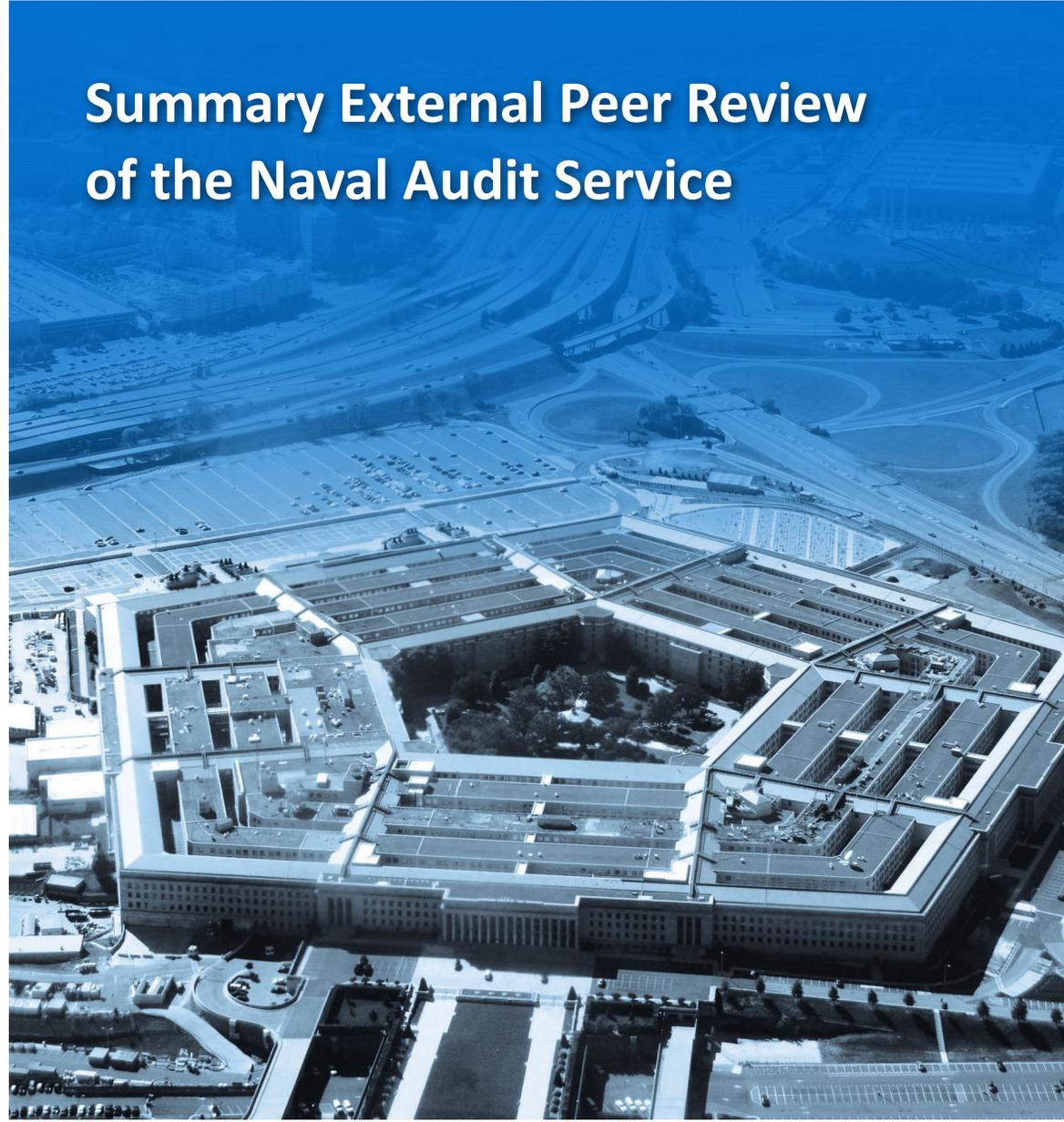


INSPECTOR GENERAL

U.S. Department of Defense

JUNE 28, 2023



Summary External Peer Review of the Naval Audit Service

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





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

June 28, 2023

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Summary External Peer Review of the Naval Audit Service
(Report No. DODIG-2023-091)

