

Audit Peer Review Training
National Science Foundation
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Appendix B
Checklist for Review of Adherence to General Standards

OIG UNDER REVIEW & PERIOD REVIEWED: _____

REVIEWER(S): _____

DATE COMPLETED: _____

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Appendix B (March 2014)
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What I'll Cover Today

- Purpose of Appendix B
- Details of GAS:
 - 1. Independence
 - 2. Competence
 - 3. Quality Control and Assurance
 - ❖ Professional Judgment
- Questions



Purpose

Test Auditors and Audit Organization's Compliance with General Standards

General Standards (Ap B steps)	GAS
1. Independence	3.01-3.59
2. Competence	3.69-3.81
3. Quality Control & Assurance	3.82-3.95
Professional Judgment (Ap C-E)	3.60-3.68

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APPENDIX B: CHECKLIST FOR REVIEW OF ADHERENCE TO GENERAL STANDARDS

This appendix provides guidance for reviewing the audit organization's compliance with *Government Auditing Standards* (GAS), commonly referred to as generally accepted government auditing standards (GAGAS), and established policies and procedures related to the General Standards of Independence, Competence, Professional Judgment, and Quality Control and Assurance. The General Standards cover both the audit organization and the individual auditor. In those cases where the standards cover the audit organization, the steps in this appendix cover the audit organization's compliance with GAGAS. The individual auditor's and the team's compliance with the General Standard should be tested during the reviews of selected audits 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 audit organization's policies and procedures, circumstances, and risk factors.

Testing	Overall Conclusions
<p>1. INDEPENDENCE</p> <p>1.1 Review the audit organization's placement within the structure of the government entity to which it is assigned. Does the audit organization's reporting level within the agency impact its ability to objectively perform its work and report results? (GAS, 3.14g, 3.27-3.31).</p> <p>1.2 Obtain a list and description of all nonaudit services the audit organization provided to its agency from the period of its last external peer review. Did the audit organization evaluate whether providing these services created a threat to its independence as an organization? Was the evaluation appropriate? (GAS, 3.14b, 3.33-3.58).</p> <p>1.3 Assess the completeness of the nonaudit services described by the audit organization in the previous step by reviewing the Office of Inspector General's semi-annual reports to Congress or similar reports, and annual planning documents for indicators of any additional nonaudit services that may have been performed by the audit organization. Inquire about any such indicators and assess the potential impact to the audit organization's independence.</p> <p>1.4 Assess whether the audit organization's documentation of independence considerations provided evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. Did the audit organization/auditors document. (GAS, 3.59).</p>	

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APPENDIX B: CHECKLIST FOR REVIEW OF ADHERENCE TO GENERAL STANDARDS

Testing	Overall Conclusions
<ul style="list-style-type: none"> The auditor's understanding with an audited entity for which the auditor performed a nonaudit service? 	
2. COMPETENCE	
2.1 Does the audit organization have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce? (GAS, 3.70)	
2.2 Through interviews and observation, determine whether audit staff has access to applicable audit standards and other reference material necessary for planning and performing audit work.	
2.3 Determine if the auditors and internal specialists who performed work in accordance with GAGAS (including planning, directing, performing audit procedures, or reporting on a GAGAS audit) maintained their professional competence through continuing professional education (CPE). The peer review team should test compliance with this GAGAS standard through a review of documentation that may be maintained in personnel files, individual audit files, or consolidated CPE files or databases. (GAS, 3.76–3.81)	
2.4 Determine if the audit organization has quality control procedures to help ensure that auditors meet the CPE requirements, including documentation of the CPE completed. (GAS, 3.78)	

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3. QUALITY CONTROL AND ASSURANCE	
3.1 Determine if the audit organization established a system of quality control that is designed to provide reasonable assurance of compliance with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of the quality control system will vary based on the organization's size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its audit work, and cost-benefit considerations. (GAS, 3.82a, 3.83)	
3.2 Determine if the documented quality control policies and procedures (covered by appendix A) are communicated to organization personnel. (GAS, 3.84, 3.86–3.88)	
3.3 Determine if the audit organization documented compliance with its quality control policies and procedures and maintains such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures. (GAS, 3.84)	
3.4 For audit documentation retained electronically, determine whether the organization established effective information systems controls over accessing and updating the audit documentation. The controls are intended to protect the integrity, accessibility, and retrievability of audit information from being compromised if documentation is	

How Much Testing?

