

June 21, 2022

CommentLetters@aicpa-cima.com

American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, New York 10105

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)*

To CommentLetters@aicpa-cima.com:

SingerLewak LLP (“SingerLewak” 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)* (the “proposed SAS”). If issued as final, the proposed SAS will supersede SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification, as amended, section 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* [AICPA, Professional Standards, AU-C sec. 600].

We are supportive of the ASB’s proposal to amend generally accepted auditing standards for group audits by amending AU-C section 600 (AU-C 600), including updating other sections as required with this proposed SAS, due to the complexity and confusion over the application of the preceding SAS 122.

Request for Comment by the ASB

We have provided the following responses to the request for specific comment by the ASB.

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?

Yes, the proposed SAS as the appropriate linkage and revisions to other sections where applicable.

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?

Yes, the proposed SAS sufficiently addresses the special considerations in a group audit, as it relates to other AU-C sections, and the QM SAS. We are not aware of other special considerations that have not been addressed.

c. does the proposed SAS result in a group audit that achieves the objectives of the proposed QM SAS?

Yes, the proposed SAS will result 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, the structure and placement of the sub-sections are reasonable throughout the proposed SAS. It follows the path of the current AU-C in terms of AU-C numbers, making sections easy to navigate as readers follow through the regular AU-C with this proposed SAS as an enhancement.

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?

It is mostly clear, but there is still some ambiguity in regard to smaller, less complex entities that have different entities established for risk mitigation or through prior acquisitions. Some of these entities are structured to have a single or overall accounting department with the same system of internal control and, while certain portions of the operations are maintained separately, the financial information is not presented as disaggregated for external reporting purposes (particularly paragraph A127 in AU-C section 320 and the reference to what is defined as financial information that is disaggregated, as either internal only, or externally presented).

We appreciate the statement that component performance materiality does not need to be an arithmetical calculation based on materiality.

In Paragraph 7. A recommendation is to clarify the use of component auditors outside the group engagement team, or make the last sentence refer to involvement of component auditors outside the group engagement team. While the results of the engagement could be the same, additional documentation would be needed to clarify the use of component auditors, when the teams are the same, and would expand documentation to ensure all component auditor sections documentation is performed and recorded.

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 proposed SAS is somewhat scalable to groups of different sizes and complexities. Possibly more examples of entities with less complexity where group audit procedures may be limited or reduced.

- 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?**

Exhibit A is very helpful and the proposed SAS would not be clear without Exhibit A.

- 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?**

We are not aware of additional specific matters that should be documented

- 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, we agree with the application material.

- 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 definitions for *referred-to auditor* and *group auditor* are reasonable and clear. Regarding the consideration of component auditor, there is still some ambiguity similar to the extant standards for smaller firms that do not use other offices, affiliates or other firms to perform audits, excluding specific procedures (such as, inventory observations), and use their own team members that are the same as the group engagement team (now group auditor). The smaller firms may also use another outside or network firm to audit a subsidiary, but in most cases, the group auditor performs both the role of the group auditor and component auditor at the same time. We would ask for another category or scalable considerations to the situation where the group auditor and component auditor are one and the same.

- 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, the requirement is 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?**

Yes, we agree with the deletion of this requirement as it relates to interim reviews.

- 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, we agree with the application material in paragraphs A47 to A49. In relation to EMI, there should be consideration of a separate concept of component performance materiality. For example, an EMI that is 30% owned by the group, should not have a component performance materiality of a comparative 100% owned component, as the risk of aggregated misstatements and risk of material misstatement represented by the 30% ownership is significantly less than another component of the same size. Expansion on determining component performance materiality for EMI would be helpful.

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, we support retaining the option that exists for reference to another auditor, and the change to calling it referred-to auditor. This would be helpful for firms that have to use other firms that are not part of an association or network.

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, they are clear when using Exhibit A.

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 statement itself, is more ambiguous than preferred. We understand the move away from a rules-based or bright-line approach to a conceptual approach to application. With that being said, the extant standards allowed for the use of referred-to auditors for multiple component companies, and a group auditor performing a roll up and overall audit report. If there is reputational reliance, adequate and appropriate communication, review of working papers for significant areas, participation in planning decisions (such as, materiality), fraud risk between group and referred to auditor, this statement could allow for some to never be able to issue a report as there is no predominant group entity. We would need more clarification or guidance.

For example, consider a private equity owned LLC, that owns multiple separate legal entities that are significant components and audited by other firms, in conjunction with the group audit approach, communications, and the group audit oversees the other audits but each entity issues its own audit. This would either require responsibility and now not treat the other audits as referred-to audits, but require the group auditor to determine and decide which other audits will be referred to, and which ones will be considered to take ownership of, or not allow the group auditor to issue a report.

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, an effective date for audits of group financial statements for periods ending on or after December 15, 2026, is reasonable. This would include audits of smaller entities who rely on service providers to develop the coinciding audit methodology (and the related work by firms to understand and prepare trainings to our audit teams) with the expectation that interim financial statements reviewed under AU-C section 930 would adopt for Q1 2026.

Other Notes

1. It appears, that on proposed paragraph A221:

Basis for Qualified Opinion

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$XXX and \$XXX at December 31, 20X1 and 20X0, respectively, or its equity in earnings of that affiliate of \$XXX and \$XXX, which is included in net income for the years then ended as described in Note X to the consolidated financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures. The example has a spacing issue at the then ended at "years **then ended** as described in Note X."

2. Can we ask for clarity, as it pertains to paragraph 60 of the proposed SAS. It refers to when naming referred-to auditor. This seems that it may allow for not referring to the referred-to auditor by name, but by concept. Would this clarify that the specific naming of a referred-to auditor, only require the inclusion of the referred-to auditor report.
3. In addition, the inclusion of a named referred-to auditor auditor's report seems a little excessive in terms of burden on the group auditor. If the referred-to auditor is stated and named, along with date of the referred-to auditor's report, that should be more than sufficient, without increased burden on obtaining a copy of the report for inclusion. Some firms may agree to being mentioned or named, but providing a copy of a report separate and secured and tied to the financials for which they were issued with, could provide undue risk to the fraudulent use of an auditor's report, letterhead, or signature, or could be taken out of context and exposing the referred-to auditor to risk associated with the group company, outside of their scope of the component.

Singer Lewak LLP