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June 21, 2022

Ms. Sherry Hazel
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105
USA

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 Ms. Hazel:

Deloitte & Touche LLP (“D&T,” “our,” or “we”) appreciates the opportunity to respond to the request for public comment from the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) on the proposed Statement on Auditing Standards (SAS), *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)* (“proposed SAS”).

Overall Comment

We are supportive of the objectives of the ASB’s proposal to converge with the recently released International Standard on Auditing (ISA) 600 (Revised), *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600 (Revised)), and are also supportive of the ASB’s efforts to give consideration to the Public Company Accounting Oversight Board’s (PCAOB) recently issued Release 2021-005, which requested comments on proposed amendments to its auditing standards related to the supervision of audits that involve accounting firms and individual accountants outside the accounting firm that issues the audit report (that is, group audits), and whether the requirements and guidance in this PCAOB Release could or should also be incorporated into the ASB’s proposed SAS to enhance audit quality for audits of nonissuers. Convergence to ISA 600 (Revised) brings the following integral concepts to the proposed SAS:

- A strengthening of the auditor’s approach to planning and performing a group audit and clarification of the interaction of the proposed SAS to the other SASs.
- Establishing a framework for planning and performing a group audit engagement, which emphasizes special considerations for establishing the overall group audit strategy and group audit plan and requires the group auditor to determine the nature, timing, and extent of involvement of component auditors.
- The identification, assessment, and response to risks of material misstatement of the group financial statements, and the importance of designing and performing procedures that are appropriate to respond to those assessed risks of material misstatement.

Specific Comments

Our responses to the questions and issues posed in the Explanatory Memorandum, specific instances of changes

recommended related to convergence or other substantive comments, and editorial suggestions are included in the following appendixes:

- [Appendix I](#) — Request for Comment by the ASB and other Substantive Comments.
- [Appendix II](#) — Other Recommendations.

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We would be pleased to discuss our letter with you at your convenience. If you have any further questions, please contact Tania Sergott at tsergott@deloitte.com or (203) 563-2616.

Sincerely,

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, cursive script.

Deloitte & Touche LLP

Appendix I — Request for Comment by the ASB and Other Substantive 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?
- 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?

Yes. D&T believes the proposed SAS has clear and appropriate linkages to other AU-C sections and the proposed SQMSs, 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, and 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?

Yes. D&T is supportive of the placement of sub-sections throughout the standard and believes it enhances the clarity of the applicability of requirements and application material.

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?

Yes. D&T believes the scope and applicability of the proposed SAS, as well as 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?
- 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?

Yes. D&T acknowledges the ASB's commitment to including scalability within the proposed SAS and believes the proposed SAS is capable of being applied to the audits of entities with a wide range of sizes, complexities, and circumstances.

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?

Yes. D&T is supportive of the enhanced requirements and application material on documentation.

Additional Matters for Consideration

Definitions: Referred-to Auditor, Component Auditor, Group Auditor, and Engagement Team

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?

Yes. D&T believes the definitions are clear, including as they relate to the definition of the term “engagement team.”

Engagement Partner Has Overall Responsibility for the Audit

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?

Yes. D&T believes the requirement in paragraph 11 is clear without additional requirements or application material.

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?

Yes. D&T agrees with the deletion of such requirement and related application paragraph. D&T is supportive of the proposed amendments to AU-C section 930, *Interim Financial Information*, without additional revisions.

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?

Yes. D&T agrees with the application material in paragraphs A47–A49 and, in particular, supports the application material in A48 that audited financial statements, including financial statements audited by a referred-to auditor, may be used as audit evidence relating to a noncontrolling interest in an entity that is accounted for by the equity method.

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?

Yes. D&T supports 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 in the auditor’s report on the group financial statements and believes it is important for the AICPA to remain converged with the PCAOB on this topic.

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. D&T believes the specific requirements relating to referred-to auditors are clear, appropriate, and easily identifiable within the proposed SAS.

Determining Whether Sufficient Appropriate Audit Evidence Can Be Obtained When Making Reference to 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?

Yes. D&T believes the last sentence in paragraph A41 is clear without additional requirements or application material.

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?

Yes. D&T supports the proposed effective date. D&T strongly believes it is imperative that the effective date of the proposed SAS aligns with the effective date of the proposed QM SAS given that the proposed QM SAS is foundational to the proposed SAS.