Attached is the Summary System Review Report on the external peer review (peer review) of the Naval Audit Service. We are providing this final report for your information and use. It combines the results of the Air Force Audit Agency's peer review of the Naval Audit Service for non-Special Access Program (SAP) projects, and our peer review of SAP projects to make a summary assessment on the system of quality control for the Naval Audit Service. We provided a discussion draft of this report to the Auditor General of the Department of the Navy, who agreed with the findings. Because we are not making any recommendations, we do not require additional comments from the Naval Audit Service. Therefore, we are publishing this as a final report.

We conducted this peer review in accordance with Government Auditing Standards and 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 Enclosure of the report identifies the scope and methodology.

We appreciate the cooperation and assistance we received during the peer review. If you have any questions or would like to meet to discuss the peer review, please contact [REDACTED]

FOR THE INSPECTOR GENERAL:

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned below the text "FOR THE INSPECTOR GENERAL:". The signature is fluid and cursive.

Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight

Enclosure
As stated





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

June 28, 2023

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE NAVY

SUBJECT: Summary System Review Report on the External Peer Review of the Naval Audit Service (Report No. DODIG-2023-091)

We compiled the results of the Air Force Audit Agency’s (AFAA) peer review of the Naval Audit Service for non-Special Access Program (SAP) projects, and our peer review of SAP projects to make a summary assessment on the system of quality control for the Naval Audit Service.¹ Table 1 identifies the coverage and review periods for the two peer reviews.

Table 1. Coverage and Review Periods for the AFAA and DoD OIG Peer Reviews

Peer Review Team	Coverage	Review Period	
		From	Through
AFAA	Non-SAP Projects	January 1, 2019	December 31, 2021 ¹
DoD OIG	SAP Projects	April 20, 2018	December 31, 2021 ²

¹ Although the AFAA peer review covered the 3-year period from January 1, 2019, through December 31, 2021, the AFAA reviewed reports the Naval Audit Services issued during the 1-year period ended on December 31, 2021.

² We expanded the scope of our peer review beyond the standard 3-year review period to select a Naval Audit Service SAP audit report that the Naval Audit Service issued on April 20, 2018. This was the only SAP report issued from April 20, 2018, through December 31, 2021.

Source: The DoD OIG.

A system of quality control encompasses the Naval Audit Service’s audit organization structure, adopted policies, and procedures established to provide the organization with reasonable assurance of conforming in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The elements of quality control are described in Government Auditing Standards.

In our opinion, except for the deficiency identified in this report, the system of quality control for the Naval Audit Service in effect for the periods identified above, has been suitably designed and complied with to provide the Naval Audit Service with reasonable assurance of performing and reporting in conformity in all material respects with Government Auditing Standards and applicable legal and regulatory requirements.

¹ The types of projects the AFAA and we reviewed at the Naval Audit Service included performance audits, an attestation engagement, a terminated audit, and nonaudit services. The projects were reviewed to test for conformity with Government Auditing Standards and compliance with Naval Audit Service’s system of quality control. In this summary report, where necessary, we have specified the type of project that was reviewed.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The AFAA issued a rating of *pass with a deficiency* on the Naval Audit Service system of quality control for non-SAP projects.² We also issued a rating of *pass with a deficiency* on the Naval Audit Service system of quality control for SAP projects because the same deficiency the AFAA identified applied to Naval Audit Service SAP projects as well.³ Therefore, the Naval Audit Service has received a summary rating of *pass with a deficiency*.

