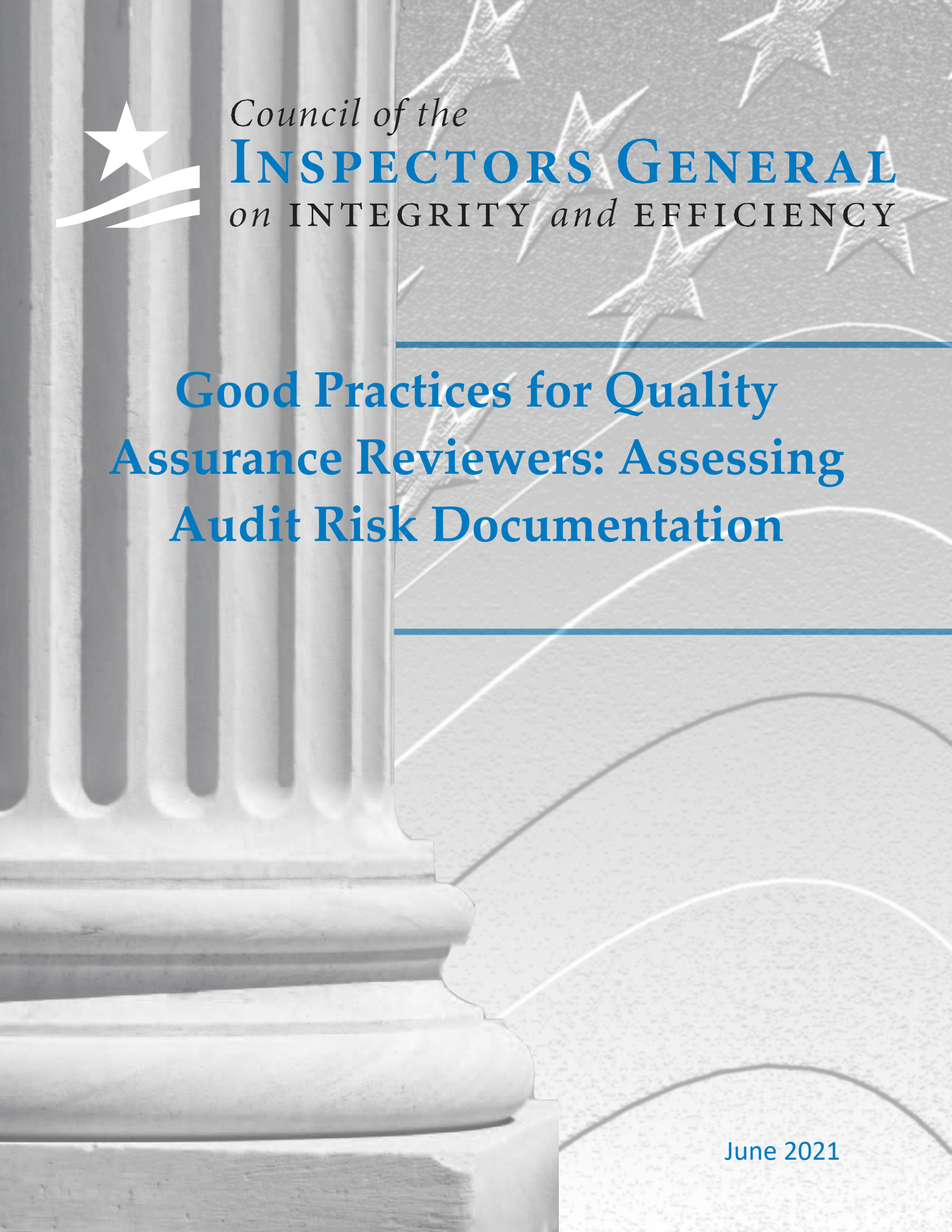

Council of the
INSPECTORS GENERAL
on INTEGRITY and EFFICIENCY

Good Practices for Quality Assurance Reviewers: Assessing Audit Risk Documentation

June 2021

EXECUTIVE SUMMARY

Objective

The purpose of this white paper is to share good practices related to assessing audit risk documentation.

Approach

One of QAWG's goals is to identify and document good practices to help the OIG community improve QA functions. To implement this goal, QAWG, through FAEC, sent a survey in July 2019 to senior OIG audit leadership and managers to identify key areas of concern about the application or interpretation of performance audit standards. Documentation of audit risk was identified as an area of concern. The QAWG formed a task team to identify and summarize good practices for reviewing an audit team's assessment of audit risk and its corresponding documentation.

This white paper provides an overview of documenting audit risk based on guidance from the U.S. Government Accountability Office's (GAO) *Government Auditing Standards* (GAS) 2018 Revision (Yellow Book), as well as the experience of multiple OIGs and audit professionals. The purpose is to share good practices related to the quality assurance (QA) reviewer's review and assessment of audit risk documentation.

