

Audit Peer Review Training
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Overview of External Peer Reviews in the IG Community

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Guide for Conducting External Peer Reviews of Audit Organizations of Federal Offices of Inspector General

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What I'll Talk About—

- ✓ Some Things About the IG Act
- ✓ GAS General Standard for Quality Control and Assurance
- ✓ CIGIE's Modified Reviews
- ✓ AICPA Peer Review Standards
- ✓ Developing and Updating the Guide



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Why am I before you today?

- Served as a team member and lead for external peer reviews, internal quality assurance reviews, and peer review guide working groups
- Been subject of external peer reviews and internal quality assurance reviews

Some Things About the IG Act

- OIG audits must comply with GAS
 - Peer reviews of an OIG must be performed by a federal audit entity (another OIG or GAO)
 - OIGs establish guidelines for using IPAs
 - OIGs must assure IPA work complies with GAS
- (5 USC Appendix 3,§4. Duties and responsibilities; report of criminal violations to Attorney General)*
- OIGs prepare SARs to include audit reports, inspection reports, and evaluation reports issued by the Office during the reporting period

(5 USC Appendix 3,§5. Semiannual reports; transmittal to Congress; availability to public; immediate report on serious or flagrant problems; disclosure of information...)

More Things About the IG Act

- IG Reform Act of 2008 created Council of Inspectors General on Integrity and Efficiency, or CIGIE
- CIGIE replace the PCIE and ECIE, which had been created by Executive Order
- CIGIE Audit Committee is the “administering entity” Agency for the OIGs’ external peer review program
- Under CIGIE protocol, the external peer review guide is to be approved by the full CIGIE
- CIGIE Executive Chair is Beth Cobert, OMB Deputy Director for Management
- CIGIE Chair is Phyllis Fong, USDA IG
- CIGIE Audit Committee Chair is Jon Rymer, DoD IG



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External Peer Reviews

- **System Review – GAGAS required audit organization performing audits in accordance with GAGAS (3.82)**
- or
- **Modified Review – CIGIE Audit Committee (2014) audit organizations (OIGs) that did not perform GAGAS audits yet maintained audit policies and procedures**



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GAS General Standard for Quality Control and Assurance

- ✓ **Audit organizations performing GAGAS audits must**
 - establish and maintain a system of quality control designed to provide the audit organization with reasonable assurance that it and personnel comply with professional standards and applicable legal and regulatory requirements
 - have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years
 - CIGIE Peer Review Guide refers to GAGAS external peer review as a System Review

GAS 3.82



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External Peer Reviews

Description	System Review	Modified Review
Start	3 years after start of first GAGAS audit (GAS 3.97)	Audit Committee
Scope	1 year, 2 SARs (GAS 3.97)	NA
Objective	To determine whether, for the period under review, the audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide it reasonable assurance of conforming with applicable professional standards (GAS, 3.96)	To determine whether established audit policies and procedures were designed in conformity with professional standards



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External Peer Reviews

Description	System Review	Modified Review
Timeframe	Every 3 years, performed GAGAS audits in the 3 years since last review (GAS, 3.96)	Every 3 years (CIGIE), no GAGAS audits performed in the 3 years since last review but has audit policies and procedures
Due Dates	6 months, if more than 9 months after date scope - approval of Audit Committee and GAO (GAS, 3.97)	6 months, if more than 9 months after date scope - approval of Audit Committee
Report	One or more (GAS, 3.100)	One or more
Ratings	Yes (GAS, 3.101)	No

External Peer Reviews

Steps and Documents	System Review	Modified Review
Policies and procedures	Yes (GAS 3.98a)	Yes
Risk Assessment	Yes (GAS 3.99)*	Yes#
Internal monitoring	Yes (GAS 3.98b)	No
Selected reports	Yes (GAS 3.98c)	No
Audit documentation	Yes (GAS 3.98c)	No
Interview Staff	Yes (GAS 3.98e)	No#
IPA Monitoring (CIGIE)	Yes	Yes
Other Documentation (Independence, CPE, HR files)	Yes (GAS 3.98d)	No

* To determine number and types of audits and IPA monitoring to select for review

