



Crowe LLP

Independent Member Crowe Global

One Mid America Plaza, Suite 700
Post Office Box 3697
Oak Brook, Illinois 60522-3697
Tel +1 630 574 7878
Fax +1 630 574 1608
www.crowe.com

June 21, 2022

AICPA Auditing Standards Board

Via e-mail to: CommentLetters@aicpa-cima.com

Re: Proposed Statement on Auditing Standards *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-To Auditors)*

To Whom it May Concern:

We are pleased to comment on the AICPA Auditing Standards Board's (ASB) Proposed Statement on Auditing Standards (SAS), *Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-To Auditors)* (proposed SAS). The proposed revisions have the intent of strengthening the auditor's approach to planning and performing a group audit and to improve the quality of group audits.

General Observations

We appreciate the emphasis that the proposed SAS reflects "special considerations" for group audits; that is, considerations which are incremental to the requirements in the other AU-C sections based on the unique risks associated with group audits. We believe that performing a thorough risk assessment can be particularly challenging in a group audit, with the need to consider aggregation risk and determine the audit procedures to obtain sufficient appropriate audit evidence to opine on the group financial statements. Thus, we specifically value the focus on creating stronger linkages in the proposed SAS to proposed SAS *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (proposed QM SAS); AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*; and AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

Another unique set of considerations and judgments arise when the group auditor involves component auditors to perform audit procedures on components. Inclusion of subsections when there are specific requirements related to the use of component auditors will be helpful to practitioners. Further, the emphasis on timely and meaningful interactions and two-way communication between the group auditor and component auditor should have the impact of improving the risk assessment process as well as the design and performance of further audit procedures, which should have a positive impact on audit quality.

We agree that the group auditor should take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements and the nature, timing, and extent of further audit procedures to be performed. We find it appropriate and beneficial to audit quality to clarify in the proposed SAS that the group auditor is permitted to assign the design or performance of procedures, tasks, or actions to other appropriately skilled or suitably experienced members of the engagement team, including

component auditors. We note that in many cases, a component auditor may have more experience with and/or more detailed knowledge about a particular component and its environment, such as in the case where the component auditor also performs a stand-alone audit for that component. The component auditor may be in the best position to design and perform further audit procedures.

Other Standard Setters

We acknowledge that the modifications in the proposed SAS are intended to be consistent with the International Standard on Auditing (ISA) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600 [Revised]), recently issued by the International Auditing and Assurance Standards Board (IAASB). We continue to support the ASB's strategy to converge its standards with those of the IAASB. We support retaining the option in the proposed SAS for the group engagement partner to make reference to another auditor in the auditor's report on the group financial statements, and we concur that this divergence from ISA 600 [Revised] will not impact audit quality.

Related to the auditing standards of the Public Company Accounting Oversight Board (PCAOB), we take note of the proposed amendments in PCAOB Release 2021-005, relating to the supervision of audits involving other auditors and dividing responsibility for the audit with another accounting firm. Unnecessary differences among standards could have a negative impact on audit quality for auditors who perform audits in accordance with both PCAOB standards and AICPA/IAASB standards. We recommend that the ASB continue to monitor the PCAOB's standard setting activity related to group audits and evaluate whether other changes to ASB standards may be warranted and/or provide feedback to the PCAOB as appropriate.

Requests for Specific Comment

Fundamental Aspects

Request for Specific 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?

Response: We believe the linkages and references to the proposed QM SAS, proposed SQMSs, and other relevant AU-C sections are appropriate and effective. We also believe the special considerations in a group audit are sufficiently included and addressed in the proposed SAS.

Request for Specific Comment #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?

Response: Yes. We find that both the subsections for specific requirements when component auditors are involved and the separate paragraphs in the standard for requirements when referred-to auditors are involved are an effective way to convey those requirements.

Request for Specific 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?

Response: We believe the scope and applicability of the proposed SAS is clear. Further, the application guidance will be helpful to auditors when making the significant judgment of identifying the components in a group audit.

In paragraph 15, where the proposed SAS presents the “objectives of the auditor”, we recommend this be changed to “objectives of the group auditor”.

In addition, related to the definition of component in paragraph 16 of the proposed SAS, we believe it would be beneficial to include application guidance to help auditors of employee benefit plans understand scenarios where a plan may have more than one component. The following is suggested language, which we recommend placing after paragraph A22:

Considerations Specific to Employee Benefit Plans (Ref: par. 16)

In audits of employee benefit plans, a component may be a separate legal entity or subsidiary, or part of the plan which operates separately, such as in a plan merger where the merged plans are still being administered separately and the assets of the merged plans are being held in separate trusts.

Request for Specific 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?

Response: We believe the proposed SAS reflects a principles-based approach designed to allow auditors to focus on the risks of material misstatement in the group financial statements while appropriately considering and addressing aggregation risk.

We do not believe that exhibit A is necessary for auditors to understand the requirements of the proposed SAS, including the requirements when utilizing referred-to auditors. However, we have no objection to the inclusion of the exhibit, as it may be helpful for auditors to validate that their audit plan will comply with the relevant requirements in the proposed SAS.

Request for Specific 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?

