



Association of Local Government Auditors

April 27, 2023

Mr. James Dalkin
Director, Financial Management and Assurance
Government Accountability Office
441 G St. N.W.
Washington, DC 20548

RE: Government Auditing Standards 2023 Exposure Draft

Dear Mr. Dalkin,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to *GAO's Government Auditing Standards 2023 Exposure Draft*. ALGA represents 330 audit organizations comprising more than 2,700 individuals. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the exposure draft in its entirety. We appreciate the opportunity to provide comments and help in the process of ensuring that the standards meet the needs of the federal, state, and local government audit communities. We provide comments in two sections: First, in items 1 through 7, we respond to the questions provided in the exposure draft; second, in item 8, we make additional comments and suggestions.

RESPONSES TO GAO QUESTIONS:

1. Audit Organizations Subject to Other Quality Management Standards

The proposed standard (para. 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?

Response – Yes. This is a reasonable approach to avoid duplicative and inefficient processes created by maintaining and documenting the two separate systems, as long as specific additional GAGAS requirements are in place and documented, as required. However, we suggest adding a reference “c. The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*,” which is referenced in paragraph 3.57 of the 2021 *Government Auditing Standards* and is used by many government audit organizations.¹

2. Quality Management Risk Assessment Process

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?

¹ The Institute of Internal Auditors (The IIA) is proposing in its 2023 exposure draft to change the name of its standards to “*Global Internal Audit Standards*,” but will retain its former name until The IIA’s revised standards are published.



Association of Local Government Auditors

Response – Although it is clear what is expected in the risk assessment process, it is not clear if there is to be a standard process that is applied to every engagement, or a process designed for each engagement based on the nature of the engagement. If the risk assessment is done at the front- end of each engagement, is annual monitoring then the mechanism to evaluate if the auditors had adequately addressed the risks as they conducted the engagement? We suggest clarifying this requirement through the application guidance.

3. Monitoring and Remediation Process

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 (paras. 5.84–5.125).

Are these requirements sufficiently clear and understandable?

Response – Yes. However, we believe adding an example of how self-inspections may be conducted (e.g., through use of a checklist, automated tool, use of a specific list of open-ended questions, or some other means) would be helpful for ensuring the effectiveness of self-inspections.

Paragraph 5.93 says that reviews of engagement team members’ work prior to the date of the report are not monitoring procedures. We believe that the flexibility provided in how an audit organization designs its system of quality management could provide efficiencies by allowing reviews prior to the report date to be monitoring procedures, particularly for small audit organizations, if the manner in how those monitoring procedures are to be performed are specifically described in the audit organization’s policies and procedures.

4. Scalability Approach for Audit Organizations Differing in Size and Complexity

The proposed revision intends to promote scalability to enable each audit organization, based on its size and complexity, to design, implement, and maintain a tailored system of quality management that responds to the circumstances of the audit organization and the engagements that it conducts (paras. 5.11–5.12).

Does the proposed revision promote sufficient scalability?

Response – Yes, but we believe there are aspects of the requirements and application guidance that can be more clearly linked by moving the application guidance related to scalability into the standard itself. Thus, we suggest changing paragraph 5.08 to, “unless a requirement or an aspect thereof is not relevant to the audit organization because of its nature, *including size and organizational complexity*, circumstances, or its engagements.”

We believe more examples in paragraph 5.12 would be helpful because the example of only a single auditor organization is a bit too straight forward and obvious. It would be beneficial to provide one or two more examples with an explanation of the rationale so audit organizations can properly analyze and apply the rationale. A large percentage of ALGA’s membership is small audit organizations with more than one person but less than ten. An example of how to apply the requirements in these size audit organizations would be helpful. We also believe it would be helpful to clearly state in para. 5.12 that “smaller or less-complex audit organizations may establish a quality management system and achieve the related quality objectives with less formal policies and procedures.”

5. Engagement Quality Reviews



Association of Local Government Auditors

The proposed standard includes a section (paras. 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?

Response – Partially. We do not believe the requirements in paragraph 5.139 sufficiently address scalability, particularly for small audit organizations, if the requirement remains for the reviewer to not be members of the engagement team. Engagement quality reviews seem to be an important step for determining if the audit organization is sufficiently addressing its quality risks, but as proposed, it is unlikely that small audit organizations would choose this method as an appropriate response to address quality risks.

6. Application Guidance for Key Audit Matters

The proposed standard adds application guidance (para. 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?

Response – Yes.

7. Early Adoption of Proposed Revision

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?

Response – Yes. Allowing audit organizations to adopt the standard early would improve their process early. However, if an audit organization does adopt the standard early, there should be a requirement for the audit organization to document the adoption date so it is clear when the one-year period for the first required evaluation of the system of quality management should occur. Further, since much of the proposed standards are to align the system of quality management with those of the AICPA and IAASB, early adoption will prevent issues that may arise if standards with similar requirements are adopted at different times.