The summary rating of *pass with a deficiency* is based on the AFAA's and our assessment of the design of Naval Audit Service's system of quality control, and the extent of compliance with Government Auditing Standards and Naval Audit Service policies and procedures. We considered the nature, pervasiveness, and relative importance of the deficiency that the AFAA and we identified during the peer reviews and the extent of compliance with Government Auditing Standards taken as a whole. The deficiency could create a situation in which the Naval Audit Service would not have reasonable assurance of performing or reporting non-SAP and SAP projects in conformity with applicable professional standards in one or more important respects. The deficiency we identified does not rise to the level of a significant deficiency as defined in the Council of the Inspectors General on Integrity and Efficiency (CIGIE), "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General," which is required to support a *fail* rating.⁴ Therefore, we concluded that a summary rating of *pass with a deficiency* was appropriate for the Naval Audit Service's system of quality control.

Letters of Comment

The AFAA issued a Letter of Comment to the Naval Audit Service on November 17, 2022, and we issued a Letter of Comment to the Naval Audit Service on April 14, 2023. The Letters of Comment set forth findings that we did not consider to be of sufficient significance to affect our summary opinion expressed in this summary System Review Report of the Naval Audit Service.

Basis of Opinion

The AFAA and we conducted both peer reviews in accordance with Government Auditing Standards and the CIGIE, "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General," September 2014 and March 2020.

² Air Force Audit Agency Report, "System Review Report on the 2021 External Quality Control Peer Review of the Naval Audit Service (Project F2022-A13000-0333.000)," November 17, 2022.

³ DoD OIG Report No. DODIG-2023-065, "External Peer Review of Naval Audit Service Special Access Program Audits," April 14, 2023.

⁴ CIGIE, "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General," March 2020 revision. The CIGIE Guide defines a significant deficiency as one or more deficiencies that result in the system of quality control not providing the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. According to the CIGIE Guide, only peer reviews that identify one or more significant deficiencies result in a *fail* rating.

In performing the two peer reviews, the AFAA and we interviewed Naval Audit Service personnel and obtained an understanding of the nature of the design of the Naval Audit Service's system of quality control sufficient to assess the risks implicit in its audit functions. Based on the assessments, the AFAA and we nonstatistically selected projects to test for conformity with Government Auditing Standards and compliance with the Naval Audit Service's system of quality control. Specifically, the AFAA nonstatistically selected the following non-SAP projects that the Naval Audit Service completed or terminated from January 1, 2020, through December 31, 2021:

- 4 of 21 performance audits,
- 1 of 6 attestation engagements,
- 1 of 6 terminated audits, and
- 1 of 15 nonaudit services.⁵

We reviewed the one SAP performance audit that the Naval Audit Service completed on April 20, 2018.⁶ The Naval Audit Service did not complete or terminate any additional SAP projects during the remainder of our review period from April 21, 2018, through December 31, 2021.

The AFAA and we performed tests of the quality control policies and procedures by applying the appropriate CIGIE Guide checklist and the Naval Audit Service policies and procedures to the projects reviewed. The AFAA and our reviews were based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance.

The AFAA and we met with Naval Audit Service representatives to discuss the results of both peer reviews. We also advised the Naval Audit Service of the summary opinion expressed in this report. We believe the procedures that the AFAA and we performed provide a reasonable basis for our summary opinion.

Responsibilities and Limitation

The Naval Audit Service is responsible for establishing and maintaining a system of quality control designed to provide the Naval Audit Service with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility is to express a summary opinion on the design of the system of quality control and the Naval Audit Service's compliance based on the peer reviews that the AFAA and we conducted.

⁵ The AFAA conducted its review using the Government Accountability Office's, "Government Auditing Standards," July 2018 (Updated, April 2021) revision, which applies to performance audits conducted on or after July 1, 2019, and attestation engagements that covered the period ended on or after June 30, 2020.

⁶ We conducted our review of the SAP audit using the Government Accountability Office's, "Government Auditing Standards," December 2011 revision, which applied to performance audits that began from December 15, 2011, through June 30, 2019.

