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Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

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Auditing Standards Board
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105

Members of the Board:

We have reviewed the AICPA Auditing Standards Board's exposure draft (ED) of a proposed statement on auditing standards titled *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*. We generally agree with the ED and with the proposed effective date. Our responses to the specific issues for comment are as follows:

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?

Response: Yes, we consider the linkages as appropriate and offer no suggested changes.

- 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?

Response: Yes, the proposed SAS appropriately applies the requirements and application materials of the other relevant AU-C sections. We have not identified any other considerations to be addressed.

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

Response: Yes, we think it will.

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?

Response: We support the placement of sub-sections throughout the SAS that highlight the requirements when component auditors are involved or when reference is made to a referred-to auditor. Such placement allows for efficient research on topics without referring to another AU-C section.

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?

Response: We suggest the Board consider going beyond paragraph 3's reference to the Audit and Accounting Guide for State and Local Governments and add a section of "Considerations Specific to Governmental Entities", similar to other AU-C sections. These considerations would address group audits of governmental component units.

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?

Response: Yes, we believe the proposed SAS is scalable between large and small governments.

- 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?

Response: Yes, we consider exhibit A as straightforward and understandable and have no suggested edits. While readers should be able to interpret the provisions of the proposed SAS without exhibit A, we think the exhibit provides clarity to apply the standards consistently among the various scenarios and it should remain in the final standard.

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?

Response: No, there are no other specific matters that should 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?

Response: We agree with the application material and offer no suggested edits.

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?

Response: We share the concerns and recommendations expressed in the comment letter from the National State Auditor's Association and support adding a definition of "joint engagement partner". We also share the concerns expressed in their letter regarding paragraphs 16 and A85 which state, "the group auditor is responsible for directing and supervising the component auditors and review of their work." Our office routinely assigns audits of components to managers at the same level as the group auditor and

consider it impractical to have the group audit manager oversee all of the component audits.

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?

Response: We consider paragraph 11 and the associated application material as clear and no additional guidance is necessary.

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?

Response: We agree with the deletion of the concept of "significant components" and have no suggestions regarding the application of 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?

Response: We agree with the application material in paragraphs A47-A49 and offer no suggested edits. We do agree with the National State Auditors Association's observation that there can be instances where EMI's do not receive separate audits, therefore, additional guidance could address these situations.

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?

Response: We strongly support retaining the option to make reference to the audit of a referred-to auditor per extant AU-C 600. We routinely elect this option and consider this option as essential in distributing the work-effort in a large governmental setting.

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

Response: Yes, we consider exhibit A as clear and appropriate in providing the necessary guidance for requirements regarding referred-to auditors.

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

Response: We reject the underlying assertion of paragraph A41 that a group auditor cannot obtain sufficient appropriate audit evidence in a group audit when reference is made to referred-to auditors. Governmental auditors routinely engage private firms to audit components of the government and this reliance may be substantial, and at times constitutes a major fund, which is an entire opinion unit. We recommend the Board either eliminate this sentence or substantially revise it and incorporate "Considerations Specific to Governmental Entities" to address current accepted practices in governmental audits.

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?

Response: We agree that the effective date of the proposed standard is reasonable and will provide auditors sufficient time to implement the new standard.

We appreciate the opportunity to comment on this exposure draft. Should you have any questions or desire further details on our comments, please contact me or Craig M. Murray, CPA, CGFM, CIA, Director of Professional Practice.

Sincerely,

Doug Ringler
Auditor General

c: Craig M. Murray

Via email to commentletters@aicpa-cima.com