

June 20, 2022

AICPA
Auditing Standards Board
Via email: 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)

Board Members:

The Accounting & Auditing Committee of The Ohio Society of CPAs appreciates the opportunity to provide comment on the above-referenced Proposed Statement on Auditing Standards. Overall, the committee was very supportive of greater clarification and the principles-based approach to considerations for audits of group financial statements. The committee identified some specific aspects of the proposal that would benefit from further clarification or application guidance, as further explained below.

The committee is a voluntary group of member CPAs from public practice and industry. Our comments represent the collective views of the committee members and not the individual views of the members or the organizations with which they are affiliated. The organization of our committee is outlined in Appendix A to this letter.

Responses to specific questions in the exposure draft follows:

Fundamental Aspects of the Proposed Standard

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 committee felt that linkages were clear and did not identify omissions.

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?*

Section headings and exhibits added clarity on when the sections were applicable.

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?*

The committee appreciates the principles-based determination of a group financial statement that is highlighted in A4 for situations in which a single legal entity's financial statement could be deemed a group financial statement. The considerations noted in A4 and A5 used in making this determination, including having separate locations, separate management and separate information systems, the committee found as reasonable. We questioned, however, whether those same considerations could be used to conclude that a consolidated financial statement would not be a group financial statement; for example, if the separate legal entities have similar locations, management, and information systems. The definition of group financial statements in paragraph 16 appears to require that all consolidations would be within the group audit scope, however the committee feels there are situations in which closely held entities which legally may be consolidations, do not encompass the same risks and features that the group audit standards are intended to address.

The committee recommends that in addition to the examples in A4 and A5, a third example be provided to support and illustrate that the principles-based guidance can also be used to exclude a consolidated entity from being a group financial statement.

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?*

The committee agreed that the proposal is scalable in principle, but would like more examples and implementation materials regarding the application of concepts to varying circumstances.

- 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?*

The committee found exhibit A to be very helpful for clarity in the applicability of sections of the draft, and suggests that exhibit A be put in the front of the draft instead of in the appendix ("start here").

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 A203-219 of the proposed SAS relating to the group auditor's audit documentation?*

The committee found the documentation requirements very consistent with current practices and did not identify any omitted documentation requirements. Additional guidance would be beneficial regarding assessing component materiality.

Additional Matters for Consideration

Definitions

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?*

The committee felt that the definitions provide greater clarity, particularly on what qualifies as a group audit.

Engagement Partner

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?*

The committee found the requirements for engagement partner responsibility to be clear.

Reports from Component Auditors Related to Reviews of Interim Financial Information of Components

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 deleting the requirement in .14b to "obtain reports from component auditors related to reviews performed of the interim financial information of significant components of the reporting entity," as there are no "significant components" under the proposed standard, but the proposal should still provide the option to obtain such reports if based on the risk assessment, it is deemed necessary to do so for a particular component.

Equity Method Investments

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?*

The committee did not identify any additional requirements or desired guidance.

Referred-to Auditor Requirements

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 agree with retaining the option to have referred-to auditors.

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

Yes, except as indicated in the response to question 12 below.

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

The committee identified this as an area where a move to a more principles-based standard leaves the room for interpretation too broad (e.g. do we mean 51%, or 90%?). Additional guidance or more specific language (for instance, "a majority" or "substantially all") is needed to assist in evaluating at what point the role of referred-to auditors is too significant for the group auditor to take responsibility.

Effective Date

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?

The committee found the proposed implementation date of December 15, 2026, unnecessarily long, but understands wanting to coordinate with the effective date of the quality management standards. Some of the concepts in the standard would be good current guidance, and perhaps application materials could point to concepts that can be implemented immediately.

The committee appreciates your consideration of our input and suggestions. If you have any questions, please contact any of us at the below email addresses.

Best Regards,

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