

EXTERNAL PEER REVIEW GUIDE

PREFACE

This document presents the guidance for conducting external peer reviews of the audit operations of Offices of Inspector General (OIG). This guide was developed to ensure the adequacy and consistency of the reviews in accordance with the 2005 policy statement issued by the Audit Committee. The guidance contained herein is not intended to supplant the review team's professional judgment as to what approach to take or what specific procedures need to be performed. The Audit Committee welcomes any suggestions for further improving the external review program.

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ACRONYMS

AICPA	American Institute of Certified Public Accountants
AT	Attestation Standards
AU	Codification of Statements on Auditing Standards
CPE	Continuing Professional Education
ECIE	Executive Council on Integrity and Efficiency
GAO	Government Accountability Office
GAGAS	Generally Accepted Government Auditing Standards
IPA	Independent Public Accountant
IT	Information Technology
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
SAS	Statements on Auditing Standards
SFFAS	Statements of Federal Financial Accounting Standards

GENERAL CONSIDERATIONS

DEFINITIONS

- 1. Internal Quality Control System.** The methods and measures designed and implemented to collectively provide reasonable assurance that the applicable auditing standards, policies, and procedures were met. The system should generally reflect four characteristics: (1) policies and procedures that establish internal guidance and requirements; (2) supervisory review processes; (3) a quality control process for each audit (such as independent referencing); and, (4) a quality assurance program.
- 2. Quality Assurance Program.** An internal evaluation program that is performed by Office of Inspector General (OIG) personnel (either by personnel in the audit office or personnel in another component of the OIG) and is designed to assess whether the OIG carries out its work in accordance with established policies and procedures, generally accepted government auditing standards (GAGAS), Office of Management and Budget (OMB) and Government Accountability Office (GAO) guidance, and statutory provisions applicable to the OIG.
- 3. External Peer Review.** A review of an OIG's audit function by a Federal audit organization not affiliated with the OIG being reviewed that satisfies the objective specified below.
- 4. Audits.** For the purpose of providing guidance on the external peer review process, the term audits pertains to both audit and attestation engagements performed in accordance with GAGAS.
- 5. Nonaudit Services.** Tasks performed by an OIG at the request of agency management that directly supports the entity's operations or gathering of information or data at the request of a party without providing verification, analysis, or evaluation of the information or data.

OBJECTIVE OF THE EXTERNAL PEER REVIEW PROGRAM

- 6.** The objective of the PCIE/ECIE external peer review program is to determine whether the reviewed audit organization's internal quality control system was adequate and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. The program is intended to be positive and constructive and should be carried out in that spirit.

INDEPENDENCE OF THE EXTERNAL PEER REVIEW TEAM

- 7.** The reviewing OIG and review team members should meet the GAGAS independence criteria.

PROFESSIONAL JUDGMENT OF THE EXTERNAL PEER REVIEW TEAM

8. The review team should exercise professional judgment in all matters relating to planning, performing, and reporting the results of the external peer review.

EXTERNAL PEER REVIEW STAFF

9. The number of staff assigned to the review team is dependent on a number of factors including, but not limited to, the size and geographic dispersion of the OIG being reviewed, and the nature and extent of its audit universe. The review should be adequately staffed to complete the review in a timely manner.
10. The team leader should be an experienced manager with the appropriate audit background. The team should consist of senior auditors or audit managers. The staff assigned to conduct the review collectively should possess adequate professional proficiency for the tasks required. At a minimum, each team member should have current knowledge of GAGAS, the government environment relative to the work being reviewed, and knowledge of how to perform a peer review. Members of the review team should be selected from one OIG, or an ad hoc review team may be assembled, comprised of representatives from various OIG audit organizations.
11. Team members should be selected based on the types and complexity of audits to be reviewed and any specialized skills that may be needed (for example, information technology (IT) specialists, statisticians, or auditors with financial statement skills). Also, when OIGs use electronic audit documentation to support their audits, review teams should be capable of reviewing such work and plan accordingly, to include obtaining training and any software needed. Because of these considerations, final decisions on team composition may be deferred until after some preliminary planning and presite procedures have been completed. Nothing in this section should be construed to limit the flexibility of the team leader in planning and performing the review.