Inherent limitations exist in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. The projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Deficiency. The Independence of the Auditor General of the Navy Was Structurally Compromised

In its November 2022 System Review Report of Naval Audit Service for non-SAP projects, the AFAA reported that the independence of the Auditor General of the Navy (Auditor General) was structurally compromised from October 1, 2019, through September 30, 2021.⁷ As part of our peer review of SAP projects, we concluded that this structural independence deficiency also affected SAP projects because the Naval Audit Service's Special Projects Directorate, which is responsible for performing SAP projects, reports to the Auditor General.⁸

GAS 3.56 of the 2018 revision to Government Auditing Standards states that government internal auditors who work under the direction of the audited entity's management are considered structurally independent for the purposes of reporting internally, if the head of the audit organization:

- is accountable to the head or deputy head of the government entity or to those charged with governance;
- reports the engagement results to both the head or deputy head of the government entity and to those charged with governance;
- is organizationally located outside the staff or line management function of the unit under audit;
- has access to those charged with governance; and
- is sufficiently removed from pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal.⁹

In addition, Secretary of the Navy Instruction 7510.7G CH-1 states:

Whenever the position of the Under Secretary is vacant, the Auditor General of the Navy reports to the Secretary of the Navy. Within the Department of the Navy (DON), only the Secretary of the Navy and the Under Secretary of the Navy may provide direction to the Naval Audit Service.¹⁰

⁷ Air Force Audit Agency Report, "System Review Report on the 2021 External Quality Control Peer Review of the Naval Audit Service (Project F2022-A13000-0333.000)," November 17, 2022.

⁸ DoD OIG Report No. DODIG -2023-065, "External Peer Review of Naval Audit Service Special Access Program Audits," April 14, 2023.

⁹ The Secretary of the Navy serves as the head, and the Under Secretary of the Navy serves as the deputy head, of the Navy.

¹⁰ Secretary of the Navy Instruction 7510.7G CH-1, "Department of the Navy Internal Audit," April 18, 2018.

Enclosure

Scope and Methodology

The AFAA conducted its peer review of the Naval Audit Service non-SAP projects from December 2021 through July 2022. We conducted our peer review of Naval Audit Service SAP projects from March 2022 through March 2023. The AFAA and we conducted the peer reviews in accordance with Government Auditing Standards and the CIGIE, “Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General,” September 2014 and March 2020 revisions.¹¹ These standards require that the AFAA and we obtain an understanding of the audit organization’s system of quality control and conclude whether the:

- system is designed appropriately to ensure compliance with Government Auditing Standards, and
- audit organization is complying with Government Auditing Standards and internal policies and procedures.

As part of the AFAA’s peer review, the AFAA selected seven non-SAP projects completed from January 1, 2020, through December 31, 2021, consisting of:

- 4 of 21 performance audits,
- 1 of 6 attestation engagements,
- 1 of 6 terminated audits, and
- 1 of 15 nonaudit services.

Our peer review of SAP projects covered the period from April 20, 2018, through December 31, 2021. We expanded the scope of our peer review beyond the standard 3-year review period to select a Naval Audit Service SAP performance audit that the Naval Audit Service completed on April 20, 2018. This was the only SAP project completed from April 20, 2018, through December 31, 2021.

We performed oversight procedures to assess the adequacy of the AFAA’s review results and to ensure that CIGIE guidelines were consistently applied. We attended meetings and reviewed the memorandum of understanding between the AFAA and the Naval Audit Service. We also reviewed the point papers and the CIGIE Guide checklists the AFAA prepared to enable us to rely on the conclusions and findings that the AFAA reported.

¹¹ We used CIGIE Guide Appendix E, September 2014 revision, to review the Naval Audit Service SAP performance audit and CIGIE Guide Appendix B, March 2020 revision, to assess Naval Audit Service compliance with Government Auditing Standards on independence, competence and continuing professional education, and quality control and peer review. The AFAA used CIGIE Guide, March 2020 revision, to conduct its peer review of Naval Audit Service non-SAP projects.

