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June 21, 2022

Auditing Standards Board
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10019

Via Email 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)

Dear Board members and staff:

Grant Thornton LLP appreciates the opportunity to comment on 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)*. We respectfully submit our responses to the requests for comment, along with other observations, for the Board's consideration.

We support the Board's project to improve the group audits standard and align with International Standards on Auditing, particularly as global audits become more prevalent. Nevertheless, we believe it is imperative for the Board to consider the new requirements adopted by the Public Company Accounting Oversight Board (PCAOB) on the date of this letter prior to issuing the proposed SAS as final. We believe operational challenges within our jurisdiction could arise if the proposed SAS diverges too far from the PCAOB requirements. We appreciate the Board's diligence in this area thus far.

Also, we believe additional clarification is needed in the new quality management standards with regard to the application of quality management to a group audit. We provide specific recommendations in the body of our letter.

Responses to requests for comment

Question 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?**

We believe the linkages in the proposed SAS are helpful and appropriate. Since this proposed SAS is intended to address special considerations specific to group audits, it is not necessary to repeat existing requirements in other sections in this proposed SAS.

There are a variety of areas that we believe can be enhanced by additional application material or clarification of the language used in the requirements. In addition to recommendations provided in the remainder of this letter, we ask the Board to consider the following items related to the proposed QM SAS (now SAS 146).

- Paragraph 31b – We believe this paragraph requires additional guidance to assist auditors in understanding how to accomplish such a review in a group audit. We do not believe it is practical to assume that an auditor can summarize all significant judgments for an engagement partner to review directly. Instead, we believe it is more operational for the engagement partner to take responsibility for such reviews with the assistance from others.
- Paragraph 34 – This paragraph could also be enhanced with application guidance specific to group audits as it may be difficult for the group engagement partner to be aware of all formal communications made by a component auditor to (1) management, (2) those charged with governance, or (3) regulatory authorities, some of which may also not pertain to the audit of the group financial statements.
- Paragraph 41b – It is unclear how this requirement interacts with paragraph 76 of the group audits proposed SAS. We believe application guidance that addresses this interaction and the expectations for the group engagement partner regarding component consultations would be beneficial.

In addition, we encourage the Board to add the following language to paragraph A14 of the new Statement on Quality Management Standards (SQMS) 1 to help bridge the gap between guidance provided in SAS 146 and the application of such guidance in the other sets of standards that would be subject to SQMS 1.

Referred-to auditors are not members of the engagement team. Referred-to auditors are not component auditors. Likewise, in an examination or review

engagement, when a firm determines to make reference to the examination or review of another auditor, accountant, or practitioner, the other auditor also is not a member of the engagement team.

We also recommend adding the following guidance in paragraph A91 of SQMS 1 to further clarify the various resources that may be used in an engagement subject to SQMS 1.

Determining whether another auditor, accountant, or practitioner is a resource or an information source depends on the particular circumstances. For example, a component auditor is a resource used in performing a group audit, but a referred-to auditor is an information source, as a referred-to auditor's report provides information to be used as audit evidence. Similarly, a service auditor that issues a report on a service organization's controls is an information source and not a resource, unless the service organization is requested to perform further procedures for purposes of the particular engagement. A predecessor auditor, accountant, or practitioner is not a resource.

Question 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?

We appreciated the "Considerations When Component Auditors Are Involved" subheadings and found them helpful. However, we felt the headings one level "below" those were easily lost, since they are the same font size and type as the paragraphs themselves. By way of example, refer to the heading above proposed paragraph 27. We ask the Board to consider whether different formatting, such as underlining, would be possible to enhance their visibility among the paragraphs. We feel the lack of visibility could create challenges for auditors attempting to navigate the requirements, especially as the Board continues to issue lengthier standards.

Question 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?

We do not have significant concerns with the scope and applicability of the proposed SAS and believe the definition of group financial statements is reasonably clear.

Question 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?

We found the proposed requirements to be reasonably scalable in terms of execution of risk assessment and further audit procedures. We have some practical concerns

with regard to certain of the requirements specifically designated for execution by the group engagement partner, as described in proposed paragraph 13. Refer to our feedback to Question 7 below.

We also believe the proposed standard could be enhanced by providing additional application material with regard to how the auditor may use a completed audit of a component for purposes of the group audit. We encourage the Board to add application material to proposed paragraph 32a to explain that understanding the group may include understanding applicable statutory audit requirements of components and the timing of such audits. We believe this information can help inform (1) the group auditor's consideration of where risks of material misstatement may arise within components and (2) the appropriate response to such risks. See also our response to Question 9 below.

We also believe that certain clarifications to proposed paragraph A144 will enhance the scalability and understandability of the guidance provided. We submit the following edits for the Board's consideration.

