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Ms. Iliana Ivanova
Chair
Professional Standards Committee
International Organization of Supreme Audit Institutions

GAO's Response to the International Organization of Supreme Audit Institutions' March 2023 Exposure Drafts: International Standards of Supreme Audit Institutions 140, *Quality Management for SAIs*, and 100, *Fundamental Principles of Public-Sector Auditing*

Dear Ms. Ivanova:

This letter provides GAO's response to the International Organization of Supreme Audit Institutions' (INTOSAI) request for comments on proposed International Standard of Supreme Audit Institutions (ISSAI) 140, *Quality Management for Supreme Audit Institutions*, and proposed ISSAI 100, *Fundamental Principles of Public Sector Auditing*. An effective system of quality management can provide supreme audit institutions (SAI) with reasonable assurance that their audits and other work are consistently performed with a high level of quality in accordance with ISSAIs and applicable legal and regulatory requirements. The public interest is best served by the consistent performance of high-quality audit engagements.

GAO publishes standards for performing high-quality audits of government organizations, programs, activities, and functions and assistance provided to contractors, nonprofit organizations, and other nongovernment organizations. GAO's standards provide guidance for performing audits with competence, integrity, objectivity, and independence.[1] These standards are developed through an extensive deliberative process involving the Comptroller General's Advisory Council on Government Auditing Standards and a public comment period. The standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy.

In January 2023, we issued an exposure draft proposing enhancements to GAGAS to strengthen the framework for conducting high-quality government audits through the quality management systems of audit organizations. To develop the proposed standard, we considered the International Auditing and Assurance Standards Board's International Standard on Quality Management (ISQM) and the American Institute of Certified Public Accountants' Statements on Quality Management Standards (SQMS). We also considered the potential impact on

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[1]GAO, *Government Auditing Standards: 2018 Revision Technical Update April 2021*, GAO-21-368G (Washington, D.C.: April 2021).

government audit organizations and GAGAS engagements, including performance audits. The proposed GAGAS enhancements generally align with ISQM and SQMS.

To develop ISSAI 140, the INTOSAI working group stated that it identified the key high-level requirements from ISQM and adapted them to the SAI context. The working group analyzed the remaining ISQM requirements and revised them to serve as application material. The working group believes that such an approach allows flexibility to the SAIs while effectively resulting in SAIs applying most of what ISQM requires.

We support INTOSAI's efforts to adopt an approach that reflects enhancements that strengthen an audit organization's framework for conducting high-quality government audits through its quality management system and promotes flexibility in applying organizational requirements that are adaptable to each SAI's unique characteristics. However, we are concerned that the degree of flexibility provided results in a proposed standard that does not include the minimum level of requirements that would help SAIs to assure that their quality management systems are effectively designed, implemented, and operating to provide reasonable assurance that audits and other work are consistently performed with a high level of quality that serves the public interest.

We suggest that certain ISQM requirements should be added to the requirements in ISSAI 140. We believe that these additional requirements would assist SAIs in designing, implementing, and operating effective quality management systems to produce audits and other work with a consistent high level of quality.

1. We suggest clarifying the minimum requirements for quality objectives that the system of quality management is intended to address. Specifically, we suggest revising ISSAI 140 paragraph 32 to require that SAIs establish one or more quality objectives for each of the six components of the system of quality management and that the quality objectives a SAI establishes should be appropriate to its circumstances. These revisions would clarify the minimum requirements for quality objectives that the system of quality management is intended to address.
2. We suggest adding a requirement that SAIs should evaluate the remedial actions for correcting deficiencies identified in the system of quality management to determine the effectiveness of these actions. Without evaluations of such actions, SAIs are unable to assess whether the remedial actions are appropriately designed and implemented or are effective.
3. We suggest adding requirements that SAIs should respond to circumstances when quality management findings indicate that there is an engagement for which required procedures were omitted during the performance of the engagement or the report issued may not comply with professional standards and applicable laws and regulations.
4. We suggest adding a requirement that SAIs should establish a period of time to retain documentation for the system of quality management that is sufficient to enable SAIs to monitor the design, implementation, and operation of their systems of quality management or as applicable to meet other needs.