The AFAA's "System Review Report on the 2021 External Quality Control Peer Review of the Naval Audit Service (Project F2022-A13000-0333.000)," November 17, 2022, reflects a *pass with a deficiency* rating on the Naval Audit Service's system of quality control for non-SAP projects. The AFAA identified a deficiency in the area of independence. See the Deficiency in this System Review Report for additional details. The AFAA's November 2022 Letter of Comment identifies 10 findings in the areas of supervisory review, continuing professional education (CPE) documentation, reporting, and engagement planning. We determined that the 10 findings were not significant enough to affect the summary opinion on the Naval Audit Service system of quality control provided in this System Review Report.

As detailed in the following sections, the AFAA and we used the appendixes and procedures in the CIGIE Guide to conduct the peer reviews of non-SAP and SAP projects.

Policies and Procedures (CIGIE Guide Appendix A)

The AFAA reviewed the Naval Audit Service's policies and procedures to determine whether they complied with Government Auditing Standards. The Naval Audit Service uses the same audit policies and procedures for both SAP and non-SAP projects. The AFAA requested that the Naval Audit Service complete Column 1 of CIGIE Guide Appendix A, "Policies and Procedures," and provide a copy of its relevant policies and procedures. In Column 2 of CIGIE Guide Appendix A, the AFAA recorded its conclusions on the policies and procedures of the Naval Audit Service for compliance with Government Auditing Standards. We reviewed the AFAA's assessment of Naval Audit Service policies and procedures and determined that we could rely on the AFAA's conclusions.

In its November 2022 Letter of Comment on non-SAP projects, the AFAA identified the following four areas where the Naval Audit Service should improve its policies and procedures.

- **Financial Audits.** Require auditors to document the process they followed and conclusions they reached for identifying appropriate individuals to receive required communication when those charged with governance is not clearly evident.
- **Attestation Engagements.** Require auditors to document the suitability, reliability, expectation, and explanation for differences identified during the various stages of testing.
- **Examination Engagements.** Require auditors to develop an engagement plan that includes a description of the nature, timing, and extent of the planned risk assessment and testing steps.

- **Examination Engagements.** Require auditors to document the process they followed and conclusions they reached for identifying appropriate individuals to receive required communication when those charged with governance is not clearly evident.

The Naval Audit Service agreed to make the improvements. We did not identify additional areas for improving the policies and procedures. Therefore, we did not have additional recommendations for the policies and procedures.

Checklist for the Standards of Independence, Competence and Continuing Professional Education, and Quality Control and Peer Review (CIGIE Guide Appendix B)

As detailed below, the AFAA and we used CIGIE Guide Appendix B to test the Naval Audit Service's compliance with Government Auditing Standards' general standards. The general standards consist of independence, competence and continuing professional education, and quality control and peer review.

The AFAA Review of Adherence to General Standards for Non-Special Access Program Projects

The AFAA reviewed documentation of independence to determine whether the Naval Audit Service met Government Auditing Standards' requirements for independence. The AFAA concluded that the independence of the Auditor General was structurally compromised from October 1, 2019, through September 30, 2021. See the Deficiency in this report for additional details.

The AFAA interviewed 31 of 39 auditors to determine their understanding of, and compliance with, Government Auditing Standards and Naval Audit Service quality control policies and procedures. Based on the interview results, the AFAA concluded that the auditors are competent and have an adequate understanding of Government Auditing Standards and Naval Audit Service policies and procedures.

The AFAA also reviewed the CPE documentation for 46 of 151 Naval Audit Service randomly sampled auditors for the most recently completed CPE reporting period to determine whether they obtained the CPE hours required by Government Auditing Standards.¹² The Naval Audit Service's most recently completed CPE reporting cycle covered October 1, 2019, through December 31, 2020. In its November 2022 Letter of Comment, the AFAA reported that 1 of the 46 sampled Naval Audit Service auditors did not meet the Government Auditing Standards

¹² Initially, the AFAA randomly sampled 47 Naval Audit Service personnel, but excluded one of the personnel because they were on extended leave.