DOCUMENTATION REQUIREMENTS

12. Documentation should be prepared to support the work performed and the conclusions reached during the course of the review. The checklists included in this guide are available in electronic format on the IGSNet (<http://www.ignet.gov/>).
13. The documentation should be retained by the reviewing OIG at least until the subsequent external review is completed. The external review documentation should be subject to the same custody and physical security policies that the reviewing OIG applies to its audit documentation. At a minimum, these policies should include safeguards against unauthorized use or access to the documentation.

INITIATION OF THE REVIEW AND ADMINISTRATIVE RECORDS

14. An engagement letter should be forwarded by the reviewing OIG announcing the initiation of the review and requesting a formal entrance conference. The engagement letter should also contain requests for the information delineated in section 20 to be provided at the entrance conference (sufficient time should be allotted for the compilation of the data). The entrance conference should be used to bring the parties together, establish the ground rules of the review, and facilitate the conduct of the review. At that time, the OIG under review should brief the review team on organizational issues and work practices (e.g., roles and responsibilities of the audit divisions, the use of electronic audit documentation, etc.), the level of clearance/access and any training that may be required at the outset of the review to facilitate preparation and planning. The proposed elements of the Memorandum of Understanding (MOU) (see section 17) should be discussed during the entrance conference as well.
15. Adequate work space should be provided for the review team. If travel is necessary to accomplish the objectives of the review, the reviewing OIG should pay its own travel expenses. If the team is made up of members of different OIGs, the team members' OIG should pay their travel expenses.
16. The reviewing OIG should maintain administrative records on the staff days and calendar days it takes to do the review and the travel and other costs incurred.

MEMORANDUM OF UNDERSTANDING (MOU)

17. A MOU should be prepared to ensure mutual agreement regarding the fundamental aspects of the review and to avoid any misunderstandings. The MOU should be issued subsequent to the entrance conference and signed off on by both parties prior to the initiation of fieldwork. The following topics should be covered in the MOU:
 - a. **Scope of the Review.** See Section 19 of this Addendum.
 - b. **Staffing and Timeframe.** The MOU should set forth the planned staffing and time frames. The review should be scheduled and conducted to ensure a report is issued within 3 years of the date of the previous peer review report and be designed to be performed efficiently in order to minimize the impact on the reviewed OIG's operations.
 - c. **Nonaudit Services.** The MOU should state that the reviewed OIG will provide, in writing, a description and a listing of all nonaudit services rendered within the prior 3 years that related to individual audits selected for review during the current peer review. The reviewed OIG should also provide related audit documentation required as independence safeguards by GAGAS 3.17a through 3.17e.

- d. **Preliminary Findings.** The MOU should provide for timely interim discussion of preliminary findings. A commitment to open and ongoing communication between the parties will be stressed.
 - e. **Reporting Results.** The MOU should establish the guidelines for the reporting process, i.e., (1) designating the report's addressee and signer (e.g., draft to and from the respective Assistant Inspectors General for Audit and final to and from the respective Inspectors General), (2) providing a draft report, (3) scheduling the exit conference, (4) designating a period of time for a response to the draft report, and (5) issuing the final report.
- 18.** Other topics may be covered, as needed. When preparing MOUs, care should be taken not to limit the review team's ability to conduct the work necessary to accomplish the objectives of the review.

PLANNING AND PERFORMING THE EXTERNAL PEER REVIEW

SCOPE OF THE REVIEW

19. The scope of the external peer review typically consists of the audit operations conducted over the period of time covered by the two most recent semiannual reports to Congress, but may be expanded as deemed necessary by the review team. The peer review may also include other areas, with mutual agreement between the OIG being reviewed and the external peer review team. GAGAS recognizes that the nature and extent of an audit organization's internal quality control system depends on a number of factors, such as its size. OIG organizations must nonetheless have a system in place to provide reasonable assurance that GAGAS is met on an ongoing basis. It is recognized, however, that the system may be composed of a structure of compensating controls to fulfill these requirements within the restrictions imposed by staffing sizes. The guidance contained herein should be modified and adapted as appropriate to conform to this structure.