This guidance includes information on what documentation a QA reviewer can expect to see as part of the audit team's risk assessment processes. The guidance also includes examples and clarification of terms and expectations. We emphasize the following takeaways from GAO:

- Risk planning is an iterative process that should be incorporated into every stage of the audit engagement, not just during initial audit planning.
- GAO's Risk Assessment Tool for Nonfinancial Engagements divides risk assessment into five primary areas: internal control, compliance with laws and regulation, fraud risk, potential waste and abuse, and data reliability. These categories can vary in importance and prevalence based on the audit engagement; however, each warrants its own unique consideration during the risk planning process.
- As always, professional judgment is the cornerstone of the risk assessment process. The audit team should demonstrate a sufficiently thorough consideration of all applicable risk areas.

To illustrate the documentation the QA reviewer could look for we also included additional information regarding the auditor's role and responsibility in the risk assessment process, steps for performing assessing and documenting audit risk, and discuss considerations necessary of the auditor in the conduct of risk assessment.

The guidance in this white paper is not prescriptive; each QA reviewer should consider the agency's unique policies and procedures and use professional judgment in assessing the agency's implementation and compliance with professional standards. In addition, this white paper should not be considered a replacement or supplement to generally accepted government auditing standards, and it should not be considered as a basis for an external peer review result.

INTRODUCTION

In October 2016, representatives from various Federal Offices of Inspector General (OIG) formed the Quality Assurance Working Group (QAWG) to enhance and improve the quality assurance (QA) review processes used by the Federal OIG community. In January 2019, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) formally recognized the QAWG as part of the Federal Audit Executive Council (FAEC).[1] One of QAWG's goals is to identify and document good practices to help the OIG community improve their QA functions. To implement this goal, QAWG, through FAEC, sent a survey in July 2019 to senior OIG audit leadership and managers to identify key areas of concern about the application or interpretation of performance audit standards. QAWG formed task teams to develop separate white papers that address the top five identified areas of concern.[2]

Purpose

This white paper addresses the QA reviewer's assessment and documentation of the audit team's documentation of audit risk. The OIG community specifically identified the following concerns in this area:

- limited prescriptive guidance and vague documentation requirements
- difficulty assessing fraud
- audit risk follow-up and root cause analysis

This white paper presents good practices the QA reviewer can use to review and assess the audit organization's documentation of audit risk. It also presents the various considerations that go into the audit team's risk planning and assessment.

The guidance in this white paper is not prescriptive; each QA reviewer should consider the agency's unique policies and procedures and use professional judgment in assessing the agency's implementation and compliance with professional standards. In addition, this white paper should not be considered a replacement or supplement to generally accepted government auditing standards, and it should not be considered as a basis for an external peer review result.

Background

Audit Risk

When a QA reviewer is assessing the audit team's audit risk assessment, the QA reviewer must have a general understanding of audit risk. Audit risk is the possibility that auditor's findings,

[1] FAEC is a subgroup established by CIGIE to discuss and coordinate issues affecting the Federal audit community, with special emphasis on audit policy and operations of common interest to members.
[2] The survey results identified the top concerns of OIG senior leadership and management where professional standards were not being consistently interpreted: (1) audit risk, (2) data reliability, (3) sampling, (4) supervisory review, and (5) quality assurance. Another key concern identified was related to internal controls, which is being addressed by CIGIE's separate internal controls working group.

conclusions, recommendations, or assurance may be improper or incomplete as a result of factors such as evidence that is not sufficient or appropriate, an inadequate audit process, or intentional omissions or misleading information because of misrepresentation or fraud.[3] The auditors should design the methodology to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives and to reduce audit risk to an acceptably low level.[4]

Relationship between Evidence and Audit Risk

Audit risk levels correlate with the sufficiency and appropriateness of evidence. Audit objectives may vary widely, as may the level of work necessary to assess the sufficiency and appropriateness of evidence to address the objectives.[5] The concepts of audit risk and significance help auditors evaluate the audit evidence. Professional judgment helps auditors determine the sufficiency and appropriateness of evidence taken as a whole. Interpreting, summarizing, and analyzing evidence are typically used in determining the sufficiency and appropriateness of evidence and in reporting the results of the audit work.

