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Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

**GAO's Response to the International Auditing and Assurance Standards Board's February 2019 Exposure Draft, Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements***

Dear Mr. Botha:

This letter provides GAO's response to the exposure draft, Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* (ED-220). GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities in the United States.

We support the International Auditing and Assurance Standards Board's (IAASB) efforts to update the standards for managing the quality of financial statement audits. However, we believe that the proposed standard could benefit from focusing on the engagement partner's audit documentation review as a specific and measurable way that engagement partners can demonstrate that they are sufficiently and appropriately involved with the engagement and that engagement team members have exercised professional judgment and professional skepticism.

Our responses to the IAASB's questions follow. We believe that our suggestions will improve the clarity of the standard and will enhance the quality of financial statement audits.

**IAASB Questions**

- 1) Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?**

We support focusing on the sufficient and appropriate involvement of the engagement partner as a part of taking overall responsibility for managing engagement quality. We believe that designating responsibility of an engagement to an engagement partner is key to achieving quality.

While we agree that creating an environment that emphasizes the firm's culture and expected team member behavior is part of managing engagement quality, we are concerned that it will be difficult to evaluate compliance with the requirements in paragraphs 11, 12, and 37. As such, we suggest that the IAASB consider whether paragraph 12 should be moved to application guidance for paragraph 11. We also suggest revising the first sentence of paragraph 11 as follows:

The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes ~~the firm's culture and expected behavior of engagement team members~~. the firm's commitment to quality.

We believe that the requirements in paragraph 37 may be more measurable and clear if the paragraph is revised as follows:

Prior to dating the auditor's report, the engagement partner shall determine that ~~the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that:~~

- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
- (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures, have been taken into account in complying with the requirements of this ISA.

In our view, engagement partners' compliance with the audit documentation review requirements will help assure their sufficient and appropriate involvement in the engagement. Also, we believe that compliance with these requirements can be evaluated. Therefore, we believe that ED-220 could benefit from increased emphasis on the engagement partner's review of audit documentation. As we discuss further in our response to question 5, we suggest that the IAASB consider revising the application guidance in paragraph A79 to help clarify the documentation the engagement partner should review. In addition, we encourage the IAASB to consider revising paragraph 37 to reemphasize the requirements for audit documentation review in paragraphs 28 through 32.

**2) Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?**

We believe that ED-220 has appropriate linkages with the International Standards on Quality Management (ISQM). We support the requirements for auditors to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures. We agree with the requirement that engagement partners evaluate threats to compliance with relevant ethical requirements through complying with the firm's policies or procedures. We also agree with the clarifications that engagement partners determine whether, and the degree to which, they may depend on the firm's policies or procedures. We also support the additional application guidance that provides examples of "matters" that the engagement partner may take into account when determining whether it is appropriate to depend on the firm's policies or procedures. We suggest that the IAASB consider clarifying in

application guidance the different intended meanings of “shall be satisfied” and “shall determine” as discussed in paragraph 14 of the explanatory memorandum.

**3) Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)**

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

**4) Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?**

We believe that ED-220 can be applied in a modern auditing environment, including an audit that uses different audit delivery models and technology.

**5) Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)**

We generally support the revised requirements and guidance on direction, supervision, and review. However, we believe that the requirements could be clarified to help ensure a robust review of audit documentation. We believe that the engagement partner’s review of audit documentation is important for assuring the sufficient and appropriate involvement of the engagement partner. We also note that reviews of audit documentation can be evaluated through internal monitoring and peer reviews.

For example, the IAASB should consider adding clarifications to the application guidance in paragraph A79. We suggest that the IAASB modify paragraph A79 as follows:

- Include accounting estimates as a separate bullet to highlight that accounting estimates are likely an area of significant judgment for the engagement team, and
- Add matters in which the engagement team obtained contrary or disconfirming information.

We also suggest that the IAASB consider whether team member experience is an appropriate measure for determining whether engagement team members adequately supervised engagement work. Experience is only one driver of skill and proficiency in auditing. As such, paragraph 5.36 of the 2018 revision of GAGAS provides that “the audit organization should establish policies and procedures that require engagement team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.” We believe that considering both skill and proficiency would more effectively achieve the objective of the requirement.

**6) Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?**

In our view, ED-220, together with the overarching documentation requirements in International Standard on Auditing (ISA) 230, generally includes satisfactory

requirements and guidance on documentation. However, we encourage the IAASB to consider revising paragraphs 33(d) and 38(c) as follows:

Paragraph 33(d): Not ~~date release~~ the auditor's report until the completion of the engagement quality review. (Ref: Para. A89–A92)

Paragraph 38(c): If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed ~~on or~~ before the ~~date of the~~ auditor's report ~~is released~~.

We believe that the IAASB should consider whether it is practical to require the engagement quality review to be completed by the report date rather than the report release date. It may not be feasible to complete the engagement quality review by the auditor's report date given the requirements for obtaining certain audit evidence up to the date of the auditor's report that are included in ISA 560, *Subsequent Events*, and the requirements in proposed ISA 220 for the engagement partner's audit documentation review.

**7) Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?**

We believe that ED-220 is appropriately scalable to engagements of different sizes and complexity, including through focusing on the nature and circumstances of the engagement in the requirements.

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).

Sincerely yours,



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Director  
Financial Management and Assurance