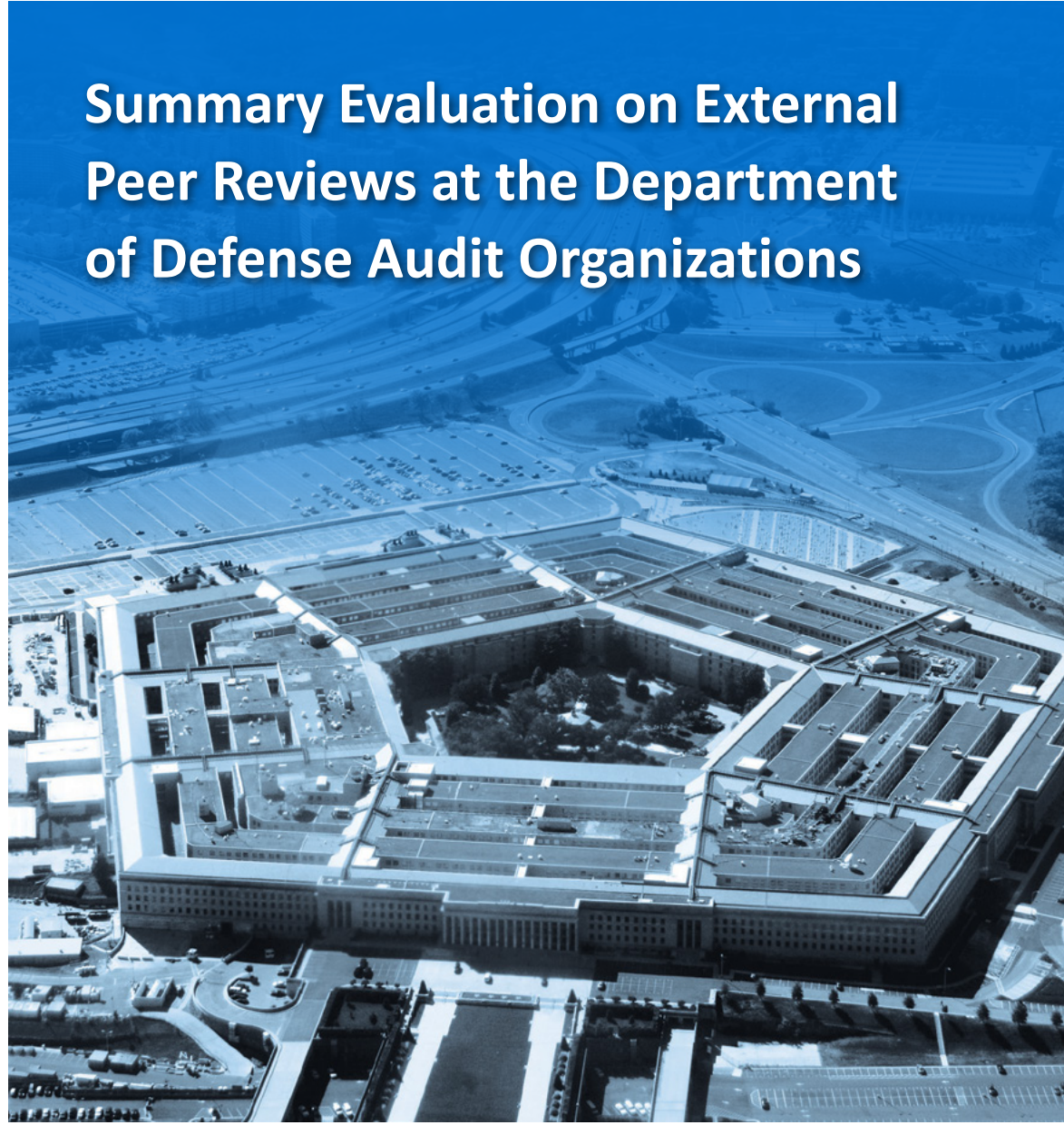




# INSPECTOR GENERAL

*U.S. Department of Defense*

JUNE 11, 2020



## Summary Evaluation on External Peer Reviews at the Department of Defense Audit Organizations

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE







# Results in Brief

## *Summary Evaluation on External Peer Reviews at the Department of Defense Audit Organizations*

**June 11, 2020**

### **Objective**

The objective of this evaluation was to identify and summarize systemic deficiencies reported during the most recent cycle of peer reviews of DoD audit organizations and determine whether improvements were made since the last summary report we issued in Report No. DODIG-2016-031, December 14, 2015.

This report covers the most recent cycle of peer review reports on DoD audit organizations issued from April 4, 2017, through January 15, 2020.

### **Observations**

As the Government Auditing Standards require, DoD audit organizations receive a peer review on a 3-year cyclical basis. During a peer review, the review team follows up on previously reported peer review recommendations to determine whether the recommendations were implemented. Common recommendations in peer review reports involve the areas of auditor independence, attestation engagements, nonaudit audit services, planning, supervision, and reporting. The recommendations can serve as lessons learned, providing the audit organizations with an understanding of why deficiencies occurred and highlighting the improvements needed for their quality control systems. The deficiencies presented in this summary report can be corrected when the DoD audit organization implements the peer review team's recommendations. We do not provide additional recommendations in this report.

### **Observations (cont'd)**

Of the 21 audit organizations that were peer reviewed during the most recent cycle, 16 received a rating of pass, 4 received a rating of pass with deficiencies, and 1 received a rating of fail.

Five audit organizations improved their peer review rating since their previous peer review, and one audit organization's peer review rating declined.

Four audit organizations also made improvements in the areas of policies and procedures for nonaudit services. Also, three audit organizations took corrective actions before and during the peer reviews to improve their systems of quality control. Additionally, one audit organization requested an off-cycle peer review to demonstrate that corrective action it took sufficiently addressed a condition which resulted in the audit organization receiving a fail rating during its previous peer review.

We encourage all the DoD audit organizations to prioritize the correction of systemic deficiencies identified in their quality control systems.

### **Best Practices Were Observed During a Peer Review**

A peer review observed best practices at one DoD audit organization and included the best practices in the peer review report. Best practices were observed in the areas of policies and procedures and the areas of training and continuing professional education. Implementing best practices can enhance the audit organization's quality control system or help it correct the deficiencies identified during peer reviews.



# Results in Brief

## *Summary Evaluation on External Peer Reviews at the Department of Defense Audit Organizations*

### Result of the Compilation of Peer Review Report Deficiencies

We compiled the reported deficiencies using the appendixes contained in the Council of the Inspectors General for Integrity and Efficiency “Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General,” which contain the specific requirements established in the *Government Auditing Standards* that are required to be reviewed as part of the peer review.

#### Policies and Procedures

The peer reviews reported policy and procedure deficiencies at three DoD audit organizations in the general standards areas of independence, quality control and assurance, and attestation engagements.

#### Adherence to General Standards

The peer reviews reported deficiencies on adherence to general standards at eight DoD audit organizations in the areas of independence, competence, and quality control and assurance. A common deficiency involved audit organizations not ensuring that auditors maintained their professional competence through continuing professional education. Other common deficiencies involved audit organizations not evaluating independence prior to performing nonaudit services and not documenting their consideration of the audited entity management’s ability to effectively oversee a nonaudit service.

#### Attestation Engagements

The peer reviews reported attestation engagement deficiencies at four DoD audit organizations in the general standards areas of professional judgment and agreed-upon procedures engagements. For example,

two DoD audit organizations did not follow requirements established by the American Institute of Certified Public Accountants and did not include all the required report elements in reports for agreed-upon procedure engagements.

#### Performance Audits

The peer reviews reported performance audit deficiencies at 14 DoD audit organizations involving issues related to independence, professional judgment, planning, evidence and documentation, supervision, reporting, and quality control policies and procedures.

#### Monitoring of Audit Work Performed by an Independent Public Accounting Firm

The peer reviews reported deficiencies at two audit organizations which involved monitoring the audit work performed by an independent public accounting firm. Specifically, the audit organizations’ documentation for the review of the work performed by independent public accounting firms was not prepared in a timely manner.

### Management Comments and Our Response

We do not require a written response to this report.



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

June 11, 2020

**MEMORANDUM FOR DISTRIBUTION**

**SUBJECT:** Summary Evaluation on External Peer Reviews at the Department of Defense  
Audit Organizations (Report No. DODIG-2020-092)

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 summarizes the results of the most recent cycle of peer reviews of the DoD audit organizations and discusses the systemic deficiencies reported. This report contains no recommendations; therefore, written comments are not required.

We conducted this summary evaluation from November 2019 through May 2020 in accordance with the "Quality Standards for Inspections and Evaluations," published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency.

If you have any questions or would like to meet to discuss this evaluation, please contact

[REDACTED]

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned above the printed name.

