circumstances**

Inactive- 65 and over

**Disabled over 6
months**

Active Military

State Specific Ethics

Individual CPA License Renewal

Every 2 Years Based on License #



\$110 to the State Board



Due December 31



Non-renewed expire July 1



Renew Online: core.tn.gov

Inactive Status – What You Need to Know

- Must place the word “inactive” adjacent to CPA when using the designation for any lawful purpose such as business cards, letterhead, resume, biography, social media sites.
- Licensees must apply for inactive status by logging into their account at <https://core.tn.gov>.

The Board does not automatically change licenses to inactive status if CPE requirements are not met.

Tennessee State Board of Accountancy

Rule 0020-05-.03, 3c

- A certificate holder who has been granted inactive status **may not** for compensation perform or offer to perform for the public, including the providing of accounting service from a licensed accounting firm, any of the following services:
 - Any accounting or auditing service which involves the issuance of reports on financial statements (including opinions, reviews, compilations, or attest engagements).
 - Any consulting engagement which would constitute the attest function, or furnishing advice on tax matters.

Tennessee State Board of Accountancy

Rule 0020-05-.03, 3d

- A certificate holder who has been granted inactive status **may** perform the services described in the prior slide if:
 - The services are provided **without compensation** by the certificate holder;
 - The services are performed solely for the **certificate holder's employer** and such employer is not a licensed accounting firm; or,
 - The certificate holder **does not use the CPA designation** in association with his or her name while providing such lawful services.

Reactivation of an Inactive License

80 hours in 24 months prior to reactivation

Technical Hours:

Accounting

Accounting-Gov't

Auditing

Auditing-Gov't

Business Law

Economics

Finance

IT

Mgmt Services

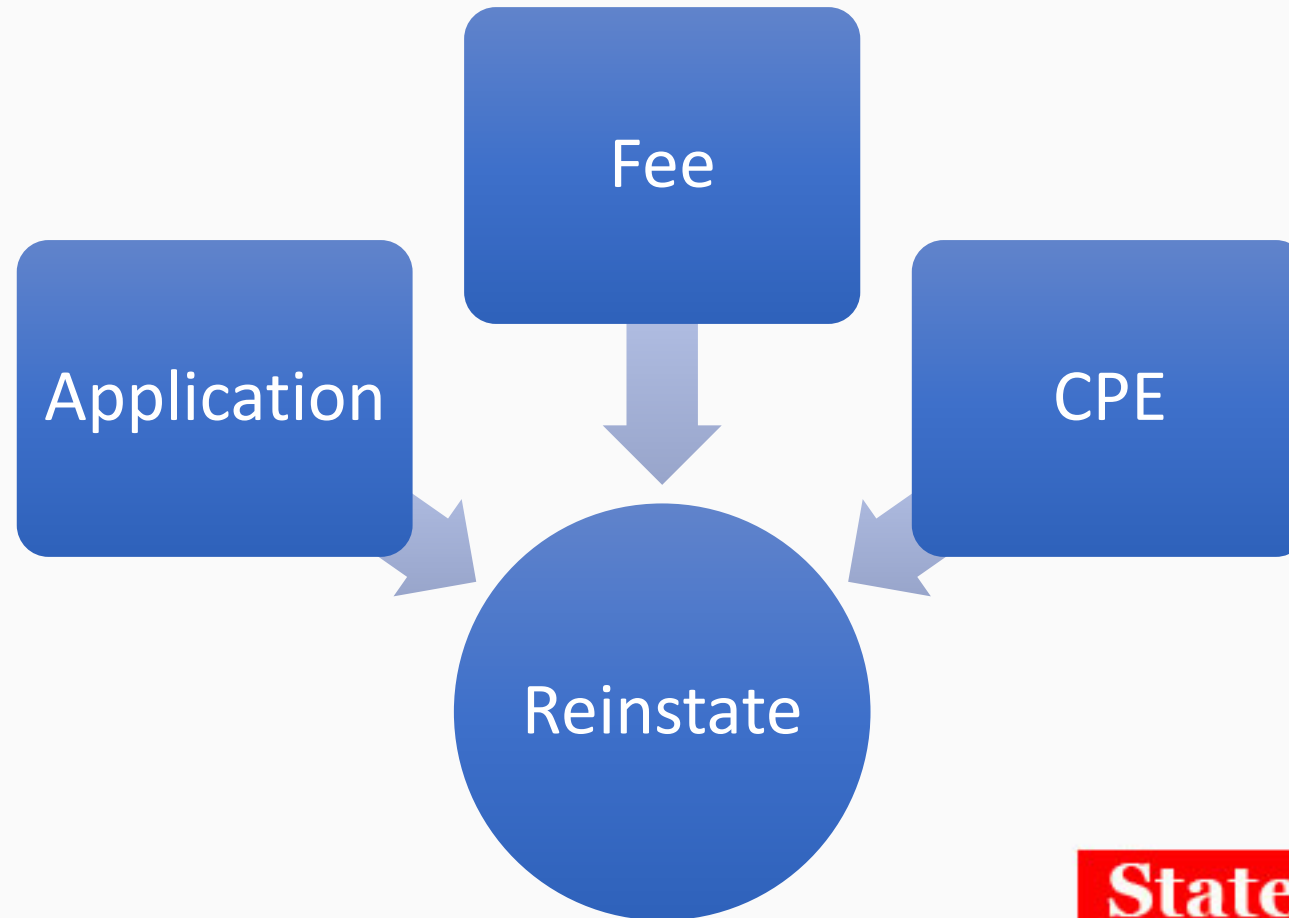
Regulatory Ethics

Specialized Knowledge

Statistics

Taxes

Reinstatements – Revoked, Suspended, Expired Licenses



Stay In Compliance!