In response to the assessed risks of material misstatement, the group auditor may determine the following scope of work to be appropriate at a component (with the involvement of component auditors, as applicable):

- Design and perform further audit procedures on the entire financial information of the component **(for example, when a component auditor is asked to perform an audit, adapted as necessary, of the component financial information for purposes of the group audit)**
- Design and perform further audit procedures on one or more classes of transactions, account balances, or disclosures
- Perform specific further audit procedures **designed by the group auditor**

We also recommend adding an example similar to the first bullet above to proposed paragraph A120.

Finally, in considering the existing requirements of AU-C section 300, we believe it is most appropriate to limit "key members of the engagement team" to the individuals that meet the definition of "group auditor" as defined in the proposed SAS. We believe that there could be unintended consequences of including component auditors as key engagement team members. As such, we recommend revising proposed paragraph A64 as shown below. We believe this edit clearly delineates what the group auditor is ultimately responsible for while also acknowledging that the component auditor can contribute to planning activities.

AU-C section 300 requires the engagement partner and other key members of the engagement team to be involved in planning the audit. When component auditors are involved, one or more individuals from a component auditor may ~~assist~~ be key members of the engagement team and therefore ~~involved~~ in planning the group audit.

Such changes would also address the potential inconsistency in definitions and requirements between the proposed SAS and AU-C section 300. Paragraph .05 of AU-C section 300 requires the engagement partner and other key members of the engagement team to be involved in planning the audit, including planning and participating in the discussion among engagement team members. Planning an audit, as described in paragraph .02 of AU-C section 300, involves establishing the overall audit strategy and audit plan. The definition of group auditor, however, recognizes that the group auditor, which excludes component auditors, is responsible for establishing the overall group audit strategy and group audit plan. Including component auditors as key engagement team members can potentially blur a firm's responsibilities for the group audit opinion and also challenge whether the independence requirements would differ for such individuals, particularly when such individuals are outside the firm's network.

- 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?**

We found Exhibit A very helpful and encourage the Board to retain it with the final standard. While we believe that auditors would be able to determine the relevancy of requirements, this exhibit leaves little margin for doubt and is an efficient approach to navigating the requirements.

That said, there are a few items on which we request clarification. First, it is unclear why each scenario begins with paragraph 12 of the proposed standard when the requirements section does not begin until paragraph 18. We believe it is the Board's intention to only address the requirements section of the proposed standard and, therefore, recommend revising each scenario to begin with paragraph 18.

Additionally, for Scenarios 1 and 3, we note that paragraph 36 is included as a relevant requirement. However, paragraph 36 is under the heading "Considerations When Component Auditors Are Involved." We believe proposed paragraph 36 is not intended to apply only when component auditors are involved. We recommend deleting the heading and revising the paragraph as follows.

In applying AU-C section 315, the group auditor should evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor, and component auditors ***when applicable***, provides an appropriate basis for the identification of assessment of the risks of material misstatement of the group financial statements.

Question 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?

We support the enhanced documentation requirements and application material, including the linkage to existing requirements of AU-C section 230. We did not identify any additional matters that we believe should be included in proposed paragraph 76. We found the application material helpful in considering how the documentation requirements may be scalable in different group audit scenarios.

We note, however, that paragraph A205 of the proposed SAS indicates that audit documentation comprises not only the documentation in the group auditor's file but also the separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit. While we conceptually understand the purpose of this statement, we are concerned with the potential ramifications from an audit quality as well as an inspection and regulatory perspective, particularly with respect to jurisdictions with confidentiality or professional secrecy restrictions. We encourage the Board to consider additional guidance or requirements, taking into account PCAOB standards, addressing audit documentation that would be retained in the group audit file to meet the objectives of AU-C section 230 and that would be sufficient from an external inspection perspective.

Question 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?

We support the new terms and believe the related definitions are sufficiently clear. We believe that separating referred-to auditors from component auditors will enable auditors to better understand and navigate the requirements in different group audit scenarios. We continue to have concerns about how the definition of engagement team in SAS 146 will be operationalized, particularly with regard to independence. While we understand this matter is currently with PEEC, it is imperative that the Board collaborate with PEEC as there are broader implications beyond referred-to auditors, as defined by US GAAS. With that in mind, we believe the Board has provided sufficient guidance in the proposed SAS to understand these terms.

Question 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?

We support the inclusion of a proposed requirement in order to enhance audit quality and emphasize the overall responsibility of the engagement partner (in a group audit or otherwise). However, we believe application material is necessary to address potential operational challenges, particularly in terms of group audits. In AU-C section 300, the audit plan includes, among other things, the nature, timing, and extent of further audit procedures. In large group audits, it may be impractical for the group engagement partner to directly review, without assistance from others, all details of a group audit plan. We encourage the Board to add application guidance to convey the requirement's intended purpose and its practical application more clearly, particularly in group audits.

Question 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 understand the Board’s basis for proposing to delete paragraph 14b of AU-C section 930; however, we note that the Board has retained an illustrative report example making reference to a referred-to auditor’s review report. We are concerned that retaining the illustrative report example while deleting paragraph 14b and its related application material could lead to confusion. We ask the Board to instead (1) revise 14b to require obtaining the referred-to auditor’s review report when the auditor plans to make reference to a referred-to auditor’s review report in the auditor’s review report on the group interim financial statements and (2) reinstate the application material that guides the auditor to consider AU-C section 600 in such circumstances.

Question 9: Do you agree with the application material in paragraphs A47-A49 of the proposed SAS relating to a noncontrolling interest of 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?

Auditing equity-method investments (EMIs) can introduce a unique set of challenges; we appreciate the Board’s proposed application guidance in this area. When we compared the extant application material to the proposed application material, we noted one concept that appears to be missing. Extant paragraph A23 discusses, in part, the following.

If the component is not a significant component and the group engagement team has a complete set of financial statements of the component, including the auditor’s report thereon, and has access to information kept by group management regarding that component, the group engagement team may conclude that this information constitutes sufficient appropriate audit evidence regarding that component.

We acknowledge that the notion of “significant component” does not exist in the proposed SAS. However, we believe it would be beneficial to auditors if the proposed application material discusses the possibility that a complete set of financial statements of a component, including the auditor’s report thereon, may constitute sufficient appropriate audit evidence when the group auditor has access to information kept by group management regarding that component. We recommend incorporating this into the first bullet of proposed paragraph A48. Consideration may also be given to the PCAOB’s recently adopted standards and the definition of “investee auditor.”

Question 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 fully support retaining the option for the group auditor to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements. While we note it may not be frequently used in practice, it is a necessary and appropriate option for certain group audit scenarios.

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

We agree that the proposed requirements related to referred-to auditors are easily identifiable. Nevertheless, we propose certain revisions, as follows, to the requirements in order to enhance their clarity and understandability.

- We ask the Board to consider eliminating the lead-ins of proposed paragraphs 51, 52, and 54, since the auditor needs to execute on these requirements before making the decision to make reference to a referred-to auditor (such determination is addressed in proposed paragraph 55). We found the lead-ins confusing given the flow of the requirements. We believe that the headings and subheadings are sufficient to guide auditors to understand which requirements relate to making reference to referred-to auditors such that the lead-ins are unnecessary.
- In order to enhance the understandability of the requirement, we recommend revising the first sub-bullet of proposed paragraph 51 as follows:
 - a. ~~Referred-to auditors having been made aware of~~ **Communicating to referred-to auditors the** relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement

For consistency, we recommend a similar revision be made to the similar requirement for component auditors in proposed paragraph 27a.

- We noted that proposed paragraph 52 is in the context of the group engagement partner taking responsibility for determining that referred-to auditors have the appropriate competence and capabilities. However, proposed paragraph 28a, which relates to component auditors, is written as “the group engagement partner should determine...” It is unclear why the group engagement partner can assign responsibility for this action with regard to referred-to auditors but not component auditors. We ask the Board to reconsider these requirements and whether it would be more appropriate for them to be consistent.
- We recommend flipping the order of bullets (a) and (b) of proposed paragraph 63 to align with the ordering in the corresponding requirements related to component auditors.

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

We support the guidance provided in the last sentence of paragraph A41. We do not believe it is necessary for the Board to set prescriptive thresholds for auditors to

consider. However, we believe the application material can be further enhanced by providing additional considerations for the group engagement partner, such as the location of group operations and group management, and the extent of the group engagement team's knowledge of the overall financial statements and familiarity with the group. We believe that such qualitative factors can be important considerations for determining whether the group auditor can obtain sufficient appropriate audit evidence on which to base an opinion on the group financial statements.

Question 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?

We do not have significant concerns with the proposed effective date. We believe it provides sufficient time for implementation. Further, we believe it is important for the effective date to remain aligned with the QM SAS and, therefore, encourage the Board to keep those effective dates aligned.

Additional observations

We support the proposed requirement being added to AU-C section 935 regarding the use of other auditors in a compliance audit.

In considering the proposed changes to paragraph 78 of AU-C section 940, we noted a reference to the "auditor's report on the group financial statements" (in the fifth line down as presented in the proposed SAS), which we believe should refer to the "auditor's report on ICFR" instead.

We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at (404) 475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP