

Peer Review Reporting

Presented
April 13, 2006

Reporting: Fundamentals for Reporting Results

- Professional Judgment
 - Opinion based on overall conclusions
 - Must consider whether the deficiencies identified are material and/or systemic (significant and/or pervasive)
 - Do the deficiencies extend across functional lines and include multiple audits (i.e., systemic/pervasive)?
 - Design or operational deficiencies
 - Design deals with the system of internal controls that was created
 - Operational deals with how those controls are followed
- Reasonableness
- GAGAS is the ultimate criteria
 - Incumbent upon the peer reviewers to support assertion that GAGAS has not been met
 - GAGAS affords substantial leeway

Reporting: Fundamentals for Reporting Results

- Communication/Views of Responsible Officials
 - To ensure the objectivity, accuracy, and completeness of the findings, the review team should obtain the views of responsible officials
 - Deficiencies found during the review should be discussed with senior field office management and staff, or officials designated by the OIG (put issues on table at lowest responsible level)
 - All preliminary findings and conclusions must be presented during the review to officials designated by the OIG
 - Disclosure should be in writing – point papers, findings of fact, statements of fact, etc.
 - Helps facilitate agreement

Reporting: Major Changes/Issues

- 2005 PCIE Guidance
 - Types of Opinions
 - Unmodified, Modified, Adverse, Disclaimer
 - Prior guidance - Unqualified, Modified, Adverse, Disclaimer
 - Report contains opinion followed by findings
 - Prior guidance – (1) Opinion Report and (2) a separate Letter of Comments
- Use of Matrix based on degree of design and operational deficiencies to determine opinion – discussed but **not adopted**. **Opinion is a matter of professional judgment**

Reporting: Review Results

- The process for reporting must be discussed and agreed to prior to the start of the peer review – part of MOU
- 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
- Review team must consider comments before finalizing the report

Reporting: Review Results

- A written report will be prepared at the completion of the review
- The report should contain the reviewing OIG's opinion as to whether the reviewed 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**

Reporting: Content of Report

- Report should contain:
 - Transmittal letter
 - Standardized language regarding the review
 - Opinion paragraph
 - Findings (include separate subheading for Reportable Conditions if applicable)
 - Recommendations
 - Required Exhibits
 - A - Scope & Methodology
 - B - General Comments (noteworthy accomplishments, etc.)
 - C - Responses from activity
 - External peer review team responses to management

Reporting: Transmittal Letter

- Addressees should be specified in the MOU
 - Head of Audit; Director of Policy, etc.
- Initial or “discussion” draft should be transmitted prior to the exit conference
 - Subsequent to the exit conference, the draft report should be modified as needed

Reporting: Transmittal Letters

- Final or “official” draft should then be transmitted (to lowest responsible level – Head of Audit; Director of Policy, etc.) with a request for formal written comments, generally within 30 days
- The final report should be modified as needed based upon the written responses received, and then transmitted to the reviewed OIG
 - Final report should contain no surprises
 - All issues should have been fully vetted

Reporting: Standardized Report Language

- We have reviewed the system of quality control for the (reviewed OIG) in effect for the year ended June 30, 20XX
- Our objective was to determine whether the internal quality control system **was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met**
- Our responsibility is to express an opinion on the design of the system and the OIG's compliance with the system
- Our review was conducted in accordance with the guidelines established by the PCIE and the ECIE

Reporting: Standardized Language

- We tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate
- These tests included the application of the OIG's policies and procedures on selected audits
- We believe the procedures performed provide a reasonable basis for our opinion
- Due to inherent limitation in the effectiveness of any system of quality control, departures from the system may occur and not be detected
- Our scope and methodology appear in Exhibit A. General comments (if applicable) appear in Exhibit B

Reporting: Rendering an Opinion

- Four types of opinions 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
- If a modified or adverse opinion is issued, the report must include a description of the findings which support the opinion
 - Opinion should be based on the cumulative impact of all the findings (considering significance and pervasiveness)

Reporting: Unmodified Opinion

- Report will state:
 - In our opinion, the system of quality control for the audit function of the OIG in effect for the year ended June 30, 20XX, has been designed to meet the **requirements of the quality control standards established by the Comptroller General for a Federal Government audit organization and was complied with during the year to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures**

Reporting: Unmodified Opinion

- If applicable insert the following – We noted conditions that warrant your attention, although they did not impact our opinion. These matters are described in the Findings and Recommendations that follow

