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June 2, 2015

Mr. James Brackens  
Vice President, Ethics and Practice Quality  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036

**American Institute of Certified Public Accountants' December 2014 Concept Paper,  
Entitled *Evolving the CPA Profession's Peer Review Program for the Future***

Dear Mr. Brackens:

This letter provides the U.S. Government Accountability Office's (GAO) comments on the American Institute of Certified Public Accountants' (AICPA) concept paper entitled *Evolving the CPA Profession's Peer Review Program for the Future*. GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities in the United States.

We understand that the concept paper relates to the larger project described in last year's AICPA discussion paper entitled *Enhancing Audit Quality – Plans and Perspectives for the U.S. CPA Profession*. We support the AICPA's efforts to improve audit quality and the peer review process. Our comments, provided below, address the following areas:

- Root cause analysis of audit quality issues
- Effect of the initiative on the timing of external peer reviews
- Consideration of governmental and other specialized audits
- Integrating information from disparate systems

**Root Cause Analysis of Audit Quality Issues**

While we agree that the AICPA should consider a multi-phased approach that leverages technology to help make practice monitoring more effective and transparent, we believe that any discussion of the peer review program's future must include consideration of the specific audit quality problems that make the enhancing audit quality (EAQ) project so important. As we indicated in our November 2014 comment letter on the EAQ discussion paper, in our view the AICPA should consider performing a root cause analysis of audit quality issues before allocating resources to the proposed initiatives. This step is fundamental to all considerations of EAQ, including consideration of the future of the peer review program. It would also help the AICPA tailor its peer review program to more effectively resolve the causes of audit problems in the near term.

## **Effect of the Initiative on the Timing of External Peer Reviews**

We have concerns about transitioning the current cyclical peer review program to the proposed technology platform. We support the AICPA's concept of using a risk-based approach in determining the procedures to be performed during peer reviews. While we believe that the platform may help to support the peer reviewer's assessment of the risk of deficiencies in a firm's quality control system and consequently the scope of peer review procedures, we do not believe that it reduces the risk sufficiently to change the timing of the current triennial peer review. Our specific concerns include the following:

- The reported data would come from the firms themselves, and any analysis conducted will only be as useful as the data provided are accurate. A firm that either intentionally or unintentionally provides unreliable data through the platform could be precluded from receiving a timely and much-needed peer review.
- Users rely on the peer review opinion on the effectiveness of an organization's quality control system. It is not clear that the platform would provide similar opinion-level assurance about the effectiveness of a firm's quality control system.
- Over time, a firm's quality control system may become less effective because controls may become inadequate, conditions may change, and the degree of compliance with the policies or procedures may deteriorate. Reducing the frequency of independent peer reviews could result in deficiencies in a firm's quality control system that are not prevented or are not detected on a timely basis.
- The platform may not identify certain risks of deficiencies in a firm's quality control system, such as those associated with supervision or professional skepticism.

An independent peer review provides an objective assessment of the effectiveness of a firm's quality control system. For the above reasons, we believe that the current triennial peer review requirement should be retained.

## **Consideration of Governmental and Other Specialized Audits**

We recommend that the AICPA consider how the platform would accommodate audits with specific requirements, such as those conducted in accordance with GAGAS, the Employee Retirement Income Security Act, the Single Audit Act, and other government standards and mandates.

## **Integrating Information from Disparate Systems**

We support the AICPA's efforts to advance the audit community's use of current technology to streamline the peer review process. However, we caution that using the approach outlined in the concept paper could be challenging. Members in the audit community have raised potential issues with using this approach, such as the integration of many different systems to accomplish a single audit objective. Having the audit organizations' systems feed data into the single central data processing system could present information technology problems as these data would be coming from many different organizations with many different systems. These systems would not necessarily be compatible with the central system or each other.

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We thank you for considering our comments on these issues as the AICPA updates the peer review process to improve audit performance, and we would be pleased to discuss these matters further.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin  
Director  
Financial Management and Assurance