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Auditing Standards Board  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas, 27th Floor  
New York, NY 10105  
USA

Via email: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

**Re: Proposed Statement on Auditing Standards, *Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***

Dear Ms. Hazel:

BDO USA, LLP (“our” or “we”) is pleased to have the opportunity to respond to the AICPA Auditing Standards Board (“ASB” or the “Board”) request for comment on the proposed Statement on Auditing Standard (SAS) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*.

Overall, we are highly supportive of the ASB’s proposal to converge its standards with the International Standards on Auditing (ISA) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) (ISA 600 [Revised])*, issued by the International Audit and Assurance Standards Board (IAASB). We appreciate the Board’s monitoring and careful consideration of the PCAOB’s project and proposed amendments to their analogous standards relating to group audits as part of this project. We strongly believe that maintaining directional alignment and avoiding unnecessary differences in the auditing standards contributes to improved audit quality and consistency of practice, and thereby serves the public interest.

Our response to the specific request for comment by the Board are noted below.

- 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, the proposed SAS provides appropriate linkages to other AU-C sections along with adequate emphasis that the proposed SAS builds on the requirements within other AU-C sections, including 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?**

We are supportive of the structure of the proposed SAS, and the placement of sub-sections therein. The placement of the sub-sections support the scalability objective of the standard, for example, in circumstances where component auditors are not involved in the group audit. Additionally, incorporating relevant considerations when component auditors are involved throughout the proposed SAS highlights the importance of timely involvement of component auditors during various phases of the 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?**

We find the linkage between the definition of the “group financial statements” and “consolidation process” could be ambiguous under certain fact patterns that are common in practice. The application guidance in paragraphs A4 and A5 attempts to distinguish between two scenarios involving a single legal entity, where one involves the aggregation of financial information while the other doesn’t. Many legal entities are capable of maintaining discrete financial information associated with separate locations, branches, divisions, or product lines within a single general ledger system. For example, a retail entity may be capable of maintaining discrete financial information by individual store locations. The process of aggregating the financial information associated with retail store locations in this example is different from aggregating financial information prepared by one or more branches or divisions of a group that maintain separate information systems and general ledgers. We recommend providing further clarity in the application material regarding the concept of “aggregation” of financial information of entities that is relevant to the definition of group financial statements and the term *consolidation process* used in the proposed SAS to avoid any unintended consequences, including inconsistent application in practice.

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?

The proposed SAS is generally scalable to groups of different sizes and complexities and provides for increased flexibility and alignment with the principles of a risk-based audit approach in planning and performing a group audit. We found exhibit A to be understandable and demonstrative of the scalability in the proposed SAS, particularly for less complex group audits, where the group auditor does not involve component auditors and/or does not make reference to the audit of a referred-to auditor.

While the proposed SAS is adaptable to a wide variety of circumstances, it does present additional practical challenges for the group engagement partner seeking to comply with the responsibilities in the proposed QM SAS with respect to determining compliance of component auditors with the relevant ethical requirements and the sufficiency and appropriateness of engagement resources, particularly on larger and more complex group audits that require extensive involvement of component auditors. These challenges are heightened in circumstances involving component auditors that are not part of the same network as the group auditor.

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 and agree with the enhancements to the documentation requirements and related application material in the proposed SAS.

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 find the definitions of these terms to be sufficiently clear, including in the context of the term engagement team in the proposed QM SAS.

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, we believe the conforming amendments to paragraph 11 in AU-C section 300 are sufficiently clear.

- 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 are supportive of eliminating the concept of “significant components” from the proposed SAS. While the requirements and related application material associated with identifying significant components provides a more structured approach to scoping a group audit, the requirements and related application guidance dictate the scope of work to be performed at a component level based on a top-level categorization of components. As the size and complexity of a group increases, for example, when the group financial statements are disaggregated across a large number of smaller components, the application of the approach described in the extant standards become increasingly challenging. We believe the proposed SAS more closely aligns with the overarching principles and objectives of conducting a risk-based audit, by focusing the group auditor’s attention on determining the nature, timing and extent of audit procedures necessary at the individual component level to identify, assess and respond to risks of material misstatement of the group financial statements.

We agree with the proposed conforming amendments to delete paragraph 14b and the related application paragraph A17 of AU-C section 930, *Interim Financial Information*. We believe this requirement in AU-C section 930 is unnecessary and should be based on the auditor’s professional judgment depending on the facts and circumstances of the review engagement.

- 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?**

We are in agreement with application material and have no other comments relating to this section.

#### **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 are supportive of retaining the option that exists in extant AU-C section 600 to make reference to the audit of a referred-to auditor in the auditor’s report on the

group financial statements. While the division of responsibility in the auditor's report is relatively uncommon, such situations are necessary in practice. For example, the timing of a transaction entered into by a company (the group) may make it impracticable for the group auditor to assume responsibility for the work being performed by another auditor that is already in process or substantially complete.

We find the introduction of the term referred-to auditor in the proposed SAS provides additional clarity with respect to the group auditor's performance obligations when using the work of a component auditor in contrast to situations where the group auditor plans to make reference to the audit of a referred-to auditor.

The definition for the term referred-to auditor in the proposed SAS appears to be consistent with the PCAOB's proposed amendments to its analogous standard ([PCAOB Release No. 2021-005](#); *Docket 042: Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard—Dividing Responsibility for the Audit with Another Accounting Firm, issued on September 28, 2021*). The consistency in terminology between the AICPA and PCAOB standards supports the effective implementation of this change to firm methodologies, policies, tools, and technology.

**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 find the requirements in paragraphs 51-66 and the related application material relating to referred-to auditor to be sufficiently clear. We found exhibit A, "Relevancy of Requirements in Various group Audit Scenarios" to be helpful in providing examples of relevant requirements under different group audit scenarios.

**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 believe that the last sentence or the related application paragraph would benefit from clarifying that the group engagement partner's assessment of the magnitude of the portion of the financial statements audited by the referred-to auditor includes quantitative and qualitative (emphasis added) considerations relating to the financial information and disclosures that could reasonably be expected to influence the economic decisions of users of the group financial statements.

**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 are supportive of the proposed effective date and believe that it will provide sufficient time to implement the changes necessary with respect the proposed SAS.



We believe that maintaining alignment of this proposed SAS with the effective date of the proposed QM SAS is appropriate.

We appreciate the opportunity to comment on this proposed SAS. Please contact Patricia Bottomly (310) 557-8538 ([pbottomly@bdo.com](mailto:pbottomly@bdo.com)) or Ashwin Chandran (214) 689-5667 ([achandran@bdo.com](mailto:achandran@bdo.com)) for any inquiries or questions regarding our submission.

Sincerely,

*BDO USA, LLP*

BDO USA, LLP