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

RSM US LLP appreciates the opportunity to offer our comments in response to 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). RSM US LLP is a leading provider of audit, tax and consulting services focused on the middle market. We have nearly 13,000 people located in 83 offices in the United States and four locations in Canada.

We believe the proposed SAS will strengthen the auditor's approach to planning and performing a group audit and will improve the quality of group audits. Specifically, we agree that the proposed SAS will:

- Clarify and reinforce that all applicable AU-C sections need to be applied in a group audit engagement. We believe the stronger linkages to other AU-C sections, as appropriate, are helpful in this regard.
- Emphasize and clarify the interactions that are needed between the group auditor and component auditors and between the group auditor and referred-to auditors.
- Help to enhance the scalability of the standard.
- Provide greater clarity on the scope and applicability of the proposed SAS.

In this letter, we offer comments on matters related to the proposed SAS that we believe should be addressed, including those for which feedback was specifically requested by the Auditing Standards Board.

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Requests for Comment

1. With respect to the linkages to other AU-C sections:

- a. Does the proposed SAS have appropriate linkages to other AU-C sections and to the proposed SQMSs?
- b. Does the proposed SAS sufficiently address the special considerations in a group audit as they relate to applying the requirements and application material in other relevant AU-C sections, including the proposed QM SAS? Are there other special considerations for a group audit that you believe have not been addressed in the proposed SAS?
- c. Does the proposed SAS result in a group audit that achieves the objectives of the proposed QM SAS?

We believe the proposed SAS has appropriate linkages to other AU-C sections and to the proposed SQMSs. However, we submit the following comments related to certain of the proposed amendments to the other AU-C sections:

- Because the proposed changes to paragraph A31 of AU-C Section 550, *Related Parties*, discuss the communications that apply to group audits, particularly those that involve component auditors or when reference is made to referred-to auditors, we suggest that it would be helpful if paragraph A31 included a footnote that references paragraphs 33b, 34b, 62b and 62d(ii) of proposed AU-C Section 600.
- We note that as proposed, paragraph .02 of AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, would cause AU-C Section 805 to not apply to circumstances in which audit procedures are performed by a component auditor. We believe Section 805 also should not apply to the audit of the referred-to auditor. Therefore, we suggest that proposed paragraph .02 of AU-C Section 805 be revised as follows (our proposed additions are noted in bold font):

.02 This section does not apply to **(a)** circumstances in which the audit procedures are performed by a component auditor on the financial information of a component for purposes of an audit of group financial statements, **or (b) the report of a referred-to auditor issued as a result of work performed on the financial information of a component for purposes of an audit of group financial statements** (see *proposed Statement on Auditing Standards Special Considerations — Audits of Group Financial Statements [Including the Work of Component Auditors and Audits of Referred-to Auditors]*).
- We suggest the following additional clarifying revision to paragraph 79.a. of AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, (our proposed addition is noted in bold font):
 - a. the **group** engagement partner has determined that the referred-to 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

We believe the proposed SAS sufficiently addresses the special considerations in a group audit as they relate to applying the requirements and application material in other relevant AU-C sections, including proposed Statement on Auditing Standards, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (the proposed QM SAS). We

are not aware of any other special considerations for a group audit that have not been addressed in the proposed SAS.

We believe meeting the requirements of the proposed SAS should 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?*

We support the placement of sub-sections throughout the proposed SAS that highlight the requirements when component auditors are involved, or when reference is made to the audit of a referred-to auditor in the auditor's report on the group financial statements. We believe the proposed structure will be very helpful as it will enable an auditor to quickly identify and differentiate the requirements for the particular situation.

3. *Is the scope and applicability of the proposed SAS clear? In that regard, is the definition of "group financial statements," including the linkage to a consolidation process, clear?*

We believe the scope and applicability of the proposed SAS is generally clear. We also believe the definition of *group financial statements*, including the linkage to a consolidation process, is generally clear.

