

**Appendix C — Amendments to Various Statements on Auditing Standards (SASs), to Reflect Proposed SAS *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***

(*Boldface italics* denotes new language. Deleted text is shown in ~~strike through~~)

**Amendment to SAS No. 117, *Compliance Audits*, as Amended (AICPA, *Professional Standards*, AU-C Section 935)**

1. This amendment to AU-C section 935 would be effective for compliance audits for fiscal periods beginning on or after December 15, 2025.

**Introduction and Applicability**

[No amendment to paragraphs .01–.14.]

*Using the Work of ~~an Other~~ Another Auditor*

***.15 When the auditor expects to use the work of another auditor, the auditor should (Ref: par. .A12–.A13)***

- a. confirm whether the other auditor understands and will comply with the relevant ethical requirements, including those related to independence, that apply to the engagement.***
- b. determine that the other auditor has appropriate professional competence and capabilities.***
- c. determine whether to make reference to the compliance audit of the other auditor in the auditor's report.***
- d. when the auditor involves another auditor to perform audit work to fulfill the requirements of this section,***
  - i. communicate clearly with the other auditor about their respective responsibilities and the auditor's expectations, including the scope and timing of the other auditor's work and the matters expected to be communicated by the other auditor that are relevant to the auditor's conclusions with regard to the compliance audit;***
  - ii. determine that the other auditor has sufficient time to perform assigned audit procedures; and***

*iii. be sufficiently and appropriately involved in the work of the other auditor.*

*e. evaluate whether the other auditor's work is adequate for the auditor's purposes.*

[No amendment to paragraphs .15-.48, which are renumbered as paragraphs .16-.49\*. No amendment to paragraphs .A1-.A11.]

*Using the Work of ~~an Other~~ Another Auditor (Ref: par. .15)*

*.A12 Proposed Statement on Auditing Standards (SAS) Quality Management in an Engagement Conducted in Accordance With Generally Accepted Auditing Standards<sup>15</sup> requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. Accordingly, the auditor may involve another auditor to perform audit work to fulfill the requirements of this section. The engagement partner may also determine to use work completed by another auditor or to make reference to the compliance audit of another auditor in the auditor's report.*

*<sup>fn15</sup> Paragraph 25 of proposed Statement on Auditing Standards Quality Management in an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*

*.A13 Regardless of whether the auditor uses the work of another auditor (including making reference to the compliance audit of another auditor in the auditor's report) as a basis for forming an opinion at the level specified by the governmental audit requirement, the engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this section. Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors), adapted as necessary in the circumstances, may be useful in fulfilling the requirements in paragraph 15 of this section when using the work of another auditor.*

[No amendment to paragraphs .A12-.A44, which are renumbered as paragraphs .A14-.A46.]

#### **Appendix — AU-C Sections That Are Not Applicable to Compliance Audits**

~~.A45~~<sup>47</sup> The following AU-C sections and individually enumerated requirement paragraphs of specific AU-C sections are not applicable to a compliance audit performed under this section either because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in this section. Where the table in this appendix specifies individual requirement paragraphs rather than an entire AU-C section, the

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\* Note that paragraphs have been renumbered taking into account the proposed amendments to AU-C section 936 in proposed Statement on Auditing Standards *Amendments to AU-C section 935*.

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application and other explanatory material paragraphs related to such requirement paragraphs also do not apply. However, an auditor may apply these AU-C sections and paragraphs if the auditor believes doing so will provide appropriate audit evidence in the specific circumstances to support the auditor’s opinion on compliance.

<i>AU-C Section</i>	<i>Paragraphs Not Applicable to Compliance Audits</i>
...	
600	<del>Paragraphs .26, .39, .41e, .41d, .55, and .56e-All</del>
...	

<sup>[fn 1]</sup> [Footnote omitted for purposes of this proposed SAS.]

[No further amendment to AU-C section 935.]

**Amendments to Various Sections in SAS No. 122, as Amended (AICPA, *Professional Standards*, AU-C secs. 230, 260, 300, 320, 402, 450, 501, 510, 550, 805, 920, and 930)**

**AU-C Section 230, *Audit Documentation***

2. This amendment to AU-C section 230 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A29.]

**Exhibit — Audit Documentation Requirements in Other AU-C Sections**

**.A30** The following lists the main paragraphs in other AU-C sections that contain specific documentation requirements. This list is not a substitute for knowledge of the AU-C sections:

- ...
- q. Paragraphs ~~.59-49 and .64~~ of section ~~600~~, ***Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***
- ...

[No further amendment to AU-C section 230.]

**AU-C Section 260, *The Auditor’s Communication With Those Charged With Governance***

3. This amendment to AU-C section 260 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A8.]

**Those Charged With Governance**

...

~~.A9 Section 600, Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)~~, includes specific matters to be communicated by *the* group auditors with those charged with governance *of the group*.<sup>fn 3</sup> *The matters communicated may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Component auditors also may communicate matters to those charged with governance of the component.*<sup>fn 4</sup> When the entity being audited is a component of a group, the appropriate person(s) with whom to communicate is dependent on the nature of the matter to be communicated and the terms of the engagement.

fn 3 Paragraphs ~~.57 .45–.48~~ of section 600, *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)*

fn 4 Paragraph *.45i* of *Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*

[No amendment to paragraphs A10–A57.]

**Exhibit — Requirements to Communicate With Those Charged With Governance in Other AU-C Sections**

**.A58** Requirements for the auditor to communicate with those charged with governance are included in other AU-C sections. This section does not change the requirements in

...*i.* paragraphs ~~.45–.48~~ *.57* of section 600, *Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*

...

[No further amendment to AU-C section 260.]

### **AU-C Section 300, *Planning an Audit***

4. This amendment to AU-C section 300 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

#### **Scope of This Section**

**.01** This section addresses the auditor’s responsibility to plan an audit of financial statements. This section is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified in this section. Matters related to planning audits of group financial statements are addressed in ~~section 600~~, ***Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***. (Ref: par. .A1–.A3)

[No amendment to paragraphs .02–.10]

#### **Requirements**

...

#### **Planning Activities**

...

**10A. *The engagement partner should review the overall audit strategy and audit plan.***

[No amendment to paragraphs .11–.A9]

#### **Application and Other Explanatory Material**

...

