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July 1, 2019

Mr. William Botha
Technical Director
International Auditing and Assurance Standards Board
529 5th 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 Quality Management 2 - *Engagement Quality Reviews*

Dear Mr. Botha:

This letter provides GAO's response to the exposure draft, Proposed International Standard on Quality Management 2 – *Engagement Quality Reviews.* GAO promulgates generally accepted government auditing standards, 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 strengthen the engagement quality review process.

Response to Request for Comments

1) Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

We support a separate standard for engagement quality reviews.

2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

Yes, the linkages are clear.

3) Do you support the change from "engagement quality control review/reviewer" to "engagement quality review/reviewer?" Will there be any adverse consequences of changing the terminology in respondents' jurisdictions?

Yes, we support this change. We are not aware of any adverse consequences that would affect the government audit community in the United States.

4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

We believe that the proposed eligibility requirements for appointment as an engagement quality reviewer or assistant are reasonable.

(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a "cooling-off" period for that individual before being able to act as the engagement quality reviewer?

In general, we believe that the engagement quality reviewer should be an individual who was not previously assigned to the engagement. Further, we believe that the standard should focus on the requirements for the engagement quality reviewer to maintain sufficient objectivity, for example, those included in paragraphs 16 and 17 that pertain to the reviewer's competence, capability, and compliance with ethical matters related to objectivity. We believe that a cooling off period is appropriate only as an exception to the requirement in limited circumstances, such as those that might arise in a small organization with limited staff.

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

We support including such guidance in International Standard on Quality Management (ISQM) 2 as proposed.

5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

We agree with these requirements and believe that the responsibilities of the engagement quality reviewer are appropriate.

6) Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

We agree that a key element of the engagement quality reviewer's evaluation of the engagement team's significant judgments is considering whether audit evidence is clear, adequate, and appropriate for objectives and findings in the auditor's report.

Government Auditing Standards, 2018 Revision, states that "Professional skepticism includes being alert to, for example, evidence that contradicts other evidence obtained or information that brings into question the reliability of documents or responses to inquiries to be used as evidence."

Since the engagement team is expected to exercise professional skepticism in obtaining audit evidence, we believe that it is appropriate for the engagement quality reviewer to consider the team's use of professional skepticism within the context of evaluating the team's significant judgments.

7) Do you agree with the enhanced documentation requirements?

We believe that the proposed documentation requirements are reasonable.

8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

We support the IAASB's efforts to address the scalability of engagement quality review standards. The nature, extent, and formality of an audit organization's quality management system will vary based on the organization's circumstances, such as its size, number of offices, and geographic dispersion; knowledge and experience of its personnel; nature and complexity of its engagement work; and cost-benefit considerations. We believe that the proposed scalability measures in the appendix provide practical options for audit organizations of various sizes.

Additional Comments and Observations

Paragraph 11.(a): We suggest revising the definition of "Engagement quality review" to refer to "the release of the engagement report" instead of "the date of the engagement report."

Paragraph 22.(g): We suggest adding language to clarify the purpose of the review if, for example, the purpose is to identify areas subject to significant judgments.

Paragraph 21.(b): We suggest revising the paragraph's reference to "dating the engagement report," instead referring to "releasing the engagement report."

Paragraphs A29 and A30: We suggest adding language to clarify how these requirements and guidance from proposed International Standard on Auditing 220 (Revised) relate to ISQM 2, for example, explaining that they may help the engagement quality reviewer identify significant judgments made during the course of the engagement.

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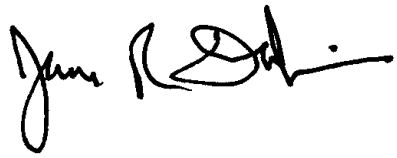
Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,



James R. Dalkin
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