The sufficiency of evidence required to support the auditors' findings and conclusions is a matter of the auditors' professional judgment.[6] When judging the sufficiency of evidence, the greater the audit risk, the greater the quantity and quality of evidence required. The nature and types of evidence used to support auditors' findings and conclusions are matters of the auditors' professional judgment based on the audit objectives and audit risk.[7] When assessing the overall sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions; available corroborating evidence; and the level of audit risk. If auditors conclude that the evidence is not sufficient or appropriate, they should not use such evidence as support for findings and conclusions.[8]

Professional Judgment

When planning and conducting an audit, audit risk should be considered throughout all phases of the audit and should be considered as part of an auditor's professional judgment when assessing the sufficiency and appropriateness of procedures conducted and evidence used to support audit findings and conclusions. Auditors must use professional judgment in planning and conducting the audit and in reporting results.[9] Using professional judgment is important to auditors in determining the necessary level of understanding of the audit subject matter and related circumstances. This includes considering whether the audit team's collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter of the audit may contain significant inaccuracy or could be misinterpreted.[10] An auditor's consideration of the risk level of each audit, including the risk of

[3] GAO, *Government Auditing Standards* (GAS), 8.16.
[4] GAS, 8.06.
[5] GAS, 8.95.
[6] GAS, 8.101.
[7] GAS, 8.104.
[8] GAS, 8.109.
[9] GAS, 3.109.
[10] GAS, 3.115.

arriving at improper conclusions, is also important. In the context of audit risk, it is integral to the audit process to exercise professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the audit objectives and any recommendations reported.[11]

Roles and Responsibilities

Management's responsibility is to ensure that the staff has sufficient collective experience, training, knowledge, skills, abilities, and overall understanding to assess audit risk. GAS mentions auditors and audit teams and does not make a distinction between management and staff. Audit risk is the responsibility of both management and staff, and determination of audit risk should not be an individual effort, but rather a team effort throughout the audit process.

Criteria

Audit risk planning should be an integral part of the audit planning and be considered, both qualitatively and quantitatively, throughout the audit process. Auditors must plan the audit to reduce audit risk to an acceptably low level.[12]

The fieldwork requirements for performance audits relate to planning the audit, conducting the audit, and preparing audit documentation.[13] The concepts of evidence, significance, and audit risk form a framework for applying these requirements and are included throughout the discussion of performance audits.

During audit planning, auditors should consider mitigating factors to reduce audit risk to an acceptable level, and they should also assess significance of audit risk. Auditors should then apply these assessments to establish the scope and methodology for addressing the audit objectives.[14] The auditors should design the methodology to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives and to reduce audit risk to an acceptably low level.[15]

See Appendix A for factors affecting audit risk and the areas auditors should consider when assessing audit risk. These planning considerations are explored in detail in *QA Review of Auditor's Audit Risk Assessment (Methodology)* in this document.

QA REVIEW OF AUDIT RISK ASSESSMENT (METHODOLOGY)

The QA reviewer should consider the audit organization's policies and procedures for the audit team's performance and documentation of its assessment of audit risk and assess whether they were followed.

[11] GAS, 3.116.
[12] GAS, 8.05, 8.16, and 8.04.
[13] GAS, 8.02.
[14] GAS, 8.05.
[15] GAS, 8.06.

When reviewing the audit documentation for audit risk, in addition to ensuring that the audit team considered the results of previous audits and the nature and profile of the program and user needs, there are five main areas for the QA reviewer to explore, each warranting its own unique consideration during the risk planning process:

- internal controls
- compliance with laws and regulations
- fraud risk
- potential waste and abuse
- data reliability

Internal Controls

Internal controls are the plans, methods, policies, and procedures an organization employs to ensure effective resource use in fulfilling its mission, goals, objectives, and strategic plan.[16]

GAS mandates that auditors determine and document whether the internal controls identified are significant to the audit objectives, including information systems controls. [17]

The QA reviewer can review the audit documentation to determine whether the audit team determined whether an internal control is significant, and if so, obtained an understanding of the internal control and determined which of the following five components of internal control and underlying principles are significant to the audit objectives:

- **Control environment.** The establishment of an environment throughout the organization that sets a positive and supportive attitude toward internal control.

- **Risk assessment.** The agency's identification of the risks that could impede the efficient and effective achievement of its objectives.

- **Control activities.** The policies, procedures, techniques, and mechanisms that help ensure that management's directives to mitigate risks are carried out.

- **Information and communications.** The agency's use of relevant, reliable information to run and control its operations.

- **Monitoring.** The assessment of the quality of performance over time.[18]

The nature and extent of procedures the auditor performs to obtain an understanding of internal control is "a matter of professional judgment and may vary among audits based on audit objectives, audit risk, internal control deficiencies, and the auditors' knowledge about internal control gained in prior audits."[19]

[16] GAO, *Standards for Internal Control in the Government.*
[17] GAS, 8.39 and 8.59.
[18] GAO, *Internal Control Management and Assessment Tool.*
[19] GAS, 8.46.

Compliance with Laws and Regulations

The government programs that auditors evaluate are subject to many provisions of laws, regulations, contracts, and grant agreements. How significant those provisions are is determined by the objectives of the audit.