PRESITE REVIEW STEPS

20. The following steps should be performed prior to the site visit.

- a. **Audit Quality Control Policies and Procedures.** Reviewed OIGs should be requested to complete section 1 of Appendix A, OIG's Audit Quality Control Policies and Procedures and provide a complete set of its policies and procedures, prior to the initiation of the review.
- b. **Semiannual Reports to Congress.** The review team should request a copy of the two most recent semiannual reports to Congress. The semiannual reports provide information regarding the nature and volume of completed audit work as well as other matters that may help the review team understand the environment in which the reviewed OIG operates. The reports should also serve as a source for selecting individual audits for review.
- c. **Other Information or Documentation.** The review team should obtain and review the annual audit plan(s) for the period covered, a printout of the audit tracking system of the specific information needed (e.g., audits scheduled, cancelled, terminated, or completed during the period), an organization chart, a roster of staff (including series and grades), professional designations, and a continuing education summary for all staff for the most recent 2-year reporting period. If it is readily available, obtain information regarding the staff's advanced degrees or special skills (if the information is not readily available, request this data, as needed, after the individual audits to be reviewed have been selected).
- d. **Prior External Peer Review.** Copies of the final report and letter of comments (for external peer reviews performed prior to 2005) and the documentation of the

review performed, to include copies of documents, as needed, should be obtained from the prior external peer review team. A written description of the corrective action taken in response to the prior external peer review should be obtained from the reviewed organization.

- e. **Prior Internal Quality Assurance Review Reports.** The review team should obtain the internal quality assurance review reports issued during and subsequent to the external peer review period.

REVIEW APPROACH

21. The approach advocated by this guide is to:

- a. Gain an understanding of the reviewed OIG's audit operation and its internal quality control system.
- b. Evaluate the reviewed OIG's policies and procedures designed to provide reasonable assurance that GAGAS and other pertinent requirements are met and conduct the examination accordingly (test for compliance if adequate as prescribed by modifying the checklists provided herein, as needed).
- c. Interview various levels of the professional staff to assess their understanding of and compliance with relevant quality control policies and procedures.
- d. Gain an understanding of the OIG's internal quality assurance program, evaluate its design, and assess internal quality assurance reports to determine the adequacy of the program and the degree of control provided in the OIG's overall internal quality control system.
- e. Review individual audits, emphasizing the quality control measures in place and adherence thereto for each audit.
- f. Maintain open communication to ensure understanding of the issues evaluated and to keep the reviewed OIG fully informed of potential issues as they arise.

UNDERSTANDING THE INTERNAL QUALITY CONTROL POLICIES AND PROCEDURES

22. Based on a review and evaluation of policies and procedures, supplemented as necessary by an inquiry of management, the review team should complete section 2 of Appendix A. The purpose of this analysis is twofold:

- a. To scope the review, if the organization's policies and procedures are determined to be adequate as prescribed, specific review procedures should be designed as

- needed to test compliance (to include modifying the checklists provided, if necessary). If not, the checklists provided herein should be used, and
- b. To gain insight as to the adequacy of the organization's overall internal quality control system.

REVIEW OF THE INTERNAL QUALITY ASSURANCE PROGRAM

23. The purpose of reviewing the internal quality assurance program is to determine whether the program is adequately designed and implemented and serves as a segment of the overall internal quality control system. The PCIE "Silver Book" provides a detailed framework as to how this critical quality control system feature should be organized and carried out. Appendix C contains guidance on assessing the design of the internal quality assurance program and on reviewing internal quality assurance reports. A representative sample of the quality assurance reports issued covering the external peer review period should be assessed. The results of this assessment should be considered in determining the adequacy of the overall internal quality control system.

