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U.S. Government Accountability Office
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To Whom it May Concern:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the Government Accountability Office's (GAO) exposure draft entitled *Government Auditing Standards 2023 Exposure Draft*.

Below are our responses to the requests for comments posed in the exposure draft.

Requests for Comment

- *The proposed standard (paragraph 5.07) permits audit organizations subject to the quality management standards of either the International Auditing and Assurance Standards Board or the Auditing Standards Board of the American Institute of Certified Public Accountants to comply with those standards and specific additional generally accepted government auditing standards (GAGAS) requirements to avoid having to maintain and document two systems of quality management. Is it appropriate to permit this flexibility to audit organizations? Why or why not?*

For audit organizations subject to either the International Auditing and Assurance Standards Board (IAASB) or the American Institute of Certified Public Accountants (AICPA), the flexibility permitted is appropriate to avoid a requirement to maintain multiple systems of quality management.

However, several of our members exclusively or primarily conduct and issue performance audits in accordance with *Government Auditing Standards*. We believe the intended flexibility should be explicitly extended to those audit organizations that exclusively or primarily conduct performance audits. This could be achieved by amending paragraph 5.11 to incorporate and provide guidance to these organizations. Specifically, permitting these organizations to scale their quality management system based on engagement type in addition to the "nature and complexity" already included in paragraph 5.11.

Furthermore, several of our members are heavily engaged in performance, information technology, financial, and compliance audits as well as attestation engagements. For the performance audit divisions in these audit organizations, we request additional guidance on how they can adhere to AICPA and GAGAS systems of quality management without requiring two separate systems of quality management.

- *A system of quality management depends on an appropriately designed and implemented quality management risk assessment process (paras. 5.19–5.42). Is the quality management risk assessment process in the proposed standard sufficiently clear and understandable?*

The proposed quality management risk assessment process is clear and understandable, but certain additions would be helpful. We recommend including a flow chart illustrating the components of



quality control and their relationship to quality risks. Including examples of responses to address quality risks would enhance the flow chart.

We request that you include examples in paragraph 5.34 (a-e) of how the listed conditions, events, circumstances, actions, or inactions could adversely affect the achievement of the audit organization's quality objectives. Specific examples are included in the independence and continuing professional education sections of the extant *Government Auditing Standards*. We recommend a similar approach for this guidance.

In order to achieve consistent application and clarity for users, we request that you include all new terms, such as quality objective, quality risk, reasonable possibility, etc. in the glossary of the new version of *Government Auditing Standards*.

- *The proposed standard includes new and revised requirements and application guidance for monitoring and remediation activities to assist audit organizations in identifying and remediating deficiencies in the system of quality management (paragraphs 5.84–5.125). Are these requirements sufficiently clear and understandable?*

Broadly, we believe the requirements are sufficiently clear and understandable except for certain significant instances of divergence from AICPA standards.

In the proposed exposure draft, paragraph 5.93 states that reviews of engagement team members' work prior to the date of the report are not monitoring procedures while Statement on Quality Management Standard (SQMS) 1 A150 states that monitoring activities may include the inspection of in-process engagements. A common monitoring procedure is an audit organization's quality control team reviewing engagement work prior to the issuance of the report to ensure they are following professional standards.

Secondly, paragraph 5.68 states that the engagement quality review should be completed on or before the date of the audit report while SQMS 1 states the engagement quality review takes place on or before the release date of the audit report. For the reasons discussed above and further outlined in the bulleted list below, we believe the proposed language in both instances of divergence should be changed to match SQMS 1.