The QA reviewer can review the audit documentation and determine whether the auditor identified any laws and regulations that are significant in the context of the audit objectives and assessed the risk that noncompliance with those provisions could occur. The auditor's assessment guides the procedures the audit team uses to obtain reasonable assurance of detecting instances of noncompliance with laws and regulations that are significant in the context of the audit objectives.[20]

Fraud Risk

An act of fraud generally involves obtaining something of value through willful misrepresentation or omission of material facts.

The QA reviewer can determine whether the audit team assessed the risk of fraud occurring that is significant regarding the audit objectives. This involves whether the audit team discussed fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could increase the risk of fraud. The audit documentation would indicate whether the audit team aimed to identify the risk of fraud that is significant within the scope of the audit objectives or could affect the findings and conclusions.[21] However, whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility.[22]

The audit documentation might include a checklist of potential red flags used by the audit team during the audit process to identify potential fraud for the program. Some examples of red flags may be significant turnover in assigned program staff, lack of segregation of financial functions in the organization, lack of policies and procedures pertaining to the expenditure and tracking of federal funds, inability to produce supporting documentation of federal award expenditure, apparently fabricated documents, inclusion of the organization in Treasury's Do Not Pay system or in the Federal Awardee Performance and Integrity Information System (FAPIIS), and other concerns raised by employees of the organization.

The QA reviewer could also observe in the audit documentation that the auditors shared case studies or audit briefings between investigations and audit teams to brainstorm how prevalent fraud schemes found by investigators might be identified by audit work. In addition, if external audit firms are being used for performance audit work, the auditors might have included processes for training the firms in how to identify, document and refer potential fraud, and documented that the training was provided.

[20] GAS, 8.68.
[21] GAS, 8.71.
[22] GAS, 8.73.

Potential Waste and Abuse

An act of waste involves using or expending resources carelessly, extravagantly, or to no purpose and relates primarily to mismanagement, inappropriate actions, and inadequate oversight.[23] Abuse involves behavior that is deficient or improper and business practices that are considered unreasonable and unnecessary. Abuse excludes fraud and noncompliance with provisions of laws and regulations.[24]

Because the determination of waste and abuse is subjective, auditors are not required to perform specific procedures to detect waste or abuse in performance audits. However, auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.[25]

In reviewing the audit documentation, the QA reviewer looks for any indication that the audit team identified potential waste and abuse, and if so, whether they documented its consideration whether and how to communicate those matters to the audited entity's management.

Data Reliability

Data reliability represents the assurance of the accuracy and consistency of an agency's computer-processed data. In assessing data reliability, the auditor should have ensured that the data are applicable for the audit's purposes and are sufficiently complete and accurate,[26] and should also have assessed the sufficiency and appropriateness of computer-processed information, regardless whether this information is provided to auditors or they extract it independently.[27] The auditor's assessment should result in the team developing a good understanding of how the data is collected, the systems they are extracted from, and the relevant information systems controls for key data elements.[28]

The QA reviewer can review the audit documentation to confirm that the auditor assessed data for the following[29]:

- **Applicability for audit purpose**. Are the data valid measures of the underlying concepts being addressed in the audit's research objectives?

- **Completeness**. To what extent are the relevant data records and fields present and sufficiently populated?

- **Accuracy**. To what extent do the recorded data reflect the actual underlying information?

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[23] GAS, 8.120.
[24] GAS, 8.122.
[25] GAS, 8.119.
[26] GAO, *Assessing Data Reliability*.
[27] GAS, 8.90.
[28] GAO, *Assessing Data Reliability*.
[29] See the QAWG's separate white paper "Good Practices for Quality Assurance Reviewers: Assessing the Data Reliability Process."

QA REVIEW OF AUDIT RISK DOCUMENTATION

Documentation of Audit Risk

When determining if the auditor appropriately documented risk in the appropriate format or via the prescribed method, the QA reviewer should look to the OIG's audit policies and procedures. Some OIG policies may require the written assessment of audit risk to be a separate document that is either summarized and referred to in the audit plan or documented in its entirety in the audit plan. Some OIG policies could require the auditors to complete an audit risk assessment checklist, such as illustrated in Appendix B. Other circumstances unique to individual engagements or OIGs may justify documenting the assessment elsewhere.

Audit Risk Documentation Sufficiency

Although sufficient documentation is largely a matter of professional judgment, when reviewing audit risk documentation for sufficiency, the QA reviewer should determine if the auditor met the standards defined in GAS, by, at a minimum, clearly documenting the following:

- An assessment of whether audit risk was reduced to an appropriate level[30]
- An assessment of the risks of fraud occurring that are significant in the context of the engagement objectives, and gathering and identifying the risks and discussing fraud risks—including incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could increase the risk of fraud[31]
- A sufficient understanding of the information systems controls necessary to assess audit risk and plan the work in the context of the engagement objectives was obtained[32]
    - When information systems controls are determined to be significant to the audit objectives, whether the auditor conducted and evaluation of the design, implementation, and operating effectiveness of such controls
- When assessing the overall sufficiency of evidence, whether the auditor evaluated the expected significance of evidence to the audit objectives, findings, conclusions, available corroborating evidence, and the level of audit risk[33]

See Appendix C for an example of a checklist that the QA reviewer could use in reviewing the audit risk documentation.