The enclosure to this letter provides responses to the specific questions on the proposed ISSAI 140 and ISSAI 100, as well as additional items to clarify and strengthen the proposed standards and improve the auditor's and SAI's understanding of the requirements.

Thank you for the opportunity to comment on these important issues. If you have any technical questions, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure

Responses to Questions on INTOSAI's March 2023 Exposure Drafts: ISSAI 140, *Quality Management for SAIs*, and ISSAI 100, *Fundamental Principles of Public-Sector Auditing*

1. Does the proposed ISSAI 140 provide sufficient structure for your SAI to develop a system of quality management? If not, what would you like to see included as SAI-specific requirements or application material in ISSAI 140? Please provide examples.

GAO publishes standards, often referred to as generally accepted government auditing standards (GAGAS). Auditors and audit organizations follow our standards when required by law, regulation, agreement, contract, or policy.[2] We are revising GAGAS to strengthen the framework for conducting high-quality government audits through the quality management systems of audit organizations. We believe that the proposed GAGAS revision would meet the requirements proposed in International Standard of Supreme Audit Institutions (ISSAI) 140.

2. Do you agree with the changes in the ISSAI 100?

We generally agree with changes proposed to ISSAI 100 as they are intended to conform ISSAI 100 to ISSAI 140.

A. Do you agree with our approach to structuring ISSAI 140?

See our response to 3B.

B. Have we set the requirements at the right level?

We believe including certain additional requirements that are in the International Standard on Quality Management (ISQM) would assist supreme audit institutions (SAI) in designing, implementing, and operating effective quality management systems to produce audits and other work with a consistent high level of quality.

1) ISQM identifies the required quality objectives necessary for an effective system of quality management, while ISSAI 140 does not.[3] ISSAI 140 paragraph 32 states that the SAI shall establish quality objectives "appropriate to its circumstances" that the system of quality management is intended to address.

    We suggest clarifying paragraph 32 to require that SAIs establish one or more quality objectives for each of the six components of the system of quality management listed in the paragraph and that the quality objectives a SAI establishes should be appropriate to its circumstances. The six components are (1) governance and leadership; (2) fulfilment of the

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[2]GAO, *Government Auditing Standards: 2018 Revision Technical Update April 2021*, GAO-21-368G (Washington, D.C.: April 2021).

[3]International Auditing and Assurance Standards Board (IAASB), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 1 (New York: Dec. 17, 2020), paras. 28–33.

SAI's responsibilities in accordance with ethical requirements; (3) acceptance, initiation, and continuance of engagements; (4) performing engagements and issuing audit reports; (5) SAI resources; and (6) information and communication. These revisions would clarify the minimum requirements for quality objectives that the system of quality management is intended to address and align ISSAI 140 more closely with ISQM. Information on the six quality components is presently included as application material in ISSAI 140 paragraphs 36 through 42.

2) ISQM includes requirements for evaluating remedial actions for the monitoring and remediation process to determine whether those actions, appropriately designed to address identified deficiencies and their related root cause(s), have been implemented and are effective in addressing identified quality management deficiencies. ISQM also includes requirements for modifying the remedial actions as necessary to ensure that they are effective.[4] We suggest adding a requirement that SAIs should evaluate the remedial actions for correcting deficiencies identified in the system of quality management to determine the effectiveness of these actions. Without evaluations of such actions, SAIs are unable to assess whether the remedial actions are appropriately designed and implemented or are effective.

3) ISQM includes requirements for responding to circumstances when findings indicate that procedures were omitted during the performance of an engagement or the report issued may be inappropriate.[5] It further requires the following:

   (a) Taking appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements.

   (b) When the report is considered to be inappropriate, considering the implications and taking appropriate action, including considering whether to obtain legal advice.

   We suggest adding requirements that SAIs should respond to circumstances when quality management findings indicate that required procedures were omitted during the performance of an engagement or the report issued may not comply with professional standards and applicable laws and regulations. Without such actions, the public may rely on information that is inaccurate.

4) ISQM includes requirements for establishing a period of time retaining documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation, and operation of its system of quality management, or for a longer period if required by law or regulation.[6] We suggest including a requirement that SAIs should establish a period of time for retaining documentation for the system of quality management that is sufficient to enable an SAI to monitor the design, implementation, and operation of the system, or as applicable to meet other needs. ISSAI 140 paragraph 69 currently does not require that an SAI establish a period of time to retain documentation for the system of quality management.

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[4]IAASB, ISQM 1, paras. 43–44.
[5]IAASB, ISQM 1, para. 45.
[6]IAASB, ISQM 1, para. 60.

> C. Do you see any elements of the application material that should be elevated to the level of requirements?

See our response to question 3B.

> D. Do you find the examples for responses to quality risks sufficient for identifying responses across components?

We are not providing a response to this question.

1. **Do you agree that review of completed engagements should continue to be a requirement for SAIs and in accordance with ISQM 1? If not, what is your rationale for moving away from this requirement?**

We suggest allowing each SAI to determine whether reviews of completed engagements should be part of its monitoring process. We believe an SAI should establish a process for monitoring the design, implementation, and operation of its system of quality management to provide a basis for identifying deficiencies and remediating them on a timely basis. An SAI's review of completed engagements may determine if responses to address quality risks at the engagement level have been implemented as designed and are operating effectively. However, an SAI may perform other procedures to accomplish this objective.

2. **Do you agree with the requirement to evaluate the system of quality management on an annual basis, per analogy with the ISQM 1? If you do not agree, what justification do you consider makes it appropriate to move away from the ISQM 1 requirement?**

We agree with the requirement to evaluate the system of quality management annually consistent with ISQM 1.[7] We believe that an annual review is necessary to evaluate the effectiveness of the quality management system. The results of the evaluation can help determine if an SAI needs to make changes to maintain the effectiveness of its system of quality management and assist the SAI's leadership in fulfilling its responsibility for the system.

3. **Do you agree with our approach? Do you have any comments/suggestions on the definitions including the new proposed definitions of *Culture and Quality*?**

It is reasonable to include only applicable definitions from ISQM 1 in ISSAI 140 and to add definitions of key concepts in the SAI environment. We believe that the proposed definition of culture is clear within the context of the exposure draft. However, in our view the definition of quality (i.e., "the extent to which the work performed and reports issued by the SAI comply with professional standards and applicable legal and regulatory requirements and satisfy stakeholders' needs") should omit "and satisfy stakeholders' needs" to avoid confusion about stakeholder roles and the potential for threats to the SAI's independence. We also believe that ISSAI 140 paragraph 40f (i.e., "audit reports are appropriate and satisfy stakeholders' needs") should also omit "and satisfy stakeholders' needs" for this reason.

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[7]IAASB, ISQM 1, para. 53.

4. Do you agree with setting effective date as one year following the final approval?

It is proposed that the ISSAI 140 take effect 1 year after the International Organization of Supreme Audit Institutions' Governing Board endorsement with a January 2025 estimated effective date. A January 2025 effective date may not allow SAIs sufficient time to implement ISSAI 140. We suggest that ISSAI 140 be effective December 2025 to allow SAIs additional time to plan, design, and implement a quality management system that meets the requirements of ISSAI 140.

GAO's Additional Comments

We believe there could be further clarifications to the proposed standards and are providing the following suggestions for aiding SAIs' understanding of the standards.

