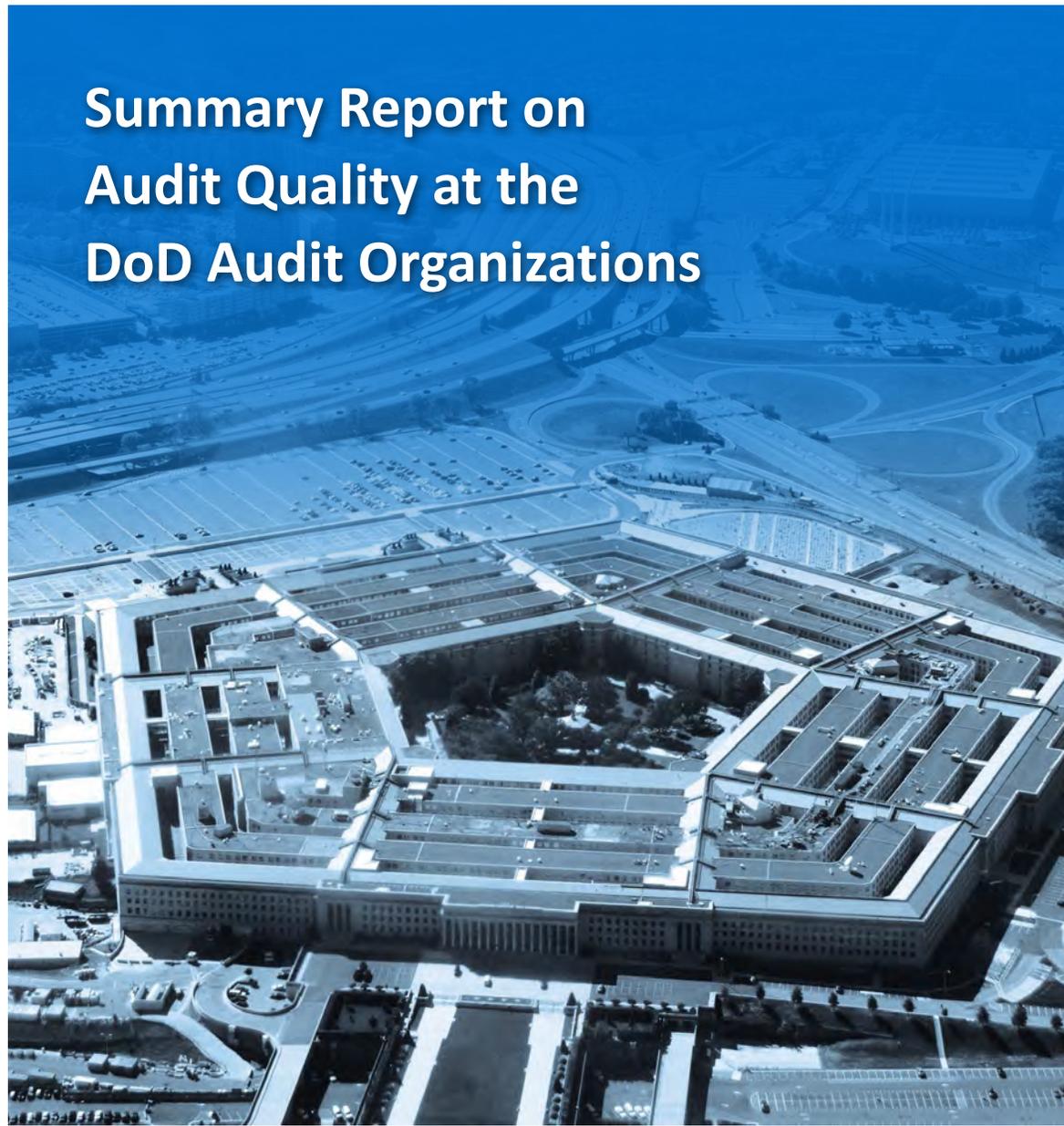




INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 14, 2015



Summary Report on Audit Quality at the DoD Audit Organizations

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Mission

Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.

Vision

Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.



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Results in Brief

Summary Report on Audit Quality at the DoD Audit Organizations

December 14, 2015

Objective

The National Defense Authorization Act of 2013 updated the IG Act to include a requirement that DoD OIG conduct or approve the arrangements for the conduct of external peer reviews of audit organizations in the Department of Defense. This report summarizes the results of the first round of peer reviews completed under this new requirement. Our objective was to highlight systemic issues identified in 19 of the 21 Department of Defense audit organizations most recent peer review reports issued from November 2012 through June 2015. We did not review the U. S. Army Internal Review and National Guard Bureau audit organizations. See Appendix A, Scope and Methodology, for further details. The systemic issues identified in the report can be used by the Department of Defense audit organizations to share lessons learned and as a training tool to improve their systems of quality control.

Observations

Peer reviews are performed on a three year cyclical basis. Recommendations made in a peer review report are followed up on during the next scheduled peer review. Two recommendations - additional training and improvements to internal policies and procedures - were common in the reports. We believe the deficiencies presented in this summary report would be improved upon if the recommendations made in the peer review reports were implemented. Our intent was not to provide additional recommendations. Of the 19 audit organizations referred to in this report, 12 received a rating of pass, 5 received a rating of pass with

Observations (cont'd)

deficiencies, and 2 received a rating of fail. We encourage all the DoD audit organizations to pay more attention in the areas where systemic issues in their quality control systems are highlighted.

Results of the Compilation of Peer Review Report Deficiencies

We compiled the deficiencies using the Council of the Inspectors General for Integrity and Efficiency Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General, Appendixes A-E.

Policies and Procedures

Deficiencies for policies and procedures affecting the most DoD audit organizations were the general standards, followed by fieldwork standards for performance audits, standards for attestation engagements, and finally reporting standards for performance audits. A common deficiency was not having policies and procedures for nonaudit services. In addition, some DoD audit organizations policies and procedures for their systems of quality control needed improvement.

Adherence to General Standards

The deficiency area for adherence to general standards affecting the most DoD audit organizations was quality control and assurance, followed by competence, and finally independence. A common deficiency was not performing the required monitoring of quality requirement. Also, there were deficiencies in continuing professional education and not evaluating independence prior to performing nonaudit services.

Financial Audits

Deficiencies for financial audits affecting the most DoD audit organizations were the American Institute of Certified Public Accountants (AICPA) field work standards for planning and supervision and AICPA and



Results in Brief

Summary Report on Audit Quality at the DoD Audit Organizations

Results (cont'd)

Generally Accepted Government Audit Standards (GAGAS) reporting standards. Issues identified included not including the views of responsible officials and not including all of the required information in the engagement letter.

Attestation Engagements

The deficiency area for attestation engagements affecting the most DoD audit organizations was examination engagements, followed by general standards, and finally attestation engagements. Specifically, some DoD audit organizations were not following GAGAS requirements by not including all the elements of a finding, not including the views of responsible officials, not evaluating previous audits or attestation engagements, and not documenting and retaining evidence of auditor's independence. Also, some DoD audit organizations were not following all the AICPA standards for attestation engagements.

Performance Audits

The deficiency area for performance audits affecting the most DoD audit organizations was evidence and documentation and quality control and assurance, followed by independence, planning, report contents, supervision, and finally professional judgment. For evidence and documentation, deficiencies included insufficient evidence to support conclusions, not evaluating computer-processed data, lack of documented supervisory review, and insufficient audit documentation. In addition, quality control and assurance deficiencies included not following policies and procedures, ineffective supervisory reviews, inadequate independent reference reviews, and improvement needed in cross-referencing.

Management Comments

We do not require a written response to this report.



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

December 14, 2015

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Summary Report on Audit Quality at the DoD Audit Organizations
(Report No. DODIG-2016-031)

We are providing this report for your information and use. We did not issue a draft report because this report summarizes information that was already published. This report is a summary of the DoD audit organizations peer review reports summarizing issues found in the audit operations. This report contains no recommendations; therefore, written comments are not required.

We conducted this summary review in accordance with the Council of the Inspectors General on Integrity and Efficiency, "Quality Standards for Inspection and Evaluation."

Please direct questions to Carolyn R. Hantz at Carolyn.Hantz@dodig.mil, 703-604-8877.

A handwritten signature in black ink, appearing to read "R. Stone", is positioned above the typed name of the Deputy Inspector General.

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

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Introduction

Objective

The National Defense Authorization Act of 2013 updated the IG Act to include a requirement that DoD OIG conduct or approve the arrangements for the conduct of external peer reviews of audit organizations in the Department of Defense. This report summarizes the results of the first round of peer reviews completed under this new requirement. Our objective was to highlight systemic issues identified in 19 of the 21 Department of Defense audit organizations most recent peer review reports issued from November 2012 through June 2015. We did not review the U. S. Army Internal Review and National Guard Bureau audit organizations. See Appendix A, Scope and Methodology, for further details. The systemic issues identified in the report can be used by the Department of Defense audit organizations to share lessons learned and as a training tool to improve their systems of quality control.

Background

The generally accepted government auditing standards (GAGAS) requires audit organizations that perform audits or attestation engagements in accordance with GAGAS to establish and maintain a system of quality control and to undergo an external peer review at least once every 3 years. The GAGAS general standards provide guidance for performing financial audits, attestation engagements, and performance audits under GAGAS¹. The general standards are applicable to all audits and attestation engagements covered by GAGAS and they emphasize the importance of the independence of the audit organization and its individual auditors, the exercise of professional judgment in the performance of work and the preparation of related reports, the competence of staff, and quality control and assurance.

System of Quality Control

GAGAS requires an audit organization to establish and maintain a system of quality control. The system of quality control encompasses the organization's leadership, emphasis on high-quality work, and policies and procedures 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.

¹ The GAGAS general standards are independence, professional judgment, competence, and quality control and assurance. Refer to Government Auditing Standards, December 2011 version.

The nature, extent, and formality of an audit organization's system of quality control varies based on the audit organization's size, number of offices and geographic locations, knowledge and experience of its personnel, nature and complexity of its audit work, and cost-benefit considerations.

External Peer Review

An external peer review is required of an audit organization that conducted audits or attestation engagements in accordance with GAGAS in the 3 years since its last peer review or since it started its first GAGAS engagement. The objectives of the external peer review were to determine whether, for the period under review, the reviewed audit organization's system of quality control is suitably designed and whether the organization is complying with its system of quality control in order to provide it with reasonable assurance of conforming to applicable standards in all material respects. Recommendations made in a peer review report are followed up on during the next scheduled peer review. An audit organization can receive a rating of pass, pass with deficiencies, or fail. Of the 19 audit organizations referred to in this report, 12 received a rating of pass, 5 received a rating of pass with deficiencies, and 2 received a rating of fail.

DoD Office of Inspector General Responsibility

The Inspector General Act of 1978, as amended, states that the DoD Office of Inspector General is responsible for conducting, or approving the arrangements for conducting, external peer reviews of DoD audit organizations in accordance with GAGAS. The DoD audit oversight community consists of 21 audit organizations with approximately 7,300 auditors. DCAA is the single largest DoD audit organization with over 4,300 auditors (59% of 7,300). Because the DoD Office of Inspector General cannot perform all the required peer reviews, a teaming approach has been established for the peer reviews of some of the DoD audit organizations. For example, the Military Department audit agencies have established a rotational process whereby they review each other (i.e., Army reviewed Air Force; Air Force reviewed Navy; and Navy reviewed Army for the most recent peer review).

Policies and Procedures

An audit organization should establish policies and procedures in its system of quality control that address the following elements:

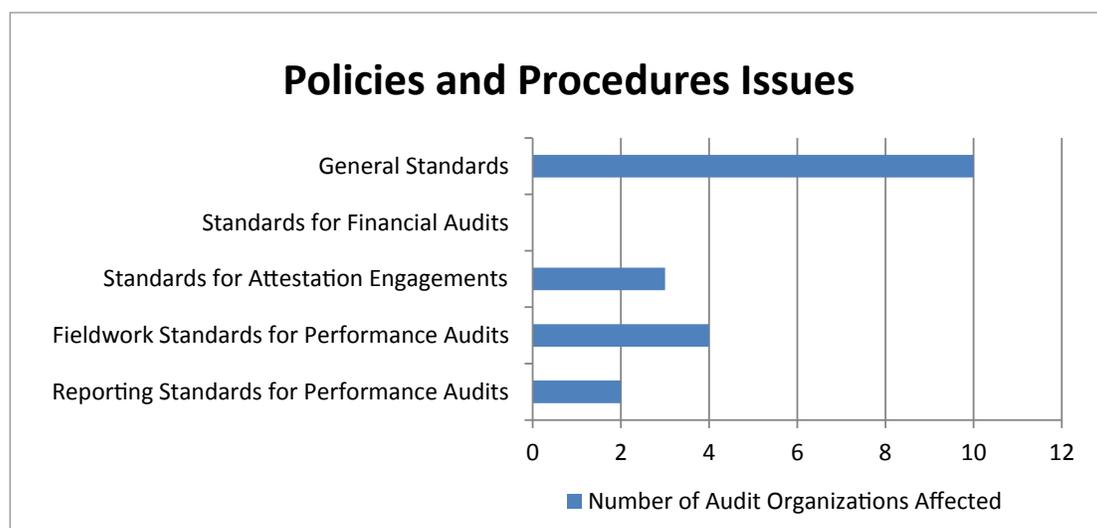
- leadership responsibilities for quality within the audit organization;
- independence and legal and ethical requirements;
- initiation, acceptance, and continuance of audits;
- human resources;
- audit performance, documentation, and reporting; and
- monitoring of quality in the organization.

Figure 1 illustrates GAGAS standards that were not complied with, and how many audit organizations were affected for each standard. Peer reviewers identified instances of noncompliance with the following standards.

- General Standards – 10 of the 19 organizations.
- Standards for Attestation Engagements – 3 of the 19 organizations.
- Field Work Standards for Performance Audits – 4 of the 19 organizations.
- Reporting Standards for Performance Audits – 2 of the 19 organizations.

There were no issues identified in the financial audits standards. Refer to Appendix B for additional information on deficiencies regarding policies and procedures.

Figure 1. Policies and Procedures



General Standards

The general standards contain guidance on independence, professional judgment, competence, and quality control and assurance. The general standards are especially important because they include additional guidance on other topics such as the application of the conceptual framework for independence, identification and assessment of independence threats and safeguards, prohibited nonaudit services, and requirements for performing nonaudit services.

Independence

Five audit organizations had policies and procedures that were not adequate, needed development, or required revisions to ensure compliance with GAGAS independence standards. Examples of issues pertaining to the audit organization's policies and procedures for auditor independence included the following.

- Two audit organizations' policies did not have procedures for assessing independence at the project and individual level during audit planning and to include procedures for reassessing independence throughout the field work phase of the audit. Government Auditing Standard (GAS) 3.08b states that auditors should evaluate the significance of the threats identified, both individually and in the aggregate.
- Two audit organizations did not provide guidance for disclosing threats to independence identified after the auditor's report was issued. GAS 3.26 states that if a threat to independence is identified after the auditor's report is issued; the auditor should evaluate the threat's impact on the audit and on compliance with GAGAS.
- One audit organization did not have policy to require their auditors to document their rationale for not validating a specialist's independence. Also, the policy did not include a requirement to assess independence when working with external specialists from other agencies. GAS 6.42 states that some audits may necessitate the use of specialized techniques or methods that require the skills of a specialist. Specialists to whom this section applies include, but are not limited to, actuaries, appraisers, attorneys, engineers, environmental consultants, medical professionals, statisticians, geologists, and information technology experts. If auditors intend to use the work of specialists, they should assess the professional qualifications and independence of the specialists.

Nonaudit Services

GAGAS does not cover nonaudit services, which are defined as professional services other than audits and attestation engagements. However, GAS 2.13 states that when audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact of providing those nonaudit services on auditor and audit organization independence and respond to any identified threats to independence.

Four audit organizations did not have specific policies for various GAGAS nonaudit service independence requirements. Specific examples of deficiencies noted for nonaudit services included the following.

- Two audit organizations did not have policies and procedures to ensure that the organization applied the conceptual framework for independence before the auditors agreed to perform nonaudit services. GAS 3.20 states that auditors should evaluate threats to independence using the conceptual framework when the facts and circumstances under which the auditors perform their work may create or augment threats to independence.
- One audit organization did not have policies and procedures for GAGAS independence requirements before performing nonaudit services or policies and procedures for consideration of management's ability to oversee the nonaudit services. GAS 3.34 states that before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing the service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs. A critical component of this determination is consideration of management's ability to effectively oversee the nonaudit service to be performed.
- One audit organization did not have policies or procedures for evaluating threats for previously performed nonaudit services and their potential impact on current audit engagements. GAS 3.42 states that an auditor who previously performed nonaudit services for an entity that is a prospective subject of an audit should evaluate the impact of those nonaudit services on independence before accepting an audit.
- One audit organization did not document the auditor's assessment of independence for nonaudit services in the project files. GAS 2.13 states that when audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence and respond to any identified threats to independence.

- One audit organization was not following its internal policies, which stated that nonaudit service reports should indicate that the work was not performed in accordance with GAGAS standards. GAS 2.12 requires auditors, while performing a nonaudit service, to communicate with the requester and others charged with governance to clarify that the work performed does not constitute an audit conducted in accordance with GAGAS.

Quality Control and Assurance

An organization's policies and procedures are considered key characteristics of its system of quality control.

Seven audit organizations had policies and procedures that were not adequate, needed development, or required revisions to ensure compliance with GAGAS quality control standards. GAS 3.82a requires audit organizations to establish and maintain a system of quality control that is designed to provide the organization reasonable assurance of compliance with professional standards and legal and regulatory requirements. Examples of issues with policies and procedures for quality control and assurance included the following.

- One audit organization's policies were based on GAGAS 2007 standards and not the GAGAS 2011 revision.
- One audit organization's audit policy did not specifically define what constituted a sufficient electronic review note for documenting supervisory project oversight.
- One audit organization was not updating nonaudit service policy and procedures detailing how nonaudit services would be assessed for independence.
- One audit organization's quality control checklist needed to be expanded to improve compliance with GAGAS requirements.
- One audit organization needed to expand the number of items reviewed in its internal quality control document to ensure it provided reasonable assurance of compliance with professional standards and legal regulatory requirements.

Attestation Engagements

GAGAS incorporates by reference the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements. GAGAS contains guidance for conducting attestation engagements: examination, review, and agreed-upon procedures.

Three audit organizations had policies for conducting attestation engagements that required revisions or needed development. The following are examples of deficiencies noted pertaining to the audit organization's policies and procedures for attestation standards.

- One audit organization did not have attestation policies even though they performed an agreed-upon procedures engagement. GAS 5.01 requires audit organizations to comply with AICPA attestation standards.
- One audit organization's policy required auditors to develop all elements of a finding needed to complete the objective. However, there was no specific policy identifying which elements of a finding the auditors needed to report when conducting an examination engagement. GAS 5.11 states when auditors identify findings they should plan and perform procedures to develop the elements of a finding that are relevant and necessary to achieve the examination engagement.
- One audit organization did not have policies to include the requirement to obtain written representations from the responsible party when performing compliance attestation engagements. AICPA AT section 601, "Compliance Attestation," paragraph 601.11 states that as part of performing an engagement, the practitioner² should obtain from the responsible party a written assertion about compliance with specified requirements or internal control over compliance.

Performance Audits

GAGAS guidance for conducting and reporting on performance audits includes evidence and documentation, assessing audit risk and fraud risk, reporting views of responsible officials, and effective report recommendations.

Field Work Standards for Performance Audits

Four audit organizations had policies for conducting performance audit field work that needed improvement or revisions. The following are examples of deficiencies related to the audit organizations' policies and procedures for field work standards.

- One audit organization did not document the audit team's assessment of the risks of fraud occurring, fraud risk factors, or information to identify risks related to fraud. GAS 6.30 states that in planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives.

² AICPA defines the practitioner as a certified public accountant in the practice of public accounting.

- One audit organization did not have policy guidance for auditors to evaluate the objectivity, credibility, and reliability of testimonial evidence. GAS 6.62 states that auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. GAS 6.62 also states that documentary evidence may be used to help verify, support, or challenge testimonial evidence.

Reporting Standards for Performance Audits

Two audit organizations needed to develop or revise policies for conducting performance audit reporting. The two findings noted were the following.

- One audit organization did not have policies and procedures to ensure consistency in reporting between the audit objectives, scope of audit, audit methodology, and other report content. GAS 7.09 states that auditors should include in the report a description of the audit objectives and the scope and methodology used for addressing the audit objectives. Further, GAS 7.11 states that auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled.
- One audit organization did not have policies and procedures to ensure that auditors described in the audit report the work they performed in relation to internal controls that were significant within the context of the objectives. GAS 7.19 states that auditors should include in the audit report the scope of work on internal control and any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.