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

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AND FISCAL DIRECTOR, UNITED STATES MARINE CORPS  
DIRECTOR AND CHIEF EXECUTIVE OFFICE, ARMY AND AIR FORCE EXCHANGE SERVICE  
CHIEF EXECUTIVE OFFICER, NAVAL EXCHANGE SERVICE COMMAND

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# Introduction

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## Objective

The objective of this evaluation was to:

- identify and summarize systemic deficiencies reported during the most recent cycle of peer reviews of the DoD audit organizations, and
- determine whether improvements were made since the results of the last summary evaluation report we issued in 2015 (Report No. DODIG-2016-031).<sup>1</sup>

## Background

Reports for the most recent cycle of peer reviews of the DoD audit organizations were issued from April 4, 2017, through January 15, 2020. A total of 21 audit peer reviews were conducted during this time period. The systemic deficiencies identified in this report can be used by DoD audit organizations as lessons learned and to develop training for improving systems of quality control.

### ***GAS Requires an External Peer Review Every 3 Years***

Government Auditing Standards (GAS) 3.96 and 3.97 state that an external peer review is required of an audit organization that conducted audits in accordance with GAS in the 3 years since its last peer review or since it started its first GAS engagement.<sup>2</sup> The objective of an external peer review is 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 to provide it with reasonable assurance of conforming with applicable standards in all material respects. As part of a peer review, the review team follows up on previously reported peer review recommendations to determine whether they were implemented. The reviewed audit organization receives a rating of pass, pass with deficiencies, or fail.

### ***GAS Requires a System of Quality Control***

GAS 3.82a 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.

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<sup>1</sup> Report No. DODIG-2016-031, "Summary Report on Audit Quality at the DoD Audit Organizations," December 14, 2015.

<sup>2</sup> Government Auditing Standards, 2011 Revision.

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.

***GAS Were Revised in July 2018***

The peer reviews included in this summary evaluation were conducted while the December 2011 revision to the Government Auditing Standards was in effect. In July 2018, the Government Auditing Standards were revised to reinforce the principles of transparency and accountability and strengthen the framework for high quality Government audits.

The July 2018 revision of Government Auditing Standards is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. The July 2018 revision did not impact this summary evaluation.

***The DoD Audit Organizations Received Peer Review Ratings***

Of the 21 DoD audit organizations addressed in this report, 16 received a rating of pass, 4 received a rating of pass with deficiencies, and 1 received a rating of fail. In the previous peer review cycle, 19 DoD audit organizations were peer reviewed. Of the 19 audit organizations, 12 received a rating of pass, 5 received a rating of pass with deficiencies, and 2 received a rating of fail. Two DoD audit organizations were not peer reviewed and therefore were not included in the previous summary report.<sup>3</sup> Table 1 identifies each of the DoD audit organizations and the date of its most recent peer review report.

*Table 1. Most Recent Peer Review Reports for the DoD Audit Organizations*

Organization	Report Title	Report Date
Army Audit Agency	Report No. DODIG-2018-083, “System Review Report on the Army Audit Agency”	March 7, 2018
Air Force Audit Agency	Report No. DODIG-2018-158, “System Review Report on the Air Force Audit Agency’s SpecialAccess Program Audits”	September 28, 2018
	Report No. DODIG-2019-001, “System Review Report on the Air Force Audit Agency”	October 10, 2018
Army and Air Force Exchange Service	Army and Air Force Exchange Service Audit Division System Review Report	October 10, 2017

<sup>3</sup> One audit organization was in the process of converting its personnel from GS-0510 accountants to GS-0511 auditors and, therefore, required time to reestablish itself as an audit organization. Another audit organization was undergoing a peer review at the time we conducted the evaluation.

Table 1. Most Recent Peer Review Reports for the DoD Audit Organizations (cont'd)

Organization	Report Title	Report Date
Army Internal Review Program	Report No. DODIG-2020-050, "System Review Report on the Army Internal Review Program"	January 15, 2020
Defense Commissary Agency	Report No. DODIG-2019-035, "System Review Report on the Defense Commissary Agency Internal Review"	December 13, 2018
Defense Contract Audit Agency	Report No. DODIG-2018-028, "External Peer Review on the Defense Contract Audit Agency System Review Report"	November 17, 2017
Defense Contract Management Agency	Report No. DODIG-2019-003, "System Review Report on the Defense Contract Management Agency Office of the Internal Audit and Inspector General"	October 22, 2018
Defense Finance and Accounting Service	Report No. DODIG-2018-082, "External Peer Review on the Defense Finance and Accounting Service Internal Review Organization"	March 6, 2018
Defense Information Systems Agency	Report No. DODIG-2018-001, "External Peer Review Report on the Defense Information Systems Agency, Office of Inspector General Audit Organization"	October 12, 2017
Defense Intelligence Agency	"Final Report on the External Peer Review of the Defense Intelligence Agency, Office of Inspector General, Audit Staff" (2017-0022-AS)	September 29, 2017
Defense Logistics Agency	Report No. DODIG-2017-086, "External Peer Review Report on the Defense Logistics Agency Audit Organization"	May 30, 2017
DoD Office of Inspector General, Deputy Inspector for Auditing	External Peer Review on the U.S. Department of Defense Office of Inspector General Audit Organization & Letter of Comment	September 27, 2018
Marine Corps Non-appropriated Funds Audit Service	System Review Report & Letter of Comment	May 22, 2019
Missile Defense Agency	Report No. DODIG-2018-114, "System Review Report on the Missile Defense Agency Internal Review Office"	May 10, 2018
National Geospatial-Intelligence Agency	System Review Report on the External Quality Control Review National Geospatial-Intelligence Agency, Office Inspector General, Audit Division & Letter of Comment	February 23, 2018
National Guard Bureau Internal Review Office	Report No. DODIG-2019-052, "System Review Report for the External Peer Review of the National Guard Bureau Internal Review Office"	February 7, 2019

*Table 1. Most Recent Peer Review Reports for the DoD Audit Organizations (cont'd)*

Organization	Report Title	Report Date
Naval Audit Service	System Review Report on the 2018 Off-Cycle External Quality Control Peer Review of the Naval Audit Service & Letter of Comment	December 2, 2019
Navy Exchange Service Command	Navy Exchange Service Command Office of Internal Audit Systems Review Report	April 4, 2017
National Reconnaissance Office	Final Report on the External Peer Review of the National Reconnaissance Office, Office of Inspector General (2017-0002-AS) & Letter of Comment	June 15, 2017
National Security Agency	External Peer Review Formal Draft Report on the NSA Office of Inspector General Audit Organization, Project No 2018-1005	September 25, 2018
United States Special Operations Command	Report No. DODIG-2019-102, "System Review Report of the United States Special Operations Command, Office of the Inspector General, Audit Division"	June 26, 2019

### ***The National Defense Authorization Act of 2013 Requires That the DoD OIG Conduct or Approve Arrangements of Peer Reviews***

The National Defense Authorization Act of 2013 updated the Inspector General Act of 1978, as amended, to include a requirement that the DoD OIG conduct or approve the arrangements for the conduct of external peer reviews of audit organizations in the DoD.

### ***The Council of the Inspectors General on Integrity and Efficiency Classifies Peer Review Conditions***

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" (the Guide) provides definitions for classifying the conditions noted during a peer review.<sup>4</sup> Determining the relative importance of conditions identified, individually or combined with others, requires professional judgment.

<sup>4</sup> CIGIE "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General," September 2014.

The conditions included in the 21 peer review reports were classified as either a finding, deficiency, or significant deficiency. We use the term deficiencies in this report to refer to all three conditions. The Guide's definitions for a finding, deficiency, and significant deficiency are as follows.

- "A finding is one or more related matters that result from a condition such that there is more than a remote possibility that the reviewed audit organization would not perform and/or report in conformity with applicable professional standards. The review team will conclude whether one or more findings will rise to the level of deficiency or significant deficiency or do not rise to either level."
- "A deficiency is one or more findings that the review team has concluded could create a situation in which the organization would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. The review team assesses the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the audit organization's system of quality control taken as a whole."
- "A significant deficiency is one or more deficiencies that the review team has concluded results from a condition in the system of quality control or compliance with the system of quality control. As such, the audit organization's system of quality control taken as a whole does not provide the organization with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects."

### ***Letters of Comment Include Findings That Do Not Impact the Peer Review Rating***

A peer review team issues a Letter of Comment if it has findings that are not sufficiently significant enough to affect the report rating. The Letter of Comment also includes any findings that involve a noncompliance with the reviewed audit organization's policies and procedures or the reviewed audit organization's independent public accountant (IPA) monitoring activities. The Letter of Comment provides descriptions of the findings and makes recommendations for the reviewed audit organization to take appropriate actions. Of the 21 DoD audit organizations, 16 Letters of Comment were issued with the peer review report.



## ***This Report Details the Results of Our Summary Evaluation in Two Parts***

Part A of our report summarizes the findings and deficiencies reported during the most recent cycle of peer reviews of the DoD audit organizations. We did not discuss every deficiency in the body of this report. Instead, we chose to summarize the systemic deficiencies that were most prevalent.

We have structured Part A to align with the appendixes contained in the Guide. The appendixes included in the Guide provide the audit organizations with review procedures and checklists to ensure that peer reviews are conducted in a consistent manner. All the DoD audit organizations use the Guide to conduct peer reviews.