#### **Planning Activities**

*The Overall Audit Strategy (Ref: par. .07-.08)*

.A9 The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor’s risk assessment procedures, such matters as the following:

- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of specialists on complex matters
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the ***nature and extent of direction and supervision of component auditors and the review of their component auditors’*** work in the case of group audits, or the audit budget (in hours) to allocate to high risk areas

- When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates
- How such resources are managed, directed, and supervised, such as when team briefing and debriefing meetings are expected to be held, how the engagement partner and manager reviews are expected to take place (for example, on site or off site), and whether to complete engagement quality control reviews
- *The components for which, if any, the auditor’s report on the group financial statements will make reference to the audit of a referred-to auditor*

[No amendment to paragraphs .A10–.A26]

**Appendix — Considerations in Establishing the Overall Audit Strategy (Ref: par. .07–.08 and .A9–.A12)**

.A27 This appendix provides examples of matters the auditor may consider in establishing the overall audit strategy. Many of these matters also will influence the auditor’s detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. Although some of the following matters may be required by other AU-C sections, not all matters are relevant to every audit engagement, and the list is not necessarily complete.

...

**Characteristics of the Engagement**

...

- The expected audit ~~coverage~~ *scope*, including the ~~number and locations of components at which audit work is expected to be performed for purposes of a group audit, the extent to which component auditors will be involved, and the components that are audited by referred-to auditors for which the group auditor plans to make reference to in the auditor’s report on the group financial statements~~ *to be included*
- The nature of the control relationships between a parent and its *entities or business units* ~~components~~ that determine how the group is to be consolidated
- ~~The extent to which components are audited by other auditors~~
- The nature of the business divisions to be audited, including the need for specialized knowledge
- The reporting currency to be used, including any need for currency translation for the audited financial information

- The ~~requirement~~ need for *an audit of financial statements for legal, statutory or regulatory, or other reasons* ~~audit requirements~~ (for example, *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*~~the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations~~)

...

### Reporting Objectives, Timing of the Audit, and Nature of Communications

...

- Communication with *component* ~~of components~~ auditors regarding the expected types and timing of ~~reports to be issued and other communications~~ in connection with the audit *work performed for purposes of the group audit* ~~of components~~
- *Communication with referred-to auditors regarding the expected types and timing of communications in connection with making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements*
- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of *audit* work performed

...

### Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

The following examples illustrate significant factors, preliminary engagement activities, and knowledge gained on other engagements:

- The determination of materiality, in accordance with section 320, *Materiality in Planning and Performing an Audit*, and, when applicable, the following:
  - The determination of *component performance* materiality ~~for components~~ and *the threshold above which misstatements identified in the component financial information are to be communicated to the group auditor and* communication thereof to component auditors in accordance with ~~section 600,~~ *Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*

- The *initial expectations about the* ~~preliminary identification of significant components and material~~ classes of transactions, account balances, and disclosures *that may be significant*

...

[No further amendment to AU-C section 300.]

### **AU-C Section 320, Materiality in Planning and Performing an Audit**

5. This amendment to AU-C section 320 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.08.]

#### **Definition**

.09 For purposes of generally accepted auditing standards (GAAS), the following term has the meaning attributed as follows:

**Performance materiality.** The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce *aggregation risk* to an appropriately low level ~~the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.~~ If applicable, *performance materiality* also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances, or disclosures. Performance materiality is to be distinguished from tolerable misstatement. (Ref: par. .A3)

*Aggregation Risk. The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.*

...

#### **Application and Other Explanatory Material**

...

#### **Determining Materiality and Performance Materiality When Planning the Audit**

...

*Performance Materiality (Ref: par. .11)*

**.A15** Planning the audit solely to detect individual material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated and leaves no margin for possible undetected misstatements. *Performance materiality* (which, as defined, is one or more amounts) is set **at less than materiality for the financial statements as a whole** to reduce **aggregation risk** to an appropriately low level ~~the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole~~. Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance, or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance, or disclosure exceeds the materiality level for that particular class of transactions, account balance, or disclosure. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the auditor’s understanding of the entity, updated during the performance of the risk assessment procedures, and the nature and extent of misstatements identified in previous audits and, thereby, the auditor’s expectations regarding misstatements in the current period.

[No further amendment to AU-C section 320.]

**AU-C Section 402, *Audit Considerations Relating to an Entity Using a Service Organization***

6. This amendment to AU-C section 402 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A18.]

**Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control**

...

***Further Procedures When a Sufficient Understanding Cannot Be Obtained From the User Entity***

...

**.A19** Another auditor may be used to perform procedures that will provide the necessary information about the controls at the service organization related to services provided to the user entity. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organization. The user auditor using the work of another auditor may find the guidance in ~~section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~ ***Proposed Statement on Auditing Standards Quality Management for Engagements Conducted in Accordance with GAAS 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)***, useful as it

relates to ***determining the competence and capabilities of the other*** ~~understanding another~~ auditor (including that auditor's independence and professional competence); ***the direction and supervision*** ~~involvement in the work of the other another auditor, in planning~~ the nature, extent, and timing of ~~such~~ ***the work assigned to the other auditor***; and ~~in~~ evaluating the sufficiency and appropriateness of the audit evidence obtained. <sup>fn 9</sup>

<sup>fn 9</sup> *Proposed Statement on Auditing Standards Quality Management for Engagements Conducted in Accordance with GAAS Paragraphs .02 and .22 of section 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).*

[No further amendment to AU-C section 402.]

### **AU-C Section 450, *Evaluation of Misstatements Identified During the Audit***

7. This amendment to AU-C section 450 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A24.]

### **Evaluating the Effect of Uncorrected Misstatements**

...

**.A25** The auditor is required by ~~section 600,~~ ***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 evaluate the effect on the group audit opinion of any uncorrected misstatement identified by the group ***auditor engagement team*** or communicated by the component auditors. <sup>fn 18</sup>

<sup>fn 18</sup> Paragraph ~~.52-44 of section 600,~~ ***Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

[No further amendment to AU-C section 450.]

### **AU-C Section 501, *Audit Evidence — Specific Considerations for Selected Items***

8. This amendment to AU-C section 501 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–A4.]

## Investments in Securities and Derivative Instruments

...

### *Investments in Securities When Valuations Are Based on the Investee's Financial Results (Excluding Investments Accounted for Using the Equity Method of Accounting) (Ref: par. .05-.06)*

~~.A5~~ ~~Section 600~~, *Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*, addresses auditing investments accounted for using the equity method of accounting.

[No amendment to paragraphs A6–A22.]

## Inventory

### *Attendance at Physical Inventory Counting*

...

