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AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road  
Durham, NC 27707-8110

GAO's Response to the American Institute of Certified Public Accountants’ November 2015 Exposure Draft, *Improving Transparency and Effectiveness of Peer Review*

Dear Ms. Drummond:

This letter provides the U.S. Government Accountability Office’s (GAO) comments on the American Institute of Certified Public Accountants’ (AICPA) exposure draft entitled *Improving Transparency and Effectiveness of Peer Review*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States. GAO supports the AICPA’s initiatives to enhance the peer review process by incorporating best practices of effective peer reviewers into the peer review standards and improving audit performance. We believe that the proposed changes to standards for performing and reporting on peer reviews would mitigate many of the issues identified by the AICPA in its recent analysis of matters for further consideration in peer review engagements.

Recent research has indicated that some peer reviews that are nominally conducted in accordance with the AICPA requirements are not effective in identifying deficient audit work and ensuring compliance with professional standards.¹ We are particularly concerned by these findings because the audit deficiencies identified by the research appear to be especially numerous in the internal control and control risk assessment work performed by CPA firms. GAO has long maintained that strong internal control is especially important in the government environment, where it serves as a critical safeguard for public resources and for the government’s effectiveness in carrying out its responsibilities to the people it serves.

The exact cause of the peer review problems identified by the research is not clear, but there appears to be a wide range in the quality of the peer reviews currently being provided. While we believe that the proposals in the exposure draft will strengthen the peer review process, they may not be sufficient to address these concerns. We encourage the AICPA to consider whether steps beyond the changes proposed in the exposure draft may be needed to meet the challenges highlighted by the research. To help ensure high levels of quality and consistency in peer reviews performed in accordance with AICPA standards, the AICPA should consider whether a process that goes beyond the current requirements is necessary for determining who is competent to lead or participate in a peer review team. Such a process might include regular

evaluations of peer review leaders' and other team members' competency to perform peer reviews through a periodic certification program.

Thank you for the opportunity to comment on this exposure draft. If you wish to discuss any of our comments or need further information, please feel free to contact me at (202) 512-3133 or dalkinj@gao.gov or Eric Holbrook, Assistant Director, at (202) 512-5232 or holbrooke@gao.gov.

Sincerely yours,

James R. Dalkin
Director
Financial Management and Assurance