Depends on the nature and extent of

- ✓ Adequacy policies and procedures
- ✓ Prior peer review results
- ✓ Audit organization's structure, size, staffing
- ✓ Monitoring results
- ✓ Other factors

But should be sufficiently comprehensive to provide a reasonable basis for conclusion and ratings issued



Independence Framework

Conceptual framework helps identify, evaluate, and apply threats to independence based on facts and circumstances unique to the audit

- Identifying and removing threats
- Implementing safeguards
- Prohibited activities



Independence

- In all matters relating to the audit work, the audit organization and auditor must be independent of mind and in appearance (GAS, 3.02)
- Auditors must identify and evaluate threats to independence and reduce or eliminate them by adopting safeguards (GAS, 3.08)
- Auditors should decline the engagement or terminate an in-progress engagement if safeguards do not reduce or eliminate identified threats (GAS, 3.25)

Independence

- Types of threats (GAS, 3.14)
 - ✓ self-interest
 - ✓ self-review
 - ✓ bias
 - ✓ familiarity
 - ✓ undue influence
 - ✓ management participation
 - ✓ structural - organization placement and reporting level within entity
- Nonaudit services may create threats to independence (GAS, 3.33-3.58)

Independence

In Mind 3.03.a	In Appearance (3.03b)
<ul style="list-style-type: none"> ✓ State of mind during audit ✓ Act with integrity ✓ Exercise objectivity and professional skepticism ✓ No compromises to professional judgment 	<ul style="list-style-type: none"> ✓ The absence of circumstances that would cause a reasonable and informed third party, having knowledge of relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or auditor had been compromised



Independence

What you are testing for:	Testing (steps 1.1-1.4):
<ul style="list-style-type: none"> ✓ Auditors' and audit organization' opinions, findings, conclusions, judgments, and recommendations are impartial ✓ Threats to auditors and the audit organization are identified ✓ Safeguards are applied when identified threats may impact independence ✓ Steps are not tied to GAS paragraphs "1-to-1" format 	<ul style="list-style-type: none"> ✓ What you may be looking at: <ul style="list-style-type: none"> ▪ Agency organizational chart ▪ SAR ▪ Audit policies and procedures ▪ Annual audit planning document ▪ Web page ▪ Audit organization's other general documents ▪ Listing of nonaudit services (not evaluations or inspections) ▪ Audit files and related documents (independence certification or checklist, independence consideration documentation) ▪ Other documents (financial disclosure) ✓ Document reviews, interviews, observations, other procedures

Independence

If the auditors perform non-audit services related to the audit selected for review

Did the auditors include in audit file, as applicable,

- Documented consideration of management's ability to oversee nonaudit services
- Evaluation whether to accept nonaudit services
- Management assurance for performing management functions
- Auditors' understanding with management for nonaudit services and requirements

Independence

Examples

- ✓ Staff auditor's resume showed that he worked for the U.S. Mint before moving to Treasury OIG. Can the auditor be assigned to audit Mint programs? What documentation would be included in the audit file?



Competence

GAS	Testing
<p>Team must collectively possess adequate professional competence needed to address objectives and perform work</p> 	<ul style="list-style-type: none"> ✓ Audit organization's recruitment, hiring, continuous development, work assignment, and staff evaluation ✓ Blending of education/experience ✓ Staff's technical skills ✓ Staff access to professional standards and reference materials ✓ CPEs and requirements <p>(HR files, CPE certificates, policies and procedures, training records, audit files, other documents)</p>