8. Additional Comments and Suggestions

- a) The first paragraph on page 5 of the Overview and paragraphs 5.03, 5.04, and 5.28 all discuss the eight components of quality management. Paragraphs 5.03 and 5.28 identify the assessing risks and monitoring/responding components as processes that do not require quality objectives, and paragraph 5.27 identifies the other six components as being objectives of quality management. Because of the fragmented nature of that discussion, it was not as clear at the beginning of Chapter 5 how these components are interconnected. Suggest moving to paragraph 5.04 the definition of quality objectives that are currently in paragraph 5.26 and the list of quality objectives in paragraph 5.27. Explaining this up front would help auditors better understand that the quality components include a mix of processes and objectives to create a system of quality management and would also eliminate the need for paragraph 5.28.



Association of Local Government Auditors

- b) Paragraph 5.05 requires audit organizations to establish systems of quality management and 5.06 says the design, implementation, and operation of such a system should be based on professional judgment, taking into account the nature and circumstances of the audit organization and its engagements. Throughout the remainder of the chapter, the discussion provides additional comments related to the nature and circumstances of the audit organization. We believe greater clarification of the “nature and circumstances of the audit organization” in the requirements would be helpful, particularly for smaller and less-complex audit organizations. Such clarification may include definitions of “nature” and “circumstances.” This is important to ALGA members because a large percentage of our membership is small audit organizations of five or fewer staff where the chief audit executive may also be a working auditor.
- c) The exposure draft does not explain how the quality management risk assessment process should be evaluated during a peer review. For example, how should a quality objective be considered during a peer review if the audit organization deemed it not to be a risk but a peer review team believes it should have risen to a quality risk, or if an audit organization chose not to use the engagement review process but a peer review team thought it should have been used? As such, we suggest adding application guidance for how the quality management process would be evaluated during a peer review.
- d) Paragraph 5.32 can remove the statement “occurring and,” so that the paragraph reads: “Quality risks are risks that have a reasonable possibility of adversely affecting the achievement of one or more quality objectives individually, or in combination with other risks.” Risks that have a reasonable possibility of having an adverse effect also inherently have a reasonable possibility of occurring.
- e) Paragraph 5.43.e requires the audit organizations leadership to obtain, allocate, and assign resources in a manner consistent with the audit organization’s commitment to quality. While we agree with the intent of this requirement, it is important to acknowledge that many audit organizations have control only on how the allocate and assign the resources provided to them by their legislative body and do not have the ability to obtain all of the resources necessary to meet the level of commitment to quality that the *Government Auditing Standards* are proposing.
- f) Paragraph 5.52.d says that consultation should occur on significant matters but is not clear who should be involved in the consultation. We believe the existing language in paragraph 5.24 of the 2018 *Government Auditing Standards* was clearer that such consultations occur among the engagement team members and the need for them to agree upon the nature and scope of such consultations. We suggest adding similar language into paragraph 5.52 of the proposed standards.
- g) Paragraph 5.98 defines “inspection” as a “retrospective evaluation,” but “inspection” is used several times before it is defined. Rather than defining “inspection” in application guidance for a standard other than the one where it was first used, we suggest revising the Glossary to include the term and its definition.
- h) The application guidance in Paragraph 5.128 says that in concluding on the system of quality management, the senior-level official assigned responsibility and accountability for the system of quality management **may** consider the audit organization’s quality management risk assessment process, quality objectives, quality risks, and responses to address the quality risks. While we understand that the word “may” is used here because this is an application



Association of Local Government Auditors

guidance paragraph, we believe that these considerations are an essential consideration for developing conclusions on the effectiveness of the quality management system and should be moved into the standards as a “should” requirement.

- i) Some of the component requirements in the proposed revision require audit organizations to develop policies and procedures while others do not or say that audit organization should establish a “process.” Although a “procedure” is typically a task or activity within a process, in the context of “policies and procedures,” the procedures are typically understood to be the methods and processes used to implement policies. We suggest adding a requirement in the standards for System of Quality Management, similar to the requirement in paragraph 5.04 of the current *Government Auditing Standards*, for the audit organization to establish policies and procedures for its system of quality management. Doing so would also eliminate the need to say in various other parts of the standards that the audit organization should establish policies and procedures only for specific components of its system of quality management.

Respectfully submitted,

Dawn Wiseman, CRMA
Chair, Professional Issues Committee, Association of Local Government Auditors
Audit Director, City and County of Denver, CO

Key ALGA Contributors:

Joseph Balbier, Cuyahoga County, OH
Kelly Houston, Buncombe County, NC
Fiona Howell Earle, Washington County, OR
Brian Parks, City of Jacksonville, FL
Harriet Richardson, Retired, San Francisco Bay Area Rapid Transit District
Neha Sharma, City of Austin, TX
Corrie Stokes, City of Austin, TX