We compiled the deficiencies into categories that align with the Guide's appendixes:

- Policies and Procedures (Appendix A of the Guide),
- Adherence to General Standards (Appendix B of the Guide),
- Attestation Engagements (Appendix D of the Guide),
- Performance Audits (Appendix E of the Guide), and
- Monitoring Audit Work Performed by an Independent Public Accountant Firm (Appendix F of the Guide).

We did not use Appendix C of the Guide, "Checklist for Review of Financial Audits," because the DoD audit organizations that were peer reviewed and summarized in this report did not perform financial audits.

Part B of our report discusses improvements made by the DoD audit organizations since the previous peer review summary evaluation. This includes improvements in the audit organizations' system of quality control and the audit organization's compliance with the established system, best practices observed during the peer reviews, and lessons learned and opportunities for improvement.

## Part A: Deficiencies Reported During the Most Recent Cycle of Peer Reviews of the DoD Audit Organizations

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### Policies and Procedures

Peer review teams identified deficiencies related to three audit organizations' policies and procedures from April 2017 to January 2020. The review teams reported the deficiencies because the audit organizations' policies and procedures did not contain guidance to provide the audit organization with reasonable assurance of compliance with GAS. The policies and procedures did not include guidance for the following standards:

- General Standards – 3 of the 21 organizations, and
- Standards for Attestation Engagements – 3 of the 21 organizations.

According to GAS 3.85, 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.

Appendix B of this report, "Peer Review Deficiencies Identified for Policies and Procedures," identifies the deficiencies found in the peer review reports applicable to CIGIE Guide Appendix A, "Policies and Procedures." In addition, Appendix B identifies the number of DoD audit organizations affected for each deficiency and whether the deficiency was reported in the System Review Report or Letter of Comment.

### ***Three Audit Organizations Had Policies and Procedures Related to the General Standards That Needed Improvement, Were Not Finalized, or Were Not Adequate***

Three audit organizations had policies and procedures related to the general standards that needed improvement, were not finalized, or were not adequate. The general standards contain guidance on independence, professional judgment, competence, and quality control and assurance. The general standards are 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. At one of the three audit organizations, deficiencies were identified in two areas: independence and quality control and assurance.

### ***One Audit Organization's Independence Policies and Procedures Needed Improvement***

One audit organization's independence policies and procedures needed improvement. Specifically, the audit organization did not revise its policies and procedures to address two recommendations from its previous peer review. The policies and procedures did not address the GAS procedural requirements requiring safeguards to mitigate threats to independence that are recognized before and after the audit report is issued. GAS 3.16 states that safeguards are controls designed to eliminate or reduce threats to independence to an acceptable level. The auditor applies safeguards that address the specific facts and circumstances under which threats to independence exist. Also, GAS 3.26 states that if a threat to independence is initially identified after the auditor's report is issued, the auditor should evaluate the threat's impact on the audit and on GAS compliance.

In addition, the audit organization did not implement a policy to ensure that all personnel who conduct, edit, review, approve, direct, or publish an audit report comply with GAS independence standards. During the previous peer review, the review team found that independence statements were not included in the project files for all audit team members. GAS 3.59 states that documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements.

### ***Three Audit Organizations Had Quality Control and Assurance Policies and Procedures That Were Not Finalized or Adequate***

Three audit organizations had quality control and assurance policies and procedures that were not finalized or adequate. GAS 3.82a states that each audit organization performing audits in accordance with GAS must establish and maintain a system of quality control 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. In addition, 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. Examples of deficiencies pertaining to the audit organizations' quality and control assurance policies and procedures included the following.

- One audit organization's Handbook, which included audit documentation and reporting policies and procedures, was not finalized and implemented until January 2018, 8 years after it was drafted. In December 2015, as part of the previous peer review, the review team recommended that the audit organization finalize and issue the Handbook to the audit staff.
- One audit organization did not complete the following.
  - A checklist was not revised to include steps to verify that all working papers were signed off as reviewed. Adding the steps was recommended during the previous peer review because the review team identified working papers that were not all properly reviewed and approved by the supervisor or lead auditor. 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.
  - Policies and procedures were not established for human resources requirements. Peer reviewers identified an auditor that did not meet the minimum qualifications for auditors as required by the Office of Personnel Management (OPM) General Schedule Qualification Standards.<sup>5</sup> OPM requires that auditors have an accounting degree or a combination of education and experience. A combination of education and experience includes at least 4 years of experience in accounting or an equivalent combination of accounting experience, college-level education, and training that provided professional accounting knowledge. The auditor did not have either an accounting degree or combination of education and experience. GAS 3.90 states that audit organizations should establish policies and procedures for human resources that are designed to provide the audit organization with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements.
- One audit organization's policies and procedures did not include guidance for cross-referencing audit reports to ensure that all statements of fact are referenced to the supporting evidence in the project documentation.<sup>6</sup>

<sup>5</sup> The Office of Personnel Management serves as the chief human resources agency and personnel policy manager for the Federal Government.

<sup>6</sup> Referencing is a process in which an experienced auditor who is independent of the audit checks that statements of facts, figures, and dates are correctly reported; that the findings are adequately supported by the evidence in the audit documentation; and that the conclusions and recommendations flow logically from the evidence.

The policies and procedures stated that the audit director is responsible for developing a process for referencing an audit report to supporting working paper evidence. However, the policies and procedures did not include any guidance for cross-referencing. Although the cross-referencing of audit reports is not required by Government Auditing Standards, GAS A7.02a offers supplemental guidance stating that one way to help audit organizations prepare accurate audit reports is to use a quality control process such as independent reference reviews (IRR).

### ***Three Audit Organizations' Policies and Procedures Related to Attestation Engagements Did Not Comply With Standards***

Three audit organizations had policies and procedures related to attestation engagements that as designed, did not provide reasonable assurance of complying with GAS and American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements. GAS incorporates by reference the AICPA Statements on Standards for Attestation Engagements. An attestation engagement can provide one of three levels of service defined by the AICPA: an examination engagement, a review engagement, or an agreed-upon procedures engagement. GAS 2.09 defines the three types of attestation engagements as follows.

- An examination consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) the criteria, in all material respects, or the assertion is presented (or fairly stated), in all material respects, based on the criteria.
- A review consists of sufficient testing to express a conclusion about whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria or the assertion is not presented (or not fairly stated) in all material respects based on the criteria. Auditors should not perform review-level work for reporting on internal control or compliance with provisions of laws and regulations.
- An agreed-upon procedures (AUP) consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. In an AUP engagement, the auditor does not express an opinion or conclusion but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied.



Policies and procedures at three audit organizations were not designed to provide reasonable assurance of compliance with GAS and AICPA standards. GAS 5.01 requires audit organizations to comply with AICPA attestation standards. Examples of deficiencies for attestation engagement policies and procedures included the following.

- One audit organization's policies and procedures did not reference new AICPA guidance for attestation engagements. On May 1, 2017, the AICPA issued revised guidelines for general attestation standards and the corresponding Statements on Standards for Attestation Engagements AT-C 215.<sup>7</sup> During the peer review, the audit organization's policy personnel updated the policies and procedures to reflect the new AICPA guidance.
- One audit organization did not establish attestation engagement policies and procedures as recommended in a peer review conducted in 2014. The review team found that the audit organization had conducted six attestation engagements during the most recent review period in 2017, without attestation engagement policies. Therefore, audit management discontinued attestation engagements until management issued formal guidance.
- One audit organization's AUP policies and templates did not include requirements for documenting and identifying the individuals requesting the engagement and the agreed upon terms of the engagement. In addition, the report template for AUPs did not assure required statements were included to notify report readers of the following information.
  - The auditors were not engaged in, and did not conduct, an examination or a review of the subject matter, the objective of which would be the expression of an opinion or a conclusion, respectively on the subject matter.
  - The sufficiency of the procedures were solely the responsibility of the parties specified in the report and the audit organization disclaimed responsibility for the sufficiency of the procedures.

## Adherence to General Standards

Review teams identified deficiencies for the following general standards:

- Independence – 5 of the 21 organizations,
- Competence – 5 of the 21 organizations, and
- Quality Control and Assurance – 3 of the 21 organizations.

<sup>7</sup> AT-C references the AICPA's Auditing Standards Board Clarity Project. The purpose of the Clarity Project is to make U.S Government auditing standards easier to read, understand, and apply.

The GAS general standards require compliance in areas related to independence, competence, professional judgment, and quality control and assurance.

Appendix C of this report, “Peer Review Deficiencies Identified for Adherence to General Standards,” identifies the deficiencies found in the peer review reports applicable to CIGIE Guide Appendix B, “Adherence to General Standards.” In addition, Appendix C of this report identifies the number of DoD audit organizations affected for each deficiency and whether the deficiency was reported in the System Review Report or Letter of Comment.

### ***Five Audit Organizations Had Deficiencies Related to Independence***

Five audit organizations had deficiencies related to independence. One audit organization’s placement within a Government entity and the lack of safeguards created a potential structural threat to the audit organization’s independence. Also, four audit organizations did not evaluate independence before performing nonaudit services. 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.