Adherence to General Standards

The GAGAS general standards require compliance in areas related to independence, competence, professional judgment, and quality control and assurance. Figure 2 illustrates the general standards that were not complied with and how many audit organizations were affected for each standard. Peer reviewers identified instances of noncompliance with the following general standards.

- Independence – 2 of the 19 organizations.
- Competence – 4 of the 19 organizations.
- Quality Control and Assurance – 5 of the 19 organizations.

Refer to Appendix C for additional information on deficiencies regarding adherence to the GAGAS general standards.

Figure 2. General Standards



Independence

GAS 3.02 states that in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent. Further, GAS 3.08 states that auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to:

- identify threats to independence;
- evaluate the significance of the threats identified, both individually and in the aggregate; and
- apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

Structural (Organizational) Independence

One audit organization's audit function was placed in the organization other than directly under the Director and Deputy Director, causing an organizational independence issue for the audit organization. GAS 3.14g defines a structural threat as a threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.

Evaluation of Independence Before Performing a Nonaudit Service

The following are examples of deficiencies noted for the audit organization's evaluation of independence prior to performing nonaudit services.

- One audit organization did not assess auditor and audit organization independence when performing nonaudit services. GAS 2.13 states when audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence. They should also respond to any identified threats to independence in accordance with the GAGAS independence standard.
- One audit organization did not apply the conceptual framework in the performance of a nonaudit service. GAS 3.07 establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance. It can be applied to many variations in circumstances that create threats to independence and allows auditors to address threats to independence that result from activities that are not specifically prohibited by GAGAS.

- One audit organization did not assess independence threats for nonaudit services for current and future work. GAS 3.43 states that nonaudit services provided by auditors can impact independence of mind and in appearance in periods subsequent to the period in which the nonaudit service was provided.

Competence

GAS 3.69 states the staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work in accordance with GAGAS.

Continuing Professional Education Deficiencies

Two audit organizations had continuing professional education (CPE) deficiencies. For example, two individuals at one organization only completed approximately 53 hours and 62 hours of training rather than the required 80 hours. In addition, 11 individuals at one organization did not meet the 80-hour requirement. GAS 3.76 states that auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education. Therefore, each auditor performing work in accordance with GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Also, the auditor should obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional proficiency to perform audits.

CPE Record Keeping

Two audit organizations had CPE record keeping deficiencies. One organization's training database needed to be revised because reviewers could not easily identify the GAGAS CPEs from other training not associated with the GAGAS requirement. For example, one organization's training database did not contain properly supported documentation or did not accurately record CPE hours based on corresponding training documentation. GAS 3.78 states that meeting CPE requirements is primarily the responsibility of individual auditors. The audit organization should have quality control procedures to help ensure that auditors meet the continuing education requirements, including documentation of the CPE completed.

Quality Control and Assurance

GAS 3.82a states each audit organization performing audits in accordance with GAGAS 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.

Annual Monitoring of Quality

Four audit organizations were not performing the required annual monitoring of quality. None of the four audit organizations had internal policies for annual monitoring of quality. GAS 3.95 states that the audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

Reporting

One audit organization did not follow its internal policy to state in the nonaudit services memorandum that this was not an audit and was not done in accordance with GAGAS. GAS 3.84 states that each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel.

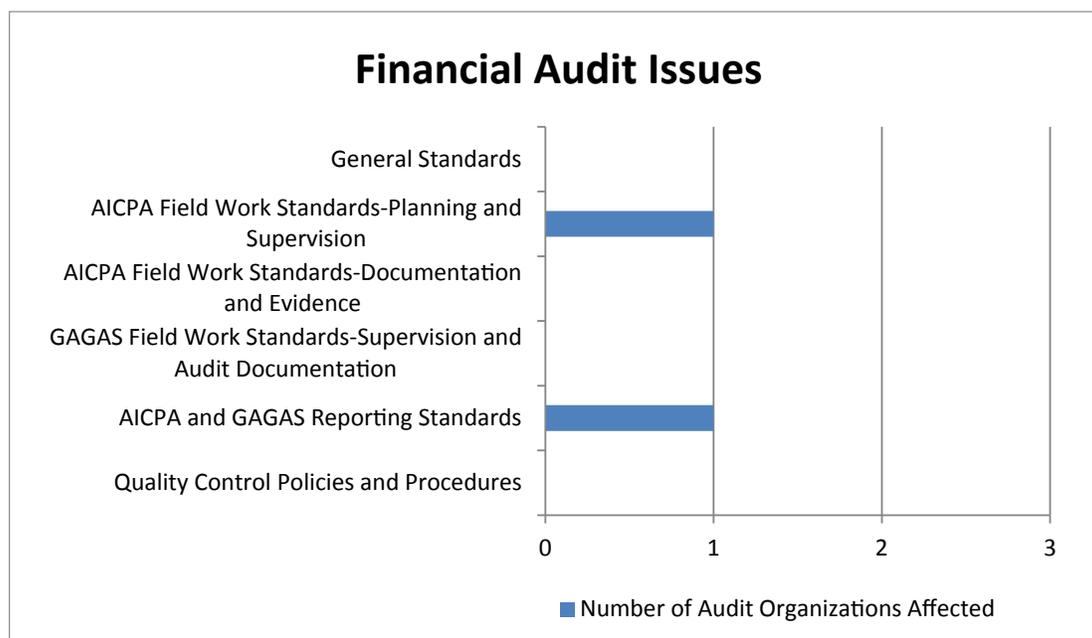
Financial Audits

GAGAS incorporates by reference the AICPA Statements on Auditing Standards for financial audits. All sections of the Statements on Auditing Standards are applicable, including the introduction, objectives, definitions, requirements, and application and other explanatory material. In addition, GAGAS contains additional requirements for financial audits. Figure 3 illustrates financial audit standards that were not complied with and how many audit organizations were affected for each standard. Peer reviewers identified instances of noncompliance with the following financial audit standards.

- AICPA Field Work Standards-Planning and Supervision – 1 of the 19 organizations.
- AICPA and GAGAS Reporting Standards – 1 of the 19 organizations.

There were no issues identified in the peer reviews for general standards, AICPA field work standards for documentation and evidence, GAGAS field work standards for supervision and audit documentation, and quality control policies and procedures. Refer to Appendix D for additional information on deficiencies regarding financial audits.

Figure 3. Financial Audits



AICPA Field Work Standards – Planning and Supervision

In two instances, the engagement letter from one audit organization did not include all of the required information. AICPA AU section 333, “Management Representations,” paragraph 333.05 states that written representations from management should be obtained for all financial statements and periods covered by the auditor’s report. Additionally, paragraph 333.06 requires the following information.

- Management’s acknowledgment of its responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- Knowledge of fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements.
- Knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

Although much of the verbiage required by AICPA AUs 333.05 and 333.06 was addressed in the management representation letter at the end of the audit, the intent of AICPA AUs 333.05 and 333.06 is for management responsibilities to be outlined at the beginning of the audit engagement.

AICPA and GAGAS Reporting Standards

Views of Responsible Officials

One audit organization’s report did not include the views of the responsible officials of the audited entity and any proposed corrective actions. The financial audit report also identified deficiencies in internal control, but the auditors did not report the views of responsible officials concerning the finding, recommendations, and planned corrective actions. GAS 4.33 states that when performing a GAGAS financial audit, if the auditors’ report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity. This should include the findings, conclusions, and recommendations, as well as any planned corrective actions.

Distributing Reports

One audit organization's financial audit report did not comply with GAGAS standards regarding restricting information in financial audit reports. Specifically, the report did not contain the required paragraph on limitations on report distribution. GAS 4.45 states that distribution of reports completed in accordance with GAGAS depends on the nature and information contained in the report. Auditors should document any limitation on report distribution.

The same organization did not comply with the AICPA AU section 532.19, "Report Language-Restricted Use," regarding limited report distribution. For example, the financial audit report did not contain a required paragraph at the end of the report containing all of the required elements. Specifically, paragraph 532.19 states that restricted-use audit reports should contain the following elements in a separate paragraph at the end of the report.

- A statement indicating that the report is intended solely for the information and an identification of the specified parties to whom use is restricted.
- A statement that the report is not intended to be and should not be used by anyone other than the specified parties.

Supplementary Information

One audit organization's financial statement report did not contain the other-matter paragraph or separate report statement that the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements as required by AICPA AU-C³ section 725.09b, "Reporting." The financial statements contained supplementary information, but the required other-matter paragraph was not included in the report.

AICPA AU-C section 725.09b states when the entity presents supplementary information with the financial statements, the auditor should report on the supplementary information in either an other-matter paragraph or a separate report. The other-matter paragraph or separate report should include a statement that the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

³ As part of the clarification of the Statements on Auditing Standards (SAS), the AU section numbers as designated by SAS Nos. 1-121 were recodified, and "AU-C" was selected as an identifier in order to avoid confusion with references to superseded AU sections. Superseded AU sections were deleted from AICPA Professional Standards in December 2013, by which time substantially all engagements for which the AU sections were still in effect were expected to be completed.

Attestation Engagements

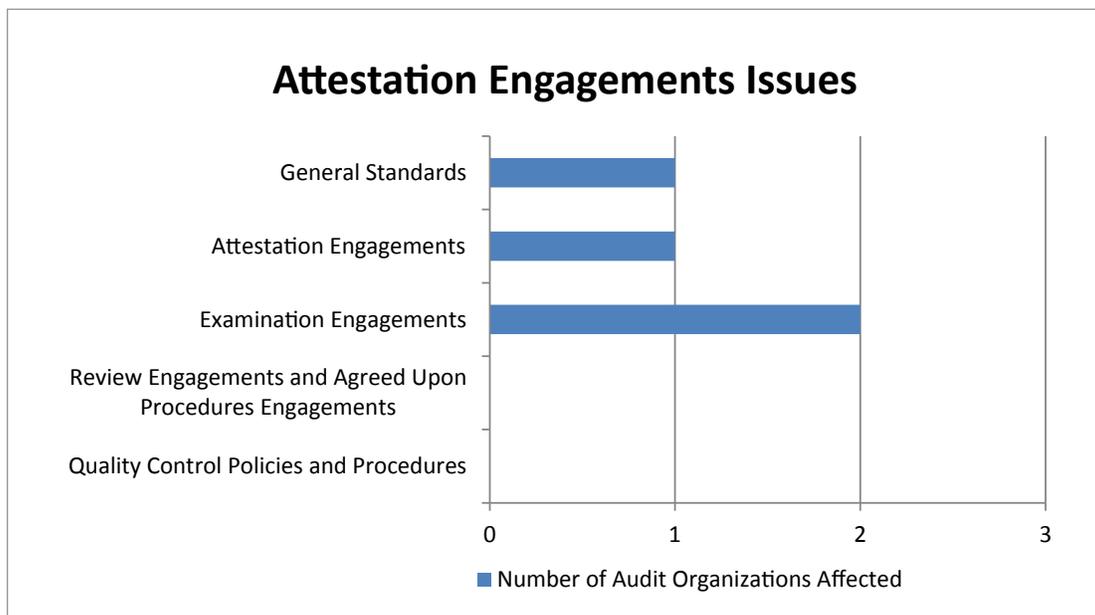
An attestation engagement can provide one of three levels of service as defined by the AICPA, namely an examination, review, or an agreed-upon procedures engagement. Auditors performing attestation engagements in accordance with GAGAS should comply with the AICPA general attestation standard on criteria, the field work and reporting attestation standards, and the corresponding Statements on Standards for Attestation Engagements. GAGAS also contains additional requirements for auditors to follow when performing an attestation engagement.

