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Audit and Attest Standards  
American Institute of Certified Public Accountants  
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To Whom it May Concern:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's proposed Statement on Auditing Standards entitled *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-To Auditors)*.

Below are our responses to the requests for comments posed in the exposure draft.

*Requests 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?*

The proposed linkages are appropriate.

- 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?*

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.

- c. *does the proposed SAS result in a group audit that achieves the objectives of the proposed QM SAS?*

We believe the proposed SAS results in a group audit that achieves the objectives of the proposed QM SAS.

2. *With respect to the structure of the proposed SAS, do you support the placement of subsections 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 subsections 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.



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?*

Broadly, we believe the scope and applicability of the proposed SAS are clear.

However, with respect to the definition of group financial statements, specifically the linkage to a consolidation process, we ask the board to clarify the guidance in paragraph A4. Currently, this paragraph indicates the mere existence of multiple locations, separate management, or separate information systems for which financial data is consolidated meets the definition of *group financial statements*. Particularly in the case of larger governments, there may be cases of a single entity with multiple locations, hierarchical structures of government with delegated management authority, and cases where the general ledger system may be the same but a particular financial system, such as capital asset management software, may be different. In such scenarios, treatment as a group audit may not be appropriate. We ask the board to consider limiting the definition of a group audit to the consolidation element rather than the multiple business unit approach.

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?*

Our only concern is related to the scalability to larger governments per our response to question three.

- 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?*

Broadly, we believe Exhibit A to be understandable and that it provides clarity on the relevancy of certain requirements of the proposed SAS in various group audit scenarios. This exhibit should remain in the final standard and it is helpful to have this material in one location, particularly given that some requirements are common across scenarios.

One suggestion for improved clarity would be the reconsideration of including paragraph 36 as a relevant requirement for Scenarios 1 and 3. The titles for Scenarios 1 and 3 may lead users to conclude that no component auditors are involved which would make the inclusion of paragraph 36 confusing.

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?*

We do not believe there are any additional specific matters to be documented.

- 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 agree with the application material.

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 the SAS should include a definition of “joint engagement partner” which is referenced in paragraph A28. In group audits where different components are audited by separate audit teams within the same firm under the direction of separate partners or partner equivalents we are unclear as to whether these partners are “joint engagement partners” or “component auditors.”

We are concerned with the language of paragraph 16 and A85 which states, “the group auditor is responsible for directing and supervising the component auditors and review of their work.”

Specifically, in the case of a group audit of a state’s ACFR performed by the same firm, does this guidance require that the engagement partner directly supervise all component auditors within the same firm? This is not efficient and is impractical given the engagement partner and component auditors will be operating under the same firmwide system of quality control.

We recommend broadening the definition of group auditor found in paragraph 16 to read (insertions italicized):

*The firm comprised of the group engagement partner and members of the engagement team, including those component auditors who are within that same firm and follow the same system of quality control as the group engagement partner. The group auditor excludes all other than component auditors.*

If this change is made, additional edits would be needed for paragraph A23 (insertions italicized with strikeouts).

References in this proposed SAS to the engagement team, *as defined in QM SAS paragraph 12*, include the group auditor and component auditors. Component auditors may be from a network firm, a firm that is not a network firm, or the *same firm as the group engagement partner auditor’s firm (for example, another office within the group auditor’s firm)*. *In the latter case, consideration as to whether the component auditors are part of the group auditor will depend on whether that component audit’s engagement team is under the same system of quality control as the group engagement partner.*

If these changes are considered, then the guidance in paragraphs 27 and 28 would need to be updated to include a reference to the group auditor, as appropriate.



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?*

Yes, the requirements are clear, and we do not believe additional requirements or application material are needed.

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 and have no suggestions for considering components in interim reviews.

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 accounted for by the equity method. We request the board consider adding guidance that addresses situations where no assurance exists in cases where EMIs do not receive separate audits.

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 important that it remains in the standard. In the government environment, it is normal to make reference to other auditors, especially in the case of discretely presented component units which often have statutory requirements to have a separate audit from the primary government. Removing this option would create hardship for our members.

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. Specifically, for Exhibit A, please see our response to question 4(b).

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

No, the last sentence in A41 is not clear, and further, we believe it should be removed. In the government auditing environment, it is not uncommon for referred-to auditors to perform a substantial percentage of the audit work for an individual opinion unit. In some cases, referred-to



auditors perform 100% of the audit work for an opinion unit. If the procedures outlined elsewhere in the standard for making reference to another auditor are adhered to and adequately documented, we see no reason why magnitude alone would imply that sufficient appropriate audit evidence could not be obtained by the group engagement partner.

*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, for audits of group financial statements for periods ending on or after December 15, 2026, provides sufficient time to implement the new standard.

*Other Comments*

We recommend clarifying, in paragraph 15, the type of auditor for which the objectives are outlined. In this paragraph, it appears to be the group auditor and if so, this should be noted.

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Josh Winfrey of NSAA at (859) 276-1147 or me at (860) 240-8651.

Sincerely,

John C. Geragosian  
President, NSAA