



CliftonLarsonAllen LLP
220 South Sixth Street, Suite 300
Minneapolis, MN 55402-1436

phone 612-376-4500 fax 612-376-4850
CLAconnect.com

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American Institute of Certified Public Accountants
Auditing Standards Board

Via email: CommentLetters@aicpa-cima.com

Re: Comments on Exposure Draft, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*

CliftonLarsonAllen LLP (CLA) appreciates the opportunity to comment on American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) Proposed Statement on Auditing Standards, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)* (the proposed SAS) dated March 23, 2022. We understand the proposed changes are intended to strengthen the auditor's approach to planning and performing a group audit and to improve the quality of group audits.

Our responses to the requests for comments and other observations are attached. We would be pleased to discuss any questions that you may have about our comments.

Sincerely,

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP



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Request for Comment	CLA Response
<p><u>Fundamental Aspects of the Proposed Standard</u></p> <p>1. With respect to the linkages to other AU-C sections</p> <ul style="list-style-type: none"> a. does the proposed SAS have appropriate linkages to other AU-C sections and to the proposed SQMSs? b. does the proposed SAS sufficiently address the special considerations in a group audit as they relate to applying the requirements and application material in other relevant AU-C sections, including the proposed QM SAS? Are there other special considerations for a group audit that you believe have not been addressed in the proposed SAS? c. does the proposed SAS result in a group audit that achieves the objectives of the proposed QM SAS? 	<p>We believe the proposed SAS has appropriate linkages to other AU-C sections and to the proposed SQMS. We found these linkages especially helpful when considering ethical responsibilities of component auditors.</p> <p>Overall, we believe the proposed SAS sufficiently addresses special considerations in a group audit.</p> <p>We believe the proposed SAS will help auditors in effectively managing quality at the group engagement level and, as a result, achieve the objectives of the proposed QM SAS.</p>
<p>2. With respect to the structure of the proposed SAS, do you support the placement of sub-sections throughout the proposed SAS that highlight the requirements when component auditors are involved or when reference is made to the audit of a referred-to auditor in the auditor’s report on the group financial statements?</p>	<p>We found the organization and structure of the proposed SAS to be helpful and support the placement of the subsections relating to the component auditor and referred-to auditor.</p>
<p>3. Is the scope and applicability of the proposed SAS clear? In that regard, is the definition of group financial statements, including the linkage to a consolidation process, clear?</p>	<p>We found the scope and applicability of the proposed SAS to be clear. We recommend the ASB provide more application guidance or other materials (e.g., a flowchart or decision tree) to help auditors with determining whether an engagement includes group financial statements, which is therefore subject to the scope of the proposed SAS.</p>

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<p>4. With respect to the scalability of the proposed SAS</p> <p>a. do you believe the proposed SAS is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in the proposed SAS, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the proposed SAS?</p> <p>b. do you believe that the guidance in exhibit A, “Relevancy of Requirements in Various Group Audit Scenarios,” of the proposed SAS is understandable and provides clarity on the relevancy of certain requirements of the proposed SAS in various group audit scenarios? Would the relevancy of certain requirements of the proposed SAS in various group audit scenarios be clear without exhibit A?</p>	<p>We believe the principles-based approach makes the application of the requirements in the proposed SAS more scalable. The clarification of the roles and responsibilities of the engagement partner combined with the removal of prescribed approaches to significant components provides flexibility to respond appropriately to identified risks and improves efficiencies in group audits.</p> <p>We found exhibit A of the proposed SAS to be useful.</p>
<p>5. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of AU-C section 230? In particular</p> <p>a. are there specific matters that you believe should be documented other than those described in paragraph 76 of the proposed SAS?</p> <p>b. do you agree with the application material in paragraphs A203–A219 of the proposed SAS relating to the group auditor’s audit documentation?</p>	<p>We support the enhanced requirements and application material on documentation.</p> <p>The ASB should consider requiring documentation of the requirements in 59.c ii relating to appropriateness of conversion entries.</p> <p>We agree with the application material in paragraphs A203-A219 in the proposed SAS. However, we have some concerns about the requirements for the final assembly and retention of a component auditor’s documentation. When the retention of component auditor documentation is outside the</p>