Figure 4 illustrates the attestation engagement standards that were not complied with and how many audit organizations were affected for each standard. Peer reviewers identified instances of noncompliance with the following attestation standards.

- General Standards – 1 of the 19 organizations.
- Attestation Engagements – 1 of the 19 organizations.
- Examination Engagements – 2 of the 19 organizations.

There were no issues identified in the areas of review engagements and agreed-upon procedures engagements, and quality control policies and procedures. Refer to Appendix E for additional information on deficiencies regarding attestation engagements.

Figure 4. Attestation Engagements



Attestation Engagements

One audit organization's reports did not comply with the AICPA requirements for criteria. The organization had established policies to ensure auditors were in compliance with the AICPA requirements. However, the auditors often included irrelevant criteria in their reports. Auditors indicated that they included the irrelevant criteria because they always included it in their attestation reports or they mistakenly included the references to the irrelevant criteria.

AICPA AT section 101.24 states criteria are the standards or benchmarks used to measure and present the subject matter and against which the practitioner evaluates the subject matter. Suitable criteria should be relevant to the subject matter.

In addition, the same audit organization's engagements did not comply with AICPA standards for obtaining written acknowledgement or other evidence of the responsible party's responsibility for the subject matter. The organization's management implemented these standards by requiring auditors to communicate certain information in writing using acknowledgement letters to entity management, those charged with governance, and the individuals requesting the engagement. However, the organization's auditors did not consistently comply with the internal policy. Examples of issues with the general and reporting standards included the following.

- During one of the examination engagement reviews, the auditors prepared the acknowledgement letters but never finalized and issued the documents to the Government. The auditors stated that the engagement objective was verbally discussed with the Government, but the letter was never signed and issued due to miscommunication between audit team members.
- In another instance, the auditors issued notification letters to the Government for an examination engagement for FY 2011. However, the auditors did not issue the notification letters for the FY 2010 engagement. The auditors stated they did not issue the letter because the organization's policy requiring them to do so did not come out until after the engagement started.

AICPA AT section 101.14 states the practitioner should obtain written acknowledgement or other evidence of the responsible party's responsibility for the subject matter, or the written assertion, as it relates to the objective of the engagement. The responsible party can acknowledge that responsibility in a number of ways, such as in an engagement letter, a representation letter, or the presentation of the subject matter, including the notes or the written assertion.

Examination Engagements

Computer-Processed Data

During planning, one audit organization did not assess the reliability of computer-processed data. The auditors did not assess the computer-processed data because they did not think an assessment was required to test it. In addition, they tested the data but did not base any conclusions on their testing because they routinely worked with the audit client and were familiar with the controls over the audit client's system. However, they did not document their knowledge of the controls in the audit or their rationale for not testing the data. GAS 6.22(d)⁴ requires auditors to document their consideration that the planned procedures for computer-processed data are designed to achieve the attestation engagement objective when such evidence is material to the objective.

Elements of a Finding

One audit organization's attestation engagements did not contain all of the elements of a finding. Specifically, the cause element was often missing from the finding. The organization's internal policy was consistent with GAGAS and required auditors to develop all elements of a finding needed to complete the attestation objective. However, the policy was not clear, therefore, there was still confusion as to when all of the elements of a finding were necessary. GAS 5.11 states that as part of a GAGAS examination engagement, when auditors identify findings, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the examination engagement objectives. The elements of a finding are criteria, condition, cause, and effect or potential effect.

Evidence

One audit organization's evidence was not documented clearly to allow an experienced auditor with no previous connections to the examination to understand the evidence presented that supported the significant conclusions and judgements. Examples of deficiencies identified included the following.

- The peer review team could not follow the references in the reports and found that routinely, sufficient evidence was not presented.
- The auditors did not include the required sections of their reports as stated in their internal policy.
- The auditors referenced their reports to inadequate supporting documentation.

⁴ This GAS reference is from the Government Auditing Standards 2007 version. The 2011 GAGAS revisions removed the specific paragraph requiring assessment of computer-processed data for attestation engagements; however, the 2011 edition still requires auditors to obtain sufficient and appropriate evidence, which includes computer-processed evidence.

GAS 5.16a states auditors should prepare attestation documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed and the evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

Departures from GAGAS

One audit organization did not report significant departures from GAGAS in its reports, as required. The organization's policies and procedures included guidance and examples of how and when to document, assess, and report noncompliance with GAGAS. However, the organizations' auditors did not document significant conclusions in the report related to the scope qualifications of the engagement or judgments relating to departures from GAGAS. The auditors indicated that they were confused because the policy was not clear on when to qualify a report and what documentation was required for qualified reports.

GAS 5.16c states auditors should document any departures from the GAGAS requirements and the impact on the engagement and on the auditors' conclusions when the examination engagement is not in compliance with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit. Additionally, GAS 2.23-2.25 requires auditors performing engagements to document, assess, and report any departures from GAGAS.

Views of Responsible Officials

One audit organization failed to report the views of responsible officials and corrective actions. This attestation engagement report identified deficiencies in internal control, but the auditors did not report the views of responsible officials concerning the findings, recommendations, and planned corrective actions.

GAS 5.32 states that when performing a GAGAS examination engagement, if the examination report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.

Previous Audits and Engagements

One audit organization did not evaluate previous audits, attestation engagements, or other studies that directly related to their current work. The same organization's quality control policies required audit teams to review the audit reports of internal or external auditors for any audits or reviews performed or planned related to the subject matter. The auditors stated they did not complete this requirement because they were either unaware of it or knew certain auditees did not have previous audit reports.

GAS 5.06 states that when planning the engagement, auditors should ask audited entity management to identify previous audits, attestation engagements, and other studies that directly relate to the subject matter or an assertion about the subject matter of the examination engagement being undertaken, including whether related recommendations have been implemented.

Corrective Actions

One audit organization did not verify whether the audited entity took appropriate corrective actions to address findings and recommendations from previous engagements. This organization's policy required auditors to review previous audits for known deficiencies and include sufficient audit steps to determine whether the deficiencies still existed. For example, during one examination, the engagement document indicated the audit team performed previous engagements on the subject matter. However, the auditors did not follow up with the audit client to determine whether the deficiencies identified in previous engagements were corrected.

GAS 5.06 states that when performing a GAGAS examination engagement, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the subject matter, or an assertion about the subject matter, of the examination engagement.

Performance Audits

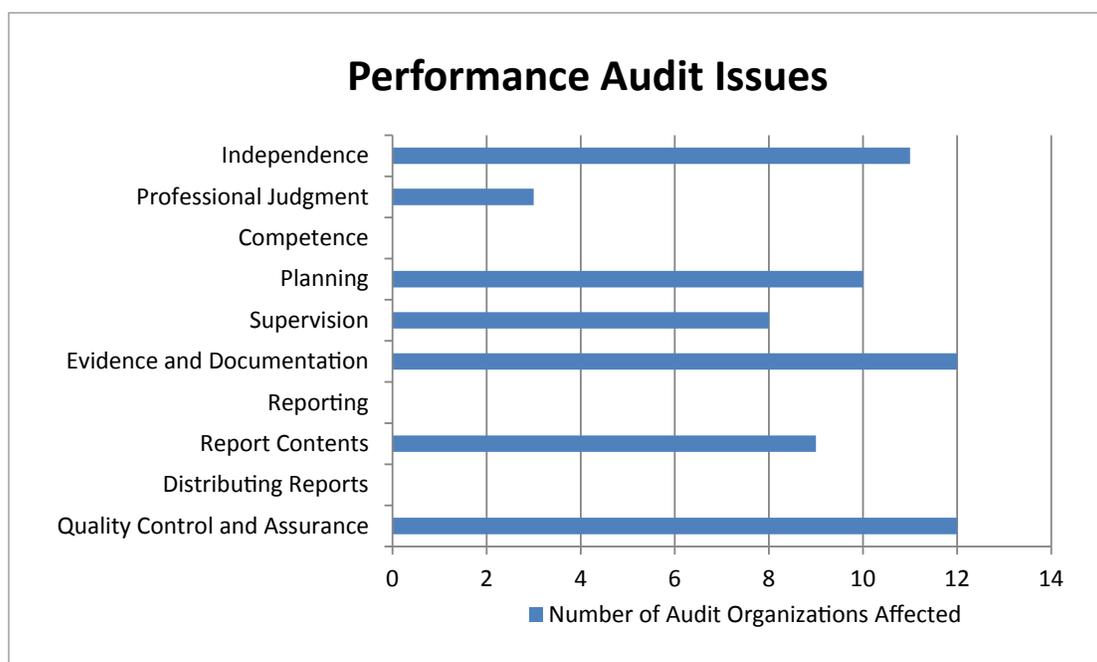
GAGAS standards for performance audits require compliance with the general standards, along with field work requirements to establish an overall approach for auditors to apply in obtaining reasonable assurance that the evidence is sufficient and appropriate to support the auditor's findings and conclusions. The field work requirements for performance audits relate to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation.

Figure 5 illustrates GAGAS standards that were not complied with, and how many audit organizations were affected for each standard. Peer reviewers identified instances of noncompliance with the following performance audit standards.

- Independence – 11 of the 19 organizations.
- Professional Judgment – 3 of the 19 organizations.
- Planning – 10 of the 19 organizations.
- Supervision – 8 of the 19 organizations.
- Evidence and Documentation – 12 of the 19 organizations.
- Report Contents – 9 of the 19 organizations.
- Quality Control and Assurance – 12 of the 19 organizations.

There were no issues identified in the peer reviews for competence, reporting, and distributing reports. Refer to Appendix F for additional information on deficiencies regarding performance audits.