The SQMS language is more practical and appropriate for several reasons including:

- *It includes a detailed definition of the report date and distinguishes it from the release date for financial audit and attest engagement standards. However, the report date is not defined by Government Auditing Standards for performance audits.*
- *If quality control teams can only conduct monitoring activities after the date of the report, engagement quality reviews would essentially be precluded from being considered part of the monitoring component, which does not seem reasonable.*
- *If monitoring activities can only take place after the date of the report, it would seem to preclude almost all forms of ongoing monitoring activities.*
- *For large audits – such as a Statewide single audit, or a state's Annual Comprehensive Financial Report – waiting to begin a review until after the date of the report may result in a lack of timely information.*
- *Limiting monitoring to after the date of the report may not appropriately address serious quality risks.*



- *The proposed revision is intended to promote scalability to enable audit organizations of different sizes and complexities to design, implement, and maintain a tailored system of quality management that responds to the circumstances of their audit organization and engagements (paragraphs 5.11–5.12). Does the proposed revision promote sufficient scalability?*

We support GAO's position to promote scalability based on the size and complexity of audit organizations and engagements. However, our association does not have a consensus position on whether the proposed revision promotes sufficient scalability.

As a result, we believe the proposed guidance should include minimum requirements an audit organization must meet to comply with their responsibilities for a sound system of quality management. While the proposed framework provides flexibility for audit organizations to efficiently achieve quality, the lack of any formal constraints to scalability may lead to wide variability in practice. Providing examples or crosswalks in an appendix that specifically address how the components of the proposed system of quality management relate to an audit organization's quality objectives, risks and potential responses could help reduce this variability.

- *The proposed standard includes a section (paragraphs 5.137–5.150) on performing engagement quality reviews that applies when an audit organization determines that such a response is appropriate to address one or more quality risks. Are the requirements and application guidance relating to engagement quality reviews sufficiently clear and understandable?*

The requirements and application guidance relating to engagement quality reviews are generally clear. However, we would request that you provide additional guidance or clarification.

Paragraph 5.71 refers to "other forms of engagement reviews that are not engagement quality reviews". While we appreciate the flexibility provided in this paragraph, it would be helpful for GAO to provide examples of "other forms of engagement reviews" to better understand the distinction.

We reiterate here the need for convergence with SQMS 1 regarding the definition of an engagement quality review. We believe it is appropriate and vital for the review period to extend to the report release date rather than the date of the report. Another need for convergence is paragraph 5.143 (e) which, unlike SQMS 2, restricts important elements of an engagement quality review to financial statement audits rather than extending these requirements to other engagements. Independence and ethical requirements are also important in performance audits.

Paragraph 5.150 (c-d) appears to provide the flexibility to only apply engagement quality review procedures to certain portions of an engagement based on the audit organization's policies and procedures and nature of the engagement. We feel this is appropriate and request additional guidance be added to paragraph 5.142 to more explicitly permit this flexibility.

- *The proposed standard adds application guidance (paragraph 6.39) stating that communicating key audit matters is permitted in GAGAS financial audits if the auditors are engaged to do so or required to do so by law or regulation as discussed in AU-C section 701, Communicating Key Audit Matters in the Independent Auditor's Report. Is the application guidance sufficiently clear and understandable?*



The application guidance is sufficiently clear and understandable.

- *Audit organizations would be required to design and implement systems of quality management that comply with GAGAS within 2 years from the issuance of the final standard. The required evaluation of the system of quality management would be required within 1 additional year (3 years from the issuance of the final revision). Should audit organizations be permitted to adopt the standard early?*

Yes, audit organizations should be permitted to adopt this standard early at their desired pace and discretion assuming they fully implement it in accordance with the required timeline.

Other Comments

- *We noted a typo in the second sentence of paragraph 5.110 which includes an extra "to" in the sentence that should be removed.*
- *We recommend that you include additional context in paragraph 5.145 that explains the threats to objectivity that may arise including but not limited to "making decisions on behalf of the engagement team."*
- *Paragraph 5.21 (b) appears to be missing the word "conditions" which is present in the corresponding paragraph in SQMS 1.*

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Josh Winfrey of NSAA at (859) 276-1147 or me at (860) 240-8651.

Sincerely,

John C. Geragosian
President, NSAA