**.A23** Matters relevant in planning attendance at physical inventory counting (or in designing and performing audit procedures pursuant to paragraphs .12–.16) include, for example, the following:

...

- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate. ~~Section 600 addresses the involvement of component auditors and, accordingly, may be relevant if such involvement is with regard to attendance of physical inventory counting at a remote location.~~

...

[No further amendment to AU-C section 501.]

### *AU-C Section 510, Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*

9. This amendment to AU-C section 510 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A7.]

## Audit Procedures

...

**.A8** If the predecessor auditor permits access to the audit documentation, the auditor may review the predecessor auditor’s audit documentation for information relevant to planning and performing the audit. The auditor’s determination whether to use information resulting from such review as part of the auditor’s risk assessment procedures or as evidence regarding the opening balances is influenced by the auditor’s assessment of the professional competence and independence of the predecessor auditor. Although the predecessor auditor is not a component auditor *or referred-to auditor*, as defined in ~~section 600~~, ***Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***, the auditor may ***perform procedures*** ~~make inquiries~~ similar to those ***included*** listed in section 600 concerning the ~~professional competence~~ ***and capabilities*** and independence of the predecessor auditor. <sup>fn1</sup> (Ref: par. .07 and .08c)

<sup>fn 1</sup>. Paragraphs ~~225, 26, 50.1, and 50.2~~ of ~~section 600~~, ***Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

[No further amendment to AU-C section 510.]

## AU-C Section 550, *Related Parties*

10. This amendment to AU-C section 550 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A10.]

## Risk Assessment Procedures and Related Activities

### ***Understanding the Entity’s Related Party Relationships and Transactions*** ***The Identity of the Entity’s Related Parties***

...

**.A11** In the context of a group audit, ~~section 600~~ ***Proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***, requires the group ***auditor engagement team*** to ***request component auditors and referred-to auditors to communicate on a timely basis related party relationships not previously identified by group management or the group auditor*** ~~provide each component auditor with information about related parties prepared by group management and any other related parties of which the group engagement team is aware, including the nature of the entity's relationships and transactions with those related parties.~~ <sup>fn 24</sup> When the entity is a component within a group,

~~this~~ **Such** information provides a useful basis for the **group** auditor’s inquiries of management regarding the identity of ~~the entity’s~~ related parties.

<sup>fn 24</sup> Paragraph ~~.32b.40e and 50.9d(ii)~~ of ~~section 600~~ **Proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**.

[No amendment to paragraphs A12–A30.]

### ***Sharing Related Party Information With the Engagement Team***

...

~~.A31~~ **Section 600, Proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)** addresses the communications that apply to group audits, particularly those that involve component auditors *or when reference is made to referred-to auditors*.

[No amendment to paragraphs A32–A41.]

### **Responses to the Risks of Material Misstatement Associated With Related Party Relationships and Transactions (Ref: par. .22)**

...

#### ***Identified Related Party Transactions Required To Be Disclosed or Determined to be a Significant Risk***

*Evaluating the Business Purpose (Ref: par. .26a(i))*

**.A42** In evaluating the business purpose of a related party transaction that is required to be disclosed in the financial statements or determined to be a significant risk, the auditor may consider the following:

- Whether the transaction
  - is overly complex (for example, it may involve multiple related parties within a ~~consolidated~~ group)

...

[No further amendment to AU-C section 550]

**AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement***

11. This amendment to AU-C section 805 would be effective for audits of single financial statements or specific elements, accounts, or items of a financial statement as of or for periods beginning on or after December 15, 2025.

**Scope of This Section**

[No amendment to paragraph .01.]

**.02** This section does not apply to *circumstances in which the report-audit procedures are performed by* of a component auditor issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see section 600, *Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements [Including the Work of Component Auditors and Audits of Referred-to Auditors]*).

[No further amendment to AU-C section 805]

**AU-C Section 920, *Letters for Underwriters and Certain Other Requesting Parties***

12. This amendment to AU-C section 920 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.19.]

**Requirements**

...

**Agreeing Upon the Scope of Services**

...

.21 Situations may exist in which one or more component auditor’s *or referred-to auditor’s* report is included in the securities offering. When comfort letters are issued to requesting parties by those component auditors *or referred-to auditors*, the auditor of the group financial statements should read those comfort letters. The auditor of the group financial statements should state in the comfort letter that the procedures relating to those components consisted solely of reading the component auditors’ *or referred-to auditors’* comfort letters.

[No amendment to paragraphs .22–.A18.]

## **Application and Other Explanatory Material**

...

### **Agreeing Upon the Scope of Services (Ref: par. .15–.23)**

...

**.A19** Comfort letters are requested occasionally from more than one auditor, for example, in connection with securities offerings to be used in the subsequent sale of shares issued in recently effected mergers and from predecessor auditors. In such circumstances, it is the entity's responsibility, at the earliest practicable date, to inform any other auditors who may be involved about any letter that may be requested of them and arrange for them to receive a draft of the underwriting agreement so that they may make arrangements at an early date for the preparation of a draft of their letter and for the performance of their procedures. The entity or requesting party is also responsible for arranging for a copy of the comfort letters of component auditors *or referred-to auditors* in draft and final form to be provided to the auditor of the group financial statements.

...

### **Format and Contents of Comfort Letters**

...

#### ***Addressee (Ref: par. .26)***

**.A27** An example of an appropriate form of address for this purpose is "The Blank Company and XYZ & Company, as Representative of the Several Underwriters." Copies of a comfort letter addressed in accordance with the requirements in paragraph .26 may be provided to the auditor of the group financial statements when a comfort letter related to a component included in group financial statements is issued by a component auditor *or referred-to auditor*.

...

### **Commenting in a Comfort Letter on Information Other Than Audited Financial Statements**

...

#### ***Subsequent Changes (Ref: par. .58–.64)***

...

**.A70** When more than one auditor is involved, the auditor of the group financial statements may comment that there were no decreases in the consolidated financial statement items, when appropriate, despite the possibility that decreases have been mentioned in a comfort

letter issued by a component auditor *or referred-to auditor*. Exhibit B, example J, "Alternate Wording When Component Auditors Are Involved *or When Making Reference to the Audit of a Referred-to Auditor*," contains an illustration of wording when more than one auditor is involved.

**Exhibit B — Examples of Comfort Letters —  
.A93**

...

Example J — Alternate Wording When Component Auditors Are Involved *or When Making Reference to the Audit of a Referred-to Auditor*

...