24-hour CPE requirement. The AFAA recommended that the Naval Audit Service correct the CPE deficiency for the auditor based on the guidance included in the Government Accountability Office's COVID-19 CPE Alert.¹³

Finally, the AFAA reviewed one of two internal quality assurance reviews that the Naval Audit Service completed during the 3-year period ended December 31, 2021, to determine whether the Naval Audit Service complied with the monitoring of quality procedures required by Government Auditing Standards.¹⁴ The AFAA concluded that the Naval Audit Service complied with Government Auditing Standards for monitoring of quality procedures.

The DoD OIG Review of Adherence to General Standards for Special Access Program Projects

We determined that the structural independence deficiency identified by the AFAA also affected the Naval Audit Service system of quality control for SAP projects because the Naval Audit Service's Special Projects Directorate, which is responsible for performing SAP projects, reports to the Auditor General. See the Deficiency of this report for additional details.

We conducted interviews with three of the six auditors assigned to the Naval Audit Service's Special Projects Directorate as of April 21, 2022. We did not interview the remaining three auditors because the AFAA had already interviewed them during its peer review of non-SAP projects. We interviewed the three auditors to determine their understanding of, and compliance with, Government Auditing Standards and Naval Audit Service quality control policies and procedures. We concluded that the auditors are competent and have an adequate understanding of Government Auditing Standards and Naval Audit Service policies and procedures.

We also reviewed the CPE documentation for five of the six auditors assigned to the Naval Audit Service's Special Projects Directorate for Naval Audit Service's CPE reporting period. The AFAA reviewed the CPE documentation for the remaining auditor as part of its review of Naval Audit Service non-SAP projects. We concluded that the five auditors met the CPE hours required by Government Auditing Standards.

The Naval Audit Service did not perform an internal quality control review of SAP projects from April 20, 2018, through December 31, 2021, because only one SAP audit was completed and Naval Audit Service personnel did not have the

¹³ The Government Accountability Office issued a COVID-19 CPE Alert that allowed auditors additional time and flexibility to complete the required Government Auditing Standards CPE hours during the COVID-19 pandemic. The CPE alert became effective on February 29, 2020.

¹⁴ The AFAA reviewed Naval Audit Service Report No. Q2021-0001, "Quality Control Review of Audit Supervision."

ability to access audit documentation maintained in the Sensitive Compartmented Information facility during the coronavirus disease–2019 (COVID-19) pandemic.¹⁵ Based on our consideration of these circumstances, we determined that the Naval Audit Service met Government Auditing Standards requirements for the monitoring of quality procedures associated with SAP projects.

Checklist for Review of Attestation Engagements (CIGIE Guide Appendix D3)

From January 1, 2020, through December 31, 2021, the Naval Audit Service conducted six non-SAP attestation engagements. The AFAA non-statistically selected one non-SAP attestation engagement to assess the Naval Audit Service’s compliance with the 2018 revision to Government Auditing Standards using Appendix D3 of the CIGIE Guide.¹⁶ The AFAA concluded that the non-SAP attestation engagement complied with Government Auditing Standards. The Naval Audit Service did not conduct any SAP attestation engagements from April 20, 2018, through December 31, 2021.

Checklist for Review of Performance Audits (CIGIE Guide Appendix E)

From January 1, 2020, through December 31, 2021, the Naval Audit Service completed 21 non-SAP performance audits. The AFAA nonstatistically selected four performance audits to assess the Naval Audit Service’s compliance with the 2018 revision to Government Auditing Standards using Appendix E of the CIGIE Guide. Table 2 identifies the non-SAP performance audits that the AFAA reviewed.

Table 2. Naval Audit Service Non-SAP Performance Audits that the AFAA Reviewed

Report Number	Report Title
N2022-0008	Follow-up on United States Marine Corps Financial Data for Operation Freedom’s Sentinel
N2022-0009	United States Marine Corps Advertising and Marketing Program
N2022-0034	Cyber Security Oversight of Defense Industrial Base (DIB) Unclassified
N2022-0005	Time and Attendance at Railhead Marine Corps Exchange

Source: The AFAA.