Figure 5. Performance Audits



Independence

GAGAS states that in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.

Conceptual Framework Not Followed

Two audit organizations were not following the GAGAS conceptual framework. Specifically, one organization did not apply the conceptual framework when performing a nonaudit service. Another organization did not apply the conceptual framework at the organization and audit levels. GAS 3.08 states that auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to:

- identify threats to independence;
- evaluate the significance of the threats identified, both individually and in the aggregate; and
- apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

Threats

One audit organization impaired its independence in the area of management participation threats. The manager should have recused himself from the project. GAS 3.14f defines management participation threat as the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit.

One audit organization impaired its independence in the area of structural threats. The audit organization did not report directly to the Director or Deputy Director of the organization. GAS 3.14g defines structural threat as the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.

Documentation of Independence

Eight audit organizations were either lacking or had incomplete documentation showing assessment of auditor independence. Documentation of independence issues included:

- statements of independence were not documented or properly documented and statements of independence were not signed by the auditor, independent reference reviewer,⁵ or specialist;⁶

⁵ Independent Reference Reviewer is an individual with no knowledge of the project assigned to review the facts in the report to the supporting documentation.

⁶ Specialist, such as a statistician or engineer, may be used to assist the auditor in the performance of some technical aspect of the audit.

- statements of independence were not approved by the supervisor;
- documentation was missing from the project files; and
- a documented impairment to independence was not properly reviewed and approved.

GAS 3.59 states that documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. GAGAS contains specific requirements for documentation related to independence which may be in addition to the documentation that auditors have previously maintained. While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements.

Planning

GAGAS states auditors must adequately plan and document the planning of the work necessary to address the audit objectives.

Audit Risk Assessment

Four audit organizations did not perform an audit risk assessment or changed the scope without documented approval. GAS 6.07 states that auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives.

Information Technology Controls

Three audit organizations were not evaluating information technology controls even though 2 of the 3 had internal policies to evaluate these controls. GAS 6.25 states that audit procedures to evaluate the effectiveness of significant information systems controls include gaining an understanding of the system as it relates to the information and identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.

Fraud Risk Assessment

Seven audit organizations had not performed fraud risk assessments and/or not documented them. GAS 6.30 states in planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives. Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions.

Written Audit Plan

Three audit organizations had issues regarding written audit plans, to include:

- the audit plan was incomplete,
- the audit plan was amended without approval,
- the audit organization did not follow internal audit policy for cross-referencing the audit plan.

GAS 6.51 states that auditors must prepare a written audit plan for each audit. The form and content of the written audit plan may vary among audits and may include an audit strategy, audit program, project plan, audit planning paper, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.

Evidence and Documentation

GAGAS states auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. Further, auditors must prepare audit documentation related to planning, conducting, and reporting for each audit.

Evidence

Five audit organizations had issues with evidence. Specifically, evidence was inadequate to support findings, conclusions, and the report. In addition, evidence did not meet standards and relied solely on testimonial evidence. GAS 6.56 states that auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.

Appropriateness of Evidence

Two audit organizations did not obtain assurance or evaluate the reliability of evidence obtained from management. GAS 6.65 states that when auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information.

Computer-Processed Information

Six audit organizations did not assess computer-processed information. GAS 6.66 states that auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the audited entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives.

Audit Documentation

Six audit organizations had issues with audit documentation. Issues consisted of:

- inadequate and incomplete audit documentation,
- insufficient evidence for an experienced auditor with no prior knowledge to follow the work and come to the same conclusions,
- statements of fact in the report conflicted with evidence in project file,
- supporting cross references of evidence did not support statement of facts in the report, and
- peer review team needed to review excessive amounts of data to find the reference material.

GAS 6.79 states that auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

Documenting Supervisory Review

Six audit organizations had problems with documentation of supervisory review. Specific issues with supervisory reviews included:

- working papers were not reviewed, not timely reviewed, or not properly reviewed and approved, and
- working papers reviewed after report issued.

GAS 6.83c states that auditors should document supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.

Report Contents

GAS 7.08 states that auditors should prepare audit reports that contain:

- the objectives, scope, and methodology of the audit;
- the audit results, including findings, conclusions, and recommendations, as appropriate;
- a statement about the auditors' compliance with GAGAS;
- a summary of the views of responsible officials; and
- if applicable, the nature of any confidential or sensitive information omitted.

Objectives, Scope, and Methodology

Objectives

Two audit organizations had issues describing the work conducted to address the audit objectives. The following deficiencies were noted.

- The report did not show the relationship of transactions tested to the population.
- The report did not state the monetary value of the sample size to the population.
- The report did not explain sample design methodology.
- The report did not state whether the testing projected to the population.

GAS 7.12 states that in describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.

Scope and Methodology

Four audit organizations had issues with the scope and methodology of the report. The following deficiencies were noted for scope and methodology.

- The report did not adequately describe the audit scope and methodology.
- The report methodology did not clearly describe the comparative techniques used.
- The report scope and methodology did not adequately support the audit objective.

GAS 7.13 states that in reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditor's findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

Report Findings

Three audit organizations had issues with sufficient and appropriate evidence to support findings, conclusions, and statements in the report. Additionally, some report findings and recommendations did not flow logically from the findings and/or were not directed at resolving the root causes of the reported issues.

GAS 7.14 states that in the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Clearly developed findings assist management and oversight officials of the audited entity in understanding the need for taking corrective action.

Deficiencies in Internal Control

Two audit organizations had issued reports that did not contain an internal control section and did not report on internal controls. GAS 7.19 states that auditors should include in the audit report the scope of their work on internal control and any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials.

Quality Control and Assurance

GAGAS states each audit organization performing audits in accordance with GAGAS 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.

Twelve audit organizations had issues concerning their system of quality control. Examples of deficiencies were:

- quality control policies and procedures were not followed;
- quality control checklists and/or internal quality assurance review guides were not followed;
- supervisory reviews were ineffective;
- independent reference reviews were inadequate, incomplete, ineffective, contained numerous deficiencies, and/or completed before the report was submitted to management;
- projects did not contain an independent reference review;
- management did not require changes to the final report to be verified by the independent reference review;
- cross-referencing had numerous deficiencies.
- audit planning was incomplete, and the data reliability assessment was not completed;
- quality control policies were not followed when working with specialists; and
- audit documentation needed improvement.

GAS 3.83 states that an audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as the audit 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.

Appendix A

Scope and Methodology

We conducted this summary review from June through August 2015. We followed the standards published in the Council of the Inspectors General on Integrity and Efficiency, “Quality Standards for Inspection and Evaluation,” January 2012.

To prepare this report, we reviewed external peer review reports issued on the DoD audit organizations from November 2012 to June 2015. All the peer review reports reviewed for this summary report stated that they were performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, “Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General.” The version of the guide used was dependent on when the respective peer review was started. We are providing this report to help the DoD audit organizations understand the most common deficiencies reported during the period.

This report summarizes peer review reports issued on 19 of 21 DoD audit organizations. The United States Army Internal Review was in the process of converting their personnel back to GS-0511 auditors from GS-0510 accountants, and therefore, requires time to reestablish itself as an audit organization. We plan to conduct a peer review of their organization in the near future. In addition, the National Guard Bureau Internal Review is currently undergoing a peer review. We did not validate the information or results stated in the reports because our review objective was to identify and summarize systemic deficiencies reported in the most recent cycle of peer reviews.

To summarize and identify systemic issues we used the appendixes in the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General, September 2014. The specific appendixes used were:

- Appendix A, Policies and Procedures,
- Appendix B, Checklist for Review of Adherence to General Standards,
- Appendix C, Checklist for Review of Financial Audits,
- Appendix D, Checklist for Attestation Engagements, and
- Appendix E, Checklist for Review of Performance Audits.

We did not use CIGIE Appendix F, Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm. GAGAS does not have standards for monitoring independent public accountant work, and because this summary report focuses on GAGAS standards and very few DoD audit organizations perform independent public accounting monitoring, we chose not to compile the deficiencies in this area.

We did not discuss every issue in the body of the report. We chose to show only the major areas where systemic deficiencies were prevalent. The full listing of deficiencies can be found in Appendixes B through F.

This report summarizes 19 peer review reports issued on the DoD audit organizations. We reviewed both the System Review Reports and the Letter of Comments, if applicable, for each agency. The specific reports we reviewed are listed in Appendix G.

Use of Computer-Processed Data

We did not use computer-processed data to perform this summary review.

Prior Coverage

No prior coverage has been conducted on summarizing DoD audit organization peer review reports during the last 5 years.

Appendix B

Peer Review Issues Identified for Policies and Procedures

This appendix shows issues found in the peer review reports applicable to the CIGIE Guide Appendix A, Policies and Procedures. This appendix also shows the number of DoD audit organizations affected for each issue and whether the issue was reported in the System Review Report or Letter of Comment.

Table B. Policies and Procedures

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GENERAL STANDARDS - INDEPENDENCE				
2.12. When performing nonaudit services for an entity for which the audit organization performs a GAGAS audit, audit organizations should communicate with requestors and those charged with governance to clarify that the work performed does not constitute an audit conducted in accordance with GAGAS.	The audit organization was not following its internal policies, which stated that nonaudit service reports should indicate that the work was not performed in accordance with GAGAS standards.	1		X
2.13. When audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence and respond to any identified threats to independence in accordance with the GAGAS.	The audit organization did not document the auditor's assessment of independence for nonaudit services in the project files. The organization needed to develop policies to ensure that the auditor's assessed independence before performing nonaudit services.	1		X

Table B. Policies and Procedures (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
3.08a. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to identify threats to independence.	<p>Audit policy did not include policies or procedures to avoid errors caused by forgotten or misplaced Statement of Independence Memorandums.</p> <p>Audit policy needed revision to require auditors to sign annual Statements of Independence and document independence on each assignment, which will be retained as part of the engagement documentation.</p> <p>The audit organization needed to establish monitoring controls to ensure that audit personnel, including independent reference reviewers, submit statements of independence.</p>	3		X
3.08b. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to evaluate the significance of the threats identified, both individually and in the aggregate.	<p>Audit policy required revision to clarify procedures for assessing independence at the project and individual level during audit planning, and also include processes for reassessing independence during the field work phase of the audit.</p>	1	X	
3.20. Auditors should evaluate threats to independence using the conceptual framework when the facts and circumstances under which the auditors perform their work may create or augment threats to independence.	<p>For nonaudit services, the audit organization could not provide evidence showing that it had evaluated the projects in accordance with the conceptual framework.</p> <p>Audit policy and procedures required revision to ensure that the organization applies the conceptual framework before agreeing to perform any nonaudit services.</p>	2	X	X
3.26. If a threat to independence is identified after the auditors' report is issued; the auditor should evaluate the threat's impact on the audit and on compliance with GAGAS.	<p>Audit policy did not provide guidance for disclosing threats to independence identified after the auditors' report is issued.</p>	2	X	X
3.34. Before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing the service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs. A critical component of this determination is consideration of management's ability to effectively oversee the nonaudit service to be performed.	<p>The audit organization did not have policies and procedures for GAGAS independence requirements before performing nonaudit services or policies and procedures for consideration of management's ability to oversee the services.</p>	1	X	

