##### Appendix B

##### Checklist for the Standards of Independence, Competence and Continuing Professional Education, and Quality Control and Peer Review

This appendix provides guidance for reviewing the audit organization’s compliance with *Government Auditing Standards*⎯commonly referred to as generally accepted government auditing standards (GAGAS) ⎯and with the established policies and procedures for the Standards of: (1) Independence, (2) Competence and Continuing Professional Education, and (3) Quality Control and Peer Review. This appendix covers the independence of both the audit organization and the individual auditor. For the requirements that cover the audit organization’s independence, the steps in this appendix cover the audit organization’s compliance with GAGAS. The individual auditor’s and the audit team’s compliance with independence may be tested here or during the reviews of selected GAGAS engagements and are covered by Appendices C through E. Whether testing the audit organization, the audit team, or the individual auditor, the checklist covers common GAGAS areas and may be modified to meet the nature and extent of testing needed, depending on the organization’s policies and procedures, circumstances, and risk.

OIG UNDER REVIEW

& PERIOD REVIEWED: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

REVIEWER(S): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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DATE COMPLETED:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

| **Description** | Yes | **No** | **N/A** | **Comments** |
| --- | --- | --- | --- | --- |
| **1. INDEPENDENCE** | | | | |
| * 1. Does the audit organization’s reporting level or placement within the agency restrict its ability to objectively perform its work and report results? (GAS 3.18-3.20, 3.30.g) |  |  |  |  |
| * 1. If the audit organization is structurally located within a government entity because of constitutional or statutory requirements, did the audit organization document safeguards and how the audit organization is considered independent based on those safeguards? (GAS 3.107b, 3.52-3.56) |  |  |  |  |
| * 1. Did the audit organization, at least annually, obtain written affirmation of compliance with its policies and procedures on independence from all of its personnel required to be independent—personnel who plan, direct, perform engagement procedures for or report on an engagement conducted in accordance with GAGAS? (GAS 5.09) |  |  |  |  |
| * 1. When circumstances can create threats to independence, did the audit organization apply the conceptual framework approach to independence at the audit organization level to (1) identify threats to independence and (2) evaluate the significance of the threats identified and the applied safeguards to eliminate the threats or reduce them to an acceptable level? (GAS 3.27) |  |  |  |  |
| * 1. When auditors concluded that independence of the engagement team or the audit organization is impaired because no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level, did they decline the engagement or terminate an in-progress engagement? (GAS 3.59-3.60). |  |  |  |  |
| * 1. Did the audit organization perform nonaudit services for its agency? If no, then go to question 2.1. If yes, did the audit organization do the following: |  |  |  |  |
| * + 1. Appropriately evaluate whether providing these services created a threat to its independence as an organization before agreeing to provide the nonaudit services? (GAS 3.64) |  |  |  |  |
| * + 1. Determine that management has a designated person with suitable skill, knowledge, and experience to oversee the nonaudit services to be provided? (GAS 3.73) |  |  |  |  |
| * + 1. Document consideration of management’s ability to effectively oversee the nonaudit services to be provided? (GAS 3.74, 3.107.c) |  |  |  |  |
| * + 1. Conclude that threats to independence exist when the audited entity is unable or unwilling to assume responsibilities for the services to be provided? (GAS 3.75) |  |  |  |  |
| * + 1. Obtain agreement from audited entity management that audited entity management performs management functions related to the nonaudited services provided, including: (1) assuming all management responsibilities, (2) overseeing the services, (3) evaluating the adequacy and results of the services provided, and (4) accepting responsibility for the results of the services provided? (GAS 3.76) |  |  |  |  |
| * + 1. Establish and document their understanding with the audited entity on the objectives of the nonaudit services, services to be provided, audited entity’s acceptance of its responsibilities, the auditors’ responsibilities, and any limitations on the provision of nonaudit services? (GAS 3.77, 3.107.d) |  |  |  |  |
| * 1. If the nonaudit services provided were ongoing monitoring, information technology services, appraisals and actuarial services, executive recruiting, or investments for the audited entity, did the auditors document this as an impairment to independence, and did they note that the management participation threats created by their assumption of management responsibilities for the audited agency were so significant that no safeguards could reduce them to an acceptable level? (GAS 3.78, 3.97-3.106) |  |  |  |  |
| * 1. If auditors prepared accounting records for the audited entity, did they conclude that an independence impairment exists? (GAS 3.87) |  |  |  |  |
| * 1. If auditors prepared financial statements for the audited entity from client-provided trial balance or accounting records, did they document the significant threats and apply needed safeguards to reduce or eliminate them? (GAS 3.88) |  |  |  |  |
| * 1. If auditors recorded transactions to the entity’s general ledger, prepared portions of the financial statements, posted entries, or prepared reconciliations for the audited entity, did they document their evaluation of the significance of the threats to independence? (GAS 3.89, 3.90) |  |  |  |  |
| **2. COMPETENCE AND CONTINUING PROFESSIONAL EDUCATION** | | | | |
| * 1. Does the audit organization have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so the workforce has the essential knowledge, skills, and abilities necessary to conduct GAGAS engagements? (GAS 4.04) |  |  |  |  |
| * 1. Did the auditors who performed work in accordance with GAGAS (including planning, directing, and performing engagement procedures for, or reporting on, a GAGAS audit) obtain the required CPE for the most recently completed two-year period? Hours should include at least 80 hours of CPEs for the 2-year measurement period, as follows: (GAS 4.16-4.17) |  |  |  |  |
| 1. At least 20 hours in each year of the 2-year measurement period? |  |  |  |  |
| 1. At least 24 hours in government environment/auditing or unique environment in which the audited entity operates? |  |  |  |  |
| 1. Fifty-six hours that directly enhance the auditor’s professional expertise to conduct engagements? |  |  |  |  |
| * 1. Does the audit organization maintain documentation of the staff’s CPEs and any exemptions or exceptions? (GAS 4.18, 4.25-4.29, 5.16) |  |  |  |  |
| **3. QUALITY CONTROL AND PEER REVIEWS** | | | | |
| 1. Did the audit organization performed adequate quality monitoring procedures to assess compliance with professional standards and quality control policies and procedures for GAGAS engagements, including:    1. Assigning individuals to perform quality control monitoring to have sufficient expertise and authority within the audit organization? (GAS 5.43) |  |  |  |  |
| * 1. Annually analyzing, summarizing, and communicating the results of the monitoring process, identifying any systemic or repetitive issues that need improvement, and the effects of any deficiencies noted and recommendations for corrective action to the relevant management and other appropriate personnel? (GAS 5.44, 5.45) |  |  |  |  |
| 1. If the OIG conducts GAGAS engagements, did it obtain a peer review once every three years? For an OIG not previously subject to an External Peer Review, did it obtain its first peer review within three years from the day when it first began a GAGAS engagement? (GAS 5.60, 5.84) |  |  |  |  |
| 1. Did the OIG make its most recent peer review report publicly available? This requirement does not apply to the letter of comment if one was issued. (GAS 5.77, 5.78) |  |  |  |  |
| 1. If the OIG reports internally to management and those charged with governance, did the OIG provide a copy of the peer review report to management and those charged with governance? (GAS 5.77) |  |  |  |  |
| **END OF CHECKLIST** | | | | |