Reporting: Unmodified Opinion - Examples

- Finding 1 - Policies and procedures require each team member to complete a checklist to help identify personal and external impairments to independence
 - Not completed on 3 of 10 audit reviewed
 - We determined no impairments existed

Reporting: Modified Opinion

- Modified Opinion –
 - Considered when the quality control system **did not function satisfactorily to preclude significant deficiencies** from arising in the conduct of audits (systemic and/or material)
 - In absence of identifying significant and pervasive deficiencies in the audits reviewed, design deficiencies alone would not be sufficient to result in a modified opinion
 - An isolated (non-systemic) deficiency would generally be insufficient to support a modified opinion unless extraordinary circumstances prevail (i.e., the magnitude of the deficiency significantly caused a lack of organizational credibility)
 - **Cannot support a modified opinion if GAGAS is met**

Reporting: Modified Opinion

- Report will state
 - In our opinion, **except for the deficiency(ies) described in the following Findings and Recommendations**, the system of quality control for the OIG in effect for the year ended June 30, 20XX, has been designed to meet the requirements of the quality control standards established by the Comptroller General...and complied with to provide reasonable assurance of conforming with applicable auditing standards, policies, and procedures

Reporting: Modified Opinion

- The following are examples that issues that **collectively** resulted in one OIG getting a modified opinion
- Audit Planning – GAGAS requires defining objectives and the scope and methodology used to achieve the objectives
 - 5 of 15 audits (2 Directorates) lacked a written audit program. As a result -
 - Never developed a methodology to achieve objective
 - Never identified criteria
 - Never developed a process to obtain sufficient, competent, and relevant evidence to achieve the audit objectives
 - For 6 of 15 audits, (3 Directorates) from 20 to 35 percent of the audit program was incomplete

Reporting: Modified Opinion

- Documentation – Work papers
 - GAGAS states that a record of auditor’s work should be retained in the form of work papers
 - For 8 of 15 audits (3 Directorates), key evidence to support **important conclusions and judgments in the audit reports** was not adequately documented in the work papers.
 - For 4 of 15 audits (3 Directorates), significant work papers were prepared to support findings and conclusions after the report was issued.

Reporting: Modified Opinion

- Other issues:
 - Supervisory reviews – In 6 of 15 audit reports (3 Directorates), supervision was not documented on from 30 to 47 percent of the critical work papers supporting findings and conclusions
 - Independence – OIG had no procedures to document a lack of personal impairments
 - Independent Referencing - Inadequate for 11 of the 15 audits reviewed (4 Directorates)

Reporting: Modified Opinion

- Quality Assurance Reviews - QA reviews did not detect or report significant deficiencies disclosed by the peer reviewers
- Quality Assurance Checklists - OIG requires these as a reminder of the documentation requirements for project planning, supervision, and work papers
 - 7 of 15 audits (4 Directorates) did not have checklists
 - Checklists for remaining 8 audits had significant inaccuracies

Reporting: Modified Opinion

- Summary – OIG had material and systemic issues across Directorates in:
 - Planning
 - Documentation
 - Supervision
 - Quality Control System
- The decision to issue a modified opinion was based on the **overall conclusion** drawn from the evaluation of the design of the of the internal quality control system and findings disclosed.

Reporting: Adverse Opinion

- Adverse Opinion
 - Report will state – Because of the deficiency(ies) described in the following Findings and Recommendations, the system of quality control for the OIG ...**has not been designed** to meet the requirements of the quality control standards established by the Comptroller General and was not complied with during the year to **provide reasonable assurance of conforming with applicable auditing standards, policies, and procedures**
 - Extremely rare
 - Deficiencies would need to be both material **and** systemic (significant and pervasive)

Reporting: Adverse Opinion - Example

Finding 1 - Quality Control System Weakness

- The OIG's quality control system does not include a quality control process for each audit, such as independent referencing, and was not otherwise compensated for
- As a result, the system as designed did not provide reasonable assurance that applicable auditing standards, policies, and procedures were met
- Our review disclosed significant deficiencies in 8 of the 10 audits, issued by all 4 of the audit divisions reviewed. These deficiencies were not precluded or detected in a timely manner due to the quality control system weaknesses

Reporting: Disclaimer of Opinion

- Disclaimer – Would result in those cases where records critical to selected audits could not be produced
 - Explanation provided for missing records should be reasonable and the number of instances isolated
 - Examples – Natural disasters, fires, floods, etc.
 - Beyond control of activity
 - Consideration should be given to selecting replacement audits (thus lifting the disclaimer)
 - Peer reviewers **should never** consider selecting replacement audits to avoid issuing a modified opinion

Reporting: Disclaimer - Example

- The report would state
 - We were unable to express an opinion on the system of quality control for the audit functions of OIG in effect for the year ended June 30, 20XX, because audit documentation requested for selected audits was not made available and the absence of these records precluded the application of alternative tests

Reporting: Formulation of an Opinion

- The significance of disclosed deficiencies in the review should be determined by the extent to which the audits could **not be relied on due to failure to comply with GAGAS**

Reporting: Formulation of an Opinion

- Reliability can be impaired if, for example:
 - Evidence is untrue and findings not correctly portrayed
 - Findings and conclusions are not supported by sufficient, competent, and relevant data
 - Evidence included in the audit work papers does not demonstrate the correctness of the matters reported
 - Report does not accurately describe the audit scope and methodology
 - Findings and recommendations are not consistent with the audit scope and methodology
 - Report contains errors in logic and reasoning

Reporting: Formulation of an Opinion

- The pervasiveness (meaning identified in multiple audits across multiple organizations units) of the deficiencies should be considered. Isolated deficiency would be insufficient to support a modified opinion
- If nonconformity with GAGAS is identified, the extent of the lack of adherence should be considered, given the flexibility afforded by the Standards. For example:
 - The fieldwork standard for supervision requires that “reviews of audit work should be documented”
 - GAGAS is not prescriptive and limits specificity as to what actions must be evidenced to be considered “proper supervision”
 - Affords substantial leeway in complying with Standards

Reporting: Formulation of an Opinion

- Reasonableness and judgment must be employed in assessing adherence to GAGAS
- Incumbent upon the peer reviewer to support assertions that GAGAS has not been met by citing specific GAGAS provision that was not complied with, and provide the basis for their conclusion

Reporting: Formulation of an Opinion

- In the absence of identifying significant and pervasive deficiencies in the audits reviewed, design deficiencies alone would not be sufficient to result in a modified opinion
- If reports are identified that are found to be unreliable, the causes of the deficiencies need to be examined, particularly as to whether the design deficiencies were the sole or contributing factor
- Design flaws are greater concern than operational deficiencies in that the system should contain the necessary methods and measures to preclude, or detect in a timely manner, lack of adherence with GAGAS
 - If the design appears adequate, but deficiencies noted due to lack of compliance with the system, the design may need to be strengthened

Reporting: Findings

- Presentation of findings should be complete, fair, and conveyed in a positive and constructive manner
- Findings should:
 - Be reported on an issue-by-issue basis
 - Generally include the elements of criteria, condition, cause, and effect (due to nature of peer review, may not always be able to fully answer cause and effect)
 - Peer review findings should specifically quantify results in order to show the materiality
 - Be supported by sufficient, competent, and relevant evidence
- Repeat issues from prior peer reviews should be identified
- Matters of lesser importance that are of interest to management should be conveyed orally

Reporting: Reportable Conditions

- Additional issues disclosed during the peer review that do not affect the opinion when the opinion is other than unmodified
 - Warrant reporting because 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 reported
 - Example – Lack of Personal Impairments Statements – not material or systemic issue that caused a modified opinion, but corrective action needs to be taken

Reporting: Recommendations

- Recommendations should “fix” the causes identified
- Recommendations should be constructive, action oriented, specific, achievable, and cost effective

Reporting: Scope and Methodology - Exhibit A

- Exhibit describes the external peer review scope and methodology, including a list of the audit reports reviewed and the OIG offices visited
- Should include any limitations and/or expansions of the scope

Reporting: General Comments – Exhibit B

- In keeping with constructive nature of the peer review, the report should include
 - Any noteworthy accomplishments or best practices found during the review
 - Credit for corrective actions taken during the peer review

Reporting: Management Response – Exhibit C

- Organization's response to the peer review
 - Include response verbatim and in its entirety

Reporting: Important Things to Remember

- The decision to implement any recommendations in the report rests solely with the reviewed OIG
- For recommendations implemented, the reviewed OIG is responsible for the resolution and followup on corrective actions

Reporting: Report Distribution

- Copies of the final report must be provided to:
 - Head of the Agency
 - Chair and Vice Chair of the PCIE
 - Chair of the PCIE's Audit Committee
 - Upon request
 - Congress
 - Public

Reporting

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