4. *With respect to the scalability of the proposed SAS:*

- a. *Do you believe the proposed SAS is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in the proposed SAS, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the proposed SAS?*
- b. *Do you believe that the guidance in Exhibit A, "Relevancy of Requirements in Various Group Audit Scenarios," of the proposed SAS is understandable and provides clarity on the relevancy of certain requirements of the proposed SAS in various group audit scenarios? Would the relevancy of certain requirements of the proposed SAS in various group audit scenarios be clear without Exhibit A?*

The scalability of the proposed SAS

We believe the proposed SAS is scalable to groups of different sizes and complexities. We note that the standard properly focuses on identifying, assessing and responding to the risks of material misstatement using a principles-based approach that is adaptable to a wide variety of circumstances and scalable for audits of groups of different complexity. This allows the group auditor to determine an appropriate approach to obtaining sufficient appropriate audit evidence to address assessed risks of material misstatement of the group financial statements.

We note that paragraph 16 of the proposed SAS defines *aggregation risk* as "the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole" and paragraph A20 of the proposed SAS states:

Aggregation risk exists in all audits of financial statements but is particularly important to understand and address in a group audit because there is a greater likelihood that audit

procedures will be performed on classes of transactions, account balances, or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components at which audit procedures are performed separately increases, whether by component auditors or other members of the engagement team.

We agree that aggregation risk is particularly important to understand and address in a group audit. We believe, however, that aggregation risk increases as a result of a myriad of factors, including, but not limited to, the extent of disaggregation of the financial information across components and the nature, frequency and magnitude of misstatements in the component financial information. The auditor responds to aggregation risk by reducing the component performance materiality to an appropriately low level for the audit procedures performed separately on the financial information of components across the group. We suggest consideration be given to deleting the last sentence of paragraph A20 of the proposed SAS.

Exhibit A, "Relevancy of Requirements in Various Group Audit Scenarios"

We believe the guidance in Exhibit A, "Relevancy of Requirements in Various Group Audit Scenarios," of the proposed SAS is understandable and provides clarity. We believe the relevancy of the requirements of the proposed SAS in various group audit scenarios would be clear without Exhibit A; however, Exhibit A provides a very helpful reference.

We note that Exhibit A indicates the requirements in paragraph 36 of the proposed SAS are relevant for all of the various group audit scenarios. However, the header immediately preceding paragraph 36 states "Considerations When Component Auditors Are Involved." We agree that the requirements in paragraph 36 are relevant for all of the various group audit scenarios, and therefore suggest removing this header.

5. *Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of AU-C section 230? In particular:*
 - a. *Are there specific matters that you believe should be documented other than those described in paragraph 76 of the proposed SAS?*
 - b. *Do you agree with the application material in paragraphs A203–A219 of the proposed SAS relating to the group auditor's audit documentation?*

We support the enhanced requirements on documentation, including the linkage to the requirements of AU-C section 230 and the application material in paragraph A203–A219. There are no specific matters that we believe should be documented other than those described in paragraph 76 of the proposed SAS.

We note that paragraph A205 of the proposed SAS states that the audit documentation for the group audit comprises (a) the documentation in the group auditor's file and (b) the separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit (that is, component auditor audit documentation). We therefore are curious as to why the word "ordinarily" is needed in the first sentence of paragraph A213, which states, "Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file." We suggest that, if there are circumstances in which it is necessary for the group auditor's file to replicate the component auditor audit documentation, those circumstances should be articulated in the proposed SAS. Otherwise, we suggest consideration be given to removing the word "ordinarily" from the first sentence of paragraph A213.

6. *Are the definitions of the terms “referred-to auditor,” “component auditor,” and “group auditor” clear, including as they relate to the definition of the term “engagement team” in the proposed QM SAS?*

We believe the definitions of the terms *referred-to auditor*, *component auditor* and *group auditor* are clear, including as they relate to the definition of the term *engagement team* in the proposed QM SAS.

7. *Is the requirement in paragraph 11 clear? Are there additional requirements or application material relating to paragraph 11 that are needed, and if so, what should they be?*

We believe the addition of paragraph 11 to AU-C Section 300, *Planning an Audit*, clarifies the group engagement partner’s responsibility to review the overall audit strategy and audit plan. We are not aware of the need for any additional requirements or application material relating to paragraph 11.

8. *Do you agree with the deletion of this requirement and the related application paragraph? Do you have other suggestions for considering components in interim reviews now that the concept of “significant components” has been eliminated?*

We agree with the deletion of the requirement for the group auditor to identify and audit significant components as we believe this deletion further allows the proposed SAS to be scalable. The elimination of the concept of “significant components” supports the proposed standard’s focus on identifying, assessing and responding to the risks of material misstatement using a principles-based approach that is adaptable to a wide variety of circumstances and scalable for audits of groups of different complexity.