Example J — Alternate Wording When Component Auditors Are Involved *or When Making Reference to the Audit of a Referred-to Auditor*

**.A93-14** Example J applies when one or more component auditors are involved in the audit of group financial statements *or when reference is made to the audit of a referred-to auditor in the auditor's report on group financial statements*, and the group engagement team has obtained a copy of the comfort letter of the component auditors *or referred-to auditors* (see paragraph .21). Example J consists of an addition to paragraph 4, a substitution for the applicable part of paragraph 5, and an addition to paragraph 6 of example A-1 and corresponding changes to paragraphs 3, 4, and 5 of example A-2, respectively.

[No further amendment to AU-C section 920]

**AU-C Section 930, *Interim Financial Information***

13. This amendment to AU-C section 930 would be effective for reviews of interim financial information for interim periods of fiscal years beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.13.]

**Procedures for a Review of Interim Financial Information**

...

***Analytical Procedures, Inquiries, and Other Review Procedures***

...

***Inquiries and Other Review Procedures***

.14 The auditor should make the following inquiries and perform the following other review procedures when conducting a review of interim financial information:

- a. Read the available minutes of meetings of stockholders, directors, and appropriate committees and inquire about matters dealt with at meetings for which minutes are not available to identify matters that may affect the interim financial information. (Ref: par. .A16)
  
- b. Obtain reports from component auditors, if any, related to reviews performed of the interim financial information of ~~significant~~ components of the reporting entity ***for which further audit procedures on the financial information of the component are planned to be performed for purposes of the audit***, including its investees, or inquire of those auditors if reports have not been issued. (Ref: par. .A17)

...

[No amendment to paragraphs .15–.A16.]

## **Application and Other Explanatory Material**

### **Procedures for a Review of Interim Financial Information**

...

#### ***Analytical Procedures, Inquiries, and Other Review Procedures***

...

#### ***Inquiries and Other Review Procedures***

...

**.A17** The auditor may find the guidance in ~~section 600~~, ***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)***, useful in conducting a review of interim financial information for an entity that prepares group financial statements.

[No amendment to paragraphs A18-A54.]

## **Relevant Ethical Requirements**

...

**.A55** Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources (for example, the AICPA code, when applicable; the rule or applicable regulation; or *Government Auditing Standards* promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources. Relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ~~Section 600~~, ***Proposed SAS Special Considerations — Audits of Group Financial Statements (Including the Work of***

*Component Auditors and Audits of Referred-to Auditors*)<sup>fn 11</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations in which the component auditor *or referred-to auditor* does not meet the independence requirements that are relevant to the group audit.

<sup>fn 11</sup> Paragraphs ~~22–23~~ 25, 27, 45c, 50.1, 50.3 and 50.10a of section 600, *Proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*.

[No amendment to paragraphs A56-A78.]

**Exhibit B — Illustrations of Auditor’s Review Reports on Interim Financial Information (Ref: par. .A44)**

**.A79**

...

Illustration 3 — A Review Report That Refers to a *Referred-to Component Auditor’s Review Report* on the Interim Financial Information of a *Significant Component* of a Reporting Entity

...

Illustration 3 — A Review Report That Refers to a *Referred-to Component Auditor’s Review Report* on the Interim Financial Information of a *Significant Component* of a Reporting Entity

Circumstances include the following:

- A review of interim financial information presented as a complete set of financial statements, including disclosures.
- The auditor is making reference to *a referred-to another auditor’s review report* on the interim financial information of a *significant component* of a reporting entity.

...

[No further amendment to AU-C section 930]

**Amendment to SAS No. 128, *Using the Work of Internal Auditors* (AICPA, *Professional Standards*, AU-C sec. 610)**

14. This amendment to AU-C section 610 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

**AU-C Section 610, *Using the Work of Internal Auditors* (AICPA, *Professional Standards*, AU-C sec. 610)**

[No amendment to paragraphs .01–.A19.]

**Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used in Obtaining Audit Evidence**

...

***Determining the Nature and Extent of Work of the Internal Audit Function That Can Be Used in Obtaining Audit Evidence***

*Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function That Can Be Used*

...

**.A20** In accordance with section 330, the external auditor is required to design and perform further audit procedures whose nature, timing, and extent are based on, and responsive to, the assessed risks of material misstatement at the relevant assertion level.<sup>fn 9</sup> Further audit procedures comprise tests of controls and substantive procedures. Procedures planned or performed by the internal audit function may be the same as, or be similar to, the further audit procedures that the external auditor would design and perform. Accordingly, subject to the requirements of this section, the external auditor may determine that it is appropriate to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of further audit procedures to be performed directly by the external auditor. The internal audit function may have performed, or may be planning to perform

- tests of relevant controls upon which the external auditor intends to rely in determining the nature, timing, and extent of substantive procedures. For example, the work of the internal audit function may include tests of relevant controls that address the risks of material misstatement related to the completeness of accounts payable. The results of the internal audit function's tests may provide evidence about the effectiveness of controls and, accordingly, the external auditor may be able to use such tests of controls performed by the internal audit function to modify the nature or timing, or reduce the extent of, testing of controls the external auditor would otherwise have performed directly.
- substantive procedures. For example, the internal audit function, as part of its work, may confirm certain accounts receivable and observe certain physical inventories. By using such work of the internal audit function in obtaining audit evidence, the external auditor may be able to change the timing of the confirmation procedures, the number of accounts receivable to be confirmed, or the number of locations of physical inventories to be observed.

The internal audit function’s plan may also include procedures related to financial information of components of a group. The external auditor may coordinate work with the internal auditors (in accordance with paragraph .20 of this section) ***in determining the components at which audit work will be performed*** and ~~reduce the number of the entity's components at which the external auditor would otherwise need to perform audit procedures~~ in accordance with the requirements of ***Proposed Statement on Auditing Standards section 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

<sup>fn 9</sup> [Footnote omitted for purposes of this proposed SAS.].

[No further amendment to AU-C section 610]

***Amendment to SAS No. 130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements, as Amended (AICPA, Professional Standards, AU-C sec. 940)***

15. This amendment to AU-C section 940 would be effective for integrated audits for periods beginning on or after December 15, 2025.

***AU-C section 940, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements***

[No amendment to paragraphs .01–.77.]

**Report Modifications**

**.67** The auditor should modify the report on ICFR if any of the following conditions exist:

- a. One or more material weaknesses exist.
- b. Elements of management’s report are incomplete or improperly presented.
- c. There is a limitation on the scope of the engagement. (Ref: par. .A118)
- d. The auditor decides to refer to the report of a ***referred-to*** ~~component~~-auditor as the basis, in part, for the auditor’s own opinion.
- e. There is other information contained in management's report.