Notify the Board of Changes Within 30 Days. Examples Include:

- √ Individual Licensee Name, Email, or Physical Address Change
- √ Change of Firm Address
- √ New Firm Formation
- √ Firm Name Change
- √ New Partner or Retirement/Death/Withdrawal of Partner
- √ Dissolution of the firm, within 30 days of occurrence
- √ Opening or closing of firm location in TN
- √ Non-Compliance Events

Continuing Professional Education

Continuing Education



2 Year Cycle

- 80 hours
- 2 hours ethics
- 40 hours in technical subjects
- 20 in attestation if performing attestation services
- 20 in expertise area if expert witness

Each Year

- Min. 20 Hours
- Board approved training only

Fields of Study

TECHNICAL

Accounting

Accounting (Governmental)

Auditing

Auditing (Governmental)

Business Law

Economics

Finance

Information Technology

Management Services

Regulatory Ethics

Specialized Knowledge

Statistics

Taxes

NON-TECHNICAL

Behavioral Ethics

Business Management & Organization

Communications & Marketing

Computer Software & Applications

Personal Development

Personnel/Human Resources

Production

State Specific Ethics

Qualifying Programs



NASBA Sponsors



AICPA, TSCPA and Other State CPA Societies Sponsored CPE



Other Professional Accounting Organizations



Accredited Universities



Firms offering organized programs without charge



Government Entities

State Specific Ethics

Delivery Methods

Blended
Learning

Group
Program

Independent
Study

Nano-
Learning

Self-Study

State Specific Ethics

What About Non-Qualified Training?

Request
approval **BEFORE**
the event

Only one request
per reporting
period

No more than 16
hours

State Specific Ethics

CPE Limits

- Instructors Receive 3X Credit (50% limit)
- Some Certification Exams
- Reading Journals (20% limit)

CPE Carryover

Reporting Period 1	Reporting Period 2	Reporting Period 3
Year 1: earned 30 hours	Year 1: earned 20 hours	No carry over available
Year 2: earned 60 hours	Year 2: earned 52 hours	
Total of 90 hours during the reporting period	Total of 72 hours during the reporting period	
10 extra hours earned	Carry forward 8 hours from Period 1 to make up for the deficiency	No extra hours earned in Period 2

Home State Exemption

Comply with resident state CPE requirements

No home
state
requirements

- Comply with CPE requirements for TN

If no resident
state ethics
requirement

- Must complete TN State Specific Ethics Course

CPE Reporting Requirements

Who: CPAs with Active license status

What: A listing of CPE credits earned including:

- ✓ Sponsor name
- ✓ Date(s) of training
- ✓ Title of program
- ✓ CPE subject code
- ✓ CPE credit awarded

How: Upload attachment at time of renewal

- ✓ Board provided fillable format
- ✓ Other listing in approved format (PDF, Excel, doc, jpeg)



CPE Audit

10% of licensees randomly selected



All documentation must be submitted



Notification and instructions are received by mail and email



All responses submitted through core.tn.gov



Failure to respond is a violation and will result in a complaint and possible disciplinary action

State Specific Ethics

Failure to Meet CPE Requirements

- 8 hours – Failure to complete 80 hours as required
- 8 hours – Failure to complete 40 hours in specified subject areas
- 8 hours – Failure to complete 20 hours in each year of biennial renewal period
- 8 hours – Failure to complete 20 hours if engaged in attest work
- 8 hours – Failure to complete two hour State Specific Ethics

Peer Review

Peer Review



- Required every 3 years for firms performing attestation services (Initial peer review occurs within 18 months of enrollment)



- Required for compilation, review or audit engagements



- TN State Board of Accountancy has approved the AICPA Peer Review Program

“Attest” is defined as...

**Audits
Following
SAS**

**Examinations
using SSAEs**

**Tennessee Code Annotated,
Section 62-1-103, states that
attest means providing the
following services:**

**Reviews
Following
SSARS**

**Any report
prescribed by
SASs, SSARSs,
or SSAEs**

SSAE Attest Engagements

- Engagements (**with certain exceptions**) in which a certified public accountant is engaged to issue a report on subject matter that is the responsibility of another party.
- Agreed-Upon Procedures
- Financial Forecasts and Projections
- Reporting on Pro Forma Financial Information
- Compliance Attestation
- Management's Discussion & Analysis

Consulting vs. Attestation

In an attest service, you are engaged to express an opinion regarding an assertion that is the responsibility of another party.

