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April 28, 2023

Gene L. Dodaro  
Comptroller General of the United States  
United States Government Accountability Office  
441 G Street NW  
Washington, DC 20548

Via Email to [YellowBookComments@gao.gov](mailto:YellowBookComments@gao.gov)

### **Re: 2023 Exposure Draft, *Government Auditing Standards***

Dear Mr. Dodaro:

Grant Thornton LLP appreciates the opportunity to comment on the proposed changes in the 2023 Exposure Draft, *Government Auditing Standards*, issued for public comment by the United States Government Accountability Office (GAO). Overall, we support the proposed changes to *Government Auditing Standards* (GAGAS) and agree that the updated requirements will promote high-quality work performed by audit organizations that conduct GAGAS engagements, which is supported by a system of quality management grounded in standards.

While we support the issuance of the proposed revisions to GAGAS, we have identified certain aspects of the proposal that we believe could be either strengthened or clarified or might result in unintended consequences. Accordingly, we respectfully submit our comments and recommendations herein, which include our views on the questions posed by the GAO in the exposure draft.

#### **Audit organizations subject to other quality management standards**

We support the proposed requirement to permit audit organizations subject to the quality management standards of either the International Auditing and Assurance Standards Board (IAASB) or the American Institute of Certified Public Accountants (AICPA) to comply with those standards and specific additional GAGAS requirements to avoid having to maintain and document multiple systems of quality management. The effort to implement, maintain, and document either the IAASB's or AICPA's quality management standards is substantial, and we believe audit firms will appreciate having the flexibility to incrementally implement, maintain, and document the specific additional GAGAS requirements. However, we recommend adding the quality control standards of the Public Company Accounting Oversight Board (PCAOB) to proposed paragraph 5.07, as such standards would be relevant to U.S.

Department of Housing and Urban Development (HUD) lenders that are issuers whose audits are subject to PCAOB standards in conjunction with GAGAS. Adding a reference in proposed paragraph 5.07 to PCAOB quality control standards would also be consistent with the guidance in GAGAS Chapter 2, paragraph 2.13c, which allows auditors to elect to use PCAOB standards in conjunction with GAGAS.

In addition, we are concerned that the incremental GAGAS requirements referenced within proposed paragraph 5.07 may not be complete. Specifically, we recommend requiring, and, therefore, adding a reference in paragraph 5.07 to paragraph 5.14c, in order to clarify that audit organizations need to understand GAGAS requirements and application guidance to the extent applicable.

### **Risk assessment**

Generally, we believe the quality management risk assessment process in the proposed standard is clear and understandable. However, we note that proposed paragraph 5.22 does not include language equivalent to the language in paragraph 27 of Statement of Quality Management Standards (SQMS) 1, *A Firm's System of Quality Management*, which states that a firm's responses to quality risks specified in paragraph 35 of SQMS 1 (equivalent to proposed GAGAS paragraphs 5.46 and 5.53), "alone are not sufficient to achieve the objectives of the system of quality management." As currently proposed, it is not clear whether the GAO expects proposed paragraphs 5.46a-b and 5.53a-f to be sufficient to achieve the objectives of a system of quality management without additional responses to quality risks. Accordingly, we recommend adding clarifying language to paragraph 5.22 to be clearer with regard to the GAO's intent.

Further, we believe proposed paragraph 5.46 could be strengthened by adding a requirement to investigate and resolve complaints and allegations about noncompliance with professional standards and legal and regulatory requirements, or about potential noncompliance with policies and procedures, similar to the specific requirement in paragraph 35c of SQMS 1. We believe that staying silent on the requirement to establish policies or procedures to receive, investigate, and resolve complaints and allegations would de-emphasize the importance of such policies or procedures to an audit organization's system of quality management.

We also suggest that the GAO consider including a requirement similar to the one in paragraph 35d of SQMS 1, which addresses the establishment of policies or procedures that address information that would have changed an audit organization's decision to accept or continue with a client relationship or specific engagement. As such policies are important to, and inseparable from, an audit organization's overall system of quality management, we recommend adding a similar requirement to either proposed paragraph 5.46 or 5.53.

We also noted a minor inconsistency between proposed paragraphs 5.21a and 5.21b, where the word "conditions" in the phrase "conditions, events, circumstances, actions, or inactions" is included in 5.21a but omitted from 5.21b. We recommend including the word in both bullet points for internal consistency and for consistency with paragraph 26 of SQMS 1.

### **Monitoring and remediation**

We believe the requirements relating to the monitoring and remediation process in the proposed standard are clear and understandable overall. Further clarity, however, could be provided in proposed paragraph 5.105 on whether evaluating the system of quality management for deficiencies also includes evaluating the monitoring and remediation process, as contemplated in paragraph 41 of SQMS 1. We believe that evaluating the monitoring and remediation component is an important aspect in ensuring that an audit organization's system of quality management is functioning as intended.