...

***Making Reference to a Referred-to ~~Component~~ Auditor and Involving Assuming***

***Responsibility for the Work of a Component Auditors in the Group Audit***

**.78** ~~In a group audit~~ When an entity includes one or more components, the group engagement partner should **determine** ~~evaluate~~ whether the group engagement team will be able to obtain sufficient appropriate audit evidence **can reasonably be expected to be obtained, including through making reference to the audit of a referred-to auditor in the auditor's report,** through the group engagement team's work or use of the work of component auditors (that is, through assuming responsibility for the work of component auditors or making reference to the audit of ICFR of a component auditor in the auditor's report) to **provide a basis for forming an opinion on** ~~act as the auditor of the ICFR over the group financial statements and report as such on the ICFR over the group financial statements, as required by section 600, **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).** <sup>fn 9</sup> (Ref: par. .A127)~~

<sup>fn 9</sup> Paragraph ~~.17-15~~ of **Proposed Statement on Auditing Standards (SAS) section 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**

**.79** As required by ~~section 600,~~ **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)** the group engagement partner should determine whether to make reference to **the audit of a referred-to** ~~component~~ auditor in the **auditor's** report on the ICFR over the group financial statements. <sup>fn 10</sup> Reference to the audit of a **referred-to** ~~component~~ auditor in the auditor's report on the ICFR over the group financial statements should not be made unless

- a. the engagement partner has determined that the **referred-to** ~~component~~ auditor has performed an audit of the component's ICFR in accordance with the relevant requirements of GAAS (or, if applicable, the standards promulgated by the PCAOB) and
- b. the **referred-to** ~~component~~ auditor has issued an auditor's report on ICFR that is not restricted as to use. (Ref: par. .A128-.A129)<sup>fn 10A</sup>

<sup>fn 10</sup> Paragraph ~~.24 50.4~~ of ~~section 600,~~ **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors).**

<sup>fn 10A</sup> **Paragraph 50.5 of Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors).**

[No amendment to paragraph 80.]

**Special Topics**

***Entities With Multiple Components***

.81 In determining the components at which to perform tests of controls, the group ~~auditor engagement team~~ should **take responsibility for the identification and assessment of** the risk of material misstatement to the **group** financial statements associated with the component and correlate the amount of attention devoted to the component with the degree of risk. (Ref: par. .A132–.A134)

.82 In assessing and responding to risk, the group ~~auditor engagement team~~ should **take responsibility for testing**, ~~or have a component auditor test on the group engagement team's behalf,~~ controls over specific risks that present a reasonable possibility of material misstatement to the group financial statements. (Ref: par. .A1354)

.83 In applying the requirement in paragraph .42 regarding special considerations for subsequent years' audits, the group ~~auditor engagement team~~ should vary the nature, timing, and extent of tests of controls at components from year to year.

[No amendment to paragraphs 84-A126.]

## Report Modifications

...

~~**Making Reference to a Referred-to Component Auditor and Involving Assuming Responsibility for the Work of a Component Auditors in the Group Audit**~~ (Ref: par. .78–.79)

~~A127 Section 600, **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**~~ addresses special considerations that apply to group audits, in particular those that involve component auditors *or when reference is made to referred-to auditors*. ~~Section 600 **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**~~ is applicable, adapted as necessary, to the audit of ICFR, considering the requirements and guidance related to multiple components discussed beginning in paragraphs .28 and .81.

~~A128~~ The group engagement partner may ~~determine~~ ~~decide~~ to **involve** ~~assume responsibility for the work of the component auditors or to make reference to the *audit of a referred-to component auditor* in the report on the ICFR over the group financial statements.~~ The decision about whether to make reference to **the audit of a referred-to component** auditor in the report on the audit of ICFR might differ from the corresponding decision as it relates to the audit of the financial statements. For example, the audit report on the group financial statements may make reference to the audit of a significant equity investment performed by a **referred-to component** auditor, but the report on the ICFR over the group financial statements might not make a similar reference because management's assessment about ICFR ordinarily would not extend to controls at the equity method investee. See paragraph

.84 for further discussion of the evaluation of the controls for an equity method investment.

**A129** ~~Section 600~~ **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)** establishes requirements and provides guidance when *involving* ~~assuming~~ responsibility for the work of a component auditors *in a group audit* and when making reference to *the audit of a referred-to component auditor* in the auditor’s report on the *group* financial statements that are adapted and applied, as necessary, to the audit of ICFR. Exhibit A of this section includes an illustration of the application of the reporting requirements in ~~section 600~~, **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**.<sup>fn 32</sup>

<sup>fn 32</sup> Illustration 4, "Unmodified Opinion on ICFR Making Reference to *the Audit of a Referred-to Component Auditor*," of exhibit A.

[No amendment to paragraphs A130–A131.]

## Special Topics

**Entities With Multiple Components** (Ref: par. .81–.83)

**A132** As indicated in paragraph .A127 of this section, ~~section 600~~ **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)** is applicable, adapted as necessary, to the audit of ICFR, considering the requirements and guidance related to components discussed in this section.

**A133** In determining the components at which to ~~perform~~ tests of controls *will be performed*, the group *auditor engagement team* may also take into account work performed by the internal audit function or others on behalf of management. For example, if the internal audit function’s planned procedures include relevant audit work at various components, the auditor may coordinate work with the internal auditors and reduce the number of components at which the *auditor group engagement team, or a component auditor on the group engagement team’s behalf*, would otherwise need to perform audit procedures.

**A134** *In the context of a group audit, the term “the group auditor should take responsibility for...” is used for those requirements when the group auditor is permitted to assign the design or performance of procedures, tasks, or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors.* The group *auditor engagement team* may eliminate from further consideration components that, individually or when aggregated with others, do not present a reasonable possibility of material misstatement to the group financial statements.

**A135** In ~~lower risk~~ components *presenting lower risk of material misstatements*, the group

~~*auditor* engagement team first might evaluate whether testing entity-level controls, including controls in place to provide assurance that appropriate controls exist throughout the organization, provides sufficient appropriate audit evidence. The group engagement team or a component auditor on the group engagement team's behalf may test the operating effectiveness of controls over specific risks or group-wide controls.~~

[No amendment to paragraphs A136–A154.]