### ***One Audit Organization’s Placement Within a Government Entity Created a Potential Structure Threat to Independence***

One audit organization’s placement within a Government entity and the lack of safeguards to address the threat to independence created a potential structural threat to the audit organization’s independence. The threat may have affected the ability of the audit organization to perform audit work and report results objectively. Furthermore, the organizational reporting structure for the audit organization was in violation of its own policies. The audit organization’s policies stated the Audit Chief reported to the Director of the Government entity. However, the audit organization was aligned to report to the Deputy Director, who was also the Chief Operating Officer. The Deputy Director as the Chief Operating Officer, had the entity’s operating divisions and audit organization reporting to him, even though the operating divisions are subject to audits. 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. GAS 3.08c states that auditors should apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level. Furthermore, GAS 3.09 states that, if no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.

### ***Four Audit Organizations Did Not Evaluate Independence Before Conducting a Nonaudit Service***

Four audit organizations did not evaluate whether providing nonaudit services created a threat to their independence before conducting the nonaudit services. Audit organizations have traditionally provided a range of nonaudit services that are consistent with their skills and expertise at entities where they perform audits. Providing such nonaudit services may create threats to an auditor's independence either by itself or in aggregate with other nonaudit services provided, with respect to any GAS audit the audit organization performs. Therefore, the auditor should determine whether providing the nonaudit service would create a threat to independence. Examples of deficiencies related to nonaudit services included the following.<sup>8</sup>

- Three audit organizations did not evaluate whether providing nonaudit services created a threat to their independence. GAS 3.34 states that, before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAS audit the auditor performs.
- Three audit organizations did not document their consideration of the audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor. GAS 3.59c states that auditors are required to document their consideration of the audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor. The GAS 3.59c requirement is part of the documentation requirements under the GAS independence standard.
- One audit organization did not document the auditor's understanding with an audited entity that the work performed does not constitute an audit conducted in accordance with GAS. GAS 3.59d states that auditors are required to document the auditor's understanding with an audited entity for which the auditor will perform a nonaudit service as appropriate, regarding the:
  - objectives of the nonaudit service,
  - services to be performed,
  - audited entity's acceptance of its responsibilities,
  - the auditor's responsibilities, and
  - any limitations of the nonaudit service.

<sup>8</sup> More than one of the deficiencies occurred within the same audit organization because the audit organization did not follow their internal audit policies and procedures related to nonaudit services.

### ***Five Audit Organizations Had Deficiencies Related to Competence***

Five audit organizations had deficiencies related to competence, including auditors not maintaining professional competence through continuing professional education (CPE). Also, three audit organizations did not maintain an adequate record keeping system for CPE documentation to help ensure that auditors met CPE requirements. More than one of the CPE deficiencies occurred within the same audit organization.

### ***Four Audit Organizations Did Not Ensure Auditors Maintained Their Professional Competence Through Continuing Professional Education***

Four audit organizations did not ensure auditors maintained their professional competence through CPE. GAS 3.76 states that auditors performing work in accordance with GAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAS, should maintain their professional competence through CPE. Therefore, each auditor performing work in accordance with GAS should complete, every 2 years, at least 24 hours of CPE that directly relate 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 enhance the auditor's professional proficiency to perform audits. Auditors required to meet the 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.

In addition, "GAS Guidance on GAGAS [Generally Accepted Government Auditing Standards] Requirements for Continuing Professional Education," states that, at their discretion, audit organizations may give auditors who have not completed the required number of CPE hours for any 2-year period up to 2 months immediately following the 2-year period to make up the deficiency.<sup>9</sup>

Examples of CPE deficiencies included the following.

- One audit organization had auditors that did not meet the 24 hour CPE requirement.
- Two audit organizations had auditors that did not meet the 80 hour CPE requirement.

<sup>9</sup> Effective with the implementation dates for the 2018 revision of GAS, the Government Accountability Office is retiring "Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education" (GAO-05-568G, April 2005). The 2018 revision of GAS supersedes the 2005 "Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education."

- One audit organization had auditors that did not complete at least 20 hours of CPE in year one of the 2-year CPE cycle.
- One audit organization had an auditor that did not complete the 80 hour CPE requirement within the 2-month grace period.

### ***Three Audit Organizations Needed to Improve CPE Record Keeping***

Three audit organizations needed to improve CPE record keeping. GAS 3.78 states that, while 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 CPEs completed. Examples of documentation and record-keeping deficiencies included the following.

- One audit organization did not accurately record hours of CPE on self-certification forms. The hours on the forms did not agree with the hours recorded in the CPE tracking system.
- One audit organization did not implement reliable processes for documenting and monitoring CPE, which resulted in:
  - documentation that was not maintained for auditors who left the audit organization during the period under review;
  - documentation that was not adequate to provide evidence training was completed; and
  - documentation that did not include the CPE hours earned.

### ***Three Audit Organizations Did Not Adhere to Quality Control and Assurance Requirements***

Three audit organizations did not adhere to quality control and assurance requirements. Specifically, the audit organizations did not analyze and summarize the results of their internal monitoring of audit quality at least annually. GAS 3.93 states that audit organizations should establish policies and procedures for monitoring of quality in the audit organization. GAS 3.93 further states that monitoring of quality is an ongoing, periodic assessment of work completed on audits. Monitoring is designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. In addition, 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. Specific deficiencies identified for annual monitoring of quality included the following.

- One audit organization did not begin to perform monitoring procedures until December 2017. During the previous external peer review of the audit organization completed in December 2015, the review team determined that the requirement to perform monitoring procedures at the headquarters office was not clear. Specifically, the audit organization's monitoring policy did not clarify whether monitoring procedures would be performed at the headquarters office, similar to the monitoring procedures performed at the field offices. In response to the results of the previous external peer review, audit management stated that by March 2016, they would issue revised policy to clarify the monitoring policies. However, the most recent review team determined that the audit organization did not clarify the monitoring policy until December 2016, and the headquarters office did not begin to perform monitoring procedures until December 2017.
- One audit organization did not design an audit quality monitoring process that would allow for annually identifying systemic or repetitive issues needing improvement for its quality control system. The review team concluded that monitoring of the quality control system would have provided audit management timely identification of the deficiencies the review team identified.
- One audit organization did not provide the review team evidence that it analyzed and summarized the results of its monitoring process for 2 of the 3 years covered during the peer review.

## Attestation Engagements

Peer review teams identified deficiencies for the following attestation standards:

- General Standards – 1 of the 21 organizations, and
- Agreed-Upon Procedures Engagements – 3 of the 21 audit organizations.

An attestation engagement can provide one of three levels of service defined by the AICPA: an examination, a review, or an AUP. Auditors performing attestation engagements in accordance with GAS should comply with the AICPA general attestation standard on criteria, the fieldwork and reporting attestation standards, and the corresponding Statements on Standards for Attestation Engagements. GAS also contains additional requirements for auditors to follow when performing an attestation engagement.

Appendix D of this report, “Peer Review Deficiencies Identified for Attestation Engagements,” identifies the deficiencies found in the peer review reports applicable to CIGIE Guide Appendix D, “Attestation Engagements Performed by the Office of Inspector General.” In addition, Appendix D of this report identifies the number of DoD audit organizations affected for each deficiency and whether the deficiency was reported in the System Review Report or Letter of Comment.

### ***One Audit Organization Did Not Use Professional Judgment While Conducting Attestation Engagements***

One audit organization did not use professional judgment while conducting four attestation engagements. GAS 3.60 states that auditors must use professional judgment in planning and performing audits and in reporting the results. Also, GAS 3.61 indicates that professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. In addition, GAS 3.64 states that using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the audit process.

The peer review team identified multiple evidence, documentation, reporting, or supervision deficiencies among the four attestation engagements reviewed, leading the review team to conclude that the audit staff, as a whole, did not exercise reasonable care when conducting the attestation engagements. As a result of the deficiencies, users of the resulting audit report could not rely on the reported conclusions. Examples of professional judgment deficiencies included the following.

- The audit organization did not design tests or obtain evidence to determine whether proposed costs complied with special contract provisions involving indirect rates, fees, funding, and overtime.
- The audit organization did not include a scope limitation in the report explaining that \$600,000 in costs had not yet been audited.

### ***Three Audit Organizations Did Not Comply With Standards When Performing Agreed-Upon Procedures Engagements***

Three audit organizations did not comply with GAS and AICPA standards when performing AUP engagements. An AUP engagement consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the AUP. In an AUP engagement, the auditor does not express an opinion or conclusion, but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied.

Peer review teams identified deficiencies in the areas of fieldwork and reporting. Examples of deficiencies include the following.

- One audit organization did not establish and document an understanding of the services to be performed, including the engagement objectives, management's responsibilities, the auditor's responsibilities, and limitations of the engagement. GAS 5.54 states that AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed. Such an understanding reduces the risk that either the auditors (practitioner) or the audited entity may misinterpret the needs or expectations of the other party.
- One audit organization included recommendations in the AUP report that should not have been included according to GAS 5.65. GAS 5.65 states that AUP engagements provide neither a high nor a moderate level of assurance, and, as a result, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAS engagements.
- One audit organization used vague or ambiguous language during the AUP engagement to discuss the procedures to be performed. In the engagement letter, the audit organization used language such as 'review' and 'verify' to identify the procedures to be performed. AICPA AT-C 215.A21 states that auditors should avoid vague or ambiguous language, and that the procedures to be performed be characterized by the action to be taken at a level of specificity sufficient for a reader to understand the nature and extent of the procedures performed. Examples of acceptable descriptions of actions include inspect, confirm, compare, and agree.