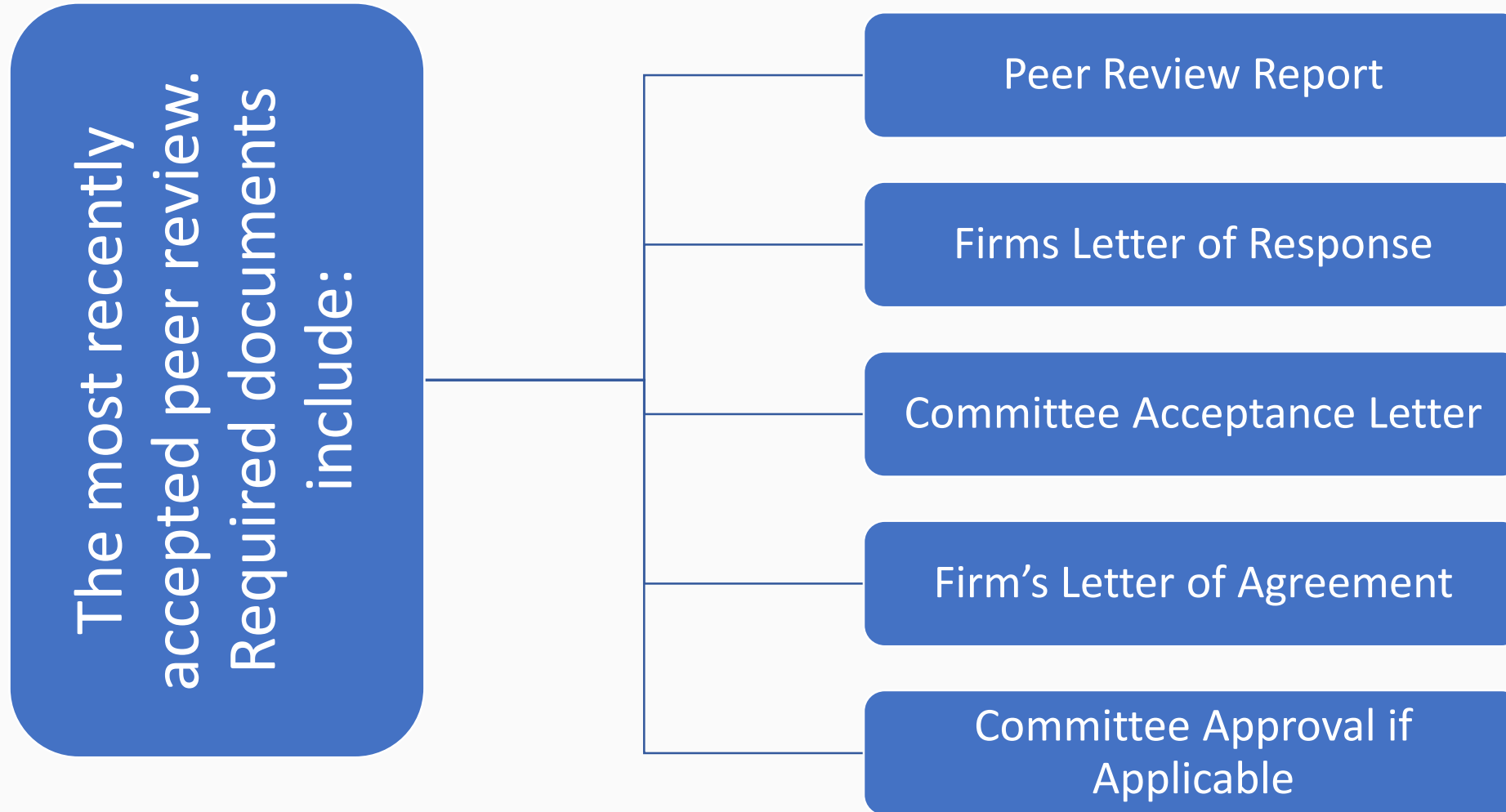
In a consulting service, you are engaged for the benefit of the client. The nature and scope is determined by the agreement between you and the client.

- Forensic Examination
- Expert Witness Services
- Valuation Services
- Divorce Engagements

What a Firm Needs to Know

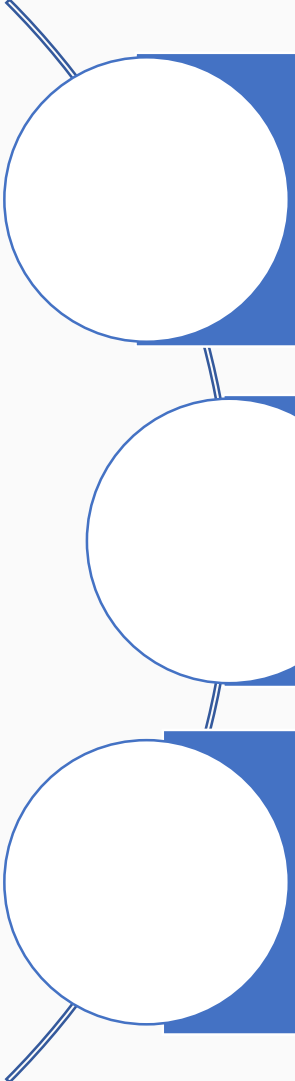
- Firms should enroll in the Program by the report date of the initial attest engagement
- Initial review due 18 months from the date of enrollment
- Types of Reviews - System and Engagement
- Peer Review Report Types – Pass, Pass with Deficiencies, Fail

