

Peer Review Reporting

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



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(Updated November 2012 - See inside of cover for additional details)

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Peer Review Reporting

*It is all about
reasonableness and
judgment*



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Reporting: Terminology

- FY 2009 Peer Review Guide
 - 3 Types of Ratings –
 - *pass*
 - *pass with deficiencies*
 - *fail*

Reporting: Terminology

- **Pass** is generally synonymous with what was referred to in past peer review guides as an unmodified opinion
- **Pass with deficiencies** is generally synonymous with what was referred to in past peer review guides as a modified opinion
- **Fail** is generally synonymous with what was referred to in past peer review guides as an adverse opinion

Reporting: 2009 Peer Review Guide

Major Changes

- Scope of peer review now includes a review of the OIG's monitoring of work contracted to independent public accountants (IPAs) where the IPA serves as the principal auditor
 - Findings related to an OIG's IPA monitoring practices will not affect the opinion on the reviewed OIG's system of quality control for performing audits and attestation where the OIG serves as the principal auditor
 - Findings/deficiencies with IPA monitoring activities are to be reported in the letter of comment
- Letter of comment is a separate document

Reporting: Fundamentals for Reporting Results

- Final report rating should be based on overall conclusions
 - Requires reasonableness and judgment
 - Must consider whether the issues identified are:
 - Material and/or systemic (significant and/or pervasive)
 - GAGAS is the overarching criteria for conducting peer reviews

Reporting: Fundamentals for Reporting Results

- If the reviewed OIG's policies and procedures encompass more stringent requirements than those prescribed in GAGAS, and lack of compliance is noted with those incremental requirements, it would not constitute a deficiency or significant deficiency and should not impact the report's opinion
 - Issue(s) should be presented as a finding in the letter of comment or be conveyed orally to management, depending on the circumstances

Reporting: Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

- The peer review team may note that:
 - The system of quality control is **not** designed appropriately
 - Similarly, compliance tests may show that the system is **not being complied with**
 - The conditions noted may be classified as matters, findings, deficiencies, or significant deficiencies
 - Determining the relative importance of issues noted during the peer review, individually or combined with others, requires professional judgment
 - Careful consideration is required in forming conclusions

Reporting: Matters

- A peer reviewer notes a ***matter*** as a result of his or her evaluation of the design of the reviewed OIG's system of quality control and/or tests of compliance with it
- Tests of compliance include inspection, inquiry, and observation performed by reviewing audits and attestation engagements, and testing other aspects of the reviewed OIG's system of quality control

Reporting: Matters

- A matter is simply an issue that the peer reviewer may want to take a closer look at
 - For example, a matter may be one or more “No” answers to questions in a peer review checklist that the reviewer concludes warrants further consideration in the evaluation of the reviewed OIG's system of quality control
- Depending on the resolution of a matter, a matter ***may*** develop into a ***finding***

Reporting: Findings

- Finding – One or more related matters that result from a condition in the reviewed OIG’s system of quality control or compliance with it, such that there is ***more than a remote possibility that the OIG would not perform and/or report in conformity with applicable professional standards (GAGAS)***
- Findings should be evaluated and, after considering the nature, causes, pattern, pervasiveness, and relative importance to the system of quality control taken as a whole, ***may or may not*** be elevated to a ***deficiency***

Reporting: Findings

- A deficiency ***may or may not*** be further elevated to a ***significant*** deficiency
- If the peer reviewer concludes that no finding, individually or combined with others, rises to the level of a deficiency or a significant deficiency, a rating of ***pass*** is appropriate
 - The finding in this situation should be communicated orally or in a letter of comment
 - Example – a few missing personal impairments statements, where no impairments to independence were identified

Reporting: Deficiency

- Deficiency – One or more findings that the peer reviewer has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the reviewed OIG's system of quality control taken as a whole, **could create a situation in which the reviewed OIG would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards** in one or more important respects
- Communicated in a report with a rating of **pass with deficiencies**

Reporting: Significant Deficiency

- Significant Deficiency – One or more deficiencies that the peer reviewer has concluded results from a condition in the reviewed OIG's system of quality control or compliance with it, such that **the reviewed OIG's system of quality control taken as a whole does not provide the reviewed OIG with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects**
- Such deficiencies are communicated in a report with a peer rating of **fail**

Reporting: Formulating Conclusions

- After completing a checklist for each audit reviewed, findings should be developed and conclusions formulated

The review team should:

- Summarize the checklist results
- Identify findings (i.e., noncompliance with GAGAS and/or the OIG's quality control policies and procedures) in the individual audits and attestation engagements reviewed which could impact the external peer review report's opinion

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Reporting: Formulating Conclusions

- Identify any other matters that warrant disclosure to officials of the reviewed OIG, including any deficiencies noted in its IPA monitoring activities
- Assess the overall adequacy of the implementation of the OIG's internal quality control system
- After all evidence has been compiled, the adequacy of the scope of the peer review should be reassessed and expanded upon, if necessary, to ensure that sufficient work is done to support the review team's conclusions, findings, and recommendations

Reporting: Formulating Conclusions

- Important to reemphasize: GAGAS represents the overarching criteria
 - If the reviewed OIG’s policies and procedures encompass more stringent requirements than those prescribed in GAGAS and a lack of compliance is noted with those more extensive requirements, it would not constitute a deficiency or significant deficiency, and, therefore, should not impact the peer review report’s opinion
 - Findings that do not rise to the level of a deficiency or significant deficiency, however, should be included in a letter of comment (minor findings can be conveyed orally)

Reporting: Review Results

- A written report should be issued at the completion of the peer review
- Report should contain the review team’s opinion as to whether the system of quality control of the reviewed OIG’s audit and/or attestation engagement practices ***was adequately designed and complied with during the period reviewed to provide the reviewed OIG with reasonable assurance of conforming with applicable professional standards***

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Reporting: Review Results

- As applicable, the peer review report will also describe the scope of the work related to the reviewed OIG's IPA monitoring activities where the IPA was contracted to perform audits or attestation engagements as the principal auditor
 - The report should state that the purpose of the review is not to express an opinion on the IPA monitoring activities and that no such opinion is expressed
 - Deficiencies found with IPA monitoring activities are to be reported in the letter of comment

Reporting: Review Results

- The process for reporting should be discussed between the reviewing OIG and the reviewed OIG, and agreed to before the start of the review (Memorandum of Understanding)
 - The process should provide for the reviewed OIG to comment on the draft report and, if applicable, the letter of comment, prior to their final issuance
- Management comments should be considered before finalizing the report
- Management's comments should be included in the final report

Reporting: Concluding on the Type of Report to Issue

- Peer Review Ratings:
 - *Pass*
 - *Pass with deficiencies*
 - *Fail*
- ***Ratings must be supported by strong and convincing evidence***
- In forming its rating, the review team should consider the nature and extent of the evidence obtained taken as a whole
- Determining the rating is a matter of professional judgment

Reporting: Peer Review Ratings - *Pass*

- ***Pass*** – A report with a rating of ***pass*** should be issued when the review team concludes that the system of quality control for the OIG has been suitably designed and complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects

Reporting: Peer Review Ratings - *Pass*

- There are no deficiencies or significant deficiencies that affect the nature of the report
- Findings and recommendations, if any, should be included in a separate letter of comment

Reporting: Peer Review Ratings – *Pass With a Scope Limitation*

- In the event of a scope limitation, a peer review rating of *pass (with a scope limitation)* is issued
 - Example: Lack of audit documentation due to natural disaster – fire, flood, etc.

Reporting: Peer Review Ratings - *Pass With Deficiencies*

- ***Pass With Deficiencies*** – A report with a peer review rating of ***pass with deficiencies*** should be issued when the review team concludes that the system of quality control for the OIG ***has been suitably designed and complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, with the exception of a certain deficiency or deficiencies that are described in the report***

Reporting: Peer Review Ratings - *Pass With Deficiencies*

- These deficiencies are conditions related to the reviewed OIG's design of and/or compliance with its system of quality control that could create a situation in which the reviewed OIG would have **less than reasonable assurance of performing and/or reporting in conformity with applicable professional standards** in one or more important respects due to the nature, causes, pattern, or pervasiveness, including the relative importance of the deficiencies to the quality control system taken as a whole

Reporting: Peer Review Ratings - *Pass With Deficiencies - Scope Limitation*

- In the event of a scope limitation, a report with a peer review rating of ***pass with deficiencies (with a scope limitation)*** is issued
 - Example – Lack of audit documentation due to natural disaster – fire, flood, etc.

Reporting: Peer Review Ratings - *Fail*

- ***Fail*** – A report with a peer review rating of ***fail*** should be issued when the review team has identified significant deficiencies and concludes that the system of quality control for the OIG ***is not suitably designed to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects***, or the OIG has not complied with its system of quality control to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects

Reporting: Peer Review Ratings - *Fail - Scope Limitation*

- In the event of a scope limitation, a report with a peer review rating of ***fail (with a scope limitation)*** is issued
 - Example – Lack of documentation due to natural disaster – fire, flood, etc.