## Performance Audits

Peer review teams identified deficiencies for the following seven areas related to performance audit standards:

- Independence – 7 of the 21 organizations,
- Professional Judgment – 1 of the 21 organizations,
- Planning – 4 of the 21 organizations,
- Evidence and Documentation – 5 of the 21 organizations,
- Supervision – 7 of the 21 organizations,
- Report Contents – 11 of the 21 organizations, and
- Quality Control Policies and Procedures – 6 of the 21 organizations.

The Government Auditing Standards for performance audits require compliance with the general standards and the fieldwork 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 fieldwork requirements for performance audits relate to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation.

Appendix E of this report, "Peer Review Deficiencies Identified for Performance Audits," identifies the deficiencies found in the peer review reports applicable to CIGIE Guide Appendix E, "Performance Audits Performed by Office of Inspector General." In addition, Appendix E of this report identifies the number of DoD audit organizations affected for each deficiency and whether the deficiency was reported in the System Review Report or Letter of Comment.

### ***Seven Audit Organizations Had Independence Deficiencies While Conducting Performance Audits***

Peer reviews identified that seven audit organizations had independence deficiencies while conducting performance audits. Specifically, the organizational alignment of one audit organization within a Government entity could impact the audit organization's ability to maintain independence so that its opinions, findings, conclusions, judgments, and recommendations are impartial and viewed as impartial by reasonable and informed third parties. In addition, six audit organizations lacked, or had incomplete, documentation showing assessments of auditor independence.

#### ***One Audit Organization's Ability to Maintain Independence Was Threatened by Its Organizational Alignment Within a Government Entity***

One audit organization's ability to maintain independence was threatened by its organizational alignment within a Government entity. GAS 3.02 states that in all matters relating to the audit work, the audit organization must be independent during the entire duration of the engagement.

The audit organization was aligned to report to the Deputy Director of the Government entity, who is also the Chief Operating Officer. The Deputy Director, as the Chief Operating Officer, had the entity's operating divisions and audit organization reporting to him even though the operating divisions are subject to audits. This alignment could have impacted the audit organization's ability to maintain independence so that its opinions, findings, conclusions, judgments, and recommendations are impartial and viewed as impartial by reasonable and informed third parties.

The peer review team did not find evidence that the audits had been unduly influenced or compromised. As a result, the review team did not conclude that the audit organization's independence was impaired; however, the audit organization did not establish GAS-required safeguards to ensure that the threat was eliminated or reduced to an acceptable level.

### ***Six Audit Organizations Did Not Maintain Adequate Independence Documentation***

The peer reviews identified that six audit organizations did not maintain adequate independence documentation. GAS 3.59 states that documentation of independence requirements provides evidence of the auditor's judgements in forming conclusions regarding compliance with independence standards. In addition, GAS 6.42 requires the auditors to assess the independence of specialists. Examples of deficiencies pertaining to inadequate documentation include the following.

- A supervisor at one audit organization did not complete a statement of independence for two projects reviewed. The supervisor assumed that position after the fieldwork began on the two projects, and the auditors did not update the project files to include the supervisor's statement of independence. Furthermore, the auditors completed a checklist before the reports were issued that stated all statements of independence had been included in the project files. However, the statements of independence for the supervisor were not included in the project files.
- One audit organization did not adequately document independence threat assessments for four of five performance audits reviewed. Specifically, independence statements were incomplete, missing, or executed after individuals started working on the audits. A similar deficiency was identified in previous peer reviews, and audit management distributed agency-wide e-mails to reemphasize independence statement requirements, conducted staff training, and revised audit policy. However, the actions taken did not resolve the deficiency.
- One audit organization did not assess the independence of the internal specialist used in one of the eight audits reviewed.

### ***One Audit Organization Did Not Use Professional Judgment While Conducting Performance Audits***

One audit organization did not use professional judgment while conducting performance audits. The peer review team assessed four audits and determined that the auditors showed a lack of professional judgement when performing the audits. GAS 3.60 states that auditors must use professional judgment in planning and performing audits and in reporting results. In addition, GAS 3.61 states that



professional judgment includes exercising reasonable care by acting diligently in accordance with applicable professional standards. Finally, GAS 3.64 states that using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities. Specifically, the GAS responsibilities for professional judgement include:

- complying with independence standards and related conceptual framework;
- maintaining objectivity and credibility;
- assigning competent staff to the audit;
- defining the scope of work;
- evaluating, documenting, and reporting the results of the work; and
- maintaining appropriate quality control over the audit process.

The peer review team identified deficiencies in audit documentation, supervision, and quality control associated with the four audits reviewed. The deficiencies led the review team to conclude that the audit staff, as a whole, did not exercise reasonable care when conducting the four audits. Examples of professional judgment deficiencies include the following.

- The audit organization did not document criteria in the working papers.
- The audit organization issued a draft report without the audit documentation being reviewed by a supervisor.
- The audit organization did not reference or independently reference draft reports before issuance.

### ***Four Audit Organizations Did Not Adequately Plan Audits***

Four organizations did not adequately plan and document the planning of the work necessary to address the audit objectives. Specifically, two audit organizations did not evaluate the impact of ongoing investigations on audits. In addition, two audit organizations did not evaluate whether the audited entity had taken appropriate corrective actions on recommendations from previous engagements. GAS 6.06 states that auditors must adequately plan and document the planning of the work necessary to address the audit objectives. Peer review teams found that three of the four audit organizations had one planning deficiency and one audit organization had two deficiencies related to planning.

### ***Two Audit Organizations Did Not Evaluate the Impact of Ongoing Investigations on Audits***

Two audit organizations did not evaluate ongoing investigations within the context of the audit objectives. GAS 6.11e states that auditors should assess audit risk and significance by gaining an understanding of ongoing investigations or legal proceedings within the context of the audit objectives. Examples of deficiencies include the following.

- At one audit organization, one audit was requested in part because of an ongoing investigation. The investigation was performed due to the discovery of potential fraud, waste, and mismanagement at a maintenance site. The peer review team found that the auditors did not document their understanding of the investigation.
- At one audit organization, five audits reviewed did not include evidence that investigative agencies were contacted to determine whether there were any ongoing investigations related to the audit objectives. In addition, the peer review team was informed that the audit organization met with investigators on a quarterly basis to discuss ongoing investigations. However, documentation about the ongoing investigations was not maintained in the working papers.

### ***Two Audit Organizations Did Not Evaluate Whether the Audited Entity Took Appropriate Corrective Actions on Recommendations From Previous Engagements***

Two audit organizations did not evaluate whether the audited entity took appropriate corrective actions on recommendations from previous engagements. GAS 6.36 states that auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. Examples of deficiencies include the following.

- One audit organization identified a previous audit report with similar audit objectives. However, the audit organization did not evaluate whether the audited entity took appropriate corrective action to address the findings and recommendations in the previous audit report.
- One audit organization documented previous audit research in the working papers. However, the audit documentation also included a statement that, due to the limited scope of the audit and the limited time available to the audit organization to complete a validation of the reports, a review of previous inspections was not necessary. The final

report included a similar statement regarding the limited scope. The peer review team concluded that omitting information about previous audits impacted the reader's ability to identify the status of previous findings and recommendations to determine whether the findings and recommendations are being properly addressed and moving toward resolution.

### ***Five Audit Organizations Had Evidence and Documentation Deficiencies***

Five audit organizations had evidence and documentation deficiencies.

GAS 6.80 states that auditors should prepare audit documentation which contains evidence that supports the findings, conclusions, and recommendations before they issue their report. Also, GAS 6.82 states that audit documentation is an essential element of audit quality. GAS 6.82 further states that the process of preparing audit documentation contributes to the quality of an audit and that audit documentation serves to provide the principal support for the auditors' report.

The evidence and documentation deficiencies include:

- overall assessment of evidence,
- scope limitations, and
- computer-processed information.

### ***Three Audit Organizations Did Not Prepare Audit Documentation in Sufficient Detail to Provide the Results of the Audit Procedures Performed and Conclusions Reached***

Three audit organizations did not prepare audit documentation in sufficient detail to provide the results of the audit procedures performed and conclusions reached. GAS 6.69 states that auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence. Also, GAS 6.79 states that auditors should prepare audit documentation in sufficient detail to enable an experienced auditor with no previous connection to the audit to understand the results of audit procedures performed.

Because the audit documentation was not sufficient, the peer review teams had to request additional information and verbal explanations were necessary to assist the review teams understand the work performed. Even though explanations were needed to understand the work performed, the peer review teams determined

that sufficient and appropriate evidence existed that supported the findings, conclusions, and recommendations before the audit organizations issued the audit reports. Examples of documentation deficiencies include the following.