Table B. Policies and Procedures (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
3.42. An auditor who previously performed nonaudit services for an entity that is a prospective subject of an audit should evaluate the impact of those nonaudit services on independence before accepting an audit.	Audit policy did not contain procedures for evaluating previously performed nonaudit services on a prospective and current engagement and for addressing any threats identified.	1	X	
3.43. Nonaudit services provided by auditors can impact independence of mind and appearance in periods subsequent to the period in which the nonaudit service was provided.	The audit organization did not maintain a list of nonaudit services that could potentially impact independence in subsequent periods. Audit policy needed revision to include additional guidance on performing nonaudit services.	1	X	
6.42. Some audits may necessitate the use of specialized techniques or methods that require the skills of a specialist. Specialists to whom this section applies include, but are not limited to, actuaries, appraisers, attorneys, engineers, environmental consultants, medical professionals, statisticians, geologists, and information technology experts. If auditors intend to use the work of specialists, they should assess the professional qualifications and independence of the specialists.	Audit policy did not include the rationale for determining that auditors did not need to validate a specialist's independence on an engagement-by-engagement basis. Also, audit policy did not require an additional assessment of independence when using external specialists from executive branch agencies.	1		X
GENERAL STANDARDS – QUALITY CONTROL AND ASSURANCE				
<p>2.24. Auditors should include one of the following types of GAGAS statements in reports on GAGAS audits.</p> <ul style="list-style-type: none"> • Unmodified GAGAS compliance statement: Stating that the auditor performed the audit in accordance with GAGAS. • Modified GAGAS compliance statement: Stating either that (1) the auditor performed the audit in accordance with GAGAS, except for specific applicable requirements that were not followed or (2) because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the audit in accordance with GAGAS. 	<p>Audit policy contained a GAGAS statement that was required to be included in the organization's reports; however, it was not the verbatim statement in accordance with GAGAS.</p> <p>Audit policy needed to be clarified regarding when to use the modified GAGAS statement in a report and the required documentation in the project files.</p>	2		X

Table B. Policies and Procedures (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<p>3.82. Audit organizations must establish and maintain a system of quality control that is designed to provide the organization reasonable assurance of compliance with professional standards and legal and regulatory requirements.</p>	<p>Audit policies were based on 2007 GAGAS. Policies and procedures needed to be updated to the 2011 GAGAS revision.</p> <p>The audit organization did not have an attestation engagement policy. However, the auditors performed an agreed-upon procedures attestation engagement.</p> <p>The organization's audit policy did not clearly define what constituted a sufficient electronic coaching note for documenting supervisory project oversight.</p> <p>The organization was not updating nonaudit service policy and procedures detailing how nonaudit services would be assessed for independence. Current policy stated that the organization performed special projects.</p> <p>The organization's quality control checklist needed to be expanded to improve compliance with GAGAS requirements.</p> <p>The organization needed to expand the number of items reviewed in its internal quality control document to ensure it provided reasonable assurance of compliance with professional standards, and legal regulatory requirements.</p>	4	X	X
<p>3.92. Audit organizations should have policies and procedures for the custody and retention of audit documentation to satisfy legal, regulatory, and administrative requirements for records retention, and for addressing controls over accessing and updating electronic documentation.</p>	<p>The audit organization did not have policies or procedures for addressing changes to audit documentation after report issuance.</p> <p>The audit organization was recommended by the peer review team to segregate its policy and procedures for custody and retention of audit documentation from supervisory review documentation regarding auditor performance.</p>	3	X	X
GENERAL AND REPORTING STANDARDS FOR ALL ATTESTATION ENGAGEMENTS				
<p>5.01. Audit organizations should develop policies and procedures for directing staff to comply with the AICPA attestation standards.</p>	<p>The audit organization did not have attestation policies even though they performed an agreed-upon procedures engagement. As a result, there were numerous instances of noncompliance with both AICPA and GAGAS standards.</p>	1		X

Table B. Policies and Procedures (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
5.06. Auditors should determine whether audited entities took appropriate corrective action to address findings and recommendations that have a material effect on the subject matter.	The audit organization's policy was not clear on requirements for reviewing previous reports and including this information into its audit programs for examination engagements.	1		X
5.11. When auditors identify findings they should plan and perform procedures to develop the elements of a finding that are relevant and necessary to achieve the examination engagement.	The audit organization's policy requires auditors to develop all elements of a finding needed to complete the objective. However, there was not a specific policy identifying which elements of a finding the auditors needed to report when conducting an examination engagement.	1		X
5.16a. Attestation documentation should be prepared in sufficient detail to allow an experienced auditor, having no previous connection to the examination, to understand the evidence that supports the auditor's significant judgments and conclusions.	<p>Audit policy did not provide sufficient guidance to ensure that personnel maintained the contractor's permanent files up-to-date and adequately referenced.</p> <p>It was recommended that the audit organization issue guidance to auditors emphasizing the importance of obtaining and documenting sufficient detail to support finding and conclusions.</p>	1		X
AICPA AT section 101, "Attestation Engagements," paragraphs 101.23 and 101.33 state the auditor must have reason to believe the subject matter is capable of evaluation against criteria that are suitable and available to the users.	The audit organization established policy to ensure its auditors were compliant with AICPA criteria standards. However, auditors frequently included irrelevant criteria in their reports.	1		X
AICPA AT section 201, "Agreed-Upon Procedures Engagements," paragraph 201.34 states that the date of completion of the agreed-upon procedures should be used as the date of the practitioner's report.	<p>The audit organization's staff dated the final report as of the last day of performance of the procedures. As a result, a significant number of documents were prepared, edited, and/or reviewed after the report date. There was also a significant gap between the report date and the date of issuance.</p> <p>The audit organization needed to revise audit policy for agreed-upon procedures engagements. Specifically, the procedures agreed upon needed to include the time necessary to assess and report on the procedures.</p>	1	X	

Table B. Policies and Procedures (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
ADDITIONAL FIELD WORK STANDARDS FOR COMPLIANCE – ATTESTATION ENGAGEMENTS				
AICPA AT section 201 “Agreed-Upon Procedures Engagements,” paragraph 201.16 states the practitioner (auditor) should not agree to perform procedures that are overly subjective and thus possibly open to varying interpretations. Examples of appropriate procedures include the execution of a sampling application after agreeing on relevant parameters (AT 201.17).	The organization’s policies required revision to ensure that audit staff does not assume the role of management by inappropriately making decisions about the procedures that were specified in the engagement. Specifically, the true universe of the population within the scope period was unknown; therefore, management could not establish appropriate sampling parameters for the auditors to execute.	1	X	
AICPA AT section 601 “Compliance Attestation,” paragraph 601.11 states that as part of performing an engagement, the practitioner should obtain from the responsible party a written assertion about compliance with specified requirements or internal control over compliance.	The audit organization needed to revise audit policy to provide additional guidance on compliance attestation engagements and also include the requirement to obtain written representations from the responsible party.	1	X	
FIELD WORK STANDARDS FOR PERFORMANCE AUDITS - PLANNING				
6.10. Auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors’ findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptable level.	The audit organization needed to revise audit policy to include procedures on how to effectively develop and implement audit risk assessments.	1	X	
6.30. In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives.	The external review team found no documentation of the audit team’s assessment of the risks of fraud occurring, discussion about fraud risk factors, or gathering of information to identify risks related to fraud. The audit organization was directed to develop a standard fraud risk assessment template work paper and emphasize to the staff through training or staff meeting discussions of the requirements for assessing fraud risk.	1		X
SUPERVISION				
6.53. Audit supervisors or those designated to supervise auditors must properly supervise audit staff.	The organization’s auditors inconsistently interpreted and followed supervisory review requirements.	1		X

Table B. Policies and Procedures (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
EVIDENCE AND DOCUMENTATION				
6.62. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. In addition, documentary evidence may be used to help verify, support, or challenge testimonial evidence.	Audit policy did not include guidance requiring the auditors to evaluate the objectivity, credibility, and reliability of testimonial evidence.	1	X	
6.66. Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it.	Audit policy did not contain guidance on how to effectively develop and implement audit risk assessments for computer-processed data.	1	X	
REPORTING STANDARDS FOR PERFORMANCE AUDITS				
7.09. Auditors should include in the report a description of the audit objectives and the scope and methodology used for addressing the audit objectives. GAGAS 7.11 states that auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled.	Audit policy needed to be revised to include procedures to ensure consistency in reporting between the audit objective, scope of audit, audit methodology, and other report content.	1	X	
7.19. Auditors should include in the audit report (1) the scope of work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives.	The audit organization did not have policies or procedures to ensure that auditors described in the audit report the work they performed on internal controls that were significant within the context of the audit objectives.	1		X

Appendix C

Peer Review Issues Identified for Adherence to General Standards

This appendix shows issues found in the peer review reports applicable to CIGIE Guide Appendix B, Adherence to General Standards. This appendix also shows the number of DoD audit organizations affected for each issue and whether the issue was reported in the System Review Report or Letter of Comment.