¹⁵ COVID-19 is an infectious disease that can cause a wide spectrum of symptoms. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. A pandemic is a global outbreak of a disease that can infect people and spread between people sustainably. On March 13, 2020, the President of the United States declared the COVID-19 outbreak an emergency.

¹⁶ The AFAA reviewed Naval Audit Service Report No. X2021-002, “Agreed-Upon Procedures for Internal Controls Around Existence and Completeness of Navy Vessels (Ships and Submarines).”

The AFAA determined that the Naval Audit Service auditors did not comply with Government Auditing Standards and its system of quality control. In its November 2022 Letter of Comment, the AFAA identified the following two findings.

- **Supervision.** For two of the four projects, the supervisor did not sign 11 working papers indicating their review and approval. The AFAA recommended the Naval Audit Service re-emphasize the requirements for supervisory review of documentation.
- **Reporting Standards – Report Content.** For one of two projects, the AFAA determined that the auditors did not explain the relationship between the total population and the items sampled for review. The AFAA recommended that the Naval Audit Service re-emphasize Government Auditing Standards and Naval Audit Handbook requirements for clearly describing the relationship between the review sample and the total population.

The Naval Audit Service agreed to take corrective action in response to the recommendations.

From April 20, 2018, through December 31, 2021, the Naval Audit Service completed one SAP performance audit. The Naval Audit Service conducted the audit while the December 2011 revision to Government Auditing Standards was in effect. We reviewed the audit for compliance with Government Auditing Standards using Appendix E of the CIGIE Guide. In our April 2023 Letter of Comment on SAP projects, we identified that the Naval Audit Service auditors did not comply with Government Auditing Standards’ independence documentation requirements and Naval Audit Service policies and procedures. We recommended that the Auditor General issue a memorandum to SAP auditors reminding them to document independence considerations and the impact that a threat to independence can have on the audit. The Naval Audit Service agreed to take corrective action in response to the recommendation. On April 27, 2023, the Auditor General of the Navy issued a memorandum that reminds all Naval Audit Service auditors to document independence considerations and the impact a threat to independence can have on an audit and the auditors’ conclusions.

Terminated Audit (CIGIE Risk Assessment Procedure)

From January 1, 2020, through December 31, 2021, the Naval Audit Service terminated six non-SAP audits. The AFAA selected one non-SAP terminated audit for its review, the “Cybersecurity Oversight of Controlled Unclassified Information Shared With Defense Industrial Base Partners – Naval Information Warfare Systems Command.” The AFAA reviewed the Naval Audit Services’ audit documentation for the terminated project to determine whether the

Naval Audit Service complied with Government Auditing Standards requirements for documenting the results of the work to date of the termination and the reason why the auditors terminated the audit. The AFAA determined that the Naval Audit Service auditors complied with Government Auditing Standards for terminating audits. The Naval Audit Service did not terminate any SAP audits from April 20, 2018, through December 31, 2021.

Nonaudit Services Performed by the Naval Audit Service

From January 1, 2020, through December 31, 2021, the Naval Audit Service performed 15 nonaudit services. The AFAA selected one nonaudit service for its review, Report No. A2021-0008, "Naval Criminal Investigative Service Assist at Marine Forces Reserve Commercial Bus Transportation." The AFAA reviewed the working papers for the nonaudit service to determine whether the Naval Audit Service complied with the 2018 revision to Government Auditing Standards. The AFAA determined that the Naval Audit Service auditors did not comply with Government Auditing Standards. In its November 2022 Letter of Comment on non-SAP projects, the AFAA identified the following findings.

