



G A O

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Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

September 3, 2003

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Subject: Proposed Rules on Inspections of Registered Public Accounting Firms

This letter provides the U.S. General Accounting Office's (GAO) comments on the Public Company Accounting Oversight Board's (PCAOB) July 28, 2003, proposed rules on accounting firm inspections, as mandated by the Sarbanes-Oxley Act of 2002.

GAO supports improved transparency and accountability in the accounting profession, and we believe that the proposed inspection rules will help in this endeavor. In finalizing the rules on inspections, we urge the PCAOB to consider the important issue of coordination with the profession's self-regulatory peer review program in order to avoid duplication and to minimize the burden on CPA firms that are required to undergo both a PCAOB inspection and a peer review.

GAO envisions a system of coordination in which peer reviewers would place appropriate reliance on a firm's PCAOB inspection report such that peer reviewers could use this information to possibly reduce the scope of their peer review, as appropriate. In order to make such a system possible, peer reviewers would need specific information and access to documentation on the scope of the inspections or information from the PCAOB on the specific level of assurance and reliance that can be placed on the inspection reports for purposes of planning the scope of the peer review engagement.

Coordination of effort between PCAOB inspections and peer reviews is particularly important because many CPA firms are subject to the peer review requirements of *Government Auditing Standards* promulgated by the GAO under the statutory authority awarded to the Comptroller General of the United States. For example, the following laws and regulations require peer reviews as applicable under *Government Auditing Standards*:

- o The Inspector General Act of 1978, as amended, 5 U.S.C. App. (2000), requires that federal inspectors general appointed under the IG Act comply with *Government Auditing Standards* for audits of federal establishments, organizations, programs, activities, and functions. The act further states that the inspectors general shall take appropriate steps to assure that any work performed by nonfederal auditors complies with *Government Auditing Standards*.
- o The Chief Financial Officers Act of 1990 (Public Law 101-576), as expanded by the Government Management Reform Act of 1994 (Public Law 103-356), requires that *Government Auditing Standards* be followed in audits of certain executive branch departments' and agencies' financial statements.
- o The Single Audit Act Amendments of 1996 (Public Law 104-156) require that *Government Auditing Standards* be followed in audits of state and local governments and nonprofit entities that expend federal awards. The Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which provides the government wide guidelines and policies on performing audits to comply with the Single Audit Act, also requires the use of *Government Auditing Standards*.
- o The Federal Deposit Insurance Corporation (FDIC) requires peer reviews of firms that audit depository institutions as required by the FDIC Improvement Act of 1991.
- o Other laws, regulations, and authoritative sources require the use of *Government Auditing Standards*. For example, some state and local laws and regulations require auditors at the state and local levels of government to follow *Government Auditing Standards*. Also, the terms of an agreement or contract may require auditors to comply with *Government Auditing Standards*. Federal audit guidelines pertaining to program requirements, such as those issued for Housing and Urban Development programs and Student Financial Aid programs, also require that *Government Auditing Standards* be followed.

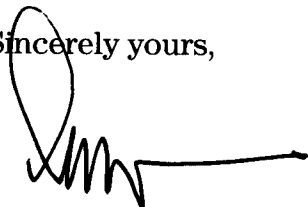
Many PCAOB-registered public accounting firms, including all big four firms and numerous other CPA firms, are subject to the above peer review requirements and thus will be required to undergo both a PCAOB inspection as well as a peer review. Because the PCAOB's mandate only allows for inspections of a firm's public company audits, the PCAOB's inspections will not fully cover the requirements of the other peer reviews.

The American Institute of Certified Public Accountants (AICPA) recently released an exposure draft of proposed professional standards for performing and reporting on peer review engagements. Enclosed is a copy of GAO's letter commenting on the AICPA's proposed standards, in which we urge coordination of the peer review program with the PCAOB inspection program.

We believe that coordination between the relevant key stakeholders is called for before both the PCAOB's and the AICPA's standards are finalized. As a key stakeholder, we are happy to participate in any relevant coordination efforts.

We thank you for considering our comments on this very important issue.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'David M. Walker', with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

Enclosure

cc: The Honorable William H. Donaldson, Chairman
Securities and Exchange Commission

The Honorable William J. McDonough, Chairman
Public Company Accounting Oversight Board

William F. Ezzell, Jr., Chair
American Institute of Certified Public Accountants

Barry C. Melancon, President and CEO
American Institute of Certified Public Accountants

Mr. Anthony Lynn
Chair, AICPA Peer Review Program

Mr. Gary Freundlich
Director, AICPA Peer Review Program