



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Comptroller General of the United States:

We have reviewed the system of quality control for the accounting and auditing practice of the Financial Management and Assurance Team of the United States Government Accountability Office (GAO FMA) in effect for the year ended December 31, 2004. A system of quality control encompasses the audit entity's organizational structure and the policies and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA) and which are comparable with those in *Government Auditing Standards*. The GAO FMA is responsible for designing a system of quality control and complying with it to provide the GAO FMA reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control, and GAO FMA's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA and *Government Auditing Standards*, as applicable to GAO FMA. During our review, we read required representations from GAO FMA, interviewed GAO FMA personnel and obtained an understanding of the nature of GAO FMA's accounting and auditing practice, and the design of the GAO FMA's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with GAO FMA's system of quality control. The engagements selected represented a reasonable cross-section of GAO FMA's accounting and auditing practice with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with GAO FMA management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for GAO FMA's accounting and auditing practice. In addition, we tested compliance with GAO FMA's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of GAO FMA's policies and procedures on selected engagements. Our review was based on selective tests, therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.



In our opinion, the system of quality control for the accounting and auditing practice of the Financial Management and Assurance Team of the United States Government Accountability Office in effect for the year ended December 31, 2004, has been designed to meet the requirements of the applicable quality control standards for an accounting and auditing practice established by the AICPA and *Government Auditing Standards*, and was complied with during the year then ended to provide GAO FMA with reasonable assurance of conforming with professional standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

KPMG LLP

April 29, 2005



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2001 M Street, NW
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To Comptroller General of the United States:

We have reviewed the system of control for the accounting and auditing practice of the Financial Management and Assurance Team of the United States Government Accountability Office (GAO FMA) in effect for the year ended December 31, 2004, and have issued our report thereon dated April 29, 2005. The matter described below was not considered to be of sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

Engagement Performance – Control Testing Documentation and Clarification

Comment – GAO FMA’s quality control policies and procedures states that the auditor should preliminarily assess the effectiveness of internal controls during the period and/or as of the end of the period and that work papers should contain documentation of the work performed to support significant judgments and conclusions (for example, evidence to support the assessment for rendering an opinion on internal controls). From our review, we found that some documentation of prior year testing, which from discussion, was cited as part of supporting the assessment of the effectiveness of internal controls, was not included in the work papers for the current audit year. In addition, documentation of the risk assessment and monitoring control components was not documented where expected, based on GAO FMA’s quality control policies and procedures. Through discussions, the teams identified various other work papers where control components were documented. In several of the engagements reviewed, the documents expected to discuss the *entity’s* controls supporting risk assessment discussed the *audit* risk assessment, instead.

GAO FMA’s policies and procedures also require: 1) the auditor to specifically assess the quality of the entity’s process for compliance with the Federal Managers’ Financial Integrity Act of 1982 (FMFIA) in assessing the control environment, risk assessment, communication, and monitoring, and 2) to review and document certain matters related to an entity’s actions for compliance with FMFIA. The GAO FMA engagement team reviewed the entity’s FMFIA report, but did not review and document the team’s consideration of work papers prepared by the entity in support of the FMFIA report, how the entity’s FMFIA process is organized, who within the entity is assigned to manage the process, and how the process finds and evaluates weaknesses. This matter was related to a continuing client engagement where the team verbally explained that the consideration was made in prior years, but not documented in the year under review.

Through discussions, we were satisfied that sufficient procedures were performed for the selected engagements.

Recommendation – GAO FMA should clarify in its quality control policies and procedures that the current year audit work papers should refer to prior year testing when such testing and results are being relied upon to support the opinion for the current period. To ensure consistency within GAO FMA, GAO FMA should consider whether additional training or policy clarification is needed to have a consistent approach to documentation of internal control test work. Additionally, GAO FMA should follow its own policy to review and document the FMFIA process and evaluation of the sufficiency of the entity’s FMFIA process.



In light of OMB Circular A-123 as amended, which is effective for fiscal year 2006 and requires the entity to test each control component and makes an audit of internal controls optional, GAO FMA should reconsider its guidance related to the control components. Statements on Standards for Attestation Engagements, AT 501 states that the practitioner should obtain an understanding of the controls within each of the five components of internal control (which GAO FMA does), but it does not make it clear that the practitioner should perform tests of controls for each of the five control components. GAO FMA should consider testing each of the five control components, but the level of testing within a control component is a matter of professional judgment.

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We have read the attached GAO FMA response to our findings; their proposed actions are responsive.

KPMG LLP



G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

April 29, 2005

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Washington, DC 20036

We have read your unqualified report and related comment letter dated April 29, 2005, issued in connection with your peer review of the Financial Management and Assurance team of the U.S. Government Accountability Office's (GAO FMA) quality control system for financial auditing in effect for the year ended December 31, 2004. We concur with the recommendation made in your comment letter, which is consistent with the results of our internal inspection program, and have already begun to address your recommendation.

We will clarify in our quality control policies and procedures the need to refer to prior year testing in the current year work papers when such testing is being relied upon and will reemphasize in our training our documentation policy related to the assessment of the Federal Managers' Financial Integrity Act process.

As stated in your comment letter, in our financial audits, we obtained an understanding of each of the 5 components of internal control as required by the attestation standards (AT 501), issued by the American Institute of Certified Public Accountants (AICPA). In this regard, we are currently working with the AICPA on its project to revise AT 501. When the new standard is finalized, we will work with the President's Council on Integrity and Efficiency (PCIE) to make any needed changes to the GAO/PCIE *Financial Audit Manual*.

We will soon hold briefings for GAO FMA staff members to discuss the results of your peer review, GAO FMA's financial audit inspection, GAO's performance audit peer review, and GAO's performance audit inspection as well as our actions to address the recommendation in your comment letter. In addition, we will review the effectiveness of these actions as part of our 2005 financial audit inspection.

On behalf of all FMA personnel, I thank the KPMG peer review team for its competence, professionalism, and constructive approach to this important engagement.

Sincerely yours,

Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance