

# **AUDIT COMMITTEE POLICY STATEMENT ON INTERNAL QUALITY CONTROL SYSTEMS AND EXTERNAL PEER REVIEW PROGRAMS**

## **I. PURPOSE**

The purpose of this statement is to provide policy guidance to the members of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) on the implementation of the General Standard on Quality Control and Assurance of the generally accepted government auditing standards (GAGAS).

## **II. BACKGROUND**

Previously, GAGAS required government audit organizations to have an appropriate internal quality control system and to undergo periodic external peer reviews. The 2003 edition of GAGAS clarified policies on the type of information that should be reviewed, the qualifications of review staffs, the distribution of external peer review reports, and the granting of extensions of timeframes for the performance of external peer reviews.

The PCIE published Quality Standards for Federal Offices of Inspector General (OIG). These standards, last updated in October 2003, cover the entire OIG organization and are considered advisory in nature.

The PCIE's Policy Statement on Quality Control Reviews was issued on August 8, 1989, and then subsequently revised through March 2004. The policy statement provides guidance on internal quality control systems, internal review programs, and general guidance on the PCIE external peer review process.

This policy statement supercedes the PCIE's March 2004 Policy Statement on Quality Control Systems and External Peer Reviews.

## **III. INTERNAL QUALITY CONTROL SYSTEM**

Each Office of Inspector General (OIG) organization is required to implement and maintain an internal quality control system for its audit work and attestation engagements. The internal quality control system typically consists of four characteristics, as follows:

- policies and procedures that establish internal guidance and audit requirements,
- supervisory review processes,
- a quality control process for each audit (such as independent referencing), and
- a quality assurance program (see Addendum 1).

Each audit organization should prepare appropriate documentation for its system of quality control. The organization's internal quality control policies and procedures should provide for monitoring, on an ongoing basis, whether the policies and procedures related to the Standards are suitably designed and effectively applied.

#### **IV. EXTERNAL PEER REVIEW PROGRAM**

The objective of the external peer review 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.

An audit organization, therefore, should retain relevant and sufficient documentation to enable an external peer review team to evaluate the reviewed OIG's compliance with its internal quality control system.

Formal entrance and exit conferences should be held to ensure all parties understand the ground rules of the engagement, facilitate the conduct of the review, and communicate the review results.

The 1988 amendments to the Inspector General Act of 1978 require that external peer reviews be performed exclusively by an audit entity of the Federal Government, including the Government Accountability Office or an OIG. Assignments for conducting peer reviews are made by the PCIE and ECIE.

GAGAS requires external peer reviews at least once every 3 years. The external peer review team should issue its report within the 3-year period unless an extension, if it exceeds 3 months after the end of the 3-year period, is granted by the Government Accountability Office. The scope of the external review typically consists of 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 scope may include other areas with mutual agreement between the OIG being reviewed and the external review team.

In the conduct of an external peer review, reviewers should be independent of the OIG reviewed, its staff, and the auditees whose audits are selected for review. Employees separated from the reviewed agency within the past 3 years should not participate in the external peer review of their former agency. An audit organization is not permitted to review the organization that conducted its most recent external peer review. Further, the reviewing OIG generally should not conduct consecutive peer reviews of the same entity. In addition, an audit organization should not review another audit organization if its investigation unit was reviewed by the other's investigation unit within the past three years.

The "External Peer Review Guide" (Addendum 2) provides guidance and procedures to ensure that external peer reviews are conducted in an appropriate and

consistent manner. The external peer review will culminate in a written report, to include any expanded scope areas. Significant areas of disagreement requiring technical clarification/interpretation of GAGAS may be forwarded to the Audit Committee for comment prior to the issuance of the external peer review report.

Regarding review report distribution, the reviewed OIG should provide copies of the final review report to the head of the agency, Chair and Vice Chair of the PCIE, and Chair of the PCIE Audit Committee. In addition, the ECIE organizations should provide a copy of the report to the Vice Chair of the ECIE. Upon request, the final review report should be available to the public. OIGs have the option to post the final report on their website. The review team should provide a copy of the final review report and supporting documentation to subsequent external review groups and, upon request, to the Government Accountability Office.

Only an OIG that receives an unmodified opinion on its most recent peer review will be allowed to perform external peer reviews of other OIGs. OIGs receiving other than an unmodified opinion on external peer reviews may request an off-cycle peer review to demonstrate that corrective action has been taken. Further, if an audit organization under review receives notification at the official draft stage of the external peer review process that it will receive less than an unmodified opinion, and the reviewed agency is simultaneously performing a peer review of another audit organization, it should notify the PCIE Audit Committee. Reassignment will be made as appropriate.

John Higgins, Chair  
Audit Committee