

# Conducting External Peer Reviews of Audit Operations of Offices of Inspector General

Presented  
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# Introduction

- To provide an overview of the external peer review process based on the April 2005 PCIE Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General

# Topics of Discussion

- Peer Review Objective
- Background
- Major Changes
- Changes to Structure of Peer Review Guide
- Requirements of a Quality Assurance Program
- Who Can Perform a Peer Review
- The Team
- Documentation and Administrative Matters
- Memorandum of Understanding
- Planning and Performing the Review
- Criteria for Selecting Reports
- Reporting

# Peer Review Objective

- The objective of the peer review is to determine whether the organization's internal quality control system is adequate.
- The internal quality control system should provide reasonable assurance that applicable auditing standards, policies, and procedures were complied with.

# Background

- June 2003, Government Auditing Standards require government audit organizations to have an appropriate internal quality control system in place and to undergo an external quality control review (GAS 2003 Rev. 3.49-3.56)
- October 2003, Quality Standards for Federal Offices of Inspector General (Silver Book)

# Background

- PCIE's Audit Committee Policy Statement in the PCIE Guide provides guidance on internal quality control systems, internal review programs and general guidance on PCIE peer review process.

# Major Changes

- Change in Title
- Change in definition of internal quality control system
- Inclusion of attestation engagements in the definition of audits
- Terminology changes to reflect the new Yellow Book
- No separate letter of opinion and comments (one document)

# Major Changes

- Clarity to the MOU
- Addition to Review Approach
- Steps for Nonaudit Services
- Changes in names of opinions



# Changes to Structure

<b>Old Structure</b>	<b>New Structure</b>
	Addendum 1-Guidelines for OIG Quality Assurance Programs
General Considerations; Planning and Performing the External Quality Control Review; Reporting Review Results	Addendum 2
Appendix A-Identification of Policies	Appendix A-Section 1
Appendix B-Analysis of Policies	Appendix A-Section 2
	Appendix B-Selected General Standards
Appendix C & Appendix D-Internal QA Program and Reports Assessment	Appendix C

# Changes to Structure

<b>Old Structure</b>	<b>New Structure</b>
Appendix E-Financial Audits	Appendix D
Appendix F-Performance Audits	Appendix E
Appendix G-IPA Monitoring	Appendix F
	Appendix G-Attestation Engagements
Appendix H-Illustrative Reports	Addendum 3
Appendix I-Audit Committee Policy Statement	Audit Committee Policy Statement

# Requirements of an External Peer Review Team

- A review team led by a senior audit manager
- An independent and objective review leader
- No advance notice for audits selected
- Competent evidential matter and sufficient testing
- Written results prepared and, when applicable, recommendations for corrective actions
- Procedures for the resolution and followup of corrective items

# Who Can Perform a Peer Review

- Must have an unmodified opinion on its most recent peer review

## Working Toward a Changed Opinion

- If organization receives a notification of intent to get less than an unmodified opinion while performing a peer review, must notify the PCIE audit committee
- Off-cycle peer reviews to demonstrate corrective action can be requested by agencies receiving other than an unmodified opinion

# Planning and Performing the Review: The Team

- A senior audit manager with appropriate background and experience should lead the external review team (preferably a GS-15 grade level or above).
- Team – senior auditors or audit managers
- Each team member should be independent in fact and appearance and have current knowledge of:
  - ◆ GAGAS
  - ◆ The government environment relative to the work being reviewed
  - ◆ How to perform a peer review
- The team should exercise professional judgment in all matters relating to planning, performing, and reporting the results of the peer review

# Documentation and Administrative Matters

- Checklists in the Guide available at [www.ignet.gov](http://www.ignet.gov)
- Working Papers
  - ◆ Prepare working papers to document the work performed and the conclusions reached during the course of the review
  - ◆ Complete the checklists, where applicable, preferably in electronic format
  - ◆ Review teams are encouraged to keep their working papers in electronic format as much as possible
- Organize the peer review documentation format and retain documentation until subsequent external review is completed

# Documentation and Administrative Matters

- Working Arrangements and Administrative Records
  - ◆ Adequate workspace
  - ◆ Designated facilitator
  - ◆ The reviewing organization travels at its own expense
  - ◆ Maintain administrative records on the staff days and calendar days it takes to perform the review, including travel and other costs incurred
  - ◆ The organization under review is responsible for briefing the review team on organizational issues and work practices
  - ◆ Electronic working papers

# Documentation and Administrative Matters

- Hold entrance conferences that include discussion of:
  - ◆ Team composition including use of other experts
  - ◆ Follow agreements reached (MOU) details
  - ◆ Background information on reviewing agency and agency under review
  - ◆ Other necessary details



# Memorandum of Understanding

- A memorandum of understanding between the agency under review and the reviewing agency should be in writing to avoid misunderstanding and should cover such areas as:
  - ◆ Scope of the review
  - ◆ Staffing and Timeframe
  - ◆ Nonaudit Services
    - Related to individual audits selected for inspection and documentation related to safeguards (GAS 3.17a-e)
  - ◆ Preliminary Findings
  - ◆ Reporting Results
  - ◆ Other topics as necessary

# Planning and Performing the Review

- Gain an understanding of the agency's audit operation and internal quality control system
  - Review the PCIE Guide and become familiar with the detailed guidance for each phase of the review
  - Review the prior peer review report and supporting working papers
  - Discuss the specific items that will comprise the MOU
  - Review most recent semiannual report.