What a Firm Needs to Supply to the Board



What's New

New Rules Effective as of September 2019



0020-05-.01 Definition of technical and non-technical fields of study and definition of CPE course delivery methods including nano-learning and blended learning

0020-05-.03 Revisions to carryover CPE rules and requirements as they related to new licensees

0020-05-.04 Clarifies learning activities that qualify for CPE credit, allows CPE credit for program developers and technical reviewers, clarifies acceptable confirmation of credits earned, clarifies computation of CPE credit for various delivery methods

AICPA Proposed New Rule: Staff Augmentation

- Non-attest service in which audit firm lends staff to client to perform certain activities
- May create self-review or management participation threats to independence.
- Safeguards
 - Short engagement
 - Client designates individual with skill, knowledge and experience
 - Firm's staff do not perform management responsibilities
 - Staff may not be held out as employees or in charge in firm communications

Leases with Attest Clients

- The firm, staff or individual to influence an attest engagement should not enter into a lease, or renegotiate lease terms, during the professional engagement UNLESS:
 - On market terms and established at arm's length
 - Not material to any parties
 - Paid timely during period of professional engagement
- Threats to independence should be evaluated for leases already in existence.

Rules of Professional Conduct

AICPA Code of Professional Conduct:

Principles

1. Responsibilities
2. The Public Interest
3. Integrity
4. Objectivity and Independence
5. Due Care
6. Scope and Nature of Services

Threats

Adverse Interest

Advocacy

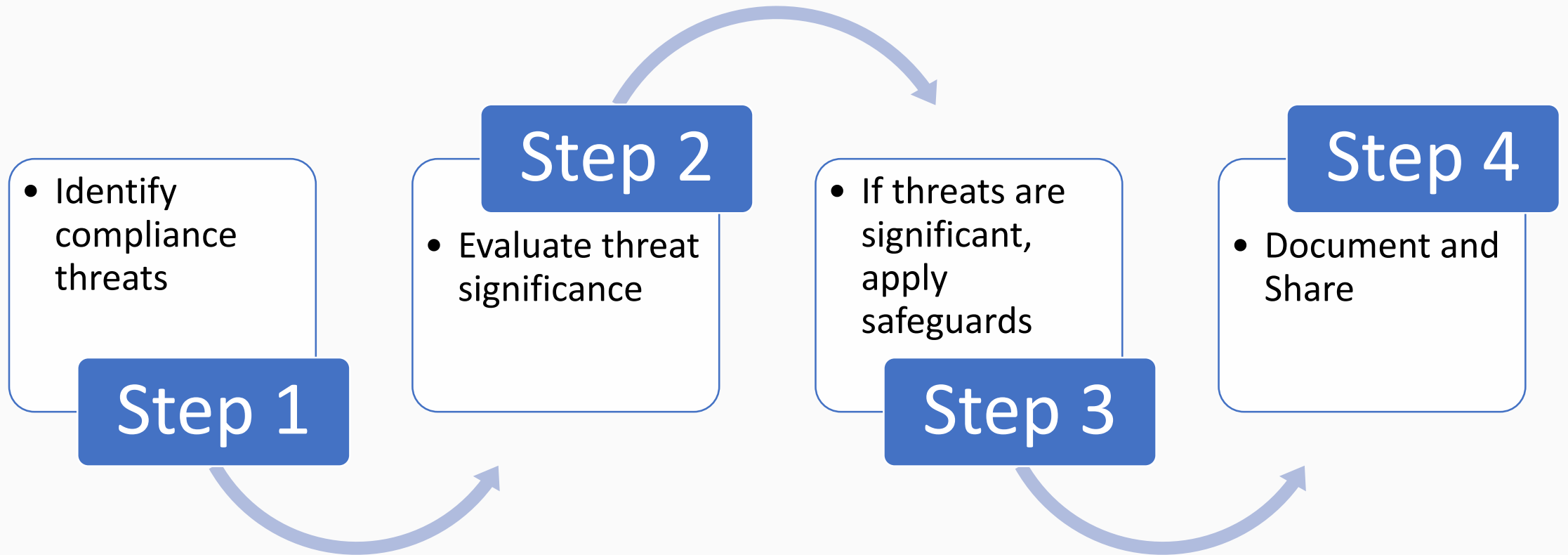
Familiarity *

Self-interest

Self-review

Undue influence

Conceptual Framework



State Specific Ethics

Independence

- You have a partner at a public accounting firm who is about to marry the CIO of a client.
- Is independence impaired?

Review the Codification

- tn.gov: Rules of Professional Conduct: 0020-03-.03: Independence
 - A licensee shall conform to the AICPA rules of independence
 - .01 When an individual in a covered member's immediate family is employed by an attest client, management participation, familiarity, and self-interest to the covered member's compliance with the "Independence Rule" may exist.
 - .02 If a covered member's immediate family is employed by an attest client but is not in a key position, threats would be at an acceptable level and independence would not be impaired.
 - .03 If a covered member's immediate family is in a key position with an attest client during the period covered by the financial statements or during the period of the professional engagement, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards.