### **Exhibit A — Illustrative Reports**

**.A155** The following illustrate the report elements described in this section. The illustrations assume that the audit of internal control over financial reporting (ICFR) and the audit of the financial statements were performed by the same auditor. Report modifications are discussed beginning in paragraph .67 of this section.

Illustration 1 — Unmodified Opinion on ICFR

Illustration 2 — Adverse Opinion on ICFR

Illustration 3 — Disclaimer of Opinion on ICFR

Illustration 4 — Unmodified Opinion on ICFR Making Reference to *the Audit of a Referred-to a Component Auditor*

Illustration 5 — Combined Report Expressing an Unmodified Opinion on ICFR and an Unmodified Opinion on the Financial Statements

...

#### **Illustration 4 — Unmodified Opinion on ICFR Making Reference to *the Audit of a Referred-to a Component Auditor***

The following is an illustrative report expressing an unmodified opinion on ICFR when the engagement partner decides to make reference to the *audit report* of a *referred-to component auditor*.

...

[No further amendment to AU-C section 940.]

**Amendment to SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as Amended, Sections 700, *Forming an Opinion and Reporting on Financial Statements*, and Section 701, *Communicating Key Audit Matters in the Independent Auditor's Report* (AICPA, *Professional Standards*, AU-C sec. 700 and 701)**

**AU-C Section 700—*Forming an Opinion and Reporting on Financial Statements***

16. This amendment to AU-C section 700 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A38.]

**Auditor’s Report**

...

***Auditor’s Report for Audits Conducted in Accordance With GAAS***

...

***Basis for Opinion***

...

**.A39** Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources (for example, the AICPA Code of Professional Conduct, when applicable; the rule or applicable regulation; or *Government Auditing Standards* promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources. Relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ~~Section 600,~~ ***Proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***,<sup>fn 21</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations in which the component auditor *or referred-to auditor* does not meet the independence requirements that are relevant to the group audit.

<sup>fn 21</sup> Paragraphs ~~22–23~~ **25, 27, 45c, 50.1, 50.3 and 50.10a** of ~~section 600,~~ ***Proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

[No amendment to paragraphs .A40–.A80.]

**Exhibit — Illustrations of Auditor’s Reports on Financial Statements (Ref: par. .A24, .A32, .A65, and .A71)**

**.A81**

...

**Illustration 4 — An Auditor’s Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance With Both Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is a group audit. The auditor is not making reference to *the audit of a referred-to component* auditor in the auditor’s report.

...

[No further amendment to AU-C section 700.]

**AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report***

17. This amendment to AU-C section 701 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A12.]

**Determining Key Audit Matters**

...

***Matters That Required Significant Auditor Attention***

...

**.A13** Certain AU-C sections, such as the following, require specific communications with those charged with governance and others that may relate to areas of significant auditor attention:

- a. Section 260, *The Auditor’s Communication With Those Charged With Governance*, requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.<sup>fn 7</sup> For example, there may be potential difficulties relating to the following:
  - i. Related party transactions. In particular, there may be limitations on the auditor’s ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm’s length transaction.<sup>fn 8</sup>

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the Proposed Group Audits SAS

- ii. Limitations on the group audit. For example, ~~the group engagement team's access to information~~ *or people* may be restricted.<sup>fn 9</sup>

<sup>fns 7–8</sup> [Footnotes omitted for purposes of this proposed SAS.]

<sup>fn 9</sup> Paragraph ~~49d~~ *57c* of *Proposed Statement on Auditing Standards* ~~section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)~~.

[No further amendment to AU-C section 701]

**AU-C Section 705, Modification to the Opinion in the Independent Auditor's Report**

18. This amendment to AU-C section 705 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.A10.]

**.A11** Examples of circumstances beyond the control of the entity include the following:

- The entity's accounting records have been destroyed.
- The accounting records of a ~~significant~~ component *for which further audit procedures are determined to be necessary for purposes of the group audit* have been seized indefinitely by governmental authorities.

[No amendment to paragraphs .A12–.A37.]

**Exhibit — Illustrations of Auditor's Reports With Modifications to the Opinion  
.A38**

...

Illustration 3 — An Auditor's Report Containing an Adverse Opinion Due to a Material Misstatement of the Financial Statements

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (single year). The audit is a group audit. The auditor is not making reference to *the audit of a referred-to component* auditor in the auditor's report.

...

[No further amendment to AU-C section 705]

**Amendment to SAS No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*, as Amended (AICPA, *Professional Standards*, AU-C sec. 720)**

19. This amendment to AU-C section 720 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

**AU-C section 720, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports***

[No amendment to paragraphs .01–.A35.]

**Reading and Considering the Other Information (Ref: par. .16–.17)**

...

**.A36** In the case of a group audit, though the group auditor is required to read the entirety of the other information if, in accordance with ~~section 600~~, ***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)***,<sup>fn 10</sup> the group auditor decides to make reference to ***the audit of a referred-to component*** auditor in the auditor’s report on the group financial statements, the group auditor’s knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.

<sup>fn10</sup> Paragraph ~~.24.50.4 of section 600~~, ***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)***

[No amendment to paragraphs .A37–.A38.]

**.A39** The manner in which an auditor resolves a concern regarding whether other information is materially inconsistent with the auditor’s knowledge obtained in the audit, is a matter of professional judgment. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team, ***including*** ~~or~~ relevant component auditors, is appropriate as a basis for the auditor’s consideration of whether a material misstatement exists. Whether, and if so, the extent to which, the auditor refers to relevant audit documentation or makes inquiries of relevant members of the engagement team, ***including*** ~~or~~ relevant component auditors, is a matter of professional judgment.

**.A40** It may not be necessary for the auditor to refer to relevant audit documentation or to make inquiries of relevant members of the engagement team, ***including*** ~~or~~ relevant component auditors, about any matter included in the other information. This may be the case, for example, when the group auditor decides to make reference to ***the audit of a referred-to component*** auditor in the auditor’s report in accordance with ~~section 600~~ ***Proposed SAS Special Considerations—Audits of Group Financial Statements***

**(Including the Work of Component Auditors and Audits of Referred-to Auditors),**<sup>fn 11</sup> and the group auditor has obtained sufficient knowledge in connection with the group audit about matters in the other information relating to the ~~significant~~ component with respect to which the *referred-to* ~~component~~ auditor has performed an audit of the financial statements.

<sup>fn11</sup> Paragraph 50.4 of ~~section 600~~ *Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*.