Competence

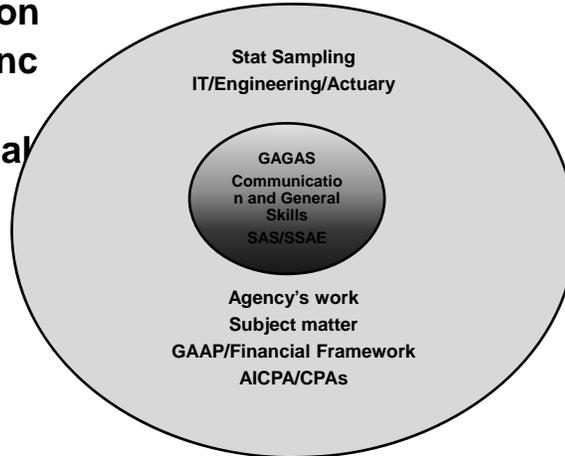
How much and how

- ✓ Depends on the nature, extent, formality of programs, policies, procedures b/c of the organization's size, structure, work, cost benefits considerations
- ✓ Interviews
- ✓ Observations
- ✓ Document reviews



Competence

**Education
Experience
Technical skills**



Competence

Specialists and CPEs (GAS 3.79-3.81):

- **External Specialists assisting on performing, and Internal Specialists consulting on GAGAS audits do not need to meet GAGAS CPE requirements but audit team should determine that qualified and competent**
- **Internal Specialists directing, performing audit procedures, and reporting on GAGAS audits as part of the audit team need to meet GAGAS CPE requirements**

Quality Control and Assurance

GAS 3.82	CIGIE Guide
<p>Each audit organization performing audits in accordance with GAGAS must:</p> <p>a. establish and maintain a system of quality control that is 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, and</p>	<p>Section 1 Appendix A</p> 
<p>b. have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.</p>	<p>Section 2 Section 3 Appendices</p>



Quality Control and Assurance

Appendix B	Testwork
<p>3.1 Determine if the audit organization established a system of quality control that is designed to provide reasonable assurance of compliance with professional standards and applicable legal and regulatory requirements. (GAS, 3.82a, 3.83)</p>	<ul style="list-style-type: none"> • Interviews and observations • Review policies and procedures • Completed Appendix A
<p>3.2 Determine if the documented quality control policies and procedures are communicated to audit personnel. (GAS, 3.84, 3.86–3.88)</p>	<ul style="list-style-type: none"> • Interviews and observations • Review emails and correspondence to transmit policies and procedures



Quality Control and Assurance

Appendix B	Testwork
<p>3.3 Did the audit organization document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures. (GAS, 3.84)</p>	<ul style="list-style-type: none"> Review monitoring policies and procedures and annual monitoring reports and documentation

Quality Control and Assurance

Appendix B	Testwork
<p>3.4 For audit documentation retained electronically, did the audit organization establish effective information systems controls over accessing and updating the audit documentation. The controls are intended to protect the integrity, accessibility, and retrievability of audit information from being compromised if documentation is altered, added to, or deleted without the auditor's knowledge or if the documentation is lost, or damaged. (GAS, 3.92)</p>	<ul style="list-style-type: none"> Review policies and procedures for access to and lockdown of electronic working papers, backup, other procedures to protect and retain documentation Review selected audit files for evidence of modifications after report issue date and obtain explanations

Quality Control and Assurance

Appendix B	Testwork
<p>3.5 Is the audit organization performing monitoring procedures that enable it to assess (a) compliance with established policies, procedures, applicable professional standards, and legal and regulatory requirements; and (b) whether the system of quality control for the audit organization is properly designed? (GAS, 3.93–3.94)</p>	<ul style="list-style-type: none"> Review monitoring policies and procedures and annual monitoring reports and documentation

Quality Control and Assurance

Appendix B	Testwork
<p>3.6 Did the audit organization annually analyze and summarize the results of its monitoring process; communicate the results to appropriate personnel, including any deficiencies noted during the monitoring process; and make recommendations for appropriate remedial action. As applicable, was corrective action taken. (GAS, 3.95)</p>	<ul style="list-style-type: none"> Review monitoring policies and procedures and annual monitoring reports and documentation Follow-up on prior peer review findings and the corrective action Determine whether procedures exist to track recommendations

Quality Control and Assurance

Appendix B	Testwork
<p>3.7 For individual audits included in the external peer review sample that were also examined by the audit organization's quality control program, determine if the significant conclusions reached by the audit organization are reasonable and consistent with those of the external peer review team.</p>	<ul style="list-style-type: none"> • Include at least 1 audit performed by internal quality assurance review • Complete the applicable appendix (appendices) questions and compare the peer review team's results with the OIG's results from the quality control program review • Obtain explanations for differences



Quality Control and Assurance

Appendix B	Testwork
<p>3.8 Did the audit organization meet the GAGAS external peer review requirement and had a peer review once every 3 years, sufficient in scope to meet standards. (GAS, 3.82b, 3.96–3.97)</p> <ol style="list-style-type: none"> For an OIG receiving its first peer review, did the review cover a period that is no later than 3 years from the date the OIG began its first GAGAS audit. If more than 3 months late, did the OIG obtain an extension from the Audit Committee and GAO? 	<ul style="list-style-type: none"> • Review the last peer review report, and if applicable, the first GAGAS audit or requests for extensions

Quality Control and Assurance

Appendix B	Testwork
3.9 Did the audit organization make its most recent peer review report publicly available? This requirement does not apply to the Letter of Comment, if one was issued. (GAS, 3.105)	<ul style="list-style-type: none"> Review the OIG web page
3.10 Did the audit organization provide a copy of the peer review report to those charged with governance, as applicable? (GAS, 3.105)	<ul style="list-style-type: none"> Check the peer review report distribution page or OIG correspondence to transmit the report
Did the audit organization OIG include its peer review report results and mention the recent peer review conducted in SAR?	<ul style="list-style-type: none"> Check the SARs



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OIG's Monitoring Program

What to look for:



- Audit policies and procedures and are they adequate
- Monitoring done annually
- Whether monitoring assesses compliance with standards and policies and procedures
- Whether monitoring team collectively have sufficient expertise and authority
- Documentation adequate to show that team performed all work necessary to satisfy review objectives and included proper supervision
- Documentation supported findings and recommendations
- Results analyzed and summarized and reported systemic issues
- Corrective actions taken



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Monitoring Reports

Determine whether monitoring reports:

- ✓ Described work performed
- ✓ Were recent enough to be of value
- ✓ Scope of work was sufficiently comprehensive
- ✓ Included written comments from responsible OIG official with corrective actions taken or proposed (and adequately assessed)



Professional Judgment

GAS states auditors

- ✓ Must use professional judgment in planning and performing audits and reporting results (3.60)
- ✓ Exercise reasonable care and professional skepticism, and in compliance with applicable professional standards and ethical principles(3.61)
- ✓ Perform work diligently, in good faith, and with integrity (3.62)

Comments:

- Difficult to test
- Not generally tested in Appendix B
- Tested as part of sampled engagements covered in Appendices C, D, E, F



Professional Judgment

How? Did audit show that auditors:

- ✓ Had questioning mind
- ✓ Critically assessed evidence
- ✓ Objectively evaluated information
- ✓ Performed work in good faith and with integrity
- ✓ Had collective knowledge, skills, and experience
- ✓ Documented significant decisions affecting the objectives, scope, methodology, findings, conclusions, and recommendations
- ✓ Had reasonable documentation

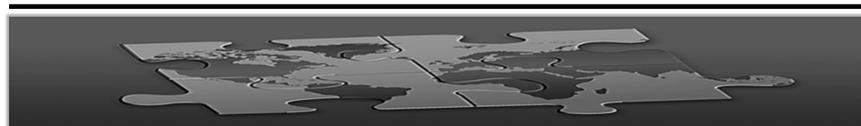
Professional Judgment

Things to Consider

- ✓ Subjective
- ✓ Professional Judgment
- ✓ Observations
- ✓ Interviews
- ✓ Records/audit documentation
- ✓ Other procedures



Something to think about



Audit organizations and their system of quality control are set up differently – informal, formal, big, small, centralized, decentralized, etc. Different is ok as long as the controls are in place and functioning as intended.

Appendix B



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peer reviews**