- Summary working papers did not include one or more of the required working paper elements. The review team found that six of nine of the summary working papers for one audit did not include one or more working paper elements. Specifically,
  - three of the nine working papers included a scope that did not identify the documents that were reviewed;
  - one of the nine working papers did not include the methodology;
  - two of the nine working papers did not include a results section to detail the outcome of the auditor's tests, analysis, and discussions;
  - four of the nine working papers' conclusion sections did not answer the purpose for which auditors prepared the working paper; and
  - two of the nine working papers did not include a conclusion section.
- Working papers did not include a justification for not performing additional procedures when a scope limitation was identified. GAS 6.72 states that when auditors identify limitations or uncertainties in evidence that are significant to the audit findings and conclusions, they should apply additional procedures, as appropriate. In the working papers, the auditors stated that they planned to perform additional procedures for the scope limitation. However, rather than documenting or performing additional procedures to mitigate the scope limitation, the auditors excluded the site location that had the scope limitation. Furthermore, the auditors did not document in the working papers their justification for excluding the site location and not performing the additional procedures.

### ***Two Audit Organizations Did Not Assess Computer-Processed Information***

Two audit organizations did not assess computer-processed information used for addressing the audit objectives and supporting findings and conclusions. 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 level of detail presented in the auditors' findings and conclusions in light of the audit objectives. The assessment of the sufficiency and appropriateness

of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes. Examples of deficiencies with computer-processed information included the following.

- The peer review team was unable to find evidence that the audit organization assessed the completeness of the population of \$42.6 million of information technology equipment stored in a warehouse. The review team also found no evidence that the audit organization tested key data elements represented in the population, such as the age or the condition of the equipment.
- The peer review team identified audit documentation that stated an assessment of computer-processed data was not necessary during the audit under review. However, the audit organization relied on computer-processed data to test invoices. The audit organization's documentation stated that since the computer-processed data was reviewed as part of a financial statement audit, testing was not needed again. However, the audit organization did not document their reliance on the work of others related to the financial statement audit or assess whether the specific computer-processed data they used to draw conclusions was reliable.

### ***Seven Audit Organizations Did Not Document Supervisory Reviews***

Seven audit organizations did not document supervisory reviews. 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.

Deficiencies related to the documentation of supervisory reviews included working papers that were not reviewed at all and working papers that were not reviewed in a timely manner. Deficiencies related to timeliness included working papers that were reviewed after the audit report was issued. Examples of supervision deficiencies include the following.

- The supervisor did not approve the audit program.
- The supervisor did not document approval of significant audit plan revisions.
- The supervisor did not review working papers until 7 months after the date of preparation.
- The supervisor did not review working papers.

### ***Audit Reports for Eleven Audit Organizations Did Not Contain Required Report Contents***

Audit reports at eleven audit organizations did not contain content required by GAS. 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; and
- a summary of the views of responsible officials.

Five of the 11 audit organizations had multiple deficiencies related to reporting.

- Six audit organizations had one reporting deficiency.
- One audit organizations had two reporting deficiencies.
- Two audit organization had three reporting deficiencies.
- Two audit organization had four reporting deficiencies.

Because 5 of the 11 audit organizations had multiple deficiencies, the number of audit organizations identified in the following sections will not equal 11.

### ***Nine Audit Organizations Did Not Include Pertinent Information in the Objectives, Scope, and Methodology Sections of Audit Reports***

Nine audit organizations did not include pertinent information in the objectives, scope, and methodology sections of audit reports.

### **Three Audit Organizations Had Deficiencies in Describing the Work Conducted to Address the Audit Objectives**

Three audit organizations had deficiencies in describing the work conducted to address the audit objectives. 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. Examples of deficiencies include the following.

- The audit report did not include the universe from which the audit organization selected a sample.
- The audit report did not explain the relationship between the population and the items tested.



### **Six Audit Organizations Did Not Adequately Report the Scope and Methodology of the Audit**

Six audit organizations did not adequately report the scope and methodology of the audit. GAS 7.11 states that auditors should describe the scope of the work performed, and any limitations, so that users of the audit report can reasonably interpret the findings, conclusions, and recommendations in the report without being misled. 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 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. Examples of deficiencies include the following.

- The audit report incorrectly reported the scope of a follow-up audit. 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. The audit announcement letter and working papers identified audits between FY 2010 and FY 2014. However, the audit report identified the scope as audits with open recommendations that were issued between FY 2012 and FY 2014.
- The audit report did not include any information addressing the sampling methodology or how the sample testing supported the auditor's conclusions.
- The audit report did not describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.
- The audit report stated that the auditors selected a statistical sample from the universe of 3,080 items. However, the review team found no evidence in the audit working papers that the auditors performed an analysis to project the differences identified to the relevant population or explain in sufficient detail the impact of the differences.
- The audit report's scope and methodology sections lacked sufficient detail of the evidence gathered and the analytical techniques and procedures performed to address the audit objectives.

### ***Two Audit Organizations Did Not Adequately Develop the Elements of a Finding***

Two audit organizations did not adequately develop the elements of a finding. GAS 6.73 states that auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. GAS 6.74 defines the elements of a finding as the condition, cause, and effect. Peer review teams identified deficiencies in developing the cause and effect elements of the finding.

### **Two Audit Organizations Did Not Adequately Identify the Causes for Findings Included in Audit Reports**

Two audit organizations did not adequately identify the causes for findings included in audit reports. GAS 6.76 states that the cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommending corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

In addition, the Government Auditing Standards provide supplemental guidance that auditors can use when trying to identify a cause, including when auditors identify deficiencies in internal controls that are significant to the subject matter of the performance audit. GAS A6.06 states that when the audit objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the audit occurred, it is referred to as the “cause.” Therefore, when developing a finding, the identification of the cause may assist in making constructive recommendations for correction. GAS A6.06 also states that the causes of deficient program performance are often complex and can involve multiple factors, including fundamental, systemic root causes.

For example, one audit organization’s audit report did not list weaknesses in the separation of duties and the lack of oversight observed during an audit of a government purchase card program. The audit organization also identified missing training documentation for employees assigned to the program. However, the audit report did not identify the root cause of the missing documentation.

### **Two Audit Organizations Did Not Adequately Identify the Effect of Audit Report Findings**

Two audit organizations did not adequately identify the effect of findings in audit reports. GAS 6.77 states that the effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition and is the measure of the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit. The effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

For example, one audit organization did not include the outcome or consequence of a condition in the audit report. Specifically, the auditors found that 2 of 22 government purchase card transactions for food purchases were not pre-approved. Although the report had quantified the effect of the condition, it did not identify the actual or potential consequence of the condition.

### ***Three Audit Organizations Did Not Adequately Develop Recommendations for Corrective Action***

Three audit organizations did not adequately develop recommendations for corrective action. GAS 7.28 states that auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. In addition, auditors should make recommendations that flow logically from the findings and conclusions, which are directed at resolving the cause of identified deficiencies and findings, and that clearly state the actions recommended.

For example, one audit organization's audit report contained 6 of 10 recommendations that did not flow logically from the findings. For one of the six recommendations, the audit report stated that the audit organization should reconcile timesheet hours to supporting time and attendance documentation. However, the finding did not identify the failure to reconcile timesheets as a cause, or whether reconciling timesheets was a requirement.

### ***Two Audit Organizations Issued Reports That Did Not Discuss Deficiencies in Internal Control***

Two audit organizations issued reports that did not contain a discussion about deficiencies in internal control. GAS 7.18 states that auditors should also report deficiencies in internal control; instances of fraud; noncompliances with provisions

of laws, regulations, contracts, or grant agreements; or abuses that have occurred or are likely to have occurred and are significant within the context of the audit objectives. In addition, GAS 7.19 states that auditors should include in the audit report the scope of their work on internal controls and any deficiencies in internal controls that are significant within the context of the audit objectives and based on the audit work performed.

For example, the scope and methodology section of one audit organization's audit report stated that the audit objective was to verify that controls were in place and operating effectively. However, the audit report did not include a discussion on the review of internal controls and internal control weaknesses that caused the reported findings.

### ***Two Audit Organizations Did Not Obtain or Report the Views of the Responsible Officials of the Audited Entity***

Two audit organizations did not obtain or report the views of the responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report. GAS 7.32 states that 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. Also, GAS 7.34 states that when responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated. The following are examples of deficiencies for not obtaining or reporting the views of responsible officials of the audited entity.

- One audit organization approved an audit report without the required management comments.
- One audit organization did not provide a summary of the oral comments to the responsible officials to verify that the summary was accurate.

### ***Six Audit Organizations Did Not Follow Quality Control Policies and Procedures for Performance Audits***

Six audit organizations did not follow quality control policies and procedures for performance audits, such as the use of checklists and IRRs. Three of the six audit organizations had deficiencies related to the use of checklists and the IRR process. GAS 3.84 states that the audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period 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.

### ***Three Audit Organizations Did Not Use Quality Control Checklists to Ensure Quality Control Requirements Were Met***

Three audit organizations did not use quality control checklists to ensure quality control requirements were met. The checklists included reminders of GAS and internal quality control requirements for planning, supervision, documentation, and reporting.

At one audit organization where checklists were not used, the review team concluded that if the auditors had used the checklists, the deficiencies identified during the peer review may have been prevented, including deficiencies related to planning and supervisory reviews. At the other two audit organizations, the project files that were reviewed contained quality control checklists. However, the checklists were not completed.