Limited, interview management to understand the organization and the work performed to determine whether conduct a Modified Review or a System Review, and to select IPA monitoring to review

External Peer Reviews

Team Characteristics	System Review	Modified Review
Collectively has current knowledge of GAGAS and government auditing	Yes (GAS 3.104a)	Yes
Independent (organization/team members) of reviewed audit organization, staff, selected audits	Yes (GAS 3.104b)	Yes
Sufficient knowledge of how to perform a peer review (OJT, training courses, or both)	Yes (GAS 3.104c)	Yes
Prior experience <u>desirable</u>	Yes (GAS 3.104c)	Yes

External Peer Reviews

Written Report and Content	System Review	Modified Review
Scope of the review	Yes (GAS 3.100a)	Yes
Professional standards to which the audit organization is being held (e.g., GAGAS)	Yes (GAS 3.100c)	NA
Refer to separate written communication, if one	Yes (GAS 3.100d)	Yes
Opinion on system of quality control (rating of <i>pass</i> , <i>pass with deficiencies</i> , <i>fail</i> , <i>scope limitation</i>)	Yes (GAS 3.101)	No
Post on Web (not separate written communication)	Yes (GAS 3.105)	Yes
To those charged with governance	Yes (GAS 3.105)	Yes
Include results in SAR (Dodd-Frank)	Yes	Yes

AICPA Peer Review Standards

- ✓ Why important?
 - AICPA has been at it a long time
 - AICPA has provided the framework
 - AICPA has good reference materials

AICPA Peer Review Standards

- ✓ Concepts AICPA introduced in 2009
 - Peer review ratings of *pass*, *pass with deficiencies*, *fail* (in 2011 GAS)
 - Scope limitations handled with each rating (i.e. *pass with a scope limitation*)
 - Set of definitions for classifying conditions
 - *matter* – typically a “no” answer that warrants further consideration
 - *finding* – a condition in which there is more than a remote possibility of not performing or reporting in conformity with applicable professional standards (letter of comment)
 - *deficiency* – one or more findings (*pass with deficiencies*)
 - *significant deficiency* – one or more deficiencies (*fail*)
 - AICPA does not use “letter of comment” for findings. They are filed with the administering entity (e.g., state society) using MFC or FFC (matter/finding for further consideration)

AICPA Peer Review Standards

“There may be circumstances in which the reviewer finds few findings in the work performed by the firm and yet may conclude that the design of the firm’s system of quality control needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as human resources (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. **However, in the absence of findings in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in an FFC as a finding rather than result in a report with a peer review rating of *pass with deficiencies* or *fail*.” (AICPA, PRP §1000.79)**

System Reporting

This concept was adopted in the CIGIE Guide (March 2014 draft) Section 3, page 23

“In the absence of identifying significant and pervasive deficiencies in the audits and attestation engagement reviewed, design deficiencies alone would not ordinarily be sufficient to result in a rating of *pass with deficiencies* or *fail*. A rating of *pass with deficiencies* or *fail* would require extraordinary circumstances.”

AICPA Peer Review Standards

Compliance Matters (a concept of materiality)

“To determine the degree of noncompliance, the review team should evaluate the matters of noncompliance, both individually and in the aggregate, recognizing that adherence to certain policies and procedures of the reviewed firm is more critical to the firm obtaining reasonable assurance of performing and reporting in conformity with applicable professional standards than adherence to others. In this context, the review team should consider the likelihood that noncompliance with a given quality control policy or procedure could have resulted in engagements not being performed and/or reported on in conformity with applicable professional standards in all material respects. **The more direct the relationship between a specific quality control policy or procedure and the application of professional standards, the lower the degree of noncompliance necessary to determine whether a matter (or matters) is a finding and whether a finding is a deficiency or significant deficiency.**”

(AICPA, PRP §1000.82)



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AICPA Peer Review Standards

- ✓ Of interest, AICPA requires the sample of audits tested include (if applicable) at least one audit done in accordance with YB
- ✓ For more information on the AICPA peer review program and initiatives, go to

http://www.aicpa.org/INTERESTAREAS/PEER_REVIEW/Pages/PeerReviewHome.aspx



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Developing and Updating the Guide

