



# COMMONWEALTH of VIRGINIA

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AICPA Auditing Standards Board  
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To Whom It May Concern,

We appreciate the opportunity to respond to the AICPA Auditing Standards Board (Board)'s exposure draft of proposed Statements on Auditing Standards (SAS) titled *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-To Auditors)*. We have incorporated feedback on the specific aspects of the proposed SAS request for comment as included below:

## **Requests for Comment**

### **Request for Comment 1**

*With respect to the linkages to other AU-C sections*

- 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?*

The proposed SAS linkages to other AU-C sections are appropriate. While we are not opposed to the linkages to the proposed SQMSs, we believe they are unlikely to have a significant effect on quality. They do, however, increase the length of the standard and potentially set precedent for future standard setting.

The proposed SAS sufficiently addresses the special considerations of a group audit as they relate to applying the requirement and do not have any additional special considerations for a group audit that were not addressed. We believe the proposed SAS results in a group audit that achieves the objectives of the proposed QM SAS, except as noted in other request for comments included below.

### **Request for Comment 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?*

We 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.

### **Request for Comment 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?*

We believe that the scope and applicability of the proposed SAS lacks clarity when detailing business units that comprise the group financial statements. We noted that the clarified SAS removes the link of a group financial statement and components, which broadens the business units that could qualify for group financial statements. Specifically, paragraph A4 states "a single legal entity may be organized with more than one business unit ... when those business units have characteristics such as separate locations, separate management, **or** separate information systems." We believe the inclusion of "or" within the guidance is improper in a government environment as many business units have separate locations and separate management that are aggregated into a single legal entity's financial statements; and, in many cases, we would not expect those to create a group audit scenario.

To align with the audit requirements for components throughout the proposed SAS, we conceptually believe it is more logical to define a group as components aggregated through a consolidation process. To assist the auditor in identifying components (or business units) that trigger the group audit requirements, the Board should further clarify the relevant criteria for assessing the extent to which separate locations, management, and information systems represent components (or business units) of a group. The following are questions the Board may consider in providing this guidance:

- **Location:** Does the mere physical presence of the business unit within a separate building constitute a different location? Does the proximity of the business unit

location to the group have any effect on the assessment (i.e., street address, campus, town, county, state, country)?

- **Management:** In a government environment, authority may be delegated to various levels of management. For example, in producing an Annual Comprehensive Financial Report (ACFR), a Governor may delegate responsibility to an agency to produce the ACFR by aggregating financial information from other agencies. As it relates to aggregated Executive branch agencies, is the Governor and his or her administration considered management, or should consideration also be given to differences in agency-level management?
- **Information Systems:** Does the significance of information systems to the financial statements (i.e., the general ledger) affect the assessment of the group? For example, if a business unit uses the same general ledger system as the group, but uses its own capital assets system, does the number of separate systems or materiality of financial amounts within the capital assets system affect the auditor's assessment?

#### **Request for Comment 4**

*With respect to the scalability of the proposed SAS*

- 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?*
- 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?*

We believe that the scalability of the proposed SAS is dependent on clarifying the definition of a business unit, as mentioned in the response for Request for Comment 3. If separate locations, management, or information systems independently qualify as individual business units without application of professional judgement, implementation may be inefficient in a government environment. The guidance in exhibit A is very helpfully and it should remain within the proposed SAS.

## **Request for Comment 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*

- a. Are there specific matters that you believe should be documented other than those described in paragraph 76 of the proposed SAS?*
- b. Do you agree with the application material in paragraphs A203-A219 of the proposed SAS relating to the group auditor's audit documentation?*

We support the enhanced requirements and application material on documentation, include the linkage to the requirements of AU-C section 230.

## **Request for Comment 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?*

We believe there is opportunity to clarify the definition of the terms "component auditor" and "group engagement partner" as it relates to the definition of the term "engagement team." Paragraph A23 provides that component auditors may be from a group auditor's firm. Paragraph A28 indicates that there may be joint engagement partners within a group auditor's firm, but does not define the term "joint engagement partner." When a group and its components are audited by different audit teams within the same firm and each audit team is supervised by a partner (or partner equivalent) under the same firmwide system of quality control, we are unclear on whether the partner responsible for auditing a component is a joint engagement partner or a component auditor.

Additionally, we are concerned with the wording from paragraphs 16 and A85 that, "the group auditor is responsible for directing and supervising the component auditors and review of their work." We believe clarification should be added to identify what would constitute as directing and supervising the component auditors and reviewing their work. For example, when auditing the ACFR, does this imply the engagement partner must directly supervise and review all state audits? We feel this is not practical or efficient when other engagement partners are already supervising and reviewing those projects under the same firmwide system of quality control.

### **Request for Comment 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?*

We believe the requirement is clear and there are no additional requirements or application material that are needed related to paragraph 11.

### **Request for Comment 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?*

We agree with the deletion of the requirement and related application paragraph. We do not have any additional suggestions for considering components in interim reviews.

### **Request for Comment 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?*

We agree with the application material in paragraphs A47-A49 relating to a noncontrolling interest in an entity that is accounted for by the equity method. We believe there is an opportunity to include additional application material relating to EMIs that addresses additional suggested procedures if an EMI does not receive a separate audit, and therefore, no assurance can be placed on that audit.

### **Request for Comment 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?*

We 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 in the auditor’s report on the group financial statements and believe it is an important option to be included.

### **Request for Comment 11**

*Are the specific requirements relating to referred-to auditors clear, appropriate, and easily identifiable within the proposed SAS, including when considering exhibit A?*

We believe the specific requirements are clear, appropriate, and easily identifiable within the proposed SAS, including exhibit A.

### **Request for Comment 12**

*Is the last sentence of paragraph A41 clear? Is there additional application material that is needed, and if so, what should it be?*

We do not agree with the last sentence of paragraph A41. We believe the considerations documented in paragraphs 51 – 66, regarding referred-to auditors, provide assurance that the group engagement partner can conclude that sufficient appropriate audit evidence can be obtained. Additionally, auditors of governments utilize referred-to-auditors often, in some cases, for up to 100 percent of an opinion unit. For example, a primary government may have a component unit that is a non-governmental entity audited by a firm that specializes in audits of that particular industry. We believe it is appropriate for this practice to continue. As a result, the Board should eliminate or revise the last sentence of paragraph A41. In addition, we believe the Board should add a “Consideration Specific to Governmental Entities” to address the magnitude concept with relation to opinion units in a governmental environment or expand paragraph A43 to more clearly address magnitude considerations related to opinion units.

### **Request for Comment 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 related conforming amendments, to include effective implementation.

We appreciate the efforts of the AICPA Auditing Standards Board and the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact Zach Borgerding or me at (804) 225-3350.

Sincerely,

Staci A. Henshaw  
Auditor of Public Accounts