[30] GAS, 8.04.
[31] GAS, 8.71.
[32] GAS, 8.60.
[33] GAS, 8.109.

QA REVIEW OF TYING AUDIT RISK TO THE AUDIT PLAN

The QA reviewer also could review audit documentation to determine how identified audit risk affected audit planning. Auditors are mandated to adequately plan the work necessary to address the audit objectives, document the audit plan,[34] plan the audit to reduce audit risk to an acceptably low level,[35] and address relevant risks.[36] Planning is a continuous process throughout the audit. In order to refine the objective and scope and design the methodology, auditors should assess audit risk in the context of the preliminary audit objectives, considering the following:

- information obtained during background research
- criteria
- sources and availability of evidence
- reliance on work of others
- staffing

For each identified risk factor significant to the engagement objective, the QA reviewer can review the audit plan to determine if the auditors explained how planned audit procedures will reduce audit risk to an acceptable level. A good practice includes cross-referencing the risks documented in the audit risk assessment to the mitigating steps in the audit plan. This helps ensure that all significant risks are addressed in the audit plan and provides an easy-to-follow roadmap for project team members and reviewers.

The QA reviewer can determine whether the auditors noted which steps of the planned work are related to internal control. If internal control is significant to the audit objectives, specific audit plan procedures would cross-reference the control assessment. The completed methodology should result in sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the engagement objectives and to reduce audit risk to an acceptably low level. This is significant because the strength of internal controls often has a strong correlation to audit risk.

Similarly, the QA reviewer can verify whether the auditors noted which steps of the planned work are related to fraud risk and identified steps to take if potential fraud is identified. This could include steps for properly documenting red flags, such as suspected fabrication or alteration of source documents, missing records (for example, invoices, time and effort reports, receipts), suspected diversion of federal funds, overbilling or double billing to federal awards, and potential conflicts of interest. The audit plan may include checklists or other worksheets for auditors to use in the event that such red flags are identified. The audit plan may also include a set process for expanding the scope of the audit to match red flags identified and/or a collaborative procedure for when and how to bring investigators or forensic auditors to promptly

[34] GAS, 8.03, 8.33.
[35] GAS, 8.04.
[36] GAS, 8.35b.

share concerns when they arise.

It is important for the QA reviewer to consider that in the context of audit risk, the audit team exercises professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the engagement objectives and any recommendations reported.[37]

QA REVIEW OF RISK RESPONSE STRATEGIES

When auditors become aware of circumstances that introduce audit risk, they should assess the significance of the potential impacts. For items that are assessed as potentially having material impacts to audit risk, the QA reviewer could determine the risk response strategy selected by the audit team. Depending on the circumstances, it could be acceptable for the audit team to either mitigate, avoid, transfer, or accept an audit risk.

Some suggestions described by GAS for responding to audit risks include the following:

- increasing the scope of work
- adding specialists, additional reviewers and other resources to conduct the audit
- changing the methodology to obtain additional evidence, higher-quality evidence, or alternative forms of corroborating evidence
- aligning the findings and conclusions to reflect the evidence obtained[38]

The QA reviewer may identify that the audit team also took these additional measures as appropriate:

- revising the objective to reduce risk
- including language in the final report clearly detailing audit risk
- terminating the engagement if risks cannot be reduced to an appropriate level

The QA reviewer may review the final audit report for any description of how audit risks impacted the audit. An example of when audit risk would be appropriate for inclusion in the final report may pertain to data reliability. For instance, if audit risk is high due to unreliable data, the final report may include a description of why the data are unreliable and how the data could impact the report's conclusions. The report should provide clear context regarding the extent of risk and its potential impacts.

[37] GAS, 3.116.
[38] GAS, 8.16.