1) To enhance auditors' and SAI's overall understanding and implementation of the ISSAIs, we believe that ISSAI 100 and 140 should clarify how the components of an SAI's system of quality management relate or link to the organizational requirements that underpin the SAI's system of quality. We believe that it is unclear how the components of an SAI's system of quality management (ISSAI 100 paragraph 36) relate to the organizational requirements that underpin such a system (ISSAI 140 paragraph 9). ISSAI 100 paragraph 36 states that an SAI's system of quality management generally addresses eight interconnected components: (1) SAI's risk assessment process; (2) governance and leadership; (3) relevant ethical requirements; (4) acceptance, initiation, and continuance of engagements; (5) performing engagements and issuing audit reports; (6) SAI resources; (7) information and communication; and (8) monitoring and remediation process. These eight components are similar to the components ISQM 1 describes in a system of quality management.[8]

   ISSAI 140 paragraph 9 defines SAIs' organizational requirements based on the eight components included in ISSAI 100 paragraph 36. ISSAI 140's seven organizational requirement categories are (1) establishing the system of quality management, (2) establishing quality objectives, (3) identifying and assessing quality risks, (4) designing and implementing responses, (5) monitoring the system of quality management and remedying identified deficiencies, (6) evaluating and concluding on the effectiveness of the system of quality management, and (7) documenting the system of quality management. We believe that describing the linkage between the quality management components and organizational requirements would clarify ISSAI 140.

2) We suggest clarifying or providing examples to the application material in paragraph 63 relating to monitoring the system of quality management and remedying identified deficiencies. Paragraph 63 states to "assist their monitoring and remediation process, SAIs may on a regular or more occasional basis seek feedback that can support the SAI in developing quality and quality management over time. Such feedback may be obtained from parties audited by the SAI or users of the SAI's audit reports." We believe that it is unclear how an entity an SAI audits or users of the SAI's reports may provide feedback that can support the SAI in developing a system of quality management. SAIs should also be mindful of independence concerns that soliciting feedback from audited entities on quality may raise.

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[8]IAASB, ISQM 1, para. 6.

3) We suggest modifying paragraph 19 to state that the quality objectives are associated with "components of the quality management system relating to governance and leadership; fulfilment of the SAI's responsibilities in accordance with ethical requirements; acceptance, initiation, and continuance of engagements; performing engagements and issuing audit reports; SAI resources; and information and communication." We believe this will help to clarify the relationship between quality objectives and quality components.

4) We suggest clarifying the intended timing for the completion of an engagement quality review. Paragraph 13 states that the engagement quality review is completed before the date of the audit report. However, financial statement audits and performance audits can have different requirements for dating the auditor's report. We suggest clarifying that engagement quality reviews should be completed before "the date the audit report is issued" to allow sufficient time for the engagement quality reviewer to complete a thorough and effective review.

5) We suggest revising ISSAI 140 paragraph 14 to include the eligibility qualifications for the engagement quality reviewer required in ISQM 2 paragraph 18. We do not believe the current definition of the engagement quality reviewer in ISSAI 40 paragraph 14 is complete and consistent with ISQM 2. Specifically, we suggest the following language:

> Engagement quality reviewer – an individual or a team, within the SAI or external, that
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> - is not a member of the engagement team;
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> - has the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review;
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> - complies with relevant ethical requirements, including in relation to threats to objectivity and independence of the engagement quality reviewer; and
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> - complies with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer.

We believe that the engagement quality reviewer should perform an objective (not necessarily independent) evaluation of the engagement and be independent from the audited entity.

6) We believe that ISSAI 140 could be enhanced by including additional information to assist SAIs in effectively documenting their systems of quality management. We suggest adding application guidance to provide examples of information that an SAI may include in documentation of its system, such as

- the SAI's quality objectives and quality risks;

- a description of the responses and how the SAI's responses address the quality risks;

- information regarding the monitoring and remediation process, including evidence of the monitoring activities performed, the evaluation of findings and identified

deficiencies and their underlying causes, remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions, and communications about monitoring and remediation; and

- the basis for the conclusions reached regarding the evaluation of the system of quality management.