

June 17, 2022

Attn: Sherry Hazel CommentLetters@aicpa-cima.com

Re: Special Considerations – Audits of Group Financial Statements

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the amendments proposed in the above-referenced exposure draft.

Request for Comments:

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:

The proposed SAS has appropriate linkages to other AU-C sections and to the 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?

Response:

The proposed SAS has sufficiently addressed the special considerations pertaining to other relevant AU-C sections and the proposed SQMSs.

Are there other special considerations for a group audit that you believe have not been addressed in the proposed SAS?

Response:

The PSC believes that all relevant considerations for a group audit have 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:

The proposed SAS supports 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?

Response:

The PSC supports the placement of subsections in the proposed SAS that emphasize the requirements when component auditors are involved and the references made regarding a referred-to auditor in a group audit.

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:

The scope and applicability of the proposed SAS, the definition of group financial statements and the linkage to a consolidation process are clear in the proposed SAS. However, the PSC thought it would be helpful to address SOC letters in the group audit process, including an example depicting testing controls at a Service Center.

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:

The PSC believes that the proposed SAS is scalable to audit groups of various sizes and complexities.

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:

Exhibit A provides vital guidance in implementing the proposed SAS and enhances clarity and understanding of the proposed requirements. It might be helpful to simplify exhibit A to include scenarios that do not have multiple complex issues in a single example.

5. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of AU-C section 230?

a. In particular, are there specific matters that you believe should be documented other than those described in paragraph 76 of the proposed SAS?

Response:

The PSC supports the enhanced requirements of documentation, including linkage to the requirements of AU-C section 230. The PSC did not note any significant changes from current practice. The linkage to SQMS is critical due to emphasis on risk-based audit processes. The PSC also thought that if documentation was restricted, the result would be hesitancy to utilize component auditors.

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:

Even though documentation requirements are more extensive in the proposed SAS, they are necessary. Adequate summarization of work performed by the component auditor should be required in a group audit. However, it is not necessary to obtain all documentation of work performed by the component auditor unless required to do so by separate and applicable regulations. The PSC did not note any requirements contrary to existing standards, but rather a more defined and expanded documentation requirement.

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:

The definitions of referred-to, component and group auditor were clear. It appears that the main difference between a referred-to auditor and component auditor is that the referred-to auditor is not part of the engagement team, whereas a component auditor is part of the engagement team. It is also possible for an audit firm to serve as a referred-to auditor and a component auditor. In this case, materiality of work performed to overall audit report should be the differentiating factor.

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:

The requirement in paragraph 11 of the proposed SAS is clear. The engagement partner should design the overall audit plan and strategy and retain overall responsibility for the audit.

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:

The PSC does not have an objection to the removal of the concept of “significant components.” However, the reason for the elimination is not clear. Consideration of materiality of a component should be considered when exercising a risk-based approach to the audit.

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?

Response:

The PSC generally agrees with the application material in paragraphs A47-A49 of the proposed SAS. The material adequately provides guidance on addressing difficulties obtaining financial information from a noncontrolling interest. The examples in the proposed guidance are also helpful. However, the PSC would like to see additional guidance, such as a materiality threshold, on whether a failure to obtain information would be considered a scope limitation, to which the option to revert to cost basis is not appropriate.

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:

The PSC does not think that additional requirements or application material relating to EMIs are necessary in the proposed SAS.

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:

The PSC supports retaining the option in AU-C section 600 for the group engagement auditor to make reference to the audit of the referred-to auditor in the audit report.

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:

The specific requirements relating to referred-to auditors are clear, appropriate and easily identifiable within the proposed SAS. Exhibit A is beneficial to the implementation of the requirements.

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:

Additional qualitative and quantitative application material is needed with regard to paragraph A41. For example: a scenario where the referred-to auditor is doing a large portion of the audit, can the engagement partner state that he has gathered sufficient evidence to state an opinion? Saying that if referred auditor is doing so much of the audit, can the engagement auditor say he gathered sufficient appropriate evidence to render opinion. Is there a threshold where this becomes an issue? The goal of the last sentence in A41 is unclear. Additional guidance or clarification on when the referred-to auditor should be referenced in the audit report of a group audit would be helpful and provide a bright line of delineation. The PSC believes that the application of professional judgment in the determination on whether or not to specifically include the referred-to auditor may result in a broad interpretation of the requirement.

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:

The PSC agrees that the proposed effective date provides sufficient time for adoption and implementation, especially since the SQMSs have been delayed until 2025. However, no indication was given on whether or not early implementation of the proposed SAS is allowed.

We appreciate the opportunity to provide input into the standards-setting process and thank the ASB for their efforts to continuously improve the standards.

Sincerely,



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Chair, Professional Standards Committee
Texas Society of Certified Public Accountants