Table C. General Standards

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
INDEPENDENCE				
2.13. When audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence and respond to any identified threats to independence in accordance with the GAGAS independence standard.	The audit organization did not assess auditor and audit organization independence when performing nonaudit services.	1	X	
3.07. Many different circumstances, or combinations of circumstances, are relevant in evaluating threats to independence. Therefore, GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence.	The audit organization did not apply the conceptual framework in the performance of a nonaudit service.	1	X	
3.14g. Structural threat - the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.	The audit function was placed in the organization other than directly under the Director or Deputy Director of the organization, causing an organizational independence issue for the audit organization.	1		X
3.43. Nonaudit services provided by auditors can impact independence of mind and in appearance in periods subsequent to the period in which the nonaudit service was provided.	The audit organization did not assess independence threats for nonaudit services for current and future work.	1	X	

Table C. General Standards (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
COMPETENCE				
<p>3.76. Auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through CPE. Therefore, each auditor performing work in accordance with GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor’s professional proficiency to perform audits.</p>	<p>Audit organizations had CPE deficiencies. Individuals did not meet the 80-hour GAGAS requirement. For example, two individuals at one organization only completed approximately 53 and 62 hours, respectively, of training rather than the required 80 hours. In addition, 11 individuals at one organization did not meet the 80-hour requirement.</p>	2		X
<p>3.78. Meeting CPE requirements is primarily the responsibility of individual auditors. The audit organization should have quality control procedures to help ensure that auditors meet the continuing education requirements, including documentation of the CPE completed.</p>	<p>Audit organizations had CPE record keeping deficiencies. Training databases did not clearly show which training qualified for the GAGAS 80-hour rule and which training was for other purposes, and training database did not contain properly supported documentation or did not accurately record CPE hours based on corresponding training documentation.</p>	2		X
QUALITY CONTROL AND ASSURANCE				
<p>3.84. Each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should 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. The form and content of such documentation are a matter of professional judgment and will vary based on the audit organization’s circumstances.</p>	<p>The audit organization did not follow policy to state in the nonaudit service memorandum that this was not an audit and was not done in accordance with GAGAS.</p>	1	X	

Table C. General Standards (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<p>3.95. The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.</p>	<p>Audit organizations were not performing annual monitoring of work to ensure system of quality control was operating as intended.</p>	<p>4</p>	<p>X</p>	<p>X</p>

Appendix D

Peer Review Issues Identified for Financial Audits

This appendix shows issues found in the peer review reports applicable to CIGIE Guide Appendix C, Financial Audits Performed by the Office of Inspector General. This appendix also shows the number of DoD audit organizations affected for each issue and whether the issue was reported in the System Review Report or Letter of Comment.

Table D. Financial Audits

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAGAS REPORTING STANDARDS				
4.33. When performing a GAGAS financial audit, if the auditors' report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.	One financial audit did not include the views of responsible officials and proposed corrective action.	1		X
4.45. Auditors should document any limitation on report distribution. AICPA AU section 532.19, "Report Language-Restricted Use," states that restricted use audit reports should contain the following elements in a separate paragraph at the end of the report: <ul style="list-style-type: none"> • A statement indicating that the report is intended solely for the information and use of the specified parties. • An identification of the specified parties to whom use is restricted. • A statement that the report is not intended to be and should not be used by anyone other than the specified parties. 	One financial report did not contain an appropriate paragraph regarding restricted distribution.	1		X

Table D. Financial Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
AICPA FIELD WORK STANDARDS – PLANNING AND SUPERVISION				
<p>AICPA AU section 333, “Management Representations,” paragraph 333.05 states that written representations from management should be obtained for all financial statements and periods covered by the auditor’s report.</p> <p>Paragraph 333.06 requires management’s acknowledgement of its responsibility to prevent and detect fraud, or suspected fraud, and also to respond to any allegations of fraud communicated either internally or externally.</p>	<p>The engagement letter did not include all the AICPA requirements for written representations from management.</p>	1		X
AICPA REPORTING STANDARDS				
<p>AICPA AU-C section 725, “Supplementary Information in Relation to the Financial Statements as a Whole,” paragraph 725.09 states that when the entity presents the supplementary information with the financial statements, the auditor should report on the supplementary information in either</p> <ul style="list-style-type: none"> (a) an other-matter paragraph or (b) in a separate report on the supplementary information. <p>The other-matter paragraph or separate report should include a statement that the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.</p>	<p>One financial statement report did not contain the required statement that the supplementary information was presented for purposes of additional analysis and was not a required part of the financial statements.</p>	1		X

Appendix E

Peer Review Issues Identified for Attestation Engagements

This appendix shows issues found in the peer review reports applicable to CIGIE Guide Appendix D, Attestation Engagements Performed by the Office of Inspector General. This appendix also shows the number of DoD audit organizations affected for each issue and whether the issue was reported in the System Review Report or Letter of Comment.

Table E. Attestation Engagements

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GENERAL STANDARDS				
3.05b. Auditors should be independent from an audited entity during the period of the professional engagement, which begins when the auditors either sign an initial engagement letter or other agreement to perform an audit or begin to perform an audit, whichever is earlier. The period lasts for the entire duration of the professional relationship.	An audit organization could not provide documentation of statements of independence and attendance at annual independence training as required by internal policy. Also, the organization did not keep statements of independence past one year.	1		X
3.82a. Each audit organization performing audits in accordance with GAGAS 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.	Engagements requiring an independent reference review were not done in accordance with internal policy.	1		X
ATTESTATION ENGAGEMENTS				
AICPA AT section 101.14, "Responsible Party," states that the practitioner should obtain written acknowledgment or other evidence of the responsible party's responsibility for the subject matter, or the written assertion, as it relates to the objective of the engagement.	Engagements did not follow AICPA standards for obtaining written acknowledgment or other evidence of the responsible party's responsibility for the subject matter.	1		X

Table E. Attestation Engagements (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
AICPA AT section 101.24, "Suitability of Criteria," states that criteria are the standards or benchmarks used to measure and present the subject matter and against which the practitioner evaluates the subject matter. Suitable criteria should be relevant to the subject matter.	Reports contained irrelevant criteria and did not comply with AICPA requirements for criteria.	1		X
EXAMINATION ENGAGEMENTS				
5.06. When performing a GAGAS examination engagement, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the subject matter, or an assertion about the subject matter, of the examination engagement. When planning the engagement, auditors should ask audited entity management to identify previous audits, attestation engagements, and other studies that directly relate to the subject matter or an assertion about the subject matter of the examination engagement being undertaken, including whether related recommendations have been implemented.	Engagements did not comply with GAGAS requirements to evaluate previous audits, attestation engagements, and other studies that directly relate to current review. Auditors did not check to see if appropriate corrective action was taken to address findings and recommendations from previous engagements.	1		X
5.11. When auditors identify findings they should plan and perform procedures to develop the elements of a finding that are relevant and necessary to achieve the examination engagement objectives.	Engagements did not contain all the elements of a finding. The cause element was often missing from the finding.	1		X

Table E. Attestation Engagements (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<p>5.16a. Prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed and the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor’s significant judgments and conclusions.</p>	<p>Engagement documentation was not prepared in sufficient detail to allow an experienced auditor to understand the evidence that supports the significant judgements and conclusions.</p> <p>The peer review team could not follow the referencing in the reports and reports often did not include sufficient evidence.</p> <p>Auditors referenced their reports to inadequate supporting documentation.</p> <p>Auditors did not include the required section of their reports as stated in their internal policy.</p> <p>An audit organization did not document general and field work standards for attestation engagements in sufficient detail to allow a peer reviewer to understand the judgements and conclusions drawn by the auditor.</p>	1		X
<p>5.16c. Document any departures from the GAGAS requirements and the impact on the engagement and on the auditors’ conclusions when the examination engagement is not in compliance with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit.</p> <p>2.23-2.25. Requires auditors performing engagements to document, assess, and report any departures from GAGAS.</p>	<p>An audit organization did not report significant departures from GAGAS during one engagement.</p>	1		X
<p>5.32. If the examination report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.</p>	<p>An audit organization failed to report views of responsible officials and corrective actions.</p>	1		X

Table E. Attestation Engagements (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
6.22d (GAGAS 2007 version). Requires auditors to document their consideration that the planned procedures for computer-processed data are designed to achieve the attestation engagement objective and such evidence is material to the objective.	An audit organization did not assess the reliability of computer-processed data.	1		X

Appendix F

Peer Review Issues Identified for Performance Audits

This appendix shows issues found in the peer review reports applicable to CIGIE Guide Appendix E, Performance Audits Performed by Office of Inspector General. This appendix also shows the number of DoD audit organizations affected for each issue and whether the issue was reported in the System Review Report or Letter of Comment.

Table F. Performance Audits

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
INDEPENDENCE				
3.08. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels.	The GAGAS conceptual framework was not followed.	2	X	
3.14f&g. Threats to independence may be created by a wide range of relationships and circumstances. Auditors should evaluate the following broad categories of threats to independence when threats are being identified and evaluated: <ul style="list-style-type: none"> • Management participation threat - the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit; and • Structural threat - the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively. 	The audit organization had impairments to independence (management participation and structural).	1		X
3.59. GAGAS contains specific requirements for documentation related to independence which may be in addition to the documentation that auditors have previously maintained. While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements.	There was a lack of or incomplete documentation showing assessment of auditor independence.	8	X	X

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
PROFESSIONAL JUDGMENT				
3.60. Auditors must use professional judgment in planning and performing audits and in reporting the results.	Audit organizations had issues with professional judgment.	3	X	X
QUALITY CONTROL POLICIES AND PROCEDURES				
3.83. An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as the audit 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.	<p>Audit organizations were not following their system of quality control:</p> <ul style="list-style-type: none"> • quality control policies and procedures were not followed; • quality control checklists and/or internal quality assurance review guides were not followed; • supervisory reviews were ineffective; • independent reference reviews were inadequate, incomplete, ineffective, contained numerous deficiencies, and/or completed before report submitted to management; • projects did not contain an independent reference review; • management did not require changes to the final report to be verified by the independent reference review; • cross-referencing had numerous deficiencies. • audit planning was incomplete and data reliability assessment was not completed; • quality control policies were not followed when working with specialists; and • audit documentation needed improvement. 	12	X	X

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
PLANNING				
<p>6.07. Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors’ findings and conclusions. This determination is a matter of professional judgment. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed.</p>	<p>Working papers were not prepared prior to start of planning. Scope was changed without documented approval. Audit organizations did not perform audit risk assessment.</p>	4	X	X
<p>6.08. The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. The term “program” is used in GAGAS to include government entities, organizations, programs, activities, and functions.</p>	<p>The audit organization did not develop an objective that met the criteria of GAS 6.08. This occurred because the auditors did not identify the performance aspects related to the audit objective. Internal policy stated that audit objectives must identify the subject of the audit and the performance aspects to be reviewed.</p>	1		X
<p>6.11. Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: (b) internal control as it relates to the specific objectives and scope of the audit.</p>	<p>Audit organizations were not assessing audit risk: Internal control matrix was not documented in projects. Audit organization did not assess audit risk applicable to internal control and did not follow internal policy.</p>	2	X	X
<p>6.11. Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: (d) provisions of laws, regulations, contracts, and grant agreements, and potential fraud, and abuse that are significant within the context of the audit objectives.</p>	<p>Audit organization did not assess risk on contracts.</p>	1	X	

