

Overview of External Peer Reviews in the IG Community

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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)

What I'll Talk About—

- ✓ Some Things About the IG Act
- ✓ YB General Standard for Quality Control and Assurance
- ✓ AICPA Peer Review Standards
- ✓ Developing and Updating the Guide
- ✓ Parting Thoughts

Why am I before you today?

- Project Lead for updates to the guide (2009 and 2012)
- Served as a team member on a 1997 external peer review and as the lead for a 2003 external peer review
- Been subject to external peer reviews since the requirement was added to GAGAS

Some Things About the IG Act

- OIG audits must comply with the Yellow Book
- 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 the Yellow Book

For those who like to check these things out, the citation is 5 U.S.C. app.3, §4. Duties and responsibilities; report of criminal violations to Attorney General

Some Things About the IG Act

- Inspector General 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 IG community peer review program
- Under CIGIE protocol, the external peer review guide is to be approved by the full CIGIE
- CIGIE Executive Chair is Jeffrey Zients, OMB Deputy Director for Management
- CIGIE Chair is Phyllis Fong, USDA IG
- CIGIE Audit Committee Chair is Jon Rymer, FDIC IG

YB General Standard for Quality Control and Assurance

Terminology for Professional Requirements

Unconditional requirements – GAGAS uses the word *must*

Presumptively mandatory requirements – Auditors and audit organizations must comply with a presumptively mandatory requirement in all cases where such a requirement is relevant except in rare circumstances. GAGAS uses the word *should*

Government Auditing Standards (2011 Revision), paragraph 2.15

YB General Standard for Quality Control and Assurance

In rare circumstances...

- should perform alternative procedures to achieve the intent of that requirement
- expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the intent of the requirement
- must document their justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement

Government Auditing Standards (2011 Revision), paragraph 2.16

YB General Standard for Quality Control and Assurance

- ✓ Audit organizations performing GAGAS audits must
 - 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
 - have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years

Government Auditing Standards (2011 Revision), paragraph 3.82

YB General Standard for Quality Control and Assurance

System of Quality Control – 2011 Revision continues a requirement introduced in the 2007 Revision

- ✓ Audit organizations should analyze and summarize the results of its monitoring process at least annually to
 - identify any systemic or repetitive issues needing improvement
 - recommend corrective action
 - communicate to appropriate personnel any deficiencies noted and recommend remedial action

Government Auditing Standards (2011 Revision), paragraph 3.95

YB General Standard for Quality Control and Assurance

- ✓ More descriptive about safe custody and retention of audit documentation
 - Policies and procedures for safe custody and retention for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention
 - Audit organizations should establish effective IT systems controls for accessing and updating the audit documentation

YB General Standard for Quality Control and Assurance

✓ Scope of peer review

- First peer review covers a review period ending no later than 3 years from beginning of first YB audit
- Generally 1 year (peer review programs and audit organizations may choose a longer period)
- Review quality control policies and procedures
- Consider internal monitoring procedures
- Review selected auditors' reports and related documentation
- Review other documents (e.g., independence documentation, CPE records, HR files)

YB General Standard for Quality Control and Assurance

- ✓ Scope of peer review (cont'd)
 - Interview select professional staff at various levels to assess understanding of and compliance with relevant quality control policies and procedures
 - The peer review team performs an assessment of peer review risk to help determine the number and types of audits s to select
 - Cross-section of GAGAS engagements

YB General Standard for Quality Control and Assurance

✓ Scope of peer review (cont'd)

- Cross-section of work subject to the reviewed audit organization's quality control system, including one or more YB audits (generally applicable to audit organizations that perform a small number of YB audits compared to other audits)
- Timeframe/due date – established by administering entity (for us, the CIGIE Audit Committee); extension beyond 3 months granted by administering entity and GAO

YB General Standard for Quality Control and Assurance

✓ Peer review team should—

- Collectively has current knowledge of GAGAS and government auditing
- Independent (both organization and individual review team members) of audit organization being reviewed, its staff, and selected audits
- Sufficient knowledge of how to perform a peer review (OJT, training courses, or both)
- Prior experience on peer review or internal inspection team desirable

YB General Standard for Quality Control and Assurance

✓ Peer review reporting

- One or more written reports
- Describe scope of the peer review
- Opine on system of quality control – design and compliance
- Specify the professional standards to which the audit organization is being held (e.g., GAGAS)
- Refer to separate written communication, if one

YB General Standard for Quality Control and Assurance

- ✓ Peer review reporting (cont'd)
 - Peer review team uses professional judgment in deciding type of report
- ✓ Types of peer review reports
 - Peer review rating of “pass”
 - system of quality control suitably designed and complied with to reasonably assure performing and reporting in conformity with professional standards *in all material respects*

YB General Standard for Quality Control and Assurance

- ✓ Types of Peer Review Reports (cont'd)
 - Peer review rating of “pass with deficiencies”
 - reasonably assure in all material respects with the *exception of a certain deficiency or deficiencies* (described in report)
 - Peer review rating of “fail”
 - *Based on significant deficiencies* (described in report), system is not suitably designed to reasonably assure, or audit organization has not complied with system to reasonably assure

YB General Standard for Quality Control and Assurance

- Scope limitations – conditions that preclude application of peer review procedure(s) and objectives of procedure(s) cannot be accomplished through alternative procedures
 - Type of report is modified in the scope paragraph, body and opinion paragraph
- Either in the peer review report or in a separate written communication, the peer review team should describe deficiencies and significant deficiencies in detail, along with recommendations

YB General Standard for Quality Control and Assurance

- ✓ Peer review reports should be publicly available
 - For example, post on your Web site
 - Public availability of separate communication not required
 - Internal audit organizations that report internally to management and those charged with governance (meaning us, in the context of paragraph 3.31) should provide a copy of the peer review report to those charged with governance

AICPA Peer Review Standards

- ✓ Why important?
 - AICPA has been at it a long time
 - AICPA has provided the framework
- ✓ AICPA revised standards effective for peer reviews beginning on/after January 1, 2009
 - Revision significantly changed reporting
- ✓ Out – (you will see these terms in the 2007 YB)
 - Unmodified Report, Modified Report, Adverse Report
 - Methodology, limitations verbiage (reference made to website for this information)
 - Letter of Comment

AICPA Peer Review Standards

✓ In –

- Peer review ratings of *pass*, *pass with deficiencies*, *fail* (you will see these terms in the 2011 YB)
- Set of definitions for classifying conditions
 - *matter* – typically a “no” answer on a peer review questionnaire that warrants further consideration
 - *finding* – a condition in the system of quality control or compliance with it such that there is more than a remote possibility of not performing or reporting in conformity with applicable professional standards
 - If findings do not raise to the level of deficiency or significant deficiency, the peer review rating is *pass*

AICPA Peer Review Standards

- *deficiency* – one or more findings that due to the nature, causes, pattern, or pervasiveness, could create a situation in which the audit organization does not have reasonable assurance of performing/reporting in conformity with applicable professional standards in one or more important respects
 - If deficiencies do not raise to the level of significant deficiencies, the peer review rating is *pass with deficiencies*
- *significant deficiency* – one or more deficiencies that results from a condition in the audit organization's system of quality control or compliance with is such that the system of quality control taken as a whole does not provide the audit organization with reasonable assurance of performing/reporting in conformity with applicable professional standards in all material respects
 - the peer review rating is *fail*

AICPA Peer Review Standards

✓ Other considerations

- Scope limitations handled as *pass (with a scope limitation)*, *pass with deficiencies (with a scope limitation)*, and *fail (with a scope limitation)*
- Instead of a Letter of Comment, findings are filed with the administering entity (e.g., state society)

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)

This concept was adopted in the CIGIE Guide on pages 19 and 20.

“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)

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

AICPA Peer Review Standards

✓ A final note

For more information on the AICPA peer review program and initiatives, here is its website

www.aicpa.org/members/div/practmon/index.htm

Developing and Updating the Guide

✓ In brief--

- Early 2007 - formed interagency team under the FAEC Audit Committee (22 agencies participated)
- Surveyed FAEC membership on 2005 PCIE Guide
- Presented key issues needing Audit Committee input/decisions during the drafting stage
- Exposed to FAEC membership twice; disposition of comments provided to CIGIE Audit Committee
- Guide approved March 24, 2009

Developing and Updating the Guide

- ✓ Comments of note from 2009 Guide exposure drafts
 - IPA Monitoring is Not a YB Audit
 - FAM 650 as guidance vs. policy (guidance wins)
 - Use of Optional Staff Questionnaire (operative word is “optional,” but interviewing staff is not optional)
 - “Macro” review of OIG planning, audit selection, and audit follow-up processes (not going there)

Developing and Updating the Guide

➤ AICPA reporting language adopted (ahead of YB adoption)

- Peer review ratings of *pass*, *pass with deficiencies*, and *fail*
- *matter*, *finding*, *deficiencies*, *significant deficiency*

But

- Letter of Comment as a separate document retained
- Opinion report will describe methodology and limitations

Developing and Updating the Guide

- IPA monitoring is included in the peer review scope
 - 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 whether sufficient monitoring was done for the degree of responsibility taken (none, negative assurance, concurring, complete – no mention of IPA)
 - Findings on IPA monitoring will not affect the peer review rating
 - Findings on IPA monitoring presented in the Letter of Comment, not in the opinion report
 - Appendix F provides guidance and can be used for financial audits, attestations, and performance audits

Developing and Updating the Guide

- Letter of Comment is not to be consolidated with the opinion report
 - 2005 PCIE Guide called for a consolidated report for transparency
 - However, the YB and prior AICPA standards contemplate that these will be separate documents
 - For example, YB requires peer review reports to be publicly available, but not separate communications (Letter of Comment)
 - Please Note – the opinion report must reference the Letter of Comment

Developing and Updating the Guide

➤ Procedures for handling disagreements

- “Significant areas of disagreement requiring technical clarification/ interpretation of GAGAS may be forwarded to the Audit Committee for comment prior to the issuance of the external peer review report.”
- OIGs encouraged to consult with GAO subject matter experts beforehand

➤ Scope and due date

- Based on period covered by the prior peer review (e.g., if prior review year-end was 3/31/2009, the subsequent peer review covers the year-end 3/31/2012)
- Peer review report due in 6 months

Developing and Updating the Guide

Transitioning the 2009 Guide to Address the 2011 YB

- ✓ Effective for performance audits beginning on or after 12/15/2011
- ✓ Effective for financial audits and attestations for periods ending on or after 12/15/2012
- ✓ No impact of the revision anticipated for cycle ending 3/31/2012 (early adoption not permitted)

Developing and Updating the Guide

- ✓ Phased implementation of the 2011 YB presented some challenges – anticipated that some performance audits under 2011 YB could be in scope of the cycle ending 9/30/2012; more anticipated for the cycle ending 3/31/2013
- ✓ FAEC project initiated at the request of the CIGIE Audit Committee to revamp Appendices as needed before the August 2012 training
- ✓ Anticipated that guide will need a general refresh for cycle ending 3/31/2014 – financial audits still have a long implementation period

Developing and Updating the Guide

- ✓ Determined that the 2011 YB impacted now Appendices A (Policies and Procedures), B (General Standards, most significantly Independence), E (Performance Audits), and F (IPA Monitoring)
 - Appendices C (Financial Audits) and D (Attestations) could wait until general refresh
- ✓ Process to Update Appendices A, B, E, and F
 - Treasury OIG took initial cut
 - May 2012 - Draft Appendices exposed to FAEC

Developing and Updating the Guide

- 137 comments received, excluding editorials, from 10 agencies (6 agencies responded no comment)
- Volunteers from 5 agencies (FDIC, Naval Audit Service, Transportation, EPA, and Treasury) met to resolve comments – most were accepted
- A second, “fatal flaw” exposure was done in late July 2012; the draft checklists you will learn about today are the version that was exposed
- Updated Guide accepted by the CIGIE Audit Committee in September 2012 and approved by the full CIGIE in November 2012

Developing and Updating the Guide

- ✓ One agency commented – Should there be a separate checklist for IT audits? The decision was that the performance audit checklist was applicable
- ✓ A few brief comments on the draft Appendices
 - A – focus is on policies and procedures under 2011 YB
 - B – major change is the new Independence framework
 - E – now focused on applicable “must” and “should” requirements of the YB, more than just a refresh
 - F – least changed

Developing and Updating the Guide

- Took the opportunity to improve the appendices for areas that 2011 YB did not change
- A and B include both 2011 YB and 2007 YB
- ✓ A few changes also made to the illustrative MOU
 - Necessary security clearances
 - Requests/legal demands for peer review documentation
 - Continuing cooperation necessary to address peer review reporting in the IG semiannual report

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.”

CIGIE SAR Reporting Guidance

- Provided 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
- "Recommendations" mean, for audits, recommendations reported in the System Review Report (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 is available on the IGMET "business" website at
<https://www.ignet.gov/pcieecie/audit/auditmain.htm>

Parting Thoughts

(Disclaimer – these are my views)

- Your participation in the external peer review process is critical to integrity of the IG Community
- For team members – important to kick the tires hard but be reasonable
- For team captains – ensure team members are competent in assigned areas; focus on material vs. immaterial

Parting Thoughts

- There are many ways to achieve GAGAS intent – no one is more “right”
- GAGAS vs. policies and procedures
- Peer review is a learning experience – new ways to do things, validation of own policies/practices, forced immersion into GAGAS, networking
- Working on FAEC projects like the Peer Review Guide update – try it, you might like it

Questions