[No further amendment to AU-C section 720.]

***Amendment to SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AICPA, Professional Standards, AU-C sec. 315)***

20. This amendment to SAS No. 145 would be effective for audits of financial statements for periods beginning on or after December 15, 2025.

***AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement***

[No amendment to paragraphs .01–.A16.]

**Risk Assessment Procedures and Related Activities (Ref: par. 13–18)**

**A17.** The risks of material misstatement to be identified and assessed include both those due to fraud and those due to error, and both are covered by this SAS. However, the significance of fraud is such that further requirements and guidance are included in AU-C section 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material misstatement due to fraud.<sup>fn 19</sup> In addition, the following AU-C sections provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

- AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*, with regard to accounting estimates
- AU-C section 550, *Related Parties*, with regard to related party relationships and transaction

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<sup>fn 11</sup> Paragraph ~~24~~ *50.4* of ~~section 600~~ *Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)* .

- AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, with regard to going concern
- ~~AU-C section 600~~, **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)**, with regard to group financial statements

<sup>fn 19</sup> [Footnote omitted for purposes of this proposed SAS.]

[No amendment to paragraphs A18–A52.]

**A53.** When an engagement is carried out by a large engagement team, such as for an audit of group financial statements, it is not always necessary or practical for the discussion to include all members in a single discussion (for example, in a multi-location audit), nor is it necessary for all the members of the engagement team to be informed of all the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team, including, if considered appropriate, those with specific skills or knowledge and those responsible for the *performing work at* audits of components, while delegating discussion with others, taking into account the extent of communication considered necessary throughout the engagement team. A communications plan, agreed to by the engagement partner, may be useful.

[No amendment to paragraphs A54–A246.]

## Identifying and Assessing the Risks of Material Misstatement

...

### *Assessing Risks of Material Misstatement at the Assertion Level*

...

#### *Significant Risks*

#### Why Significant Risks Are Determined and the Implications for the Audit

**A247.** The determination of significant risks allows for the auditor to focus more attention on those risks that are close to the upper end of the spectrum of inherent risk, through the performance of certain required responses, including the following:

...

- ~~Section 600~~ **Proposed SAS Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of**

**Referred-to Auditors)** requires *the group auditor to evaluate the appropriateness of the design and performance of further audit procedures for areas of higher assessed risks of material misstatement of the group financial statements, or significant risks, on which a component auditor is determining the further audit procedures to be performed* ~~more involvement by the group engagement partner if the significant risk relates to a component in a group audit and for the group engagement team to direct the work required at the component by the component auditor.~~<sup>fn 65</sup>

<sup>fn 65</sup> Paragraphs .57–.58 .42 of AU-C section 600; **Proposed (SAS) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors).**

[No further amendment to AU-C section 315.]

### **Proposed Statement on Quality Management Standards—Quality Management (AICPA, Professional Standards, QM sec. 10)<sup>1</sup>**

#### **Proposed Statement on Quality Management Standards (SQMS) No. 1, *A Firm’s System of Quality Management***

**21.** This amendment to proposed SQMS No. 1 would be effective for systems of quality management designed and implemented by December 15, 2025, and for evaluations of the system of quality management performed by December 15, 2025.

[No amendment to paragraphs .01–.A67]

#### **Acceptance and Continuance of Client Relationships and Specific Engagements**

##### ***The Nature and Circumstances of the Engagement and the Integrity and Ethical Values of the Client (Ref: par. 31a(i))***

...

**A68.** ~~AU-C section 600<sup>6</sup>~~ **Proposed Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)** states that when component auditors are not subject to the AICPA code, compliance with the ethics and independence requirements set forth in the International Federation of Accountants Code of Ethics for Professional Accountants is sufficient to fulfill the component auditor’s ethical

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<sup>1</sup> Proposed Statement on Quality Management Standards (SQMS) No. 1, *A Firm’s System of Quality Management*, has not been finalized. It is expected that it will be issued as a final standard in 2022. The content of the paragraphs in SQMS No. 1 that are shown here may change by the time the proposed SQMS is issued as a final standard.

responsibilities in the group audit.<sup>7</sup> Procedures the firm may use regarding the fulfillment of relevant ethical requirements that apply to them by network firms, employees of network firms, or service providers may include confirmations, letters of representation, or other affirmations.

6 Paragraph ~~A46~~.A56 of AU-C section 600, *Proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*.

7 The section, “Application of the AICPA Code” (ET sec. 0.200.020), of the AICPA Code of Professional Conduct (AICPA code) explains that an AICPA member who is the group engagement partner of a U.S. consolidated entity should be considered to have performed an audit in accordance with generally accepted auditing standards, and in compliance with the AICPA code, provided that component auditors that are not subject to the AICPA code are in compliance with the ethics and independence requirements set forth in the International Federation of Accountants Code of Ethics.

[No amendment to paragraphs .A69–A119]

#### **Information and Communication (Ref: par. 34)**

...

#### **Communication Within the Firm (Ref: par. 34b–c)**

**A120.** The firm may recognize and reinforce the responsibility of personnel and engagement teams to exchange information with the firm and one another by establishing communication channels to facilitate communication across the firm. Examples of communication among the firm, engagement teams, and other individuals include the following:

- ~~The g~~**Group auditor engagement teams** communicates matters to component auditors in accordance with the firm’s policies or procedures, including matters related to quality management at the engagement level.

...

[No further amendment to proposed SQMS 1.]

#### **Proposed Statement on Quality Management Standards No. 2, *Engagement Quality Reviews* (proposed SQMS 2)<sup>2</sup>**

22. This amendment to proposed SQMS 2 would be effective for audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other

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<sup>2</sup> Proposed Statement on Quality Management Standards (SQMS) No. 2, *Engagement Quality Reviews*, has not been finalized. It is expected that it will be issued as a final standard in 2022. The content of the paragraphs in the proposed SQMS that are shown here may change by the time the proposed SQMS is issued as a final standard

engagements in the firm’s accounting and auditing practice beginning on or after December 15, 2025. An engagement in the firm’s accounting and auditing practice begins when an engagement letter or other agreement to perform attest services is signed, or when the firm begins to perform the engagement, whichever is earlier.<sup>8</sup>

[No amendment to paragraphs 1-A30]

**Performance of the Engagement Quality Review** (Ref: par. 24–27)

...

***Procedures Performed by the Engagement Quality Reviewer*** (Ref: par. 25–27)

...