Reporting: Formulating Type of Report (Rating)

- Formulation of the type of report (rating) to be issued should be based upon the overall conclusion drawn from the evaluation of the design of the reviewed OIG's internal quality control system and the findings disclosed when determining the extent of compliance with the system

Reporting: Formulating Type of Report (Rating)

- The significance of findings disclosed in the audit and attestation engagement reports reviewed should be determined by the extent to which the reports could not be relied upon due to the failure of the reports and underlying work, including documentation, to adhere to GAGAS

Reporting: Formulating Type of Report (Rating)

- Reliability of reports can be impaired if one of the following conditions or combinations of conditions exist(s):
 - Evidence presented is untrue and findings are not correctly portrayed
 - Findings and conclusions are not supported by sufficient appropriate evidence
 - The report does not accurately describe the audit or attestation engagement scope, methodology, and findings, and conclusions are not presented in a manner consistent with the scope of the work
 - The report contains significant errors in logic and reasoning

Reporting: Formulating Type of Report (Rating)

- Pervasiveness (extent identified in multiple audits issued by multiple organizational units) of the deficiencies should be considered
 - A single, isolated (non-systemic) deficiency would be insufficient to support a report with a peer review rating of **pass with deficiencies** or **fail** unless extraordinary circumstances prevail (e.g., the magnitude of the deficiency significantly or irretrievably causes a lack of organizational credibility)
- GAGAS is overarching
 - Cannot support a rating of **pass with deficiencies or fail** if GAGAS is met

Reporting: Formulating Type of Report (Rating)

- The peer review team needs to use reasonableness and judgment; if nonconformity with GAGAS is identified, the extent of the lack of adherence should be considered, given the flexibility afforded by the standards
 - GAGAS is generally not prescriptive, e.g.:
 - The field work standard related to supervision requires supervisors to properly supervise the audit staff
 - GAGAS contains limited specificity as to what actions must be evidenced to be considered “proper supervision”
 - GAGAS provides for flexibility in complying with the standard for supervision, contingent upon the circumstances of the audit, to include “the size of the audit organization, the significance of the work, and the experience of the staff”

Reporting: Formulating Type of Report (Rating)

- It is incumbent upon the peer review team to support assertions that the reviewed OIG has not met GAGAS by citing the specific criteria (GAGAS provision) where the noncompliance exists and providing the basis for the conclusion

Reporting: Formulating Type of Report (Rating)

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

Reporting: Formulating Type of Report (Rating)

- If reports are identified that are found to be unreliable, the causes of the deficiencies need to be examined, particularly as to whether design deficiencies were the sole contributing factor
 - Design flaws in the system generally are of greater concern than compliance issues because the system should contain the necessary methods and measures to preclude, or timely detect, lack of adherence to GAGAS

Reporting: Formulating Type of Report (Rating)

- If the design appears adequate as prescribed, but the deficiencies noted were due to lack of compliance with the system, the design itself may need to be strengthened to increase compliance

Reporting: Report Content For All Reports as Detailed in Peer Review Guide

- Transmittal letter
- State at the top of the report the title “System Review Report”
- State that the system of quality control for the audit function of the reviewed OIG was reviewed, and include the year-end covered by the peer review
- State that the peer review was conducted in accordance with GAGAS and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE)

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Reporting: Report Content For All Reports as Detailed in Peer Review Guide

- State that the reviewed OIG is responsible for designing a system of quality control and complying with it to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects
- State that the reviewer’s responsibility is to express an opinion on the design of the system of quality control and the reviewed OIG’s compliance therewith based on the review

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Reporting: Report Content For All Reports as Detailed in Peer Review Guide

- Describe the peer review process for system reviews, including the process for audit selection
- Describe the limitations of a system of quality control
- Include a reference to a separate letter of comment, if such a letter is issued; the reference to the letter of comment will indicate that the other matters or findings discussed therein do not affect the overall opinion

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Reporting: Report Content For All Reports as Detailed in Peer Review Guide

- As applicable, describe the scope of the work related to the reviewed OIG's IPA monitoring activities where the IPA was engaged as the principal auditor
 - State that the purpose of the review is not to express an opinion on the IPA monitoring activities, and that no such opinion is expressed
 - Reference whether there are any matters noted with IPA monitoring that are included in the letter of comment