Response: We believe the documentation requirements in the proposed SAS, when considered along with the requirements of AU-C section 230, are appropriate and complete. The application guidance is comprehensive and will help auditors to evaluate the sufficiency and clarity of their documentation related to the group audit.

Paragraph 76.i. requires documentation of “The group auditor’s evaluation of, and response to, *findings or conclusions* of the component auditors or referred-to auditors about matters that could have a material effect on the group financial statements.” We are unsure how this requirement is distinguished from 76.g.ii. and 76.h.iii, which require documentation of matters related to communications with component auditors and referred-to auditors, respectively, “including how the group auditor has addressed *significant matters* discussed with” component auditors and referred-to auditors, respectively. Specific to referred-to auditors, we believe that 76.i. is in part alluding to evaluating their issued auditor’s report, and whether it includes any opinion modifications or other report modifications that may be relevant to the group auditor (consistent with the requirements in paragraph 61). If that is the intent in the proposed SAS, we recommend that this be clarified by adding application guidance for paragraph 76.i.

Definitions

Request for Specific 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?

Response: We find the definitions clear and understand the need to exclude the referred-to auditor from the engagement team.

Related to the definition of component, we note that the extant standard provides the following: “An entity or business activity for which group or component management prepares financial information that is required by the applicable financial reporting framework to be included in the group financial statements.” We believe that the preparation of financial information is a key element of the identification of a component. We recommend the ASB re-insert such language in the definition of component in the proposed SAS.

Engagement Partner Responsibility

Request for Specific 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?

Response: We believe the proposed addition of paragraph 11 in AU-C section 300, *Planning an Audit*, is appropriate related to engagement partner responsibility. Overall, we find that the requirements in other AU-C sections combined with the requirements for the group engagement partner in the proposed SAS are sufficiently clear and appropriate.

Reports From Component Auditors

Request for Specific 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?

Response: Related to the proposed edit to delete paragraph 14b and related application paragraph A17 of AU-C section 930, *Interim Financial Information*, we understand the need to modify 14b because it includes the term “significant components”, which are no longer required to be identified in the proposed SAS. We note that the content in A17 is “The auditor may find the guidance in section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors), useful in conducting a review of interim financial information for an entity that prepares group financial statements.” We find this content to be relevant and meaningful even with the changes in the proposed SAS.

Accordingly, we recommend that A17 be retained in AU-C section 930 and included with another paragraph in the standard, if 14b is deleted. Alternatively, paragraph 14b could be modified, rather than deleted, to remove the reference to significant components and the requirement to obtain a report.

Equity Method Investments

Request for Specific 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?

Response: It is our understanding that an auditor should only be following the guidance in paragraph A48 if the group financial statements include a noncontrolling interest in an entity that is accounted for by the equity method investment (which reflects a risk of material misstatement to

the group financial statements) *and* the group auditor’s access to information or people at the entity is restricted. This would preclude the group auditor being able to audit the equity method investment themselves or through the involvement of a component auditor.

We note that A48 indicates that the group auditor may be able to use “audited financial statements” as audit evidence. We are concerned that a group auditor may interpret this that, even if they do not have specific access restrictions at the entity, they can directly apply A48 and obtain audited financial statements for the equity method investment and “take credit” for the substantive audit work performed on the equity method investment, without any interactions with the auditor of the equity method investment.

We are also concerned that, despite the last paragraph of A48, a group auditor may believe that obtaining the audited financial statements for the equity method investment (when not using the investee’s auditor as a referred-to auditor) is sufficient appropriate audit evidence to conclude on the financial information of the equity method investment included in the group financial statements. Without the performance of substantive audit procedures by the group auditor or interactions with the auditor of the equity method investment, we believe these procedures would only represent risk assessment procedures performed by the group auditor. The audit response for the equity method investment should be based on the group auditor’s risk assessment. For some equity method investments, risk assessment procedures alone may be an appropriate response for the group auditor but for other equity method investments, the group auditor will be required to perform further audit procedures. The discussion with A48 references “professional judgment”; however, we believe examples within the guidance to illustrate how differences in the risk assessment may impact the procedures performed by the group auditor would be helpful and contribute to more consistent performance by group auditors.

Sufficient Appropriate Audit Evidence – Referred-to Auditor

Request for Specific 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?

Response: Yes, the last sentence in paragraph A41 is clear. We note that at this point in the engagement (acceptance and continuance), the group auditor will not likely have engaged specific referred-to auditors and will not be able to “conclude” on the ability to obtain sufficient appropriate audit evidence. Therefore, we recommend that the paragraph be modified to be more consistent with paragraph 19 and to reflect that these considerations and determinations are being made based on the group engagement partner’s expectations of the group audit plan, such as the following (additions / ~~deletions~~):

“The group engagement partner may consider the nature and extent of work to potentially be performed by referred-to auditors, including matters such as the following:

- The financial significance of the components that will potentially be ~~are~~ audited by referred-to auditors
- The risks of material misstatement to the group financial statements associated with the portion of the company’s financial statements for which the group auditor or component auditor expects to perform ~~performs~~ audit procedures compared to the portion that will potentially be audited by referred-to auditors

As the magnitude of the portion of the financial statements that will potentially be ~~is~~ audited by referred-to auditors increases, it is less likely that the group engagement partner can determine ~~conclude~~ that sufficient appropriate audit evidence can reasonably be expected to be obtained.”