APPENDIX A: ADDITIONAL AUDIT RISK FACTORS AUDITORS SHOULD CONSIDER

The auditors should design the methodology to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives and to reduce audit risk to an acceptably low level.[39] The assessment of audit risk involves both qualitative and quantitative considerations. Factors affecting audit risk include the following:

- the time frames, complexity, and sensitivity of the work
- the size of the program in terms of dollar amounts and number of individuals served
- the adequacy of the audited entity's systems and processes for preventing and detecting inconsistencies, significant errors, and fraud
- auditors' access to records

Audit risk includes the possibility that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be reduced by taking actions such as increasing the scope of work; adding specialists such as investigators or forensic audit staff, additional reviewers, and other resources to conduct the audit; changing the methodology to obtain additional evidence, higher-quality evidence, or alternative forms of corroborating evidence; and aligning the findings and conclusions to reflect the evidence obtained.[40]

In accordance with GAS, the audit team should complete the planning work to obtain the information needed to assess the possibility that audit findings, conclusions, recommendations, and assurances may be improper or incomplete as a result of evidence that is not sufficient or appropriate, inadequate audit processes, intentional omissions or the inclusion of misleading information. Areas to consider when assessing audit risk during initial planning and throughout the audit include the following:

- **Results of previous audits**. Auditors should evaluate whether the audited entity has taken appropriate corrective action to address the findings and recommendations from previous audits that are significant in the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented.[41] In addition to reviewing that information and available single audits, auditors might search oversight.gov for potential audits, evaluations, and investigations related to the entity being audited, as well as the Federal Awardee Performance and Integrity Information System (FAPIIS) for any information related to the entity's prior performance as measured by other Federal agencies.

  Auditors should use this information in assessing risk and determining the

[39] GAS, 8.06.
[40] GAS, 8.16.
[41] GAS, 8.30.

nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.[42]

- **The nature and profile of the program and user needs.** As they plan a performance audit, auditors should obtain an understanding of the nature of the program or program component under audit and the potential use that will be made of the audit results or report. The nature and profile of a program includes visibility, sensitivity, and the relevant risks associated with the program under audit.[43] Obtaining an understanding of the program under audit helps auditors assess the relevant risks associated with the program and the effect of the risks on the audit objectives, scope, and methodology.[44]

- **Assessing internal controls.** Consideration of internal control in a performance audit begins with determining the significance of internal control to the audit objectives and documenting that determination. Some factors that may be considered when determining the significance of internal control to the audit objectives include the subject matter under audit, such as the program or program component under audit—including the audited entity's objectives for the program and associated inherent risks.[45]

- **Information systems controls considerations.** Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the content of the audit objectives.[46] The evaluation of information systems controls may be done in conjunction with the auditors' consideration of internal control in the context of the audit objectives or as a separate audit objective or audit procedure, depending on the audit's objectives. Depending on the significance of information systems controls to the audit objectives, the extent of audit procedures to obtain such an understanding may be limited or extensive. In addition, the nature and extent of audit risk related to information systems controls are affected by the hardware and software used, the configuration of the entity's systems and networks, and the entity's information systems strategy.[47]

- **Provisions of laws, regulations, contracts, and grant agreements**. The auditors' assessment of audit risk may be affected by such factors as the complexity or recent establishment of the laws, regulations, contracts, and grant agreements. The auditors' assessment of audit risk also may be affected by whether the audited entity has controls that are effective in preventing and detecting noncompliance with provisions of laws, regulations, contracts, and grant agreements. If auditors obtain sufficient, appropriate evidence of the effectiveness of these controls, they can reduce their tests of compliance.[48]

[42] GAS, 8.30.
[43] GAS, 8.36.
[44] GAS, 8.38.
[45] GAS, 8.41.
[46] GAS, 8.60.
[47] GAS, 8.66.
[48] GAS, 8.70.

APPENDIX B: AUDIT RISK PLANNING REVIEW CHECKLIST (AUDIT TEAM)

Purpose: To provide supplemental guidance for auditors when conducting audit risk assessment to ensure sufficient, appropriate audit evidence is obtained to reduce audit risk to an acceptably low level and support the auditor's opinion. These procedures depend on the auditor's professional judgments. The auditor should tailor the procedures to address the auditee's specific risk and reference the applicable supporting documentation.

Review Documentation of Audit Risk

		Yes	No	N/A
a)	Did we obtain an understanding of the client and its environment, including other external factors such as industry conditions, the regulatory environment, and government policies relevant to the audit? (GAS 8.36)			
b)	Did we identify any laws, regulations, contracts, and grant agreements that were significant in the context of the audit objectives? For each law, regulation, contract, or grant agreement that was significant to the audit objective, did we assess the risk of non-compliance in that specific area? Did we incorporate in their plan procedures to obtain reasonable assurance of detecting instances of non-compliance with the laws, regulation, contracts, and grant agreements that were significant in the context of the audit objectives? (GAS 8.68)			
c)	Did we determine which of the five components of internal control and underlying principles were significant to the audit objectives? (GAS 8.42)			
d)	Did we evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant to the audit objectives?[49] Have we used this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives? (GAS 8.30)			

[49] GAS 8.30.