- ✓ 2014 Project– 2011 GAS revision and general refresh
 - Early 2013 - formed interagency team under the FAEC (12 agencies participating)
 - Surveyed FAEC membership on 2009 Guide and 2012 Interim
 - Presented key issues needing Audit Committee for input/decisions
 - Exposing to FAEC membership (twice); disposition of comments to Audit Committee
 - Guide approval expected May 2014

Developing and Updating the Guide

- ✓ Comments of note from 2014 Project
 - Pre-revision
 - ✓ Should OIGs be subject to peer review if there are no GAGAS products? (added Modified Review)
 - ✓ Does a fail rating equal GAGAS noncompliance?
 - ✓ Why include IPA monitoring if does not impact the peer review rating?
 - ✓ Too vague, too long, too detail, too short... find the "just right"

Developing and Updating the Guide

- ✓ Comments of note from 2014 Project
 - January 2014 Exposure
 - ✓ Modified Review
 - **Need a conclusion/rating on the results**
 - **Organizations receiving a modified review should be restricted from performing system reviews**
 - **Others**

Developing and Updating the Guide

- ✓ Comments of note from 2014 Project
 - January 2014 Exposure
 - ✓ IPA Monitoring
 - If an organization only performs IPA monitoring activities and not audits, should it be subject to a modified review or a system review? Since IPA monitoring would be material under these circumstances, we suggest that both the design and implementation of IPA monitoring activities be reviewed and a conclusion expressed.
 - ✓ No advance notice

Developing and Updating the Guide

2012 Addendum adopted November transitioned the 2009 Guide to address the 2011 GAS

- ✓ Appendix A
- ✓ Appendix B
- ✓ Appendix E
- ✓ Appendix F
- ✓ One agency commented – Should there be a separate checklist for IT audits? The decision was that current checklists applicable (performance, attestation, IPA)

Developing and Updating the Guide

- ✓ Comments of note from 2009 Guide revision
 - IPA Monitoring is Not a YB Audit
 - Clarified scope, same SAR (3/31 or 9/30) and report due date (6 months from scope)
 - IPA monitoring is included in the peer review scope
 - CIGIE determined too major of a function to ignore
 - Report will state IPA monitoring is not a YB audit
 - Focus on whether IPAs were required to follow YB and sufficiency of monitoring for the degree of responsibility taken (none, negative assurance, concurring, complete)
 - Findings presented in the Letter of Comment and do not affect the peer review rating
 - Appendix F provides guidance and can be used for financial audits, attestations, and performance audits

SAR Reporting

Sec. 989C. Strengthening Inspector General Accountability

Added to the IG Act, Section 5(a)--

(14) (A) an appendix containing the results of any peer review conducted by another Office of Inspector General during the reporting period; or

(B) if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another Office of Inspector General;

(15) a list of any outstanding recommendations from any peer review conducted by another Office of Inspector General that have not been fully implemented, including a statement describing the status of the implementation and why implementation is not complete; and

(16) a list of any peer reviews conducted by the Inspector General of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review (including any peer review conducted before the reporting period) that remain outstanding or have not been fully implemented.

Dodd-Frank Wall Street Reform and Consumer Protection Act (PL 111-203)



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CIGIE SAR Reporting Guidance

- Provide guidance to assist OIGs
- Recognized each OIG must exercise professional judgment for reporting
- "Results of any peer review" means the opinion of the Reviewing OIG that the Review OIG complies with or does not comply with applicable peer review guidelines and professional standards
- "Recommendations" mean, for audits, recommendations reported in the System Review Report (External Peer Review, opinion report)
- "Recommendations" would not include observations, suggestions, narratives in Letters of Comment
- "Outstanding or not fully implemented" means, in the opinion of the Reviewed OIG, corrective action has not been completed
- Reviewing OIG and Reviewed OIG should coordinate

Guidance on IGMET "business" website at <https://www.ignet.gov/pcieecie/audit/auditmain.htm>

Note: Will ask CIGIE to revise for Modified Reviews



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Closing

Questions ???

For questions or comments on the revised guide, contact APRG@oig.treas.gov
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