Appendix II — Other Recommendations

Ethical and Independence Requirements

In February 2022, the International Ethics Standards Board for Accountants (IESBA) issued an exposure draft, *Proposed Revisions to the Code Related to the Definition of Engagement Team and Group Audits*, which proposed revisions to the International Code of Ethics for Professional Accountants to take into account changes made to the IAASB's quality management suite of standards and group audits standard, particularly the expansion of the definition of engagement team to include non-network component auditors. We recommend that the Professional Ethics Executive Committee ("PEEC") of the AICPA monitor this IESBA project and undertake its own project to revise the AICPA's Code of Professional Conduct ("the Code") for convergence purposes. As part of considering what changes are needed to the Code, it is important for PEEC to clearly articulate the independence requirements of non-network component auditors and ensure that these independence requirements are focused on relationships with those entities that are more likely to threaten the individual's independence, which may be different from those requirements necessary when a component auditor is from a network firm. Please see the Deloitte Touche Tohmatsu comment letter to the IESBA exposure draft for our detailed thoughts on amendments to the ethics and independence requirements. We also recommend that a PEEC project be undertaken in the near term so that the effective date of the proposed SAS and the effective date of proposed changes to the Code can be aligned as much as possible.

Communication of Noncompliance or Suspected Noncompliance to Referred-to Auditors

Paragraph A96 of the proposed SAS states that the group engagement partner may become aware of information about noncompliance or suspected noncompliance with law or regulations, and in such circumstances, may have an obligation under relevant ethical requirements, laws, or regulations to communicate the matter to the component auditor. Paragraphs 22-23 of the "Responding to Noncompliance With Laws and Regulations" interpretation of the AICPA Code of Professional Conduct ("the interpretation"), as adopted by PEEC in February 2022, address such relevant ethical requirements:

.23 If the group audit engagement partner becomes aware of noncompliance or suspected noncompliance in the course of a group audit engagement, including as a result of being informed of such a matter in accordance with paragraph .22, the group audit engagement partner should, in addition to responding to the matter in the context of the group audit engagement in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components whose financial or other information is subject to procedures performed for purposes of the group audit engagement.

In these circumstances, the group audit engagement partner should take steps to have the noncompliance or suspected noncompliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation.

In considering the interpretation, we acknowledge certain definitional changes in the proposed SAS. The proposed SAS changes the definition of the term component auditor and introduces the term referred-to auditor. The extant AU-C section 600 definition of component auditor includes both (a) an auditor whose work the group engagement partner assumes responsibility for, and (b) an auditor whose work the group engagement partner does not assume responsibility for, and accordingly, makes reference to. The auditor described in (b) is no longer defined as a component auditor in the proposed SAS, and instead, is defined as a referred-to auditor. Definitions are as follows:

Definitions in Extant AU-C Section 600

Component auditor. *An auditor who performs work on the financial information of a component that will be used as audit evidence for the group audit. A component auditor may be part of the group engagement partner's firm, a network firm of the group engagement partner's firm, or another firm.*

Definitions in the Proposed SAS

Component auditor. *An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.*

Referred-to auditor. *An auditor who performs an audit of the financial statements of a component to which the group engagement partner determines to make reference in the auditor's report on the group financial statements. A referred-to auditor is not a component auditor, and accordingly, is not a part of the engagement team for a group audit.*

We believe the interpretation is unclear as to whether noncompliance or suspected noncompliance should be communicated to referred-to auditors. Moreover, we believe it is uncertain whether PEEC *intends* for:

1. The language “components whose financial or other information is subject to procedures performed for purposes of the group audit engagement” in paragraph 23 of the interpretation to mean components that are audited by component auditors and referred-to auditors, or alternatively, only components that are audited by component auditors (as defined in the proposed SAS).
2. The language “those performing work at components” in paragraph 23 of the interpretation to mean component auditors and referred-to auditors, or alternatively, only component auditors (as defined in the proposed SAS).

Accordingly, we question whether the guidance in the proposed SAS in paragraph 96 that the group engagement partner may have an obligation to communicate noncompliance or suspected noncompliance to component auditors, but not to referred-to auditors, is correct.

It is our belief that this matter needs to be clarified by PEEC (including consideration as to whether amendments are necessary to clarify the interpretation with respect to referred-to auditors), such that the appropriate interpretation can then be included in the proposed SAS, as appropriate. Therefore, we recommend the ASB to engage with PEEC, as outlined below, to clarify PEEC's intention in the interpretation with respect to referred-to auditors:

1. We recommend the ASB to confirm that PEEC has a clear understanding of the definitional changes in the proposed SAS (i.e., referred-to auditor and component auditor), including an understanding of the circumstances when the group engagement partner makes reference to the audit of a referred-to auditor in the auditor's report on the group financial statements.
2. We recommend the ASB to confirm whether it is PEEC's intention for noncompliance or suspected noncompliance to be communicated to (a) only component auditors or (b) both component auditors and referred-to auditors.
3. Based on PEEC's confirmed intention, we recommend the ASB to consider whether revisions to the proposed SAS are necessary to clarify the obligation (or lack thereof) to communicate noncompliance or suspected noncompliance to referred-to auditors in accordance with the interpretation.

While we recommend the ASB to engage with PEEC to resolve this matter, we acknowledge our belief that noncompliance or suspected noncompliance should be communicated to component auditors only and not also to referred-to auditors, given the nature of the group auditor and referred-to auditor's relationship.