### ***Six Audit Organizations Had Deficiencies Related to the Independent Reference Review Process***

Six audit organizations had deficiencies related to the IRR process. While referencing audit reports is not required by GAS, GAS A7.02a offers supplemental guidance stating that one way to help audit organizations prepare accurate audit reports is to use a quality control process such as the IRR. The IRR is a process in which an experienced auditor who is independent of the audit checks that statements of facts, figures, and dates are correctly reported, that the findings are adequately supported by the evidence in the audit documentation, and that the conclusions and recommendations flow logically from the evidence.

Even though the IRR deficiencies were identified, the review teams determined that the audit findings were adequately supported by the evidence in the audit documentation. Examples of IRR deficiencies include the following.

- Supervisors did not assign independent auditors to perform IRRs. Supervisors assigned auditors to perform an IRR who also performed fieldwork on the audit.
- Project files did not contain evidence that an IRR was performed.
- Reports contained discrepancies between the referenced audit documentation, including incorrect:
  - citations of criteria, and
  - reporting of the number of items reviewed.

## Monitoring of Audit Work Performed by an Independent Public Accounting Firm

Two audit organizations that monitored the audit work performed by an IPA firm did not prepare and approve audit documentation before an Agency Financial Report (AFR) was issued.<sup>10</sup> The CIGIE “Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General” provides guidance for the review of monitoring by the audit organization of contracted audit work performed by an IPA, where the IPA served as the auditor. The CIGIE guide states that the peer review team should determine whether the reviewed audit organization issued and implemented quality control policies and procedures for ensuring that the IPA’s work meets professional standards.

A peer review team found that one audit organization did not document the audit organization’s assessment of the IPA’s performance prior to the issuance of the AFR. Specifically, the review team found that 77 of 148 working papers were not approved until after the AFR was issued.

Also, a peer review team found that another audit organization did not ensure that audit documentation supporting the conclusions in the transmittal letter of the AFR was prepared and approved before the AFR was issued.<sup>11</sup> Specifically, the review team found the audit organization had prepared and approved working papers that documented the audit organization’s oversight 30 days after the transmittal letter was signed by the Acting Inspector General.

Appendix F of this report, “Peer Review Deficiencies Identified for the Monitoring of Audit Work Performed by and Independent Public Accounting Firm,” identifies the deficiencies found in the peer review reports applicable to CIGIE Guide Appendix F, “Monitoring of Audit Work Performed by an Independent Public Accounting Firm.” Also, Appendix F of this report identifies the number of DoD audit organizations affected for each deficiency and whether the deficiency was reported in the System Review Report or Letter of Comment.

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<sup>10</sup> An AFR provides financial and performance information for a Government agency.

<sup>11</sup> A transmittal letter must contain the Agency Head’s assessment of the reliability and completeness of financial and performance data in the AFR and a description of any material weaknesses in internal control and actions the agency is taking to resolve the weaknesses.



## Part B: Improvements Made by DoD Audit Organizations Since Our Previous Summary Report in 2015

### Audit Organizations Improved Their Systems of Quality Control and Compliance with the Systems

DoD audit organizations made improvements in their systems of quality control and compliance with the systems since the previous peer review summary evaluation in 2015. For example, five audit organizations improved their peer review rating. In addition, one of the audit organizations that improved its rating from a fail to a pass received an off-cycle peer review.

In addition, the peer review reports did not identify any deficiencies associated with the policies and procedures for nonaudit services, which was identified as a common deficiency in the previous summary report.

Furthermore, three audit organizations took corrective actions prior to, or during, peer reviews to improve their system of quality control. Corrective actions taken included addressing deficiencies related to nonaudit services; monitoring of quality, supervision, and reporting; and attestation engagements. The corrective actions noted in the audit organizations' peer review report highlighted the audit organization's effort to eliminate the cause of the deficiency and prevent the deficiency from occurring in the future.

In addition, the peer reviews identified opportunities to improve operations at the audit organizations. The opportunities for improvement included best practices observed and lessons learned, which can be used by the DoD audit organizations as a training tool to improve their systems of quality control.

### ***Five Audit Organizations Improved Their Peer Review Rating***

Two audit organizations improved their rating from a fail to a pass, and three audit organizations improved their rating from a pass with deficiencies to a pass. One of the audit organizations that improved their rating from a fail to a pass requested and received an off-cycle peer review in 2019 to demonstrate that the corrective actions taken by the audit organization sufficiently addressed the organizational independence deficiency identified in the previous 2018 peer review.<sup>12</sup> In the 2018 peer review, the review team found that audit management did not report audit results both to the head or deputy head of the Government

<sup>12</sup> The CIGIE "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General" states that an audit organization receiving a rating of pass with deficiencies or fail from its most recent external peer review may request an off-cycle peer review to demonstrate that corrective action has been taken to address the deficiencies identified.

entity and to those charged with governance, as required by GAS 3.31b.<sup>13</sup> To correct the deficiency, the audit organization established safeguards and added disclosures to affected reports to mitigate the independence issue. For example, the audit organization added disclosures to all audit reports published during a 4-year timeframe and will add disclosures to all future published reports that will have relied in whole or in part on work performed during that period. The disclosures included the following information:

- organizational reporting alignment during the audit,
- noncompliance with internal policy and GAS regarding independence, and
- potential threats to audit independence.

### ***No Deficiencies Were Reported on the Policies and Procedures for Nonaudit Services***

For the current peer review cycle, the peer reviews did not report any deficiencies associated with policies and procedures for nonaudit services. The previous summary report in 2015 stated that four audit organizations did not have policies and procedures for various GAS nonaudit service independence requirements. Examples noted during the previous peer review cycle included the following deficiencies associated with policies and procedures for nonaudit services.

- 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.
- One audit organization did not have policies and procedures for evaluating threats for previously performed nonaudit services and their potential impact on current audit engagements.

### **Three Audit Organizations Took Corrective Actions to Improve Their System of Quality Control**

Three audit organizations took corrective actions prior to, or during, the peer reviews to improve their systems of quality control. Examples of the corrective actions taken by the three audit organizations included the following.

- One audit organization performed an internal quality assurance review before the peer review. The internal quality assurance review identified the lack of timely supervisory reviews, which was also a deficiency identified by the review team. The Quality Assurance Review Report included a recommendation that audit management reiterate to auditors the importance of following GAS and internal supervision policies

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<sup>13</sup> GAS 3.31b states that internal auditors who work under the direction of the audited entity's management are considered independent for the purposes of reporting internally if the head of the audit organization reports the audit results both to the head or deputy head of the Government entity and to those charged with governance.

when conducting audits. The peer review team reviewed the Quality Assurance Review Report and determined that the recommendation was adequate. Therefore, the review team did not make any recommendations. Instead, the audit director sent a memorandum to the auditors, indicating her concurrence with the Quality Assurance Review Report's recommendations.

- One audit organization took steps to address a deficiency related to auditors not documenting their consideration of the ability of the audited entity's management to effectively oversee nonaudit services. Specifically, the audit organization added a step to the independence determination template to document and consider the ability of the audited entity's management to effectively oversee the nonaudit service to be provided. In addition, the audit organization added this consideration to the standard memorandum of understanding for nonaudit services provided.
- One audit organization performed multiple corrective actions, including the following procedures.
  - Issued a memorandum to the auditors to address a deficiency related to auditors not performing monitoring of quality procedures. The memorandum emphasized the importance of complying with GAS monitoring of quality standards. The memorandum also provided guidance for monitoring of quality for the audit offices staffed with only one auditor.<sup>14</sup> Specifically, the memorandum stated that if there is only one auditor within the audit office, the auditor may request for the higher headquarters office or an external audit organization to perform the quality of monitoring procedures.
  - Issued a memorandum to the auditors to address the deficiency of not performing supervisory reviews. The memorandum emphasized the importance of complying with GAS supervision standards.
  - Developed testing plans to address the deficiency related to the auditors not adequately developing the elements of a finding. The plans will help ensure the accomplishment of the planned audit objectives. The plans include steps to determine the root cause of the findings and the effect of noncompliance. In addition, the audit organization developed an audit finding template that is used by the auditors to clearly define the elements of a finding.
  - Updated an attestation engagement checklist to address the deficiency related to the auditors not using current AICPA standards when performing AUP engagements. Updates to the checklist were

<sup>14</sup> The memorandum provided guidance for monitoring of quality for the audit offices staffed with only one auditor because GAS A3.10c(1) states that monitoring of quality is most effective when performed by persons who do not have responsibility for the specific activity being monitored. Generally, the individual or individuals performing the monitoring are separate from the normal audit supervision associated with individual audits.

necessary because the checklist did not include the updated May 2017 AICPA AUP Clarified Standards. The audit organization also held in-house training regarding the updated AICPA standards.

## **Best Practices Identified at One Audit Organization Included Policies and Procedures, and Training and Continuing Professional Education**

One audit organization requested that the review team include in the peer review report, the review team's observation of best practices used by the audit organization. Best practices were observed in the areas of policies and procedures and training and continuing professional education.