We also suggest the following edit to the first sentence in paragraph A41: “There may be more complexities in determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained in a group audit where reference is made to the audit of referred-to auditors

in the auditor’s report on the group financial statements is being considered, ~~including in group audits where no component auditors are also involved.~~”

Effective Date

Request for Specific 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?

Response: Yes. We believe that the proposed effective date, for audits of group financial statements for periods ending on or after December 15, 2026, is appropriate. It is important to align the effective date of this proposed SAS with the effective date of the proposed QM SAS.

Other Observations

Evaluation of Component Auditors

Paragraph 28a requires that the group engagement partner “Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the component”. While we agree that the group engagement partner must evaluate the competence and capabilities of a component auditor, we are unclear how the group engagement partner can “determine” that the component auditor has “sufficient time” to perform their work. Further, we note an explicit documentation requirement related to this in paragraph 76. A208 indicates that “The group auditor also may ask for confirmation that the component auditor has sufficient time to perform the assigned audit procedures.” The group engagement partner likely does not have access or visibility to the resource capacity or scheduling of the component auditor; thus, it is unclear how the group engagement partner could satisfy this requirement other than to confirm with the component auditor. This element of the requirement in 28a does not appear to contribute meaningfully to audit quality. We recommend that “including sufficient time” be removed from the requirement in paragraph 28a and included only in the related application guidance. Alternatively, or in addition, the application guidance could be modified to provide additional ways in which the group engagement partner might determine if the component auditors have sufficient time allotted to perform their assigned procedures.

Risk Assessment

Paragraph 32 in the proposed SAS repeats some, but not all, of paragraph 19 from AU-C section 315 (as modified by SAS No. 145). We are unclear why some required elements from AU-C section 315, specifically related to inherent risk factors that may give rise to the existence of risks of material misstatement of the group financial statements at the assertion level, are only provided in application guidance and Appendix B. We believe this creates the potential for auditors to overlook those elements of the requirements of AU-C section 315, if they are focused on the content included in paragraph 32 of the proposed SAS on group audits.

Materiality

We agree with paragraph A128 in the proposed SAS that the group auditor does not need to determine component materiality for components that are audited by referred-to auditors. However, we believe that the group auditor does need to take into consideration the portion of the group financial statements being audited by referred-to auditors when determining the component materiality to use for the components to be audited by the group auditor or through involving component auditors. As stated in paragraph A19 of the proposed SAS, regardless of whether reference is made in the auditor’s report on the group financial statements to the report of a referred-to auditor, the group engagement partner or the group engagement partner’s firm is responsible for the group audit opinion.

We note that the extant AU-C section 600 includes the following application guidance: “.A65 Consideration of all components, regardless of whether reference is made in the auditor’s report on the group financial statements to the audit of a component auditor, is necessary when determining component materiality to reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole. Determining component materiality is necessary for the group engagement team to determine the overall group audit plan for the components for which the auditor of the group financial statements is not making reference to the component auditor.”

We believe similar application guidance should be included in the proposed SAS. While the group auditor is not taking responsibility for the portion of the group for which the group auditor is referring to a referred-to auditor, the group auditor still must consider all components to sufficiently address aggregation risk in the group financial statements and to develop the audit plan for the components for which the group auditor is taking responsibility. Without such guidance, we believe that group auditors may not design and plan their audits to sufficiently reduce the aggregation risk inherent in a group audit.

Acceptance and Continuance

We believe that paragraphs A36 through A41 provide meaningful guidance for the group engagement partner to assess whether sufficient appropriate audit evidence can reasonably be expected to be obtained during the engagement acceptance and continuance process. This guidance includes considerations of whether the group auditor anticipates potential restrictions on access to people or information and the magnitude of the portion of the financial statements potentially audited by referred-to auditors.

We also agree with the content in paragraphs 22 and 23 of the proposed SAS and the related application guidance in A42. However, we note that the requirements in paragraphs 22 and 23 relate to when the group engagement partner “concludes that it will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management”. We find that in the acceptance and continuance phase, it is unlikely the group engagement partner can definitively make such a conclusion. The application guidance in A42 relates to the situation where “Restrictions may be imposed after the group engagement partner’s acceptance of the group audit engagement.” We suggest that paragraphs 22 and 23 be revised to reflect the group engagement partner’s considerations and expectations in the acceptance and continuance stage of the engagement, which could lead to a decision not to accept the engagement, as noted in paragraph 23.a.i. Further, we suggest that the requirements in paragraph 22 and 23 based on the determinations made post-acceptance of the group audit engagement be relocated to a separate section of the proposed SAS, along with the related application guidance.

Please contact Kyle Owens at (630) 575-4265 or kyle.owens@crowe.com or Linda Poeschel at (630) 586-5268 or linda.poeschel@crowe.com should you have any questions.

Cordially,

Crowe LLP

cc: Matthew Schell