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July 18, 2007

Ms. Susan Rowley
Senior Technical Manager
AICPA Peer Review Program, AICPA
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Ms. Rowley:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the exposure draft from the AICPA Peer Review Board (Board) of proposed revisions to the AICPA Standards for Performing and Reporting on Peer Reviews. The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

Several of the FMSB members have experience with the National State Auditor's Association (NSAA) peer review model, which is based on and follows very closely the AICPA model. Overall, the FMSB is supportive of the proposed changes to the AICPA Peer Review Program. They are logical and meaningful. Although we see nothing unreasonable in the standards changes proposed, we do recommend that the Board add a statement to the effect that the number of government audits selected for review should be a representative share of the firm's government audit practice. We also recommend that you add a requirement that the firm conducting a peer review make a formal inquiry, when applicable, of the federal Cognizant Audit Agency as to its determination regarding the acceptability of any single audit reports prepared by the firm under review. We do have the following specific comments:

1. We agree with the idea of a single peer review program for all AICPA members (other than those performing audits required by PCAOB). This would help further the standards harmonization process.
2. Is the AICPA considering and working with other audit organizations to ensure harmonization on frequencies of reviews (especially GAO)? We understand that the GAO is still considering 5-year frequencies under certain circumstances (i.e., for performance audits). Many state audit shops do both financial/financial-related audits and performance audits so they would prefer a similar time frame for both types of review. Also, while we realize activities under the AICPA and the Institute of Internal Auditors (IIA) do not overlap, the IIA prescribes 5-year frequencies.
3. Unlike the GAO and IIA standards, the proposed AICPA peer review period only covers a single year. We recommend that the review cover some of the activity for each year since the previous peer review, with more emphasis on the most recent year of the three-year period. That would ensure more comprehensive coverage.

4. Does a firm completing audits of both SEC and non-SEC entities have to have peer reviews by both PCAOB and AICPA if this proposed change is adopted? When we read paragraph 7, our interpretation is that the answer based on that paragraph is “yes,” they must undergo two separate peer reviews. We recommend that this be clarified before the revision is published.

5. We see the Board’s proposal to eliminate the separate Letter of Comments (LOC) as a very drastic move, but after considering the rationale provided – the findings included in the LOC are not of such significance to affect the opinion or type of report issued – we agree with it.

6. The Board’s proposal to add two new forms – the Disposition of Matter for Further Consideration (DMFC) and the Finding for Further Consideration (FFC) – also represent improvements in our opinion.

7. The requirement for a representative of the reviewed firm to sign and date the FFC should increase the likelihood that the matters documented on the form are addressed and corrective action is taken. Specifically, we support paragraph 140, which requires the reviewed firm to evidence its agreement in writing to perform described corrective actions before the report will be accepted.

8. The Board’s proposal to change some terminology to make it more understandable is also a positive. The proposed terms “Pass”, “Pass with Deficiencies” and “Fail” leave little room for ambiguity and we support the use of these terms.

9. The exposure draft requires that engagements selected for review should provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk. As noted previously, we recommend that the Board add a statement to the effect that the number of government audits selected for review should be a representative share of the firm's government audit practice.

10. Finally, the Peer Review Board should consider expanding the Peer Review Standard. As noted previously, the expanded Standard should include a requirement that the firm conducting a peer review make a formal inquiry, when applicable, of the federal Cognizant Audit Agency as to its determination regarding the acceptability of any single audit reports prepared by the firm under review. This would help address an issue that the government community has raised regarding the usefulness of certain Single Audits.

We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions on the letter, please contact Anna D. Gowans Miller, CPA, AGA’s Director of Research and staff liaison for the FMSB, and facilitator for this project, at amiller@agacgfm.org or (703) 684-6931, ext. 313.

Sincerely,



Robert L. Childree, Chair,
AGA Financial Management Standards Board

cc: Richard L. Fair, CPA
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2007 – June 2008

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