SELECTION OF OFFICES AND INDIVIDUAL AUDITS

24. In selecting offices and reports for review, the team should consider the following:
 - a. The assignments listed in the audit tracking system.
 - b. Audits appearing (described) in the Semiannual Reports to Congress.
 - c. The degree of centralized controls in place.
 - d. The number of OIG offices.
 - e. The selection of a sufficient number of audits to enable the external peer review team to reach a defensible conclusion as to the adequacy of the internal quality control system.
 - f. Findings/comments from the prior external peer review report.
 - g. At least one audit that had been reviewed by the internal quality assurance review team.
 - h. At least one financial statement audit.
 - i. Audits which were related to nonaudit services.

- j. The selection of additional audits for review to substantiate the pervasiveness and impact of the deficiencies on the system as a whole if, during the course of the review, deficiencies in the organization’s quality control system were noted which could result in a less than unmodified opinion.
- k. A reasonable cross section of the assignments performed.

25. The external peer review team will apply a “no advance notice” policy in advising the OIG of the specific individual audits selected for review. The review team should advise the OIG of the specific audits selected for examination only when it is ready to initiate the review of the individual audits. The OIG should provide immediate access to all audit documentation requested by the review team. When the review team plans to conduct field visits (regional offices, sub-offices, etc.), the field offices should be advised of the specific audits selected for review upon the review team's arrival.

If the OIG cannot provide the requested documentation within 2 working days, it should complete the following attestation of the completeness of the audit documentation upon its delivery.

CERTIFICATION OF AUDIT DOCUMENTATION	
Agency: _____ Audit Number: _____	
Audit Title: _____ _____	
Certification: I certify that:	
<input type="checkbox"/>	To the best of my knowledge, the audit documentation provided to the [Name of OIG Office] external peer review team is complete and no changes were made since the report was issued.
<input type="checkbox"/>	Documentation is not complete and/or changes or additions have been made since the report was issued. Attached is an explanation as to why the audit documentation is incomplete or what and why the changes and/or additions were made, with the effected audit documentation specifically identified.
_____	_____
Assistant Inspector General for Audit	Date

NATURE AND EXTENT OF TESTS

26. The nature and extent of tests employed throughout should be sufficiently comprehensive to provide a reasonable basis for concluding whether the OIG's overall internal quality control system is adequate. The extent of work performed should be limited, or expanded as necessary, to achieve that level of assurance.

REVIEW OF INDIVIDUAL AUDITS

27. The purpose of reviewing individual audits is to determine whether established policies, procedures, and applicable professional standards were followed. Appendix D contains a checklist for the review of individual financial audits, Appendix E contains a checklist for the review of individual performance audits, and Appendix G contains a checklist for the review of individual attestation engagements.
28. For audits performed by IPAs under direct contract with the OIG, or the agency where the OIG has assumed responsibility for the quality of the audit, the review should determine whether the OIG has issued and implemented quality control policies and procedures for assuring the work meets standards and contractual requirements. Appendix F contains a checklist for reviewing the OIG's monitoring of these audits.
29. The review of individual audits should include a review of the auditors' reports, audit documentation, and discussions with professional staff of the OIG.
30. Ordinarily, the review of individual audits should be conducted onsite (at the office which performed the audit).
31. After completing a checklist for each audit reviewed, findings should be developed and conclusions formulated.
- a. Summarize the checklists' results.
 - b. Identify significant deficiencies (noncompliance with GAGAS and/or the OIG's quality control policies and procedures) in the individual audits reviewed which could impact the external peer review report's opinion.
 - c. Identify any other matters that warrant disclosure to the officials of the reviewed agency.
 - d. Assess the overall adequacy of the implementation of the organization's internal quality control system.

32. After all evidence has been compiled, the adequacy of the scope of the external peer review should be re-assessed and expanded upon, if necessary, to ensure the sufficiency criterion has been met.

REPORTING REVIEW RESULTS

GENERAL

- 33.** The process for reporting must be discussed and agreed to prior to the start of the review. At a minimum, the process should provide for the reviewed OIG to comment on the draft report prior to the issuance of the final report. The review team must consider the comments before finalizing the report.
- 34.** A written report should be issued at the completion of the review. The external peer review report should contain the reviewing OIG's opinion as to whether the OIG's overall internal quality control system provided reasonable assurance of compliance with professional auditing standards, principles, and procedures in the conduct of its audits.