***Group Audit Considerations***

**A31.** The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. Paragraph 21a requires the firm’s policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, for larger and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgments with key members of the engagement team other than the group ~~auditor engagement team~~ (for example, ~~those responsible for performing audit procedures on the financial information of a component auditor~~). In these circumstances, the engagement quality reviewer may be assisted by individuals in accordance with paragraph 20. The guidance in paragraph A22 may be helpful when the engagement quality reviewer for the group audit is using assistants.

[No further amendment to proposed SQMS 2, *Engagement Quality Reviews*.]

**Proposed Statement on Auditing Standards *Quality Management for Engagements Conducted in Accordance With GAAS*** (proposed QM SAS)<sup>3</sup>

23. This amendment to the proposed QM SAS would be effective for engagements conducted in accordance with generally accepted auditing standards for periods beginning on or after December 15, 2025.

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<sup>3</sup> Proposed Statement on Auditing Standards (SAS), *Quality Management for Engagements Conducted in Accordance With GAAS*, has not been finalized. It is expected that it will be issued as a final standard in 2022. The content of the paragraphs in the proposed SAS that are shown here may change by the time the proposed SAS is issued as a final standard.

[No amendment to paragraphs 1-41]

### **Scope of This Proposed SAS (Ref: par. 1)**

**A1.** This proposed SAS applies to all audits of financial statements, including audits of group financial statements. ~~AU-C section 600~~, ***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)*** ~~addresses deals with~~ special considerations that apply to an audit of group financial statements, including when component auditors are involved *or when the group auditor makes reference to the audit of a referred-to auditor.* ~~AU-C section 600~~ ***Proposed SAS Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*** also provides guidance on how to adapt and apply the requirements of this proposed SAS in an audit of group financial statements involving component auditors. ~~AU-C section 600~~ ***Proposed SAS Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*** adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, ~~AU-C section 600~~ ***Proposed SAS Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*** may be useful when involving such an individual to attend a physical inventory count; inspect property, plant, and equipment; or perform audit procedures at a shared service center at a remote location.

[No amendment to paragraphs A2-A20]

### **Definitions**

#### ***Engagement Team (Ref: par. 12d)***

...

**A21A.** *When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the “engagement partner” and “engagement team” for purposes of GAAS. This proposed QM SAS does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.*

**A21B.** *Referred-to auditors are not members of the engagement team. Referred-to auditors are not component auditors.* <sup>fn 25</sup>

*Fn 25 Paragraph .A26.1 of Proposed SAS Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors).*

[No amendment to paragraphs A22–.A23]

***The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. 8)***

**A24.** In particular, the firm’s policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm

- has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm’s recruitment and training processes and, therefore, the firm’s policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or oversight body. Paragraphs ~~22~~ **26** and ~~A47–A48.~~ **A59–.A63** of ~~AU-C section 600~~ **Proposed SAS Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)** contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
- understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm’s training with regard to the firm’s policies or procedures for relevant ethical requirements. The firm’s policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual
- will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm’s independence systems. The firm’s policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

**A25.** When firm policies or procedures require specific activities to be undertaken in certain circumstances (for example, consultation on a particular matter), it may be necessary to communicate with individuals who are not personnel about what is expected of them to enable the engagement partner to comply with the firm’s policies or procedures. For example, in a group audit engagement, communicating the group auditor’s policies and procedures about matters subject to consultation to a component auditor enables the component auditor to determine which identified difficult or contentious matters that are relevant to the group financial statements to bring to the attention of the group **auditor engagement team**.

[No amendment to paragraphs A26–.A52]

**Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: par. 22–24)**

...

A53. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this proposed SAS and making informed decisions about appropriate courses of action. Such information may include the following:

- Information about the size, complexity, and nature of the entity, including whether it is a group audit, the industry in which it operates, and the applicable financial reporting framework
- The entity’s timetable for reporting, such as at interim and final stages
- In relation to group audits, the nature of the control relationships between the parent and its *entities or business units* ~~components~~
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised, and reviewed

A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other AU-C sections, as well as this proposed SAS, for example, with respect to the following:

- Establishing an understanding of the terms of the audit engagement, as required by AU-C section 210, *Terms of Engagement*<sup>29</sup>
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with AU-C section 315 and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*
- Understanding the group, ~~its components~~, and *its* ~~their~~ environments, in the case of an audit of group financial statements in accordance with ~~AU-C section 600~~ **Proposed SAS, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)** and directing, supervising, and reviewing the work of component auditors
- Determining whether, and how, to involve an auditor’s specialist in accordance with AU-C section 620
- The entity’s governance structure in accordance with AU-C section 260, *The*

*Auditor’s Communication With Those Charged With Governance, and AU-C section 265, Communicating Internal Control Related Matters Identified in an Audit*

...

**Engagement Resources (Ref: par. 25–28)**

...

A60. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation, or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group **auditor engagement team**.<sup>30</sup> In such circumstances, the firm’s policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

30 See paragraph .03 .A10 of AU-C section 600, *Proposed SAS* Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors **and Audits of Referred-to Auditors**).

...

**Insufficient or Inappropriate Resources (Ref: par. 27)**

...

~~A76. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management, or the firm to make sufficient and appropriate resources available.~~

...

**Engagement Performance**

...

***The Engagement Partner’s Review (Ref: par. 30–34)***

...

A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm’s policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit

strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team. Examples follow:

- Matters related to planning the engagement, such as matters related to determining materiality
  - The composition of the engagement team, including
    - personnel using expertise in a specialized area of accounting or auditing
    - the use of personnel from service delivery centers
  - The decision to involve an auditor’s specialist, including the decision to involve an external specialist
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information
- The engagement team's risk assessment process, including situations in which consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team
- The engagement team's consideration of related party relationships and transactions and disclosures
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions concerning certain accounting estimates, accounting policies, or going concern considerations
- The engagement team's evaluation of the work performed by specialists and conclusions drawn therefrom
- In group audit situations
  - the proposed overall group audit strategy and group audit plan;
  - decisions about the involvement of component auditors, including how to direct and supervise them and review their work, ~~including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component;~~ and
  - the evaluation of work performed by component auditors and the conclusions drawn therefrom

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- How matters affecting the overall audit strategy and audit plan have been addressed
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement
- The proposed audit opinion and matters to be communicated in the auditor’s report, for example, key audit matters, or a “Material Uncertainty Related to Going Concern” paragraph

[No further amendment to proposed SAS *Quality Management for Engagements Conducted in Accordance With GAAS.*]