		Yes	No	N/A
e)	Did we identify internal controls, compliance, potential waste or abuse, and data reliability that were significant to the audit's objectives and document the effect on planning? (GAS 8.49, 8.59, 8.68, 8.71, 8.119, and 8.91)			
f)	Did we evaluate the design and implementation of controls relevant to the audit by performing procedures in addition to inquiry of the entity's personnel? (GAS 8.46, 8.49, 8.54, 8.60, and 8.105)			
g)	Did we document the effect of identified risks on designing specific audit steps and sampling plans for the fieldwork phase, and if the audit team determined that it was necessary to modify the nature, timing, or extent of procedure steps based on the auditors' assessment of internal control and the results of internal control testing? (For example, poorly controlled aspects of a program have a higher risk of failure, so auditors may choose to focus more efforts in these areas. Conversely, effective controls at the audited entity may enable auditors to limit the extent and type of audit testing needed.) (GAS 8.16, 8.49, 8.101, 8.107)			
h)	Did we obtain a sufficient understanding of the information systems controls necessary to assess audit risk and plan the work in the context of the engagement objectives? [GAS 8.60]			
i)	Did we determine that information systems controls were significant to the audit objective? If yes, did we obtain an understanding of the information system to assess audit risk by reviewing general, application, and user controls of the system? Did we establish steps in the audit plan in the context of the audit objectives to evaluate the effectiveness of the systems? Were tests performed on the information systems controls? (GAS 8.60-8.67)			
j)	Did we document the procedures performed to update our understanding of the auditee and its environment? Did we document changes to our understanding in the current period? (GAS 8.36, 8.38)			

	Yes	No	N/A
k) Did we design further audit procedures that are clearly linked and responsive to the risks identified? (GAS 8.05,8.06,8.110)			
l) Did we determine the level of audit risk and design the methodology to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the engagement objectives and to reduce audit risk to an acceptably low level? (GAS 8.04)			
m) Did we determine that the risk of fraud was significant within the scope of the engagement objectives and then did we take the following steps? (GAS 8.71, 8.72)			
1) Did we gather and assess information to identify risks of fraud that could affect the findings and conclusions?			
2) Did we assess the risk of fraud throughout the engagement?			
3) Did we extend the necessary steps and procedures to determine whether fraud has likely occurred?			
4) Did we determine the fraud's effect on the findings if it has likely occurred?			
n) Did we evaluate the overall sufficiency and appropriateness of evidence? (GAS 8.109)			

APPENDIX C: AUDIT RISK DOCUMENTATION REVIEW CHECKLIST (QA REVIEWER)

Purpose: To provide supplemental, summarized guidance for QA reviewers when reviewing the audit project to ensure that the audit team obtained sufficient, appropriate audit evidence to reduce audit risk to an acceptably low level and support the auditor's opinion. These procedures depend on the QA reviewer's professional judgments and should be tailored based on the audit engagement reviewed.

In reviewing the audit risk documentation of audit organizations, the QA reviewer assesses whether the audit team took the following actions:

		Yes	No	N/A
a)	Did they determine whether internal control, compliance with laws and regulations, fraud, potential waste or abuse, and data reliability were significant to the audit's objectives, and did they document the effect on planning? (GAS, 8.39, 8.68, 8.71, 8.119, and 8.67)			
b)	Did they determine which of the five components of internal control and underlying principles were significant to the audit objectives? (GAS, 8.42, and 8.44)			
c)	Did they document the effect of identified risks on designing specific audit steps and sampling plans for the fieldwork phase, and did they determine that it was necessary to modify the nature, timing, or extent of procedure steps based on the auditors' assessment of internal control and the results of internal control testing? (For example, poorly controlled aspects of a program have a higher risk of failure; therefore, auditors may choose to focus more efforts in these areas. Conversely, effective controls at the audited entity may enable the auditors to limit the extent and type of audit testing needed.) (GAS, 8.05, 8.16, 8.45, and 8.98)			
d)	Did they obtain a sufficient understanding of the information systems controls necessary to assess audit risk and plan the work in the context of the engagement objectives? (GAS, 8.60)			

		Yes	No	N/A
e)	Did they design the methodology to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the engagement objectives and to reduce audit risk to an acceptably low level? (GAS, 8.06)			
f)	Did they determine the level of audit risk and plan the work necessary to address the engagement objectives and to reduce audit risk to an acceptably low level, if applicable? (GAS, 8.04)			
g)	Did they determine that the risk of fraud was significant within the scope of the engagement objectives and then take the following actions? (GAS, 8.71, 8.72, 8.28, and 8.29)			
	o Did they gather and assess information to identify risks of fraud that could affect the findings and conclusions?			
	o Did they assess the risk of fraud throughout the engagement?			
	o Did they extend the necessary steps and procedures to determine whether fraud has likely occurred?			
	o Did they determine the fraud's effect on the findings if it has likely occurred?			
	o Did they take action to notify or refer identified fraud to investigations?			
h)	Did they evaluate the overall sufficiency and appropriateness of evidence? (GAS, 8.92, 8.95, and 8.108)			
i)	Did they evaluate the expected significance of evidence to the audit objectives, findings, conclusions, available corroborating evidence, and the level of audit risk? (GAS, 8.109)			

APPENDIX D: REFERENCES

- Government Accountability Office (GAO), *Government Audit Standards 2018 Revision* (GAO-18-568G); published July 17, 2018
- GAO, *Risk Assessment Tool for Nonfinancial Engagements: Design Attachment* (GAO Form 418C)
- GAO, *Assessing Data Reliability* (GAO-20-283G); published December 16, 2019
- GAO, *Internal Control Management and Evaluation Tool* (GAO-01-1008G); published August 1, 2001
- GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G); published September 10, 2014

APPENDIX E: GLOSSARY

Audit: Either a financial audit or performance audit conducted in accordance with generally accepted government auditing standards (GAGAS) (GAS, 1.27b).

Audit Organization: A government audit entity or a public accounting firm or other audit entity that conducts GAGAS engagements. (GAS, 1.27c) Audit organization and Office of Inspector General (OIG)—that either with or without an audit function performs GAGAS engagements—are used interchangeably in this white paper.

Audit Risk: The possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete. The assessment of audit risk involves both qualitative and quantitative considerations. (GAS, 8.16)

Council of Inspector General on Integrity and Efficiency (CIGIE): An independent entity statutorily established within the executive branch by The Inspector General Reform Act of 2008, P.L. 110-409, to address integrity, economy and effectiveness issues that transcend individual Government agencies; and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General. https://ignet.gov

Federal Audit Executive Council (FAEC): A subgroup, established by CIGIE, to discuss and coordinate issues affecting the Federal audit community with special emphasis on audit policy and operations of common interest to FAEC members. https://ignet.gov/content/federal-audit-executive-council

GAO: *Government Accountability Office.* Known as "the investigative arm of Congress" and "the congressional watchdog," GAO supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the Federal government for the benefit of the American people.

Peer Review: OIG audit organizations are required by GAGAS and CIGIE to have and conduct peer reviews to help auditors to fulfill their oversight roles and comply with statutory requirements, professional standards, and established policies and procedures.

Performance Audits: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to, among other things, improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. In a performance audit, the auditors measure or evaluate the subject matter of the audit and present the resulting information as part of, or accompanying, the audit report. (GAS, 1.21 and 8.14)

Professional Judgment: Use of the auditor's professional knowledge, skills, and abilities, in good faith and with integrity, to diligently gather information and objectively evaluate the sufficiency and appropriateness of evidence. Professional judgment includes exercising

reasonable care and professional skepticism. (GAS, 3.110)

Quality Assurance (QA): An ongoing consideration and evaluation of the audit organization's system of quality control, including inspection of engagement documentation and reports for a selection of completed engagements to provide management with reasonable assurance that (1) the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice and (2) auditors have followed professional standards and applicable legal and regulatory requirements. GAGAS also refers to this process as "monitoring of quality." (GAS, 5.47)

Quality Assurance (QA) Review: The performance, documentation, and communication of monitoring procedures and results that enable the audit organization to assess compliance with professional standards and quality control policies and procedures for completed GAGAS engagements. Reviews of the work by engagement team members prior to the date of the report are not monitoring procedures. (GAS, 5.43, 5.44, 5.47, 5.53, 5.59)

Quality Assurance (QA) Reviewer: An individual who performs monitoring procedures and assesses the audit organization's compliance with professional standards and quality control policies and procedures for GAGAS engagements. The individual should have sufficient expertise and authority with the audit organization and, if possible, does not have responsibility for the specific activity being reviewed. (GAS, 5.43, 5.48)

Quality Assurance Working Group (QAWG): A group formed by representatives from various Federal Offices of Inspector General in October 2016 to enhance and improve the quality assurance review processes within the Federal Inspector General community and that formally became a subgroup under the CIGIE FAEC in January 2019.
https://ignet.gov/sites/default/files/files/QAWG-Charter.pdf

Quality Control: The OIG's leadership and policies and procedures designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its engagement work, and cost-benefit considerations. (GAS, 5.02, 5.03)

U.S. Government Accountability Office's (GAO) *Government Auditing Standards,* 2018 Revision (April 2021), GAO-21-368G: This publication (known as the **Yellow Book** or **GAS**) prescribes professional standards that provide a framework for auditors to perform high-quality audit work with competence, integrity, objectivity, and independence to help improve government operations and services. These professional standards are often referred to as generally accepted government auditing standards (**GAGAS**).[50]
https://www.gao.gov/assets/gao-21-368g.pdf

[50] In April 2021, GAO made technical updates to the 2018 revision of Government Auditing Standards. These technical updates to the 2018 revision of Government Auditing Standards were effective upon issuance. For additional information, please see GAO-21-368G, pp. i-ii.

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