
November 15, 2005



Oversight Review

FY 2005 External Reviews of the Quality
Control Systems of the Military
Department Audit Agencies
(Report No. D-2006-6-001)

Department of Defense
Office of the Inspector General

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Acronyms

AAA	Army Audit Agency
AFAA	Air Force Audit Agency
NAVAUDSVC	Naval Audit Service
OAIG-APO	Office of the Assistant Inspector General for Audit Policy and Oversight
PCIE	President's Council on Integrity and Efficiency



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MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: FY 2005 External Reviews of the Quality Control Systems of the Military
Department Audit Agencies (Report No. D-2005-6-001)

Section 8(c)(6) of the Inspector General Act of 1978, as amended, requires the Inspector General of the Department of Defense to monitor and evaluate the adherence of Department auditors to internal audit, contract audit, and internal review principles, policies, and procedures. Government Auditing Standards issued by the Comptroller General of the United States require that organizations conducting Government audits and/or attestation engagements have an appropriate internal quality control system in place and undergo an external review at least once every three years by reviewers independent of the audit organization being reviewed.

Results of the Military Department Audit Agencies External Reviews. We are issuing an unqualified opinion on the system of audit quality control for each of the Military Department audit agencies – Army Audit Agency (AAA), Naval Audit Service (NAVAUDSVC), and the Air Force Audit Agency (AFAA). We determined that the systems of quality control for each of the Military Department audit agencies were suitably designed and complied with to provide reasonable assurance that the AAA, NAVAUDSVC, and AFAA conform to applicable auditing standards, policies, and procedures in the conduct of their work. We made this determination based on our oversight of the external peer reviews conducted by the Military Department audit agencies of each other and our conduct of the external peer reviews of their Special Access Programs audits.

Key Observations Noted During the Review Process. Each of the review teams made observations and suggested actions to the audit agencies to strengthen their systems of quality control. Although not affecting the overall opinion on the Military Department audit agencies' quality control programs, we believe that the Military Department audit agencies should give particular regard to the following.

Ensuring Integrity of Audit Documentation. Each of the Military Department audit agencies identified modifications or additions to audit documentation after final report issuance. While the Government Auditing Standards are silent on the issue of modifying/adding audit documentation after final report issuance, the fieldwork

standard related to audit documentation, specifically states in paragraph 7.66 that audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report. Absent guidance that addresses data integrity, the potential increases for auditors to inappropriately alter documentation that supports a significant finding, conclusion, or recommendation.

From a quality control system review perspective, the reviewer or other oversight official may be unable to verify that the audit documentation supported the report prior to report issuance. Fortunately, each of the audit agencies was able to satisfy themselves through review of additional documentation that the reports reviewed were supported at the time of issuance. However, the external review team and the internal auditors from the audit organization under review had to expend a substantial amount of extra time that would not have been necessary if sufficient guidance was in place on post-report changes to audit documentation.

Each of the Military Department audit agencies have taken some action already or agreed to take action to help ensure the integrity of audit documentation after report issuance. For example, according to AAA review comments, on April 4, 2005, AAA established policy for archiving working papers which addressed the ability to modify work papers after the final report was issued. The Naval Audit Service established an action plan that includes the implementation of a policy to make work papers “Read Only” on the day of report publication. AFAA agreed to emphasize the evidence and audit documentation area in its FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting the 2005 review results.

However, because of the concerns about changes to audit documentation after report issuance, the Office of the Inspector General of the Department of Defense will incorporate guidance in the DoD Audit Manual. The guidance will include each audit organization developing and following policies and procedures that ensure the integrity of audit documentation, to include policies and procedures such as:

1. An explicit understanding that supporting documentation and quality procedures should be completed prior to issuing the final report.
2. The circumstances under which it is appropriate and acceptable to modify audit documentation after a report is issued.
3. Procedures for documenting changes made including documenting when changes were made, who made the changes, and effects if any of the changes on the auditor’s prior conclusions.
4. The acceptable period of time, if any, for making changes to audit documentation after report issuance after which deletions to, discarding of, and additions or changes to audit documentation should not occur.

5. An explicit statement emphasizing the imprudence of changing working papers that were specifically used to support significant facts and conclusions in the audit report.
6. An explicit statement that under no circumstances should changes be made to audit documentation subsequent to notification of pending external or internal review.

Repeat Observations. The Military Department audit agencies also identified repeat observations from the FY 2002 external peer reviews of each other. The repeat observations identified included strengthening independent referencing, improving audit supervision, and the completeness and accuracy of systems used to track continuing professional education. The Military Department audit agencies need to monitor continuously their internal quality control systems and seek ways to make improvements for the repeat observations made in the FY 2005 external peer review. If the repeat observations continue, the opinion for future external peer reviews may be affected because repeat observations may indicate that the agency quality control system is not functioning satisfactorily.

External Review Process and Methodology. The Office of the Assistant Inspector General for Audit Policy and Oversight (OAIG-APO) and the Military Department audit agencies used the Draft 2004 President's Council on Integrity and Efficiency (PCIE) External Peer Review Guide to conduct their reviews of the Military Department audit agencies' audit operations and modified the guide as appropriate. We performed several procedures to provide a basis for reliance on the Military Department audit agencies review results and to ensure that the PCIE guidelines were consistently applied. We attended planning meetings, monitored progress throughout the external peer reviews, accompanied Military Department audit agency review staff members on site visits, and met with review staff members. We also reviewed selected working papers of the review staff members and independently retested selected data to verify the validity of auditor conclusions.

For the review of Special Access Program audits, we judgmentally selected three Special Access Program audits from each Military Department audit agency to review. We reviewed the Special Access Program audits using the guide as modified to ensure consistency with the Military Department audit agencies review of non-Special Access Program audits, and to reflect the unique nature of auditing within a Special Access Program environment.

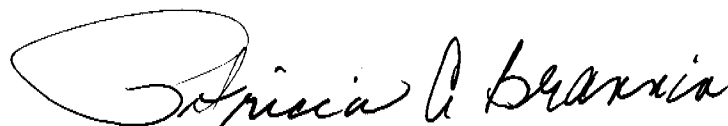
Limitations of Reviews. The external reviews of the quality control systems performed by the Military Department audit agencies and OAIG-APO would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance with it because the reviews were based on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control

system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

The external peer review opinion reports from the Military Department audit agency performing the reviews, the associated Letters of Comments, and the OAIG-APO reports on the Special Access Program audits for each of the Military Department audit agencies should be considered jointly as our basis for supporting an overall unqualified opinion on their systems of audit quality control. Each letter and report can be found on our website at www.dodig.mil under Inspections and Policy, Audit Policy and Oversight, External Peer Reviews.

Paragraph 3.52 of the Government Auditing Standards state that audit organizations should take remedial, corrective actions as needed based on the results of the external peer review. As part of our oversight responsibilities, we will follow-up with each of the Military Department audit agencies to determine actions taken in response to the observations made in the FY 2005 external review of their quality control programs.

If you have any questions, please contact Robert L. Kienitz at (703) 604-8754 or Carolyn R. Davis at (703) 604-8877.



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for Audit Policy and Oversight