# Planning and Performing the Review

- Prepare the MOU
- Plan the estimated start and completion dates for the review
- Organize the peer review working paper format
- Select the peer review team
- Make staff assignments
- Summarize issues raised in the prior review and include follow-up tests in the current review
- Arrange an entrance conference
- Discussion electronic working papers/arrange for training, if necessary.

# Planning and Performing the Review

- Information request list, including:
  - ◆ Request for responses to Section 1 of Appendix A of the PCIE Guide
  - ◆ Audit quality control policies and procedures
  - ◆ Obtain any audit policy and operations procedures guidance
  - ◆ Obtain any quality assurance policies and procedures
  - ◆ Request the two most recent Semiannual Reports
  - ◆ List of audit reports, including office location of working papers
  - ◆ List of internal quality assurance/assessment review reports, including office location of working papers
  - ◆ Summary of continuing professional education for all audit organizational professional staff for the most recent 2-year training cycle

# Planning and Performing the Review

- Review and complete section 2 of Appendix A, Audit Quality Control Policies and Procedures
  - ◆ Purpose is to gain insight as to the adequacy of the internal quality control system and to scope the review. Should be completed based on answers to section 1
- Complete Appendix B for reviewing selected General Standards
- Complete Appendix C for assessing the design of the internal quality assurance program and for reviewing selected internal quality assurance reports
- Identify the types of audit work the agency performs and contracts for

# Planning and Performing the Review

- Select a sample of offices and audits to be reviewed and determine extent of tests to be performed
- Obtain the proper contact information, make appropriate contacts, and arrange site visits
- Review team will apply a “no advance notice” policy in advising the audits selected for review
  - ◆ If the agency cannot provide the requested documentation within 2 working days, a certification for completeness should be completed

# Planning and Performing the Review

- Review functional areas and individual audits (reports and supporting working papers) and complete:
  - ◆ Appendix D for each financial statement audit
  - ◆ Appendix E for each performance audit
  - ◆ Appendix F for IPA monitoring
  - ◆ Appendix G for each individual attestation engagement

# Planning and Performing the Review

- Additional audits may be selected for review if deficiencies in the organization's quality control system are noted, which could result in a less than unmodified opinion
- Review other necessary documents (correspondence and CPE documentation) as well as interviews with the reviewed agency's professional staff
- For IPA monitoring, the review team should determine whether the organization has quality control procedures for assuring the work meets the standards and contractual requirements and whether they were followed



# Performing the Review

- For each audit reviewed, the review team should document whether anything came to its attention that caused them to believe:
  - ◆ The audit agency did not have a reasonable basis for the report issued
  - ◆ The documentation did not support the report issued
  - ◆ The audit agency did not comply with quality control policies and procedures in all material respects
  - ◆ Where applicable, the financial statements were not presented in all material respects in accordance with GAAP

# Performing the Review

- Upon completion of each field visit, hold an exit conference with the person in charge at the field office and resolve any disagreements on facts
- Summarize the issues presented in the field, exit conferences, and headquarters results to provide the team's basis for the overall results of the peer review
  - ◆ Identify significant deficiencies in the individual audits reviewed which could impact the opinion
  - ◆ Identify any nonsystemic or nonmaterial deficiencies in the individual audits reviewed that warrant inclusion in the report or in discussions with officials of the reviewed agency
- Arrange for the official exit conference with the appropriate Headquarters person for the agency under review
- Prepare and submit the draft report, address comments to the draft report, and submit the final report in accordance with the MOU

# Criteria for Selecting Reports

- Factors to consider in the selection of offices and reports to be reviewed
  - ◆ Audits appearing in the Semiannual Report to Congress
  - ◆ Degree of centralized report controls
  - ◆ Sufficient number of offices representative of the audit organization
  - ◆ Findings/comments from the prior external peer review report
  - ◆ At least one audit that had been reviewed by the internal quality assurance review team
  - ◆ If the audit organization performs and/or contracts for financial statement audit(s), at least one financial statement audit must be selected
  - ◆ Audits that provide a reasonable cross-section of audits conducted (audits that are representative of the major types of audit work performed by the audit agency or contracted out)

# Points Of Contact

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***QUESTIONS?***