Codification Definition of Key Position

- .27: Key position
 - Primary responsibility to exercise influence over the contents of financial statements
 - Primary responsibility for the preparation of financial statements
 - Ability to exercise influence over the contents of the financial statements

Based on rules, the position does not qualify as a key position

Independence Safeguards

Safeguards

- Created by the profession, legislation, or regulation
- Safeguards implemented by the client
- Safeguards implemented by the firm

Effectiveness of Safeguards

- Facts and circumstances
- Proper identification of threats
- Whether or not safeguard meets its objectives

SEC Independence Sanctions in 2019

- Public accounting firm performed prohibited non-audit services during an audit engagement including decision-making authority in the design and implementation of software
- Violations of independence by issuing audit reports when dozens of employees maintained bank accounts with client's subsidiary

Affiliates of Financial Attest Client

- Members must be independent of attest clients and certain affiliates of financial statement attest clients.
- Affiliate
 - Includes entities related to the client that involve control or significant influence
 - Control relationships (per FASB; generally over 50%)
 - Significant influence relationships (per FASB: generally 20%-50%)
 - Employee benefit plans (control or significant influence)

Affiliate Exceptions

- Some loans to or from an individual who is an officer, director, or 10% or more owner in an affiliate
- Non-attest services provided to an affiliate that do not threaten independence with respect to the attest client under the “Conceptual Framework for Independence” (i.e. self-review)
- A covered member’s subsequent employment with an affiliate
- Employment of a covered member’s close relatives or immediate family members by an affiliate

Case Study

- Friend's son is interviewing for a position
- Position is a subsidiary of an audit client
 - Not material to audit client
 - Subsidiary has independent board of directors and management
- Audit client consolidates financial information with subsidiary
- Families have close relationship

Case Study Resolution

Step 1: Identify Threats

Obstacle to follow appropriate course of action because of internal or external pressures

Conflict applying relevant professional legal standards

Step 2: Evaluate Threats

Consider relevant facts and circumstances

Consider rules, laws and regulations

Consider ethical issues

Established internal procedures

Step 3: Apply Safeguards

Consultation

Documentation

State Specific Ethics

Integrity and Objectivity

- Integrity is the foundation of trust
- Honesty and trust are central to integrity
- Individuals with integrity act with honor and truthfulness

Integrity must always come first. If anything else comes first, you will sacrifice your integrity for what you put first.

Case Study

- You are a new audit partner for Carson Company. Upon review of the financial statements, you notice that the numbers appear reasonable given the current economic conditions. Furthermore, your estimates of the financials mirror the financial statements. However, you noted that the company had some large accruals in the statements. The accruals appear to be related to the non-payment of property taxes. A conversation with the CEO indicates that the company has never been billed for property taxes.

What are the identifiable ethical issues?

- Can you merely accrue an estimate for the tax bill?
- If you cannot accrue, should you advise contacting the local tax authority?
- Are the directors aware of this situation?
- Does the corporate culture support open discussion without recrimination?

Fundamental Principles

- Integrity: Your integrity is challenged with the course of action you have doubts about
- Objectivity: Will your relationship with the CEO and the current economy threaten your ability to be objective?
- Professional competence and due care: Your due diligence in reviewing the financials allowed you to uncover the situation
- Confidentiality: Does the company believe that their non-payment of taxes is confidential information?
- Professional behavior: Does it serve the public interest for this situation to be ignored
- Framework: Is there another reason the taxes have not been billed?

Conflicts of Interest

AICPA Code of Professional Conduct:

Conflicts of interest may arise when performing a professional service. In determining whether a professional service, relationship or matter would result in a conflict of interest, a member should use professional judgement, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

Once a conflict is identified, you must evaluate the significance of the threat created by the conflict of interest

Conflict of Interest Impairment Examples

Recommending a client to invest in a business in which you have a financial interest.

A significant financial interest in a company that is a major competitor of a client for which you perform management consulting services.

Providing personal financial planning or tax services to a married couple during divorce proceedings for both parties.

Performing litigation services for the plaintiff in a connection with a lawsuit filed against a client of your firm

Contingent Fees –Rule 0020-03-.05

Definition: A fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained.

Not Allowed For:

- Audit or Review of Financial Statements
- Compilation of a Financial Statement
- Examination of Prospective Financial Information
- Preparation of an original or amended tax return

Commission Rule- Rule 0020-03-.05

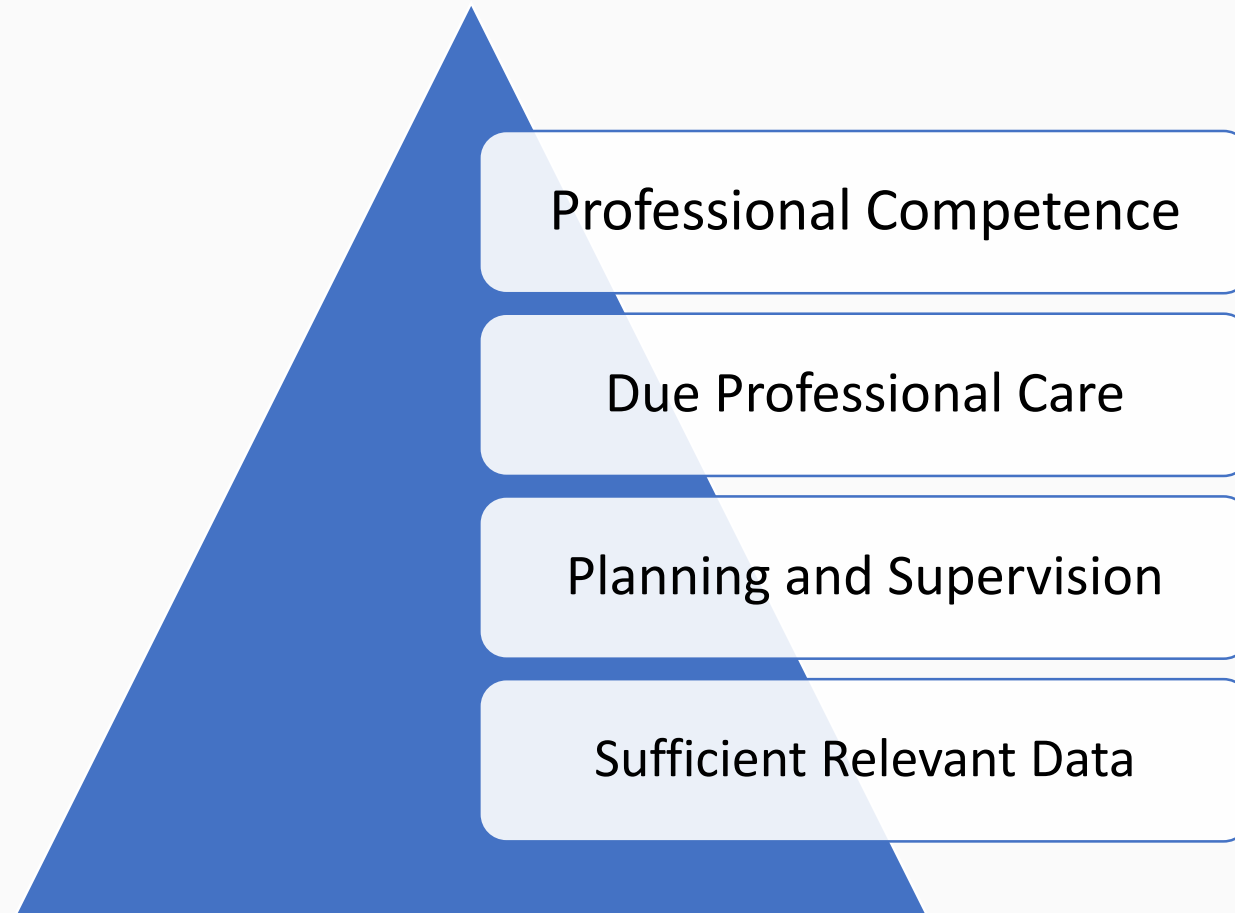
Prohibited when the member or firm also performs the client's:

- Audit or review of financial statements
- Compilation of a financial statement
- Examination of prospective financial information

Permitted commissions and referral fees must be disclosed

- Disclosure must be made prior the start of the service
- Must state the amount of the fee or the basis on which the fee will be computed

Competence Standards



State Specific Ethics

Professional Competence

Phases of exercising sound judgement:

Maintain professional
knowledge and skill

Act diligently
according to technical
and professional
standards

Principles: Due Care

- Due professional care sets a high standard
- Competence and diligence are hallmarks of due care
 - Competence is a “mastery of the common body of knowledge” and “a commitment to learning and professional involvement”
 - “Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards”

Case Study


- You have been offered an opportunity to consult with a potential client as an expert witness regarding internal controls surrounding complex database system. This will be your first time to serve as an expert witness. Furthermore, you have never been trained on database systems.
- Should you take the opportunity?

Applicable Accounting Standards

Due Care: A CPA must observe the profession's technical and ethical standards



Competence: The attainment and maintenance of a level of understanding and knowledge that enables a CPA to render services with facility and acumen



A CPA must plan and supervise any professional activity for which he or she is responsible

State Specific Ethics

Considerations

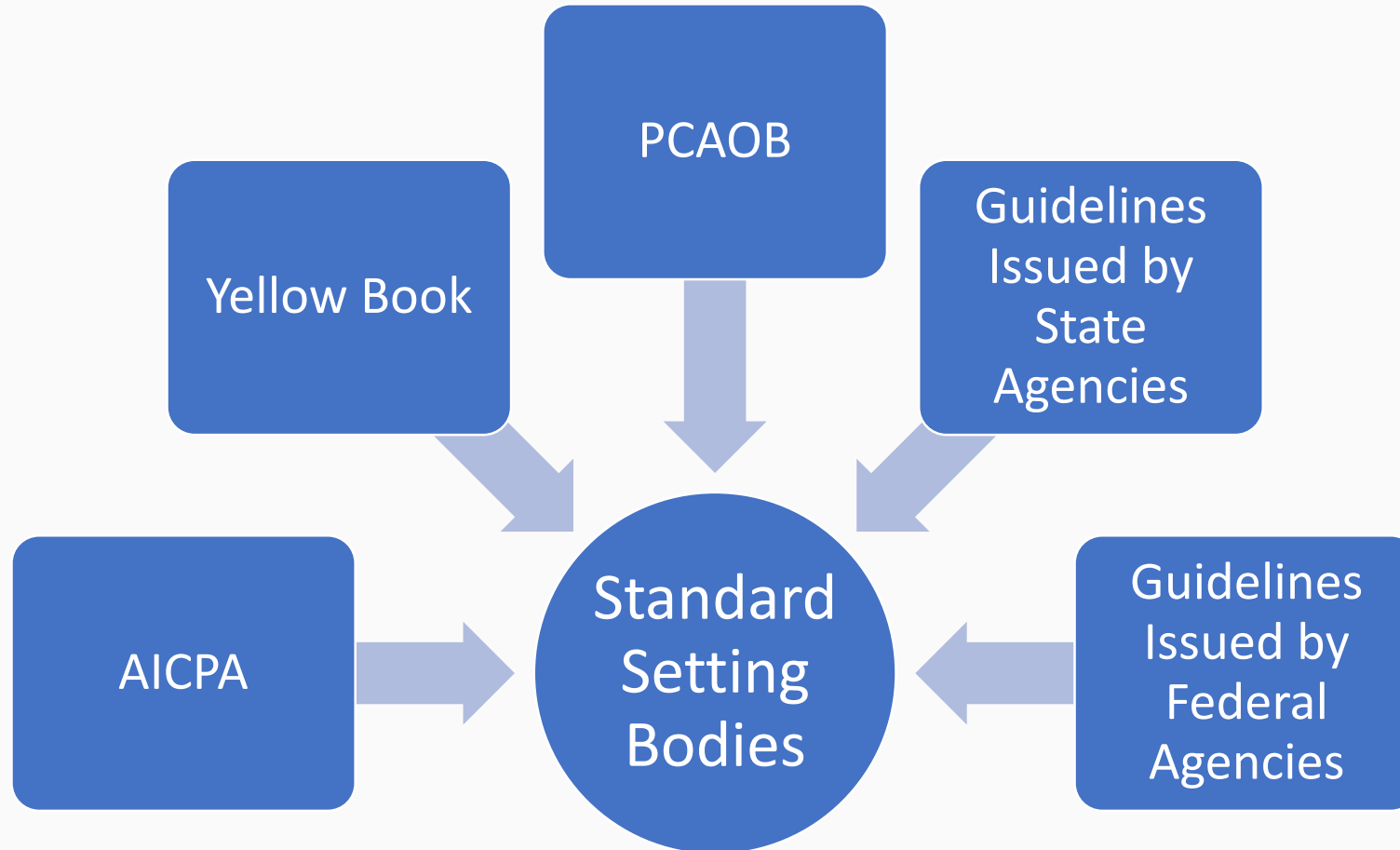
What alternatives exist?

What would be necessary to conduct the engagement while staying within the accounting principles?

What skills and experience are necessary to meet the due care standard?

State Specific Ethics

Compliance with Standards 0020-03-.08



State Specific Ethics

Confidential Client Information -0020-03-.10

- Do not disclose
 - ✓ Confidential client information without client consent
- Does not relieve licensee of professional obligations to:
 - ✓ Comply with a subpoena or summons
 - ✓ Review of practice by AICPA, State CPA Society, or the Board of Accountancy
 - ✓ Initiate a complaint with or respond to an inquiry made by a disciplinary or investigative body

Sharing Client Information

- Obtain Consent:
 - when using a third-party service provider
- Disclosure of information not considered confidential is not subject to the rule
- Information pursuant to an enforceable subpoena or summons (Client notification is not required)
- Disclosure of client name is allowed as long as it is not related to confidential information such as financial problems or lawsuits

Discreditable Acts

- Discrimination and Harassment
- Solicitation or Disclosure of CPA Exam Q&A
- Failure to File a Tax Return or Pay a Tax Liability
- Negligence in Preparation of Financial Statements / Records
- Violating Governmental or Regulatory Agency Rules or Laws

Discreditable Acts, Continued



Indemnification & Limited Liability Provisions

Disclosure of Confidential Information

False, Misleading, or Deceptive Acts in Marketing

Deceptive use of the CPA Credential

COMPLAINT PROCESS

Filing a Complaint

[.do;jsessionid=NRdUBqeGSNxi](#)



Comprehensive Online Regulatory & Enforcement System

File a Complaint | Need Help
Contact Us

Returning User

* * are required.

*User ID:

*Password:

[Forgot user ID?](#) [Forgot password?](#)

New User

[Register a new account](#)



You must create a new online account even if you already use e-services. Your online account is separate from your e-Services account.



Sign-up and manage your licenses

Welcome to the Comprehensive Online Regulatory and Enforcement System. If you are a new user and wish to use this system, please select the "Register a new account" link on the left hand side of your screen.

If you have forgotten your user ID or password, select the appropriate link on the left hand side of your screen to recover your account.

Video Tutorials

- [Video: New Account](#)
- [Video: New Application](#)
- [Video: License Renewal](#)
- [Video: New Account Android](#)
- [Video: New Application Android](#)
- [Video: New Account iPhone](#)
- [Video: New Application iPhone](#)

THIS SYSTEM IS FOR AUTHORIZED USE ONLY!

Use of this system constitutes consent to monitoring, interception, recording, reading, copying or capturing by authorized personnel of all activities. There is no right to privacy in this system. Unauthorized use of this system is prohibited and subject to criminal and civil penalties.