RENDERING AN OPINION

- 35. Types of Opinions.** There are four types of opinions that may be rendered: unmodified, modified, adverse, and disclaimer. The opinions must be supported by strong and convincing evidence. In forming its opinion, the review team should consider the nature and extent of the evidence compiled taken as a whole to provide a reasonable basis for formulating the opinion. Foremost, however, the determination of what opinion should be rendered is a matter of professional judgment.

REPORTS ON EXTERNAL PEER REVIEWS

- 36. Report Content.** If a modified or adverse opinion is issued, the report must include a description of the findings which support the opinion. As noted above, conclusions should be reached based upon the cumulative impact of all of the findings. Issues may be disclosed, however, that did not affect the opinion, neither singularly nor in the aggregate, but nonetheless warrant reporting (in that formal corrective action needs to be taken). In these cases, the findings should be segregated by the subheading "Reportable Conditions Not Affecting the Opinion." This subheading is not required when an unmodified opinion is rendered but there are findings nonetheless. Generally, findings should include the elements of criteria, condition, cause, and effect. Findings should also be supported by sufficient, competent, and relevant evidence. Recommendations should be made to rectify the causal factors noted in the findings. Recommendations should be constructive, action oriented, specific, achievable, and cost effective. Presentation of findings should be complete, fair and conveyed in a positive and constructive manner. Matters of lesser importance that are nonetheless of interest to management should be conveyed orally.

37. The draft and final written report should contain:

- a. A transmittal letter.
- b. An opinion as to whether the OIG's internal quality control system was designed and was complied with during the period under review to provide reasonable assurance that applicable auditing standards, policies, and procedures were met in the conduct of its audits.
- c. Findings and recommendations (if applicable) to include emphasis on deficiencies that recurred from the OIG's previous external review.
- d. An exhibit that describes the external peer review scope and methodology, including a list of the audit reports reviewed and the OIG offices visited. Include any limitations and/or expansions of the scope, if applicable.
- e. In keeping with the constructive nature of the external peer review program, the team should report any noteworthy accomplishments or best practices found during the review such as particularly creative, efficient, and effective audit approaches, in an exhibit.
- f. An exhibit which contains the reviewed organization's response, in its entirety, to the external peer review report.

(Addendum 3 contains instructions on the report format, guidance on formulating opinions, standardized report language, and illustrations of findings and recommendations).

AGENCY RESPONSE

38. Views of Responsible Officials. To ensure the objectivity, accuracy, and completeness of the findings, the review team should obtain the views of responsible officials. When deficiencies are found during the course of the review, the team must discuss the issues with senior field office audit management and staff, or the responsible official(s) designated by the reviewed OIG. All preliminary draft findings and conclusions must be presented during the review to the official(s) designated by the reviewed OIG to avoid any misunderstandings and to help assure that all material facts are considered before a draft report is prepared. These disclosures may be conveyed informally but should be in writing to facilitate agreement regarding the conditions noted. Upon issuance of the initial draft report, an exit conference should be requested and held, modifications made to the report as necessary, and then a formal draft conveyed with a request for written comments. The final report should be revised, or the response rebutted as necessary, throughout the text. The written reply should be included in the final report as an attachment in its entirety.

REPORT DISTRIBUTION AND FOLLOW-UP

- 39.** The decision to implement any recommendations in the report rests solely with the reviewed OIG; for those recommendations implemented, the reviewed OIG is responsible for the resolution and follow-up of corrective actions. Follow-up on implemented recommendations should also occur during the course of the subsequent external peer review.
- 40.** The reviewed OIG must provide copies of the final review report to the head of its agency, the Chair and Vice Chair of the PCIE, and the Chair of the PCIE's Audit Committee.* In addition, the ECIE organizations should provide a copy of the report to the Vice-Chair of the ECIE. It is recommended that, upon request, the peer review report be made available to the Government Accountability Office and the public in a timely manner.

* The Vice Chair of the PCIE and the ECIE will prepare schedules of completed peer reviews, and advise the appropriate congressional committees that the opinion report is available on request from the reviewed OIGs.