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Reporting: Report Content For All Reports as Detailed in Peer Review Guide

- Include an enclosure that describes the external peer review scope and methodology including:
 - A list of the audit reports reviewed
 - A list of the OIG offices visited
- Include any limitation and expansions of the scope, if applicable
- Identify the different peer review ratings that the reviewed OIG could receive

Reporting: Report Content For All Reports as Detailed in Peer Review Guide – Letter of Comment

- Letter of comment – should be issued if the review team believes that findings resulted in conditions being created in which there was more than a remote possibility that the reviewed OIG would not conform with professional standards, but the findings were not sufficiently significant to affect the opinion
- Letter should also include any matters noted with the reviewed OIG's IPA monitoring
- Letter should provide reasonably detailed descriptions of the findings and recommendations to enable the reviewed OIG to take appropriate actions
- Written comments should be obtained from the reviewed OIG on findings and recommendations included in the letter of comment
 - OIG comments will be included as part of the letter of comment

Reporting: Report Content – Peer Review Rating of *Pass*

- In a report with a peer review rating of ***pass***
 - Express an opinion that the system of quality control for the audit function of the reviewed OIG in effect for the year ended has been suitably designed and complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects
 - State at the end of the opinion paragraph that, therefore, the reviewed OIG has received a peer review rating of ***pass***

Reporting: Report Content – Peer Review Rating of *Pass*

- In the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the nature of the scope limitation
 - Example – (Reviewed OIG) notified us that all documentation for audits performed by its Southern Region office during the period under review and for the 5 prior years were destroyed as a result of a natural disaster; as a result, we were unable to review a cross-section of all the (reviewed OIG)'s offices in accordance with the peer review guidelines established by the CIGIE
 - This statement could apply to any type of report – ***pass***, ***pass with deficiencies***, or ***fail***

Reporting: Report Content – Peer Review Rating of *Pass*

- Include, in the letter of comment issued with the final report, an enclosure with the reviewed OIG’s official response to any findings and recommendations discussed in the letter of comment

Reporting: Report Content – Peer Review Rating of *Pass*

- Example 1: Finding to be included in letter of comment
 - The (reviewed OIG’s) quality control policies and procedure require each member of the audit team to:
 - Complete a checklist designed to help identify impairments to independence, and document compliance with the Government Auditing Standards on independence requirements
 - The checklist was not completed on 3 of 10 audits
 - Based on discussions with the members of the audit teams involved, we concluded that no actual impairments existed
 - Recommendation – The OIG should reemphasize its policy on independence checklists and amend its audit review checklist to include a review item for the completion of the independence checklist

Reporting: Report Content – Peer Review Rating of *Pass*

- Example 2: Finding to be included in letter of comment:
 - The (reviewed OIG’s) policies and procedures require that supervisors be involved and review work on an ongoing basis throughout the audit
 - For 2 of 10 audits reviewed, documentation of supervisory reviews occurred primarily at the end of the audit
 - Supervisors involved stated this occurred because higher priority audits demanded their time
 - Recommendation – OIG management should review the pattern of assignments to supervisors involved and determine whether the workload was such that the supervisors could have reasonably been expected to comply with the OIG’s policy requiring an ongoing review of all audit work

Reporting: Report Content – Peer Review Rating of *Pass With Deficiencies*

- In a report with a peer review rating of ***pass with deficiencies***:
 - Include systematically written descriptions of the deficiencies, and the review team’s recommendations (each of these should be numbered)
 - Repeat Findings - Identify any deficiencies that were also included in the report, including the letter of comment, issued on the reviewed OIG’s previous peer review
 - Include in final reports with a peer review rating of ***pass with deficiencies*** an enclosure with the reviewed OIG’s official comments to the draft peer review report
 - Include in the separate letter of comment, if one is issued, an enclosure with the reviewed OIG’s official response to any findings and recommendations discussed in the letter of comment

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Reporting: Report Content – Peer Review Rating of *Pass With Deficiencies*

- Express an opinion that, ***except for the deficiencies described***, the system of quality control for the audit function of the reviewed OIG in effect for the year ended ***has been suitably designed and complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects***
- State at the end of the opinion paragraph that, therefore, the reviewed OIG has received a peer review rating of ***pass with deficiencies***

