TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

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Ms. Hazel:

On behalf of the Tennessee Comptroller of the Treasury, Department of Audit, we thank the Auditing Standards Board (ASB) for the opportunity to comment on the Exposure Draft (ED), *Proposed Statements on Quality Management Standards – Quality Management: A Firm's System of Quality Management and Engagement Quality Reviews.* We generally agree with the board's proposals. However, we suggest the ASB explicitly address the likelihood that government audit organizations performing audits in accordance with *Governmental Auditing Standards* (i.e., Yellow Book) will follow the Government Accountability Office's (GAO) quality management (QM) standards, instead of both the GAO's QM and the ASB's proposed SQMS: *A Firm's System of Quality Management*. Because GAO does not incorporate by reference the ASB's quality management standards, we suggest the ASB address in the scope (or application guidance for the scope) for the government environment that government audit organizations, for example, need not apply the ASB QM standard when the government audit organization is required by law, rule, regulation, or policy to follow the GAO quality control standards in the Yellow Book. The reason for this exemption is that complying with both QM standards (GAO and ASB) could be inconsistent and overly burdensome. As an analogy, COSO and Green Book are both listed as acceptable internal control frameworks for which the ASB recommends following one framework, not both (even though they are consistent).

Our responses to the ASB's specific "Request for Comment" questions follow.

1. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 1 are clear and understandable and whether the application material is helpful in supporting the application of those requirements. **We agree the ASB's proposed changes are reasonable and believe the language is clear, understandable, and helpful. We also agree the application material provided is sufficient to explain how to apply the requirements in**

practice. We agree the addition of the risk assessment process is appropriate and should enhance the achievement of quality objectives.

2. Respondents are asked to provide their views on the scalability of the new quality management approach. In addition, the ASB is seeking respondents' views on specific requirements in proposed SQMS No. 1 that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful. **We agree the risk-based approach theoretically should be scalable; however, in practice, time will tell if this assessment is proven correct. We believe the additional guidance could help, as long as practical considerations allow the objectives to be met.**

3. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 2 are clear and understandable, and whether the application material is helpful in supporting the application of those requirements. **We agree the requirements are clear and understandable and the application material is helpful.**

4. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in the proposed QM SAS are clear and understandable, and whether the application material is helpful in supporting the application of those requirements. **The Tennessee Comptroller of the Treasury, Department of Audit, primarily follows quality management standards promulgated by the GAO in *Government Auditing Standards*. Thus, the proposed changes will not greatly affect our government audit organization. We agree the proposed changes are reasonable, and the language is clear, understandable, and helpful. The application material provided is also sufficient to explain how to apply the requirements in practice.**

5. Respondents are asked to provide their views on whether the effective dates are clear. **We agree the effective dates are clear and believe the graphic is very helpful in illustrating the implementation timeline.**

6. Respondents are asked to provide their views on whether an 18-month implementation period is appropriate. If that period is not appropriate, please explain why and what implementation period would be appropriate. **While no substantive changes are needed for the TN Department of Audit due to our existing quality management policies, procedures, and practices, we agree with allowing audit organizations a minimum 18-month period (but preferably 24-month) to establish or modify their quality management policies, procedures, and practices for transitioning to those new policies, procedures, and practices. The proposed standard will require audit organizations to completely document the processes they currently use, in addition to new ones they create. The information and communication provisions of this ED may require firms to modify their processes for capturing and analyzing data. The proposed 18-month period assumes organizations have the resources, including IT capacity, for beginning implementation immediately. That is generally not the case, especially in terms of IT capacity. We again suggest a longer implementation period (with encouraging early implementation) would allow sufficient time for planning, development, testing and implementation.**

7. Respondents are asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. If not, please explain why and provide examples of safeguards that could lower the self-review threat to an acceptable level. **We believe the self-review should be discouraged but not prohibited if sufficient mitigation existed. The rule should not immediately prohibit the self-review action without consideration of mitigating factors.**

8. Respondents are asked for their views on whether a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement, and (a) if so, the appropriate length of the required cooling-off period, or (b) if not, please explain why and provide examples of safeguards that could lower the objectivity threat to an acceptable level. **We agree with the ASB requiring a two-year cooling-off period, consistent with ISQM 2. However, we suggest the ASB consider allowing an exemption similar to the PCAOB's for firms with fewer than 5 audit clients and 10 partners.**

9. Respondents are asked for their views on whether the engagement quality review should be required to be completed before the report is dated, rather than before the report is released. **We disagree that the engagement quality review should be required to be completed before the report is dated, as this would affect the reviewer's objectivity and, in effect, make the reviewer a part of the engagement team, in opposition to the requirements in ¶A20. Paragraph A104 states that the auditor's report is not dated earlier than the date when sufficient appropriate audit evidence is obtained. If the date of the audit report is dependent on the completion of the engagement quality review, this implies the engagement quality review is necessary to obtain sufficient appropriate audit evidence. Additionally, ¶A105 states that for an engagement quality review to be conducted timely, the reviewer may assist the engagement team in resolving matters related to the review throughout the engagement. The reviewer's duties imply that the engagement partner is not able to determine when sufficient appropriate evidence has been obtained or cannot appropriately supervise staff and review their work. We support precluding the engagement partner (¶A119) from releasing the auditor's report until the completion of the engagement quality review. Additional guidance should be included when the engagement quality reviewer determines the audit evidence is not sufficient or conclusions are not appropriate, requiring the report date be modified to reflect when sufficient audit evidence is obtained.**

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz (615) 747-5262 (Gerry.Boaz@cot.tn.gov) or Jerry Durham (Jerry.Durham@cot.tn.gov) at (615) 401-7951.

Sincerely,

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