Client Acceptance

Independence Issues
- Second General Standard – independence in mental attitude
- Not a prosecutor, rather unbiased/impartial
- Independence in fact and appearance
- Appointed by BOD, audit committee (SOX 301), or shareholders
- Specific independence rules?

Independence Issues
- SOX 201 – Prohibited activities?
- SOX 202 – Preapproval by audit committee, what non-audit services are still allowed? Disclosure.

Obtain and Understanding with the Client
- Written or Oral – When??
- Engagement Letter Content
  - Objective of audit is the expression of an opinion on the F/S
  - Management’s responsibility for the financial statements
  - Management’s responsibility for internal controls
  - Management’s responsibility for compliance with laws and regulations
  - Availability of records and related information to auditor
  - Representation letter will be requested
  - CPA firm is responsible for conducting audit in accordance with GAAS - not discovery of all errors, frauds, or illegal acts
  - An audit (of a non-public entity) is not designed to provide assurance on internal control or identify reportable conditions
  - Management’s responsibility for adjusting the F/S

Client Acceptance Issues
- Client’s reasons for audit
- Management’s integrity
- Client’s business risk
- Client’s control environment
- Client’s AIS
- Availability and competence of audit staff
- Timing of appointment
- Potential independence problems

Obtain and Understanding with the Client
- Additional Matters
  - Timing of audit
  - Assistance expected from client (PBC schedules)
  - Specialists and internal auditor involvement
  - Arrangements involving predecessor auditor
  - Fees and billing arrangements
  - Conditions under which access to audit documentation may be granted
  - Other services are enumerated
  - A request for the client to sign the engagement letter and return it to the auditor
Predecessor & Successor Auditor Communications

- Client’s permission is required to initiate the contact as well as for the predecessor to respond to the inquiry
- Process initiated by successor auditor
- The response of the predecessor may be limited to stating no information will be given (for legal reasons). Form 8-K.

Obtain and Understanding with the Client

- Pre-Acceptance Issues
  - Management integrity
  - Disagreements regarding accounting and auditing matters
  - Communications with audit committee regarding fraud, illegal acts, and internal control related matters
  - Reasons for change in auditors

- Pre/Post-Acceptance Issues
  - Review predecessor audit documentation
    - Planning
    - Internal controls
    - Audit results
    - Other matters of continuing significance