- **Planning-Independence.** The AFAA determined that the Naval Audit Service did not document the impact of the nonaudit service on other work performed in the working papers, as required by Government Auditing Standards. The AFAA recommended the Naval Audit Service establish controls to verify that auditors document compliance with Government Auditing Standards independence requirements for nonaudit services.
- **Planning-Assessment of Designee Suitability.** The AFAA determined that the Naval Audit Service did not document an assessment of the suitability of the designated client representative for the nonaudit services as required by Government Auditing Standards. The AFAA recommended the Naval Audit Service emphasize the Government Auditing Standards requirement that the auditor document their assessment.

The Naval Audit Service agreed to take corrective action in response to the recommendations. The Naval Audit Service did not perform any SAP nonaudit services from April 20, 2018, through December 31, 2021.

Use of Computer-Processed Data

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

Prior Coverage

During the last 5 years, the DoD OIG issued one report, the AFAA issued two reports, and the Army Audit Agency issued one report discussing peer reviews of the Naval Audit Service. Unrestricted DoD OIG reports can be accessed at www.dodig.mil/reports.html/. Unrestricted AFAA reports can be accessed from <https://www.afaaf.af.mil/> by clicking on Freedom of Information Act Reading Room and then selecting audit reports. Unrestricted Army Audit Agency reports can be accessed from .mil and gao.gov domains at <https://www.army.mil/aaa>.

DoD OIG

Report No. DODIG-2023-065, “External Peer Review of Naval Audit Service Special Access Program Projects,” April 14, 2023

The DoD OIG evaluated whether the Naval Audit Service quality control system over SAP projects from April 20, 2018, through December 31, 2021, was suitably designed and complied with to provide it with reasonable assurance of performing and conformity in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The DoD OIG issued a peer review rating of *pass with a deficiency*.

The DoD OIG also issued a Letter of Comment on April 14, 2023, which identified a finding involving independence documentation of a SAP audit that we did not consider significant enough to affect the opinion expressed in the April 14, 2023 System Review Report.

Air Force Audit Agency

System Review Report on the 2021 External Quality Control Peer Review of the Naval Audit Service (Project F2022-A13000-0333.000), November 17, 2022

The AFAA conducted an external peer review of the Naval Audit Service for the 3-year period ended December 31, 2021, to determine whether the quality control system for the Naval Audit Service provided it reasonable assurance of conforming in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The AFAA issued a peer review rating of *pass with a deficiency* for Naval Audit Service non-SAP projects.

The AFAA also issued a Letter of Comment on November 17, 2022, which identified findings that the AFAA did not consider significant enough to affect the opinion expressed in the November 17, 2022 System Review Report.

System Review Report on the 2018 Off-Cycle External Quality Control Peer Review of the Naval Audit Service, December 2, 2019

The AFAA conducted an external peer review of the Naval Audit Service for the year ended December 31, 2018, to determine whether the quality control system for the Naval Audit Service provided it reasonable assurance of conforming in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The AFAA issued a peer review rating of *pass* to the Naval Audit Service.

The AFAA also issued a Letter of Comments on December 2, 2019, which identified findings that the AFAA did not consider significant enough to affect the opinion expressed in the December 2, 2019 System Review Report.

Army Audit Agency

System Review Report on the External Peer Review of the Naval Audit Service (Project A-2018-ALC-0127.000), Report A-2018-0070-ALC, July 12, 2018

The Army Audit Agency conducted an external peer review of the Naval Audit Service for the 3-year period ended December 31, 2017, to determine whether the quality control system for the Naval Audit Service provided it reasonable assurance of conforming with Government Auditing Standards. The Army Audit Agency issued a peer review rating of *fail* to the Naval Audit Service.

The Army Audit Agency also issued a Letter of Comments on September 18, 2018, which identified findings that the Army Audit Agency did not consider significant enough to affect the opinion expressed in the July 12, 2018 System Review Report.

Acronyms and Abbreviations

- AFAA** Air Force Audit Agency
- CIGIE** Council of the Inspectors General on Integrity and Efficiency
 - CPE** Continuing Professional Education
 - GAS** Government Auditing Standards
 - SAP** Special Access Program



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