9. *Do you agree with the application material in paragraphs A47–A49 of the proposed SAS relating to a noncontrolling interest in an entity that is accounted for by the equity method? Are there additional requirements or application material relating to EMIs that are needed in the proposed SAS, and if so, what should they be?*

We 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. We are not aware of the need for any additional requirements or application material relating to equity method investments.

10. *Do you support retaining the option that exists in extant AU-C section 600 for the group engagement partner to make reference to the audit of a referred-to auditor (a component auditor per extant AU-C section 600) in the auditor’s report on the group financial statements?*

We fully support retaining the option that exists in extant AU-C section 600 for the group engagement partner to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements.

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

We believe the specific requirements relating to referred-to auditors are clear, appropriate and easily identifiable within the proposed SAS, including when considering 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?*

We believe the last sentence of paragraph A41 provides the appropriate level of guidance for the group auditor. We believe individual audit firms should provide policies and guidance, if needed, as they discern the pertinent risks in the relationship between the portion of the financial statements audited by the referred-to auditor and the group auditor's ability to obtain sufficient appropriate audit evidence.

13. *Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments, including sufficient time to support effective implementation of the proposed SAS?*

We believe the proposed effective date provides sufficient time for preparers, auditors and others to adopt the new standard and related conforming amendments, including sufficient time to support effective implementation of the proposed SAS.

We note that International Standards on Auditing (ISA) 600 (revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, is effective for audits of financial statements for periods beginning on or after December 15, 2023, which is prior to the effective date for the proposed SAS. Because several firms have global audit methodologies and because the proposed SAS substantially converges with ISA 600, it would be helpful if the proposed SAS provided for early adoption.

Additional Comment Regarding the Proposed SAS

Engagement resources

Paragraph 28 of the proposed SAS requires the group engagement partner to determine that component auditors have sufficient time to perform the assigned audit procedures at the component. We believe it would be helpful if additional guidance was provided in paragraph .A70 regarding how the group engagement partner would determine whether component auditors have sufficient time to perform the assigned audit procedures at the component.

Similarly, we note that the proposed addition of paragraph .33.d.ii. to AT-C Section 105, *Concepts Common to All Attestation Engagements*, would require a determination of the sufficiency of time to perform procedures. In addition to suggesting that additional guidance be provided regarding how this determination is made, we suggest the wording of this new paragraph be revised to sync with the terminology used elsewhere in paragraph .33 of AT-C Section 105 as follows (our proposed addition is noted in bold font, and our proposed deletions are struck through):

- ii. determine that the other ~~auditor~~ **practitioner** has sufficient time to perform assigned ~~audit~~ procedures, and

Materiality

Currently, AU-C 600 requires the group auditor to determine performance materiality for those components on which the group engagement team will perform, or request a component auditor to perform, an audit or review. Paragraph 37 of the proposed SAS would require the group auditor to determine component performance materiality for those components on which the group auditor or component auditor will perform audit procedures. We believe consideration should be given to changing paragraph 37 to read as follows (additions shown in bold font):

In applying AU-C section 320, *Materiality in Planning and Performing an Audit*, and AU-C section 450, *Evaluation of Misstatements Identified During the Audit*, when classes of transactions, account balances, or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, for those components on which the group auditor or component auditor will perform audit **or review** procedures, the group auditor should determine the following:

- a. Component performance materiality. To address aggregation risk, such amount should be lower than group performance materiality. (Ref: par. A127–A133)
- b. The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold should not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: par. A134)

Technical questions and answers

We note that the AICPA has issued technical questions and answers (e.g., question .23 of Q&A Section 8800) related to the performance of group audits, which will need to be updated upon the finalization of the proposed SAS.

Typographical error

We note that in the first sentence of the “Basis for Qualified Opinion” section of Exhibit B on page 107 of the proposed SAS, “thenended” should be changed to “then ended.”

Closing

We appreciate this opportunity to provide feedback on the proposed SAS and would be pleased to respond to any questions the Auditing Standards Board or the AICPA staff may have about our comments. Please direct any questions regarding this letter to Sara Lord, Chief Auditor, at 612.376.9572 or Adam Hallemeyer, Audit Policy Leader, at 619.641.7318.

Sincerely,

RSM US LLP

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