Additionally, we recommend the GAO consider further clarifying what is meant by "relevant engagement partners or directors" in proposed paragraph 5.123. One could argue that all engagement partners and directors within the audit organization are relevant, which means that the proposed requirement, as written, could result in unintended consequences, including overwhelming or burdensome communications within the audit organization. We also note that the individual or individuals assigned operational responsibility for the system of quality management are omitted from the communication requirements in this paragraph. We recommend aligning the language in proposed paragraph 5.123 more closely with paragraph 47 of SQMS 1 related to both of these matters.

With respect to reviewing completed engagements, as described in proposed paragraph 5.100, we support a requirement similar to the one in paragraph 39 of SMQS 1, which requires inspection of completed engagements to be part of an audit organization's monitoring activities. In our view, such inspection would enhance engagement quality and also facilitate AICPA peer reviews, as GAGAS engagements are considered a "must select" category for both public accounting firms and governmental audit organizations.

Finally, we believe the reference to paragraph 5.119 in proposed paragraph 5.128b(3) of the application guidance may be incorrect. Paragraph 5.128b(3) appears to be describing the requirements in proposed paragraph 5.118, not in proposed paragraph 5.119. We recommend correcting the reference accordingly.

### **Scalability**

We believe the proposed revisions promote sufficient scalability. As previously indicated, we also support the flexibility provided to audit organizations subject to other quality management standards.

### **Engagement quality reviews**

Generally, we found the requirements and application guidance relating to engagement quality reviews clear and understandable. We do, however, believe that using the term "audit report" is inappropriately limiting, particularly in relation to reviews of financial statements or financial information and to other types of engagements. As such, we recommend revising proposed paragraphs 5.143f(2) and 5.143f(3) to refer to "engagement report" instead.

We also recommend that the GAO consider clarifying and expanding on the nature and extent of documentation requirements in proposed paragraph 5.149 so that the

requirements are more consistent with those in paragraph 30 of SMQS 2, *Engagement Quality Reviews*. For example, paragraph 30 of SQMS 2 includes language relating to documentation requirements that enables an experienced practitioner with no previous connection to the engagement to review and understand the nature, timing, and extent of the procedures performed by the engagement quality reviewer and to understand the conclusions reached in performing the review, which we believe would be a valuable addition to the proposed requirements.

### **Key audit matters**

We believe the application guidance relating to key audit matters in the proposed standard is sufficiently clear and understandable.

### **Early adoption of proposed revision**

We support permitting early adoption of the proposed requirements, as the proposal would enhance engagement quality. For audit organizations that have adopted the quality management standards of either the IAASB or AICPA, we anticipate that the adoption of the incremental GAGAS requirements would not require a significant level of effort. For all other audit organizations, we believe that allowing early implementation would provide flexibility to those organizations that may be ready and equipped to adopt the proposed requirements sooner than the proposed effective date.

### **Additional comments**

#### *Independence, legal, and ethical requirements and resources*

Because governmental audit organizations routinely contract with public accounting firms, we believe it is important for the proposed quality management standard to address a governmental audit organization's related responsibilities, particularly with respect to the use of public accounting firms as service providers as well as the related independence, legal, and ethical quality management requirements. Thus, we suggest the GAO consider whether to include the requirements related to service providers in paragraphs 30b and 33c of SQMS 1 within proposed paragraphs 5.45 and 5.72, respectively.

#### *Evaluating the system of quality management*

We encourage the GAO to include a requirement similar to the one in paragraph 56 of SQMS 1, which outlines the steps that the senior-level official who is assigned responsibility and accountability for the system of quality management should take when they have concluded that either (1) identified deficiencies have a severe but not pervasive effect on the system of quality management, or (2) the system does not provide the audit organization with reasonable assurance that the objective of the system of quality management is being achieved. We also recommend that the proposed standard include periodic evaluations of certain individuals within the system of quality management similar to the requirement in paragraph 57 of SQMS 1.

Finally, we recommend that language be added to proposed paragraph 5.126 to clarify that the annual evaluation of the system of quality control should be performed as of a point in time, similar to paragraph 54 of SQMS 1. We believe that reference to

“at least annually” could be misinterpreted as requiring an evaluation throughout the period.

*Documentation*

Since the documentation related to an audit organization’s system of quality management can be voluminous, we do not believe that the requirement in proposed paragraph 5.130, as written, to communicate information about the audit organization’s system of quality management to its personnel can be operationalized, nor would it be beneficial to an audit organization or its personnel at large. Communications to personnel need to be relevant to their roles and responsibilities. We believe the requirement in paragraph 58 of SQMS 1 is clearer in this regard.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at 404-475-0130 or [Jeff.Hughes@us.gt.com](mailto:Jeff.Hughes@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP