



# What I'll Cover Today

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## ➤ Purpose of Appendix B

## ➤ Details of GAS:

1. Independence
2. Competence
3. Quality Control and Assurance
  - ❖ Professional Judgment



## ➤ Questions

# Purpose

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## Test Audit Organization's Compliance with General Standards

General Standards	2011 GAS	2007 GAS
Independence (1.1-1.4; 1.5-1.7)	3.01-3.59	3.02-3.30
Professional Judgment (C-F)	3.60-3.68	3.31-3.39
Competence (2.1-2.4; 2.5-2.7)	3.69-3.81	3.40-3.49
Quality Control & Assurance (3.1-3.10; 3.11-3.15)	3.82-3.95	3.50-3.69

✓ **How much testing?**

# Independence

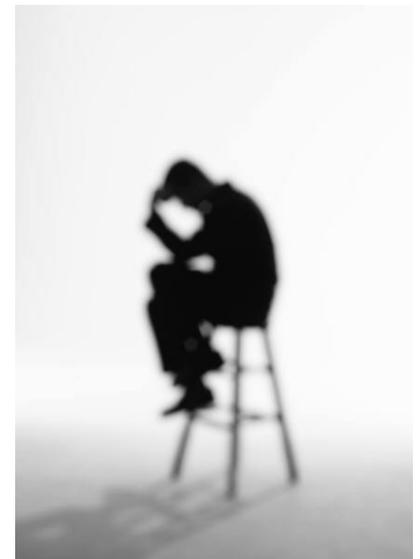
2011 GAS	2007 GAS
<ul style="list-style-type: none"> <li>✓ In all matters relating to the audit work, the organization and auditor:</li> </ul>	
<ul style="list-style-type: none"> <li>• Must be independent of mind and in appearance</li> </ul>	<ul style="list-style-type: none"> <li>• Must be free from personal, external, organization impairments</li> </ul>
<ul style="list-style-type: none"> <li>• Identify/evaluate threats to independence and reduce/eliminate them by adopting safeguards</li> </ul>	<ul style="list-style-type: none"> <li>• Avoid appearance of impairments with policies/procedures, communications, monitoring, disciplinary, stress importance</li> </ul>
<ul style="list-style-type: none"> <li>• Decline the engagement or terminate an in-progress engagement if safeguards do not reduce or eliminate threats</li> </ul>	<ul style="list-style-type: none"> <li>• Decline to perform work, disclose the impairments and modify the GAGAS statement if impairments affects or appears to affect independence</li> </ul>
<ul style="list-style-type: none"> <li>✓ Types of threats include self-interest, self-review, bias, familiarity, undue influence, management participation</li> </ul>	<ul style="list-style-type: none"> <li>✓ Personal and professional relationships, beliefs and biases, employment interests, financial interests</li> </ul>
<ul style="list-style-type: none"> <li>✓ Structural - organization placement and reporting level within entity</li> </ul>	<ul style="list-style-type: none"> <li>✓ External forces and organizational placement</li> </ul>
<ul style="list-style-type: none"> <li>✓ Nonaudit services may create threats to independence</li> </ul>	<ul style="list-style-type: none"> <li>✓ Nonaudit/ other services provided may create impairment</li> </ul>

# Independence of Mind

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**GAS 3.03.a –**

- ✓ **State of mind during Audit**
- ✓ **Act with integrity**
- ✓ **Exercise objectivity/professional skepticism**
- ✓ **No compromises to professional judgments**



# Independence in Appearance

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**GAS 3.03.b. – 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 Framework

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

- **Prohibited activities**
- **Identifying and removing threats**
- **Implementing safeguards**



# Independence

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## Things to Consider

- ✓ Auditors/audit organizations' opinions, findings, conclusions, judgments, recommendations are impartial
- ✓ Threats to individual auditors and safeguards
- ✓ Structural threats and safeguards
- ✓ Agency organizational chart, nonaudit services provided, SAR, policies and procedures, audit and related documentation, and other documents
- ✓ Interviews/observations/other procedures
- ✓ Documentation independence considerations (2011 GAS 3.59)
- ✓ Independence certification or financial disclosure
- ✓ Independence checklists

# Independence

## More Things to Consider

2011	2007
Document consideration of management's ability to oversee nonaudit services	Establish policies/procedures whether to accept nonaudit services
Evaluate whether to accept nonaudit services	Evaluate whether to accept nonaudit services
Obtain management assurance for performing management functions	Document independence considerations specific to nonaudit services when no impairment (GAS 3.30)
Establish and document the auditors' understanding with management for nonaudit services and requirements	Obtain written understanding with auditee, exclude audit personnel from team, no scope reduction

# Independence

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## Examples

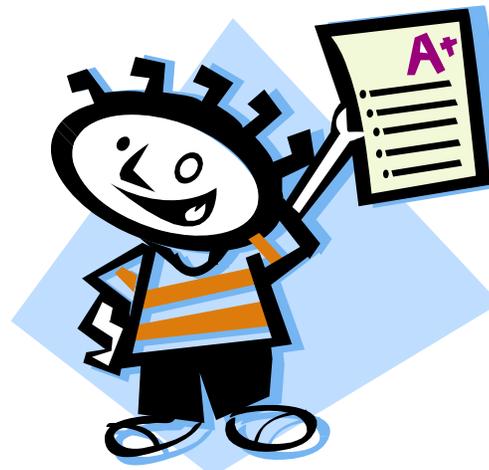
- ✓ I worked in CFO before moving to OIG and was in charge of Accounts Payable in FY 2013. Can I perform the audit of the FY 2013 statements?
- ✓ I was assigned to audit the manufacturing process at the Philadelphia Mint facility and my uncle is the deputy plant manager, can I perform the audit?
- ✓ I am seeking employment with the Office of the Comptroller of the Currency, can I perform an audit of one of their failed banks?

# Competence

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**Staff must collectively possess adequate professional competence needed to address objectives and perform work**

- ✓ Recruitment, hiring, continuous development, assignment, and evaluation
- ✓ Blending of education/experience
- ✓ Access to audit standards/reference materials
- ✓ Technical skills
- ✓ CPE requirements

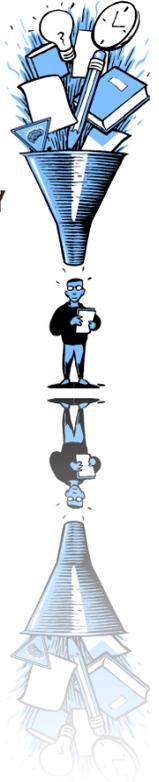


# Competence

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## How much and how

- ✓ Nature, extent, formality of programs, policies, procedures depend on organization's size, structure, work
- ✓ Interviews
- ✓ Observations
- ✓ Document Reviews
  - Policies/Procedures
  - HR files
  - Training records
  - Audit documentation

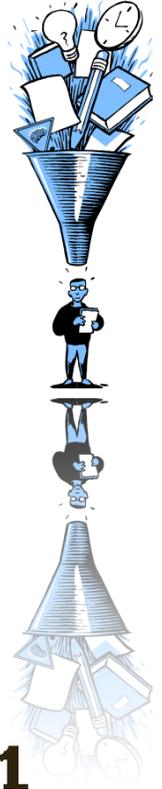


# Competence

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## ➤ Technical Stuff

- ✓ GAGAS
- ✓ Environment/subject matter
- ✓ Statistical sampling
- ✓ IT
- ✓ Engineering
- ✓ Actuary
- ✓ General/Communication skills
- ✓ GAAP or applicable financial framework (2011 GAS), AICPA, SAS, SSAE, CPAs or working for CPAs

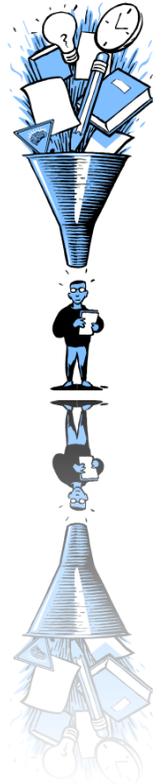


# Competence

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## ➤ Criteria/Guidance

- ✓ GAAP
- ✓ Applicable financial framework (2011 GAS)
- ✓ AICPA
- ✓ SAS
- ✓ SSAE
- ✓ CPAs or working for CPAs



# Competence



## ✓ External Specialists

- 2007 – should assess qualifications/competency and document such conclusions
- 2011 – no documentation required but make sure qualified/competent

## ✓ Internal Specialists

- 2007 – part of the audit organization and perform as a member of the audit team should comply with GAGAS CPE requirements
- 2011 – do not need to meet GAGAS CPE requirements unless direct, perform, report as part of the audit team

# Quality Control and Assurance

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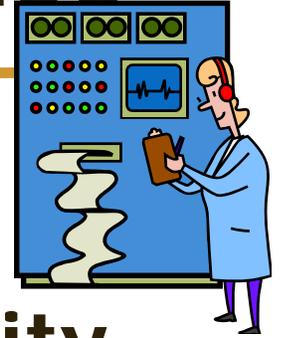
## System Encompasses:

- ✓ Policies and procedures
- ✓ Leadership
- ✓ Communication
- ✓ Independence, legal, ethical
- ✓ Assignments
- ✓ People and competencies
- ✓ Audit work/documentation
- ✓ Monitoring



# Quality Control and Assurance

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## What?

- ✓ **Design/establish system of quality control**
  - Reasonable assurance of compliance with professional standards, applicable legal and regulatory requirements
- ✓ **External peer review/3 years**

# Quality Control Monitoring

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## Things to Consider

- ✓ Policies/procedures, monitoring program, SAR
- ✓ Interviews/observations
- ✓ Audit assignments
- ✓ Other procedures

# OIG's Monitoring Program

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## What to look for:

- Are there policies/procedures
- Adequate policies/procedures
- Is monitoring done
- Is it done annually
- Does the team collectively have sufficient expertise/authority
- Are results analyzed/summarized
- Are systemic issues reported
- Are corrective actions taken



# OIG's Monitoring Program

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- **Does OIG perform monitoring to assess compliance with standards, policies/procedures?**
- **Things to Consider**
  - **Sample monitoring reports/documentation**
  - **Include in peer review sample engagements also reviewed by internal QA team**
  - **Interviews/observations**
  - **Other procedures**

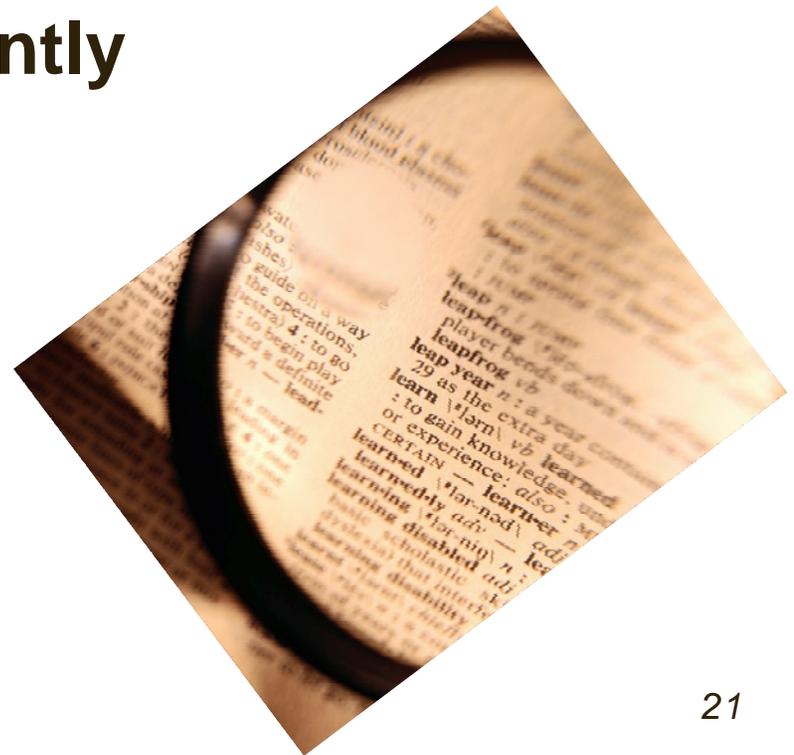


# Monitoring Reports

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Determine whether monitoring reports:

- ✓ Described work performed
- ✓ Were recent enough to be of value
- ✓ Scope of work sufficiently comprehensive



# Monitoring Documentation

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**Determine whether documentation are adequate and ...**

- ✓ **Indicated team performed all work necessary to satisfy review objectives**
- ✓ **Indicated proper supervision**
- ✓ **Supported findings/recommendations**



# Monitoring Recommendations

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**Determine whether recommendations:**

- ✓ **Supported by adequate documentation**
- ✓ **Included written comments from responsible OIG official with corrective actions taken or proposed (and adequately assessed)**
- ✓ **Tracked/monitored to ensure corrective action taken**



# Monitoring and Peer Reviews

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- **GAS says to include monitoring in peer review**
  - ✓ Quality control policies/procedures
  - ✓ Adequacy/results internal monitoring
  - ✓ Risk assessment
  
- **2011 GAS – Peer review team uses professional judgment in deciding type of peer review report to issue**



# External Peer Reviews

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## Did the OIG:

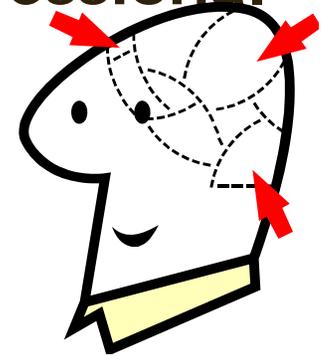
- ✓ Receive external peer review performed by independent reviewers in the last 3 years?
- ✓ Communicate peer review results and make reports available to appropriate oversight bodies?
- ✓ Include peer review report results and mention of review conducted in SAR?

# Professional Judgment

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## What?

- ✓ Must use professional judgment in planning and performing audits and reporting results
- ✓ Exercise reasonable care and professional skepticism
- ✓ Act diligently, comply with applicable professional standards/ethical principles
- ✓ 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

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**How? Did audit show that Auditors:**

- ✓ Had questioning mind
- ✓ Critically assessed evidence
- ✓ Objectively evaluated information
- ✓ Performed work in good faith/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

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## Things to Consider

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



# How Much Testing?

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**Nature/extent sufficiently comprehensive to provide a reasonable basis for conclusion, depends on:**

- ✓ Adequacy policies/procedures
- ✓ Compliance with policies/procedures
- ✓ Prior peer review results
- ✓ Organization's structure/size
- ✓ Monitoring results
- ✓ Other factors



# Something to think about



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

# Appendix B

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peer reviews