



ILLINOIS CPA SOCIETY

June 16, 2022

AICPA Auditing Standards Board
CommentLetters@aicpa-cima.com

RE: Proposed Statement on Auditing Standards - *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*

Dear Committee Members:

The Illinois CPA Society (ICPAS) is a statewide membership organization, with nearly 23,000 professionals dedicated to enhancing the value of the CPA profession. Founded in 1903, ICPAS is one of the largest state CPA societies in the United States. ICPAS represents Illinois CPAs in public accounting and consulting, corporate accounting and finance, not-for-profit, government and education organizations as well as affiliate member groups for students, educators, international professionals, and related non-CPA finance professionals.

The ICPAS Audit and Assurance Services Committee (the “Committee” or “we”) is pleased to comment on the 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 organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Committee rather than any individual members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

Request for Comments

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?
 - a. **We believe the linkages are appropriate.**

We question how a group auditor gains comfort with a component auditor of a foreign company that conducts the audit in a foreign language. Although supervision and communication with the different component auditors are discussed in paragraphs A82-A85, overcoming language barriers is not specifically addressed. We suggest application guidance as to the approach to dealing with this situation (such as using an intermediary to interpret) and related supervision requirements as well as guidance regarding a situation where a client wants to use a local firm that speaks a different



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language than the group auditor. We refer to our response in #4 regarding the impact of different firm methodologies.

b. Yes, we believe so.

2. With respect to the structure of the proposed SAS, do you support the placement of sub-sections throughout the proposed SAS that highlight the requirements when component auditors are involved or when reference is made to the audit of a referred-to auditor in the auditor's report on the group financial statements?

Yes

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 consolidations process, clear?

Yes, we believe the scope and applicability of the proposed SAS is clear.

4. With respect to the scalability of the proposed SAS:
- 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?
 - 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?

a. We believe that the proposed SAS is scalable to groups of different sizes and complexities. However, when applying the risk-based approach prescribed in the proposed SAS, if the group audit firm differs from the component audit firm, use of different audit methodologies may present an issue. We see this as a challenge in terms of scalability of the standard, particularly in instances where there is a sub-consolidation performed by the component auditor. We would like to see more guidance or tools on how the use of different audit methodologies by the component auditors is addressed by the group auditor, such as instances where testing approaches differ (i.e., sample sizes utilized for both tests of controls and tests of details).

b. We believe while the proposed SAS in various group audit scenarios is clear without exhibit A, exhibit A is understandable and provides a useful reference point for practitioners to identify the relevant requirements for their respective fact patterns.

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:
- Are there specific matters that you believe should be documented other than those described in paragraph 76 of the proposed SAS?
 - Do you agree with the application material in paragraphs A203-A219 of the proposed SAS relating to the group auditor's audit documentation?



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- a. **We support the enhanced documentation requirements as presented in paragraph 76 of the proposed SAS. We suggest additional discussion of risks and uncertainties that may be present at the component auditor level, including, but not limited to 1) local regulatory, 2) litigation, and 3) cyber related matters.**
 - b. **We agree with the application material in paragraphs A203–A219 of the proposed SAS, however, we suggest including reference to the sufficiency of procedures performed by the component auditor in direct response to the identified group-level assessed risks of material misstatement. By removing the requirement to identify significant components, with more targeted risk-based procedures performed at the component audit level, there is added importance on ensuring sufficient procedures have been performed on overall risks of material misstatements assessed at the group level and relevant to the component auditor.**
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?

Although we noted the definitions of referred to auditor and component auditor in paragraph 16 (Definitions), we questioned the purpose of introducing the concept of the “referred-to auditor” and how it differs from the idea of a component auditor, especially since the proposed SAS says it is equivalent to the component auditor. We have further noted that the definition of “group engagement team” has been revised to indicate that a component auditor is still part of the engagement team. However, now the term “group engagement team” has been replaced with the term “group auditor,” and the component auditor is not included as part of the “group auditor.” We believe more clarification is warranted in order to distinguish the “group auditor” and “component auditor” within the context of the “engagement team” and to clearly delineate that the “referred-to auditor” as being outside of the “engagement team.” (Application Material A19; A23). Perhaps a diagram or flowchart would be helpful in distinguishing these concepts.

7. Is the requirement in paragraph 11 (the engagement partner should review the overall audit strategy and audit plan) clear? Are there additional requirements or application material relating to paragraph 11 that are needed, and if so, what should they be?

Yes. We believe no additional requirements are needed.

8. The proposed SAS eliminates the concept of “significant components” and no longer includes a requirement for the group auditor to identify and audit significant components. Do you agree with the deletion of this requirement and the related application paragraph? Do you have any other suggestions for considering components in interim reviews now that the concept of significant components has been eliminated?

We suggest modifying this paragraph instead of deletion of guidance altogether. Though the concept of significant components will be eliminated, we believe obtaining interim review reports on relevant elements of the reporting entity, if deemed appropriate by the group



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auditor to support their interim review procedures, remains an important procedure when performing the review of interim financial information under AU-C section 930.

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 the proposed SAS, and if so, what should they be?

No comment.

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

Yes

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

No response, due to our request for clarification in response to question #6.

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

Last sentence of paragraph A41 – *“As the magnitude of the portion of the financial statements that is audited by referred-to auditors increases, it is less likely that the group engagement partner can conclude that 17 of 161 sufficient appropriate audit evidence can be obtained.”*

We would suggest providing clarity over the determination of magnitude when making the assessment of the group engagement partner's ability to obtain sufficient audit evidence, with consideration given to both quantitative and qualitative factors. For example, as it pertains to qualitative factors, we do not believe that the group engagement partner would be able to obtain sufficient audit evidence for the financial statements as a whole if there were material disclosure matters that relate to a referred-to auditor. Examples may include the identification and evaluation of commitments and contingencies, and financial statement accounts that may not be quantitatively material but possess a higher level of inherent risk due to the existence of management estimates (i.e., allowance of doubtful accounts, inventory reserves, workers compensation liabilities, etc.)). Currently, paragraph A180 refers to quantitative considerations only in the context of the consideration of magnitude, as illustrated below (emphasis added):

A-180. The disclosure of the magnitude of the portion of the financial statements audited by a referred-to auditor may be achieved by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly describes the portion of the financial statements audited by a referred-to auditor. When two or more referred-to auditors



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are referred to, the dollar amounts or percentages covered by the referred-to auditors may be stated in the aggregate.

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

Yes

The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Michael Ploskonka, CPA

Chair, Audit and Assurance Services Committee

Amber Sarb, CPA

Vice Chair, Audit and Assurance Services Committee



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APPENDIX A
AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2022 – 2023

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee’s comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Scott Cosentine, CPA
Timothy Delany, CPA
Michael R. Hartley, CPA
Emily Hoaglund, CPA
James R. Javorcic, CPA
Michael Potoczak, CPA
Jon Roberts, CPA
Amber Sarb, CPA
Meredith Vogel, CPA

Ashland Partners & Company LLP
RSM US LLP
Crowe LLP
KPMG LLP
Mayer Hoffman McCann P.C.
Marcum LLP
BDO USA, LLP
RSM US LLP
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Timothy Van Cott, CPA

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Topel Forman LLC
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Carmen F. Mugnolo, CPA
Jodi Seelye, CPA

Arthur S. Gunn, Ltd.
CJBS LLC
DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Mugnolo & Associates, Ltd.
Mueller & Company LLP

Industry/Consulting:

Sean Kruskol, CPA

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