Reporting: Report Content – Peer Review Rating of *Pass With Deficiencies*

- Example – Deficiency No. 1
 - We identified errors in 7 of 10 audit reports examined that limited the reliability of the reports; these 7 audits were issued by 4 of the 6 audit divisions reviewed
 - Example of one of the reports:
 - Report No. XX, Title (Date). Report stated that the actions taken by the program office were in noncompliance with Department Regulation No. XX “Title”
 - Supporting documentation shows that the program office was in compliance with the regulation
 - Issue for which noncompliance was cited did not become effective until 6 months later
 - Therefore, report finding was inaccurate and the recommendation was not applicable
 - Independent referencing step called for validation of the finding’s criteria, but this step was not performed

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Reporting: Report Content – Peer Review Rating of *Pass With Deficiencies*

- Recommendation: (Reviewed OIG) should strengthen its referencing requirements to include a certification by the referencer that all required steps have been completed

Reporting: Report Content – Peer Review Rating of *Fail*

- In a report with a peer review rating of *fail*:
Include:
 - Systematically written descriptions of the deficiencies, and the reviewing OIG's recommendations (each of these should be numbered)
 - Repeat Findings - Identify any deficiencies that were also included in the report, including the letter of comment, issued on the reviewed OIG's previous peer review
 - An enclosure with the reviewed OIG's official comments to the draft peer review report
 - Include in the separate letter of comment (if one is issued) an enclosure with the reviewed OIG's official response to any findings and recommendations discussed in the letter of comment

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Reporting: Report Content – Peer Review Rating of *Fail*

- Express an opinion that as a result of the significant deficiencies described, the system of quality control for the audit function of the reviewed OIG in effect for the year ended was not suitably designed or complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects
- State at the end of the opinion paragraph that, therefore, the reviewed OIG has received a peer review rating of ***fail***

Reporting: Report Content – Peer Review Rating of *Fail*

- Example – Deficiency No. 1
 - (Reviewed OIG)'s quality control system does not include a quality control process, such as independent referencing, for each audit, and compensating controls for the lack of such a process were not in place
 - As a result, the system as designed did not provide reasonable assurance that applicable auditing standards, policies, and procedures were met
 - System design inadequacies were attributable to management's determination that a quality control process for each audit was redundant, given other control measures such as supervisory reviews

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Reporting: Report Content – Peer Review Rating of *Fail*

- Example – continued:
 - 7 out of the 10 audit reports we reviewed disclosed errors that impacted the reliability of the reports
 - These 7 audit reports were issued by all 5 of the audit divisions reviewed
 - We believe these errors were not precluded or detected in a timely manner due to quality control system weaknesses

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Reporting: Report Content – Peer Review Rating of *Fail*

- Example – continued:
 - Report No. XX, “Title” (Date). Our review of this report disclosed XX errors that negatively impacted the reliability of the report
 - Audit report stated that internal controls had been evaluated over the program activity audited, but the audit program did not include a step for internal control testing, nor did the audit documentation reflect such tests
 - We attributed the report’s misstatements to a lack of formalized policies and procedures requiring an independent quality control process for each audit

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Reporting: Report Content – Peer Review Rating of *Fail*

- Example – continued:
 - Recommendation: (Reviewed OIG) should develop and implement policies for providing reasonable assurance of the accuracy of data in final audit reports, such as a quality control process for each audit

Reporting: Views of Responsible Officials

- To ensure the objectivity, accuracy, and completeness of the findings, the review team should obtain the views of responsible officials of the reviewed OIG
- When deficiencies are found during the course of the review, the team should discuss the issues with senior audit management and staff, or the responsible officials(s) designated by the reviewed OIG

Reporting: Views of Responsible Officials

- All preliminary draft findings and conclusions must be presented during the review to the official(s) designated by the reviewed OIG to avoid any misunderstandings and to help ensure that all material facts are considered before a draft report is prepared
- Disclosures may be conveyed informally, but should be in writing to facilitate agreement

Reporting: Views of Responsible Officials

- Upon issuance of the discussion draft report, an exit conference should be requested and held
 - Modifications should be made to the report as necessary, and then a formal draft conveyed with a request for written comments
- In response to management's written response to the official draft, the final report should be revised, or management's response rebutted as necessary, throughout the text
- The entire written reply should be included in the final report as an enclosure

Reporting: Distribution and Followup

- The reviewed OIG should communicate the overall results and the availability of the external peer review report to the appropriate oversight bodies
- The reviewed OIG should provide copies of the final report to the head of its agency, the Chair of the CIGIE, and the chair of the CIGIE Audit Committee
- Reviewed OIG should make its most recent peer review report publicly available: for example, by posting the peer review report on an external Web site
 - Requirement does not apply to the letter of comment

Questions???

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