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	<p>control of the group auditor, we believe it would be difficult for a firm to design and implement responses to address quality risks relating to the quality objective in proposed SQMS No. 1 paragraph .32f. We suggest the ASB consider enhancing the guidance in A206 of the proposed SAS to indicate that providing specific instructions to the component auditor would normally be a sufficient response to such quality risks.</p>
<p><u>Additional Matters for Consideration</u></p> <p>Definitions: Referred-to Auditor, Component Auditor, Group Auditor, and Engagement Team</p>	
<p>6. Are the definitions of the terms referred-to auditor, component auditor, and group auditor clear, including as they relate to the definition of the term engagement team in the proposed QM SAS?</p>	<p>We believe the terms defined in the proposed SAS are clear, especially as they relate to auditors of governmental entities.</p>
<p>Engagement Partner Has Overall Responsibility for the Audit</p> <p>7. Is the requirement in paragraph 11 clear? Are there additional requirements or application material relating to paragraph 11 that are needed, and if so, what should they be?</p>	<p>We believe the requirements in paragraph 11 are clear. We recommend the ASB consider adding “local business practices” to paragraph A17, first bullet.</p>
<p>Reports From Component Auditors Related to Reviews of Interim Financial Information of Components</p> <p>8. Do you agree with the deletion of this requirement and the related application paragraph? Do you have other suggestions for considering components in interim reviews now that the concept of “significant components” has been eliminated?</p>	<p>We agree with removing this requirement based on the changes in the proposed SAS and suggest relying on knowledge obtained from the audit to scope review procedures. Because these engagements are not common in our practice, we have no additional suggestions.</p>

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<p>Equity Method Investments</p> <p>9. Do you agree with the application material in paragraphs A47–A49 of the proposed SAS relating to a noncontrolling interest in an entity that is accounted for by the equity method? Are there additional requirements or application material relating to EMIs that are needed in the proposed SAS, and if so, what should they be?</p>	<p>We agree with the application material in paragraphs A47 – A48 of the proposed SAS and do not believe additional requirements are needed. However, we believe paragraph A49 should be removed as the guidance relates to accounting standards and is unnecessary in the context of a group audit standard.</p>
<p>Referred-to Auditor Requirements</p> <p>10. Do you support retaining the option that exists in extant AU-C section 600 for the group engagement partner to make reference to the audit of a referred-to auditor (a component auditor per extant AU-C section 600) in the auditor’s report on the group financial statements?</p>	<p>We strongly support retaining the option for the group auditor to make reference to a referred-to auditor.</p>
<p>11. Are the specific requirements relating to referred-to auditors clear, appropriate, and easily identifiable within the proposed SAS, including when considering exhibit A?</p>	<p>We believe the specific requirements relating to referred-to auditors are clear, appropriate, and easily identifiable within the proposed SAS without exhibit A. However, we believe exhibit A adds additional clarity by providing a concise reference for determining applicability in various scenarios.</p>
<p>Determining Whether Sufficient Appropriate Audit Evidence Can Be Obtained When Making Reference to Referred-to Auditors</p> <p>12. Is the last sentence of paragraph A41 clear? Is there additional application material that is needed, and if so, what should it be?</p>	<p>We recommend the ASB provide additional guidance and examples of situations when it may not be appropriate to use a referred-to auditor. It is unclear at what magnitude a group engagement partner may not be able to conclude that sufficient appropriate audit evidence cannot be obtained. Examples would provide the auditor more context for applying the guidance in the last sentence of this paragraph.</p>

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Effective Date 13. Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments, including sufficient time to support effective implementation of the proposed SAS?	We believe the proposed effective date provides sufficient time to adopt the new standard and effectively implement the proposed SAS.

Other Comments and Recommendations

We recommend the ASB clarify the responsibilities of component auditors when performing audit procedures designed by group auditors from a firm other than the component auditor's firm. Specifically, we recommend the ASB provide additional guidance regarding the nature of the component auditor's engagement and the form of communicating the component auditor's overall findings and conclusions.

We suggest the AICPA provide additional guidance to help firms with the implementation of the proposed SAS for each of the scenarios in exhibit A.