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<p>6.11. Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:</p> <p>(c) ongoing investigations or legal proceedings within the context of the audit objectives.</p>	<p>Audit organization did not check for any ongoing investigations.</p>	<p>1</p>		<p>X</p>
<p>6.12c. During planning, auditors should evaluate whether to use the work of other auditors and specialists to address some of the audit objectives.</p> <p>6.41. If other auditors have completed audit work related to the objectives of the current audit, the current auditors may be able to use the work of the other auditors to support findings or conclusions for the current audit and, thereby, avoid duplication of efforts. If auditors use the work of other auditors, they should perform procedures that provide a sufficient basis for using that work. Auditors should obtain evidence concerning the other auditors' qualifications and independence.</p>	<p>Audit organization did not evaluate other auditors' or specialists' work.</p> <p>Audit organization did not evaluate the work of others and related qualifications.</p>	<p>2</p>		<p>X</p>
<p>6.15. Obtaining an understanding of the program under audit helps auditors to assess the relevant risks associated with the program and the impact of the risks on the audit objectives, scope, and methodology.</p>	<p>The audit organization did not obtain an understanding of program to assess risk.</p>	<p>1</p>	<p>X</p>	
<p>6.25. Audit procedures to evaluate the effectiveness of significant information systems controls include (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.</p>	<p>Information Technology controls were not evaluated.</p>	<p>3</p>	<p>X</p>	<p>X</p>
<p>6.30. In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives. Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility. Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions.</p>	<p>Fraud risk assessments were not performed and/or documented.</p>	<p>7</p>	<p>X</p>	<p>X</p>

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
6.32. When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings. If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may conduct additional audit work as a separate engagement, or refer the matter to other parties with oversight responsibility or jurisdiction.	The audit organization did not have audit steps to determine whether fraud likely occurred.	1	X	
6.51. Auditors must prepare a written audit plan for each audit. The form and content of the written audit plan may vary among audits and may include an audit strategy, audit program, project plan, audit planning paper, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.	Auditors were not following internal audit policy for cross-referencing the audit plan. The audit plan was amended without approval. The audit plans were incomplete.	3	X	X
SUPERVISION				
6.53. Audit supervisors or those designated to supervise auditors must properly supervise audit staff.	Audit organizations had issues with inadequate supervision and not following internal policy.	2	X	
EVIDENCE AND DOCUMENTATION				
6.56. Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.	Evidence was inadequate or insufficient to support findings, conclusion, and report. The audit organization did not meet evidence standards. Audits relied solely on testimonial evidence.	5	X	X
6.62. Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.	The audit organization did not evaluate and corroborate testimonial evidence.	1	X	

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
6.65. When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information.	The audit organization did not obtain assurance or evaluate the reliability of evidence obtained from management.	2	X	
6.66. Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it.	Audit organizations did not assess computer-processed information.	6	X	
<p>6.71b. When assessing the sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and the level of audit risk. The steps to assess evidence may depend on the nature of the evidence, how the evidence is used in the audit or report, and the audit objectives.</p> <p>(b) Evidence is not sufficient or not appropriate when (1) using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion, (2) the evidence has significant limitations, given the audit objectives and intended use of the evidence, or (3) the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. Auditors should not use such evidence as support for findings and conclusions.</p>	The audit organization did not assess audit risk when conducting sampling.	1	X	
6.79. Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills that would have enabled him or her to conduct the performance audit. These competencies and skills include an understanding of (1) the performance audit processes, (2) GAGAS and applicable legal and regulatory requirements, (3) the subject matter associated with achieving the audit objectives, and (4) issues related to the audited entity's environment.	<p>Working papers were incomplete and did not follow internal policy.</p> <p>Statements of fact in the report conflicted with evidence in project file.</p> <p>Supporting cross references of evidence did not support statements of facts in the report.</p> <p>Insufficient documentation to support engagement opinion.</p>	6	X	X

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
6.80. Auditors should prepare audit documentation that contains evidence that supports the findings, conclusions, and recommendations before they issue their report.	Evidence obtained was not clearly documented.	1		X
6.83c. Auditors should document supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.	<p>Working papers were not timely or properly reviewed, not properly approved, and not reviewed in accordance with internal policy.</p> <p>There was no evidence of supervisor review.</p> <p>Supervisors did not review working papers within required internal policy period.</p> <p>Supervisory review was ineffective.</p> <p>Supervisor reviewed working papers after the report was issued.</p> <p>Supervision was not timely or adequate.</p>	6	X	X
6.84. When auditors do not comply with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions.	Reports included a modified GAGAS statement but did not document reasons for departure.	1		X
REPORT CONTENTS				
7.11. Auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled.	Report did not clearly comment on scope on reporting on internal control.	1		X

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<p>7.12. In describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.</p>	<p>Audit organization did not report the relationship of transactions tested to the population and did not state the monetary value of the sample size to the population.</p> <p>Audit organization did not follow internal policies.</p> <p>The report did not explain sample design methodology and did not state whether it projected to the population.</p>	2	X	X
<p>7.13. In reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.</p>	<p>Reports did not adequately describe audit scope and methodology for comparative techniques used and how the completed work supported the audit objectives in sufficient detail to allow readers to understand the work.</p>	4	X	X
<p>7.14. In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives.</p>	<p>Significant issues with insufficient and/or appropriate evidence to support statements, findings, and/or conclusions in the report.</p> <p>Audit organization did not evaluate computer-processed data.</p> <p>Report finding did not flow logically.</p>	3	X	X

Table F. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
7.16. Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value, or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.	Computer-processed data was not placed in perspective when used to support conclusions. Audit organization did not follow internal policies.	1	X	
7.19. Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.	Reports did not contain an internal control section and did not report on internal controls.	2		X
7.27. Auditors should report conclusions based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary.	Statements of fact in the report were not always supported.	1	X	
7.31. When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. For performance audits, auditors should use a statement that includes either (1) the language in 7.30, modified to indicate the requirements that were not followed or (2) language that the auditor did not follow GAGAS.	Audit organization did not include modified GAGAS statement and did not disclose significant GAGAS departures.	1	X	
7.32. Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions. 7.35. Auditors should also include in the report an evaluation of the comments, as appropriate. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received.	Audit organization did not include views of management and auditor's evaluations of management's views.	1	X	

Appendix G

Peer Review Reports Used in This Summary Report⁷

This appendix shows the peer review reports for each DoD Audit organization that were used for the summary report.

Table G. Peer Review Reports

Organization	Report Title	Date
Air Force Audit Agency*	Opinion Report on the Fiscal Year 2014 External Quality Control Review of the Air Force Audit Agency, and associated Letter of Comments; DODIG Report No. DODIG-2015-049, "Quality Control Review of the Air Force Audit Agency's Special Access Program Audits," December 9, 2014; and Military Department Audit Agencies: System Review Report, April 9, 2015.	January 14, 2015
Army and Air Force Exchange Service	Army & Air Force Exchange Services Audit Division Peer Review, and associated Letter of Comment.	October 10, 2014
Army Audit Agency*	Peer Review Report-Opinion Letter-2014 Peer Review of the Army Audit Agency, and associated Letter of Comments; DODIG Report No. DODIG-2014-117, "Quality Control Review of Army Audit Agency's Special Access Program Audits," September 17, 2014; and Military Department Audit Agencies: System Review Report, April 9, 2015.	March 12, 2015
Defense Commissary Agency	External Peer Review of the Defense Commissary Agency Office of Internal Audit, and associated Letter of Comments.	March 12, 2015
Defense Contract Audit Agency	DCAA Peer Review: System Review Report; and associated Letter of Comments.	August 21, 2014
Defense Contract Management Agency	DODIG Report No. DODIG-2013-065, "Quality Control Review of the Defense Contract Management Agency Internal Review Audit Function."	April 18, 2013
Defense Finance and Accounting Service	DODIG Report No. DODIG-2015-043, "Quality Control Review of the Defense Finance and Accounting Service Internal Audit Organization."	December 1, 2014
Defense Information Systems Agency	DODIG Report No. DODIG-2015-099, "Quality Control Review of the Defense Information Systems Agency Audit Organization."	March 23, 2015
Defense Intelligence Agency	DODIG Report No. DODIG-2015-084, "Quality Control Review of the Defense Intelligence Agency, Office of Inspector General, Audit Division."	February 26, 2015

Footnotes used throughout Table G are defined on the final page of Appendix G.

⁷ Some DoD audit organizations have multiple documents supporting their peer review. All documents shown in this table, for each respective agency, are applicable to the agency's most current peer review.

Table G. Peer Review Reports (cont'd)

Organization	Report Title	Date
Defense Logistics Agency	DODIG Report No. DODIG-2015-054, "Quality Control Review of the Defense Logistics Agency Audit Organization."	December 19, 2014
DoD Office of the Deputy Inspector General for Auditing	DODIG Peer Review: System Review Report and Letter of Comments.	November 12, 2012
Marine Corps Non-Appropriated Funds Audit Service	External Peer Review System Review Report and Letter of Comment of the Marine Corps Non-Appropriated Funds Audit Service.	April 1, 2013
Missile Defense Agency	DODIG Report No. DODIG-2015-123, "External Peer Review Report on the Missile Defense Agency Office of Internal Review," and associated Letter of Comments.	May 14, 2015
National Geospatial-Intelligence Agency	Opinion Report on the External Quality Control Review of the National Geospatial-Intelligence Agency, Office of Inspector General, Audit Division; and associated Letter of Comment.	June 26, 2015
National Reconnaissance Office	Report on the External Quality Control Review of the National Reconnaissance Office of the Inspector General Audit Staff.	April 15, 2014
National Security Agency	External Quality Control Review of the Audit Operations, Office of Inspector General, National Security Agency.	February 27, 2013
Naval Audit Service*	Opinion Report on the Fiscal Year 2014 External Quality Control Peer Review of the Naval Audit Service; and associated Letter of Comments; and Military Department Audit Agencies: System Review Report, April 9, 2015.	September 29, 2014
Navy Exchange Service Command	Navy Exchange Service Command, Office of Internal Audit, System Review Report; and associated Letter of Comment.	October 28, 2014
United States Special Operations Command	External Quality Control Review of Audit Operations, Office of the Inspector General, United States Operations Command.	July 18, 2014

* The three Military Department audit agencies have a combined oversight report from the DoD OIG showing the DoD OIG's monitoring of the peer review process and results among them.

Acronyms and Abbreviations

- AICPA** American Institute of Certified Public Accountants
- CIGIE** Council of Inspectors General on Integrity and Efficiency
- CPE** Continuing Professional Education
- GAGAS** Generally Accepted Government Auditing Standards
- GAS** Government Auditing Standard
- SAS** Statements on Auditing Standards

Whistleblower Protection

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The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

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