State Specific Ethics

Complaint Response Form

Online Complaint Response Form

This form should ONLY be used to respond to a complaint filed against you and can only be used for a single response.

If you are submitting a response to multiple complaints you may choose to use another method or complete this form for each complaint or individual responding.

Please note all fields MUST be completed.

Please choose a profession at the drop-down below.*

Accountancy

Complaint Number*

Your Name*

First Name Last Name

Email

Mailing Address*

<https://www.tn.gov/commerce/contact-us/online-complaint-response-form.html>

State Specific Ethics

Board Actions

- Close Complaint
- Letter of Warning
- Letter of Instruction
- Consent Orders
 - Civil Penalties
 - Additional CPE or Peer Review
 - Probation
 - Suspension
 - Revocation
- Informal Conference
- Formal Conference (Hearing)

Enforcement Case Examples

Firm Permit Case Example

- An application for a firm permit was received by the Board
- One firm owner held a revoked license for failure to comply with a Consent Order. The firm permit was denied.
- Respondent indicated the web developer updated the website before services were started in a new location
- Firm failed to update the website after notification

Consider the Codification

- Respondent was notified of Tenn. Comp. R. & Regs. 0020-01-.09
 - An applicant denied a certificate shall be notified in writing by the Board of such denial and the reasons therefore. Such applicant may request an appearance before the Board to reconsider such denial at its next scheduled meeting. Such request shall be sent to the Executive Director within thirty (30) days of the date of the notice of denial.
- Respondent had 30 days to schedule a meeting
- A meeting request was not received

Recommendation

Authorize a formal hearing; Respondent pays a civil penalty for holding out as a CPA firm without proper licensure

Peer Review Example

- When the Respondent renewed firm permit, it was discovered that the firm had been dropped from the peer review program
- Respondent confirmed that the firm was providing attest services and the Board denied renewal of the permit until the firm re-enrolled in the peer review program
- Respondent re-enrolled and permit was renewed in February
- Respondent was dropped from peer review program in May
- The firm has a history of drops....2013, 2016, 2017
- Respondent indicated the firm is working on re-enrolling but no evidence exists for the enrollment

Board Recommendation

- Authorize a formal hearing to settle via Consent Order upon Respondent's payment of a civil penalty of \$3000 for providing attest work while not enrolled in peer review
- Respondent should re-enroll in peer review and provide proof of an accepted peer review

Predecessor-Successor Auditor Communications

- Facts of the Complaint:
 - Predecessor auditor refused to provide access to prior year workpapers requested by successor auditor.
 - The predecessor auditor states that there has been a litany of threats, demands and claims made by client in the past six months.
 - Former client alleges it has incurred millions of dollars in damages correcting previous years' tax returns
 - Predecessor auditor refused to sign a letter accepting full responsibility for "errors" in previous years' tax returns. Client terminated the audit engagement and threatened to sue for breach of fiduciary duty.
 - Former client is part of a SEC Enforcement Division investigation and threatens to hold the predecessor auditor liable for any resulting damages.
 - Former client states that the predecessor auditor's refusal to provide access to their prior year workpapers will result in increased audit costs and the failure to obtain an unqualified audit opinion.

What do the Standards Say?

- AU Section 315.03: Certain communications should be made with the successor auditor before accepting the engagement.
 - Disagreements with management regarding significant matters
 - Communications to those charged with governance regarding fraud and illegal acts
 - Significant deficiencies and material weaknesses in internal control
 - Predecessor auditor's understanding of reasons for change in auditors
- AU Section 315.06: Establishes the responsibility for predecessor-successor auditor communications
 - The initiative for communicating rests with the successor auditor.
- AU Section 315.10: Predecessor auditor should respond to inquiries promptly and fully. However, the predecessor auditor may decide to limit their response under unusual circumstances. Unusual circumstances are defined as:
 - Impending, threatened or potential litigation
 - Disciplinary proceedings
 - Other unusual circumstances

What do the Standards Say?

- AU Section 315.11:
 - The successor auditor should ask the client to provide a release to the predecessor auditor allowing for a review of the predecessor auditor's working papers. It is customary in such circumstances for the predecessor auditor to make himself or herself available to the successor auditor and make available for review at least a portion of the workpapers.
- BUT ... the predecessor auditor does have some latitude in the matter. The final sentence in paragraph .11 states:
 - The extent, IF ANY, to which a predecessor auditor permits access to the working papers is a matter of judgement.

Recommendation

- The Board determined that the Respondent (the predecessor auditor) was given the latitude to limit or even fully deny access to prior year workpapers under AU Section 315.11. Furthermore, the Board felt that the circumstances demonstrated by the Respondent provided a reasonable basis for the firm's decision to refuse access to the prior year workpapers.
- The Board also determined that the Respondent is not responsible for any ramifications to the client as a result of their decision.
 - AU Section 315.03 establishes general inquiries that should be made before client acceptance. These inquiries were not made by the successor auditor.
 - AU Section 311.07 further emphasizes the matter by referencing AU Section 315 and stating that these communications should be made and evaluated before accepting an engagement.
 - Section AU 315.06 states that the initiative for making these communications rests with the successor auditor.
- The Board closed the complaint with no further action against the predecessor auditor.

Questions?