

June 20, 2022

Auditing Standards Board
AICPA
220 Leigh Farm Road
Durham, NC 27707-8110
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)*

Dear Members of the Auditing Standards Board and Staff:

Mazars USA LLP (“Mazars”) welcomes the opportunity to comment on Proposed Statement on Auditing Standards –*Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-To Auditors)* (herein referred to as the “proposed standard” or “proposed SAS”). Mazars appreciates the AICPA’s work to enhance the quality of audit engagements through the revision of existing auditing standards.

Currently, Mazars USA has over 100 partners and 800 professionals across the United States and is an independent member firm of the Mazars Group, an organization with over 1,200 partners and 28,000 professionals in over 90 countries around the world, and a member of Praxity, a global alliance of independent firms. As a member of an international network, we strive for continuous improvement by collaborating with our other member firms to set high standards for audit quality throughout the Mazars Group, and tailoring those standards to meet the auditing and professional practice standards promulgated by U.S. Generally Accepted Auditing Standards established by the American Institute of Certified Public Accountants (“AICPA”), as well as the Public Company Accounting Oversight Board and the International Auditing and Assurance Standards Board (“IAASB”).

Our view on the proposed standard is driven by our position in the U.S. marketplace as a medium sized public accounting firm servicing mostly small to mid-size public and private businesses in a variety of industries and as a member firm in a global network. As a member in our global network, we frequently act as group or component auditors and thus have a keen interest in standards impacting the relationship between group auditors and component and referred-to auditors. We recognize the AICPA’s extensive efforts related to addressing the topic of audit quality in the increasing circumstances where more than one component auditor or referred-to auditor may assist the group auditor (also referred to as a group audit). We agree that clarifying the roles and responsibilities of, and strengthening the relationship between, group auditors and component and referred-to auditors is key to overall audit quality in the performance of multiple location audits. We find the AICPA’s proposed standard broadly consistent with the IAASB’s recently issued International Standard on Auditing 600 (Revised), *Special Considerations—Audits of Group Financial Statements (including the Work of Components Auditors)*. The proposed standard supports conceptual consistency globally allowing firms to build their audit methodology to meet compliance requirements more efficiently and promote quality in execution of audits involving multiple locations or audit firms.

Generally, we agree with the proposed standard which includes clarification and enhancements to existing standards. Our comments on the specific questions posed follow:

Questions

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, the proposed SAS has 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?

Response: Except as discussed below, the proposed SAS sufficiently addresses 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.

Paragraph 74b. includes a requirement to communicate with those charged with governance of the Group “instances where the group auditor’s review of the work of a component auditor gave rise to concern about the quality of that component auditor’s work, and how the group auditor addressed the concern.” While we believe this requirement is intended to be a follow up to the requirement in paragraph 74a. related to communication of planned involvement in the work to be performed by component auditors, we are concerned that the standard, as written, will lead to inconsistent application. We expect that the interpretation of what rises “to a concern about the quality of that component auditor’s work” will be inconsistently applied given the lack of application material and that there may be unconscious bias in that judgement when assessing component auditors from the group auditor’s firm or network versus when the component auditor in an unrelated, competitor firm. As a result, we are concerned that the standard will not fully achieve its intentions related to communications with those charged with governance.

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

Response: Yes, 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 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: Yes, we support the placement of sub-sections throughout the proposed SAS.

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: Yes, the scope and applicability of the proposed SAS, including the definition of group financial statements is clear.

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 that the emphasis on an auditor's professional judgement makes the proposed standard scalable to different sizes and complexities of groups. However, we are concerned that the lack of guidance on how to determine the extent of work to be performed on components will lead to diversity in practice. We recommend that the development of implementation guidance be considered related to scoping by component.

- 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, the guidance in exhibit A is understandable and provides clarity on the relevancy of certain requirements of the proposed SAS in the group audit scenarios presented. Given the consistent identification of which proposed SAS paragraphs relate to both component auditor and referred-to auditor scenarios, the relevancy of such requirement would be clear without exhibit A. However, we believe that the inclusion of exhibit A is a useful guide for practitioners.

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: Yes, we support the enhanced requirements and application material on documentation, including the linkage to the requirements of AU-C section 230. There are no matters that we 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: Yes, we agree with the application material in paragraphs A203-A219 of the proposed SAS relating to the group auditor's audit documentation.

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: Yes. the definitions of the terms referred-to auditor, component auditor, and group auditor are clear in the proposed standard, including how they relate to the definition of "engagement team" per Statement on Auditing Standard No. 146, *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*.

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: Yes, the requirements related to professional skepticism are clear and sufficient.

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: Yes, we agree with the deletion of the requirement in paragraph 14b. of AU-C section 930, *Interim Financial Information* (“AU-C 930”) and the related application paragraph. We do not believe that the deletion of such information changes the intent of the guidance in AU-C 930.

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: Yes, we agree with the application material relating to a noncontrolling interest in an entity that is accounted for by the equity method and believe it is sufficient.

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: Yes, we support retaining the option to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements.

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, the specific requirements relating to referred-to auditors are clear, appropriate, and easily identifiable within the proposed SAS. However, we have concerns as to how the “communications with the referred-to auditor” (paragraphs 62 – 65) requirements will be applied in practice. Given the principles-based approach to the of extent of two-way communications between group auditors and referred-to auditors, and our historical experience when involved in engagements with referred-to auditors, we anticipate wide variation in the characteristics of certain two-way communications between group and referred-to auditors which could potentially have negative impacts on audit quality.

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: No, the last sentence of paragraph A41 is not clear due to its use of the word “magnitude”. Both extant AU-C section 600 and the proposed SAS paragraph A41 use the term “financial significance.” It is unclear if “magnitude” is intended to have a different meaning from “financial significance” and, if so, what that meaning is. Additional, or revised, application material clarifying the intended meaning of “magnitude” would add to greater understanding of the intent of paragraph A41.



Overall, we support the proposed standard and believe it will result in higher quality group audits and strong convergence with international standards. We believe this proposed standard will improve the effectiveness of engagement performance in the areas of client acceptance and continuance, risk identification and assessment, involvement in the work of component auditors by the group auditor, including communication, the extent of procedures performed and the ultimate conclusions on the sufficiency and appropriateness of the audit evidence obtained.

We applaud the AICPA's thoughtful consideration of the unique aspects of performing audits of group financial statements and appreciate the opportunity to comment. We would be pleased to discuss our comments with you at your convenience.

Please direct any questions to:

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Very truly yours,

A handwritten signature in black ink that reads "Mazars USALLP". The signature is written in a cursive, slightly stylized font.

Mazars USA LLP