### ***Policies and Procedures***

The review team identified the following five best practices in the area of policies and procedures.

- Implementation of policies and procedures that mirror GAS requirements and includes elements from the checklists included in the CIGIE "Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General."
- Completion of statements of independence to document compliance with GAS independence requirements. The statements of independence provide evidence that the auditors satisfied applicable GAS independence requirements during the duration of the project.
- Documentation of supervisory reviews of all working papers that support the findings and conclusions before report issuance, which provides evidence of compliance with the GAS 6.83 requirements.<sup>15</sup> For example, the audit organization's policies and procedures contains requirements for audit supervision by the supervisory auditor. Supervisory auditors use the "Supervisory Review Sheet" to document their review and comments. Additionally, the policies and procedures require the audit chief to perform and document periodic reviews as the audit work progresses.
- Use of quality assurance checklists that provide reasonable assurance the audit organization has adopted and followed applicable GAS requirements.
- Use of independent reference reviews that ensure a report is accurately referenced and that project documentation exists to support report content.

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<sup>15</sup> 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.

## ***Training and Continuous Professional Education***

The review team identified the following three best practices in the area of training and continuous professional education.

- Use of tracking mechanisms, such as Microsoft Excel spreadsheets, to monitor staff compliance with CPE requirements.
- Maintenance of training records, including maintaining copies of training certificates, to provide evidence that auditors comply with CPE requirements.
- The delivery of annual conferences to help auditors meet CPE requirements and discuss best practices and updates to standards, policies, and regulations.

## **Common Recommended Actions and Lessons Learned From the Peer Reviews**

The peer review teams recommended actions to correct deficiencies identified and improve audit operations. The recommendations can serve as lessons learned, providing the audit organizations an understanding of why the deficiencies occurred and highlighting the improvements needed.

Peer review teams made common recommendations for independence, attestation engagements, nonaudit audit services, planning, supervision, and reporting.

### ***Independence***

The following recommended actions were identified for independence.

- Complete independence statements at the beginning of an audit.
- Request that all specialists complete an independence statement when their services are requested.

### ***Attestation Engagements***

The following recommended action was identified for attestation engagements.

- Update attestation engagement policies to ensure that the policies include the most recent AICPA standards.

## ***Nonaudit Services***

The following recommended actions were identified for nonaudit services.

- Document assessments of the consideration of potential independence impairments before performing nonaudit services.
- Determine whether auditors documented and considered the ability of the audited entity's management to effectively oversee the nonaudit service provided as required by GAS. This would be accomplished by reviewing a sample of nonaudit services provided during a specific timeframe.

## ***Planning***

The following recommended actions were identified for planning.

- Update policies and procedures to include requirements for auditors to complete all planning steps or document justification for not completing planning steps.
- Remind auditors to assess audit risk and internal control, including information system controls.

## ***Supervision***

The following recommended actions were identified for supervision.

- Evaluate the adequacy of supervisory reviews on a sample of audits completed and remind supervisors of the importance of complying with GAS.
- Ensure that supervisory review of audit work is conducted in a timely manner, which includes reviewing audit work before issuing audit reports.

## ***Reporting***

The following recommended action was identified for reporting.

- Include the universe for the selected sample in the audit report.



## Appendix A

### Scope and Methodology

We conducted this evaluation from November 2019 through May 2020 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of Inspectors General on Integrity and Efficiency. Those standards require that we adequately plan the evaluation to ensure that objectives are met and that we perform the evaluation to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence obtained was sufficient, competent, and relevant to lead a reasonable person to sustain the findings, conclusions, and recommendations.

To prepare this report, we reviewed the 21 external peer review reports issued to the DoD audit organizations from April 4, 2017, to January 15, 2020. All 21 reports stated that the audits were performed in accordance with the CIGIE “Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General.”

For all 21 reports, we reviewed both the System Review Report and the Letter of Comment, if applicable, issued to each DoD audit organization. We did not validate the information or results stated in the reports because our objective was to identify and summarize systemic deficiencies reported in the most recent cycle of peer reviews.

To summarize and identify systemic deficiencies, we used the following CIGIE Guide appendixes.

- Appendix A, “Policies and Procedures,” September 2014
- Appendix B, “Checklist for Review of Adherence to General Standards,” September 2014
- Appendix D, “Checklist for Review of Attestation Engagements Performed by the Office of Inspector General,” September 2014
- Appendix E, “Checklist for Review of Performance Audits Performed by the Office of Inspector General,” September 2014
- Appendix F, “Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm,” September 2014

We did not use CIGIE Appendix C, “Checklist for Review of Financial Audits Performed by the Office of Inspector General,” because the DoD audit organizations did not perform financial audits. Also, we developed a checklist for attestation engagements to reflect the most recent AICPA standards that were effective

for all agreed-upon procedures reports issued on or after May 1, 2017, because Appendix D was outdated and could not be used during the review of agreed-upon procedure engagements at three DoD audit organizations.

## **Use of Computer-Processed Data**

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

## **Prior Coverage**

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report that summarized systemic deficiencies and findings reported during the of peer reviews of DoD audit organizations.

Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

### ***DoD OIG***

Report No. DODIG-2016-031, “Summary Report on Audit Quality at the DoD Audit Organizations,” December 14, 2015.

This report summarizes the results of peer review reports issued on the DoD audit organizations from November 2012 to June 2015.

## Appendix B

### Peer Review Deficiencies Identified for Policies and Procedures

This appendix shows the deficiencies 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 deficiency and whether the deficiency was reported in the System Review Report or Letter of Comment.

Table 2. Policies and Procedures

Government Auditing Standard/ AICPA Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>GENERAL STANDARDS - INDEPENDENCE</b>				
GAS 3.16 Safeguards are controls designed to eliminate or reduce to an acceptable level threats to independence. The auditor applies safeguards that address the specific facts and circumstances under which threats to independence exist.	The audit organization did not revise its policies and procedures to address two recommendations from its previous peer review. The policies and procedures did not address the GAS procedural requirements requiring safeguards to mitigate threats to independence that are recognized before and after the audit report is issued.	1	X	
GAS 3.26 If a threat to independence is initially identified after the auditors’ report is issued, the auditor should evaluate the threat’s impact on the audit and on GAS compliance.				
GAS 3.59 Documentation of independence considerations provides evidence of the auditor’s judgments in forming conclusions regarding compliance with independence requirements.	The audit organization did not implement a policy to ensure that all personnel who conduct, edit, review, approve, direct, or publish an audit report comply with GAS independence standards. During the previous peer review, the review team found that independence statements were not included in the project files for all audit team members.	1	X	

Table 2. Policies and Procedures (cont'd)

Government Auditing Standard/ AICPA Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>GENERAL STANDARDS – QUALITY CONTROL AND ASSURANCE</b>				
GAS 3.82a Each audit organization performing audits in accordance with GAS 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.	The audit organization's handbook, which included audit documentation and reporting policies and procedures, was not finalized and implemented until January 2018, 8 years after it was drafted. In December 2015, as part of the previous peer review, the review team recommended that the audit organization finalize and issue the handbook to the audit staff.	1	X	
GAS 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.	The audit organization did not revise a checklist to include steps to verify that all working papers are signed off as reviewed. Adding the steps was recommended in the previous peer review after the review team found that working papers were not all properly reviewed and approved by the supervisor or lead auditor.	1	X	
GAS 3.90 Audit organizations should establish policies and procedures for human resources that are designed to provide the audit organization with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements.	The audit organization did not devise policies and procedures for human resources requirements.	1	X	

Table 2. Policies and Procedures (cont'd)

Government Auditing Standard/ AICPA Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS A7.02a One way to help audit organizations prepare accurate audit reports is to use a quality control process such as the independent reference review process.	The audit organization's policies and procedures stated that the Audit Director is responsible for developing a process for referencing an audit report to supporting working paper evidence. However, the policies did not include any guidance for cross-referencing.	1	X	
<b>GENERAL AND REPORTING STANDARDS FOR ALL ATTESTATION ENGAGEMENTS</b>				
AICPA Statements on Standards for Attestation Engagements (SSAEs) AT-C 215.	The audit organization did not update their policies to reflect new AICPA guidance. On May 1, 2017, the AICPA issued revised guidelines for general attestation standards and the corresponding Statements on Standards for Attestation Engagements AT-C 215.	2	X	
GAS 5.01 Auditors performing attestation engagements in accordance with GAS 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.	The audit organization did not establish attestation engagement policies and procedures as recommended in a peer review conducted in 2014. The audit organization conducted six attestation engagements in 2017 without attestation engagement policies. As such, audit management issued a memorandum discontinuing attestation engagements until formal guidance is issued.	1		X

Table 2. Policies and Procedures (cont'd)

Government Auditing Standard/ AICPA Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 5.64 The AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed for each attestation engagement. Such an understanding reduces the risk that either the auditors (practitioner) or the audited entity may misinterpret the needs or expectations of the other party.	The audit organization's AUP policies and templates did not include requirements for documenting and identifying the individuals requesting the engagement and the agreed upon terms of the engagement.	1		X
GAS 5.67 Because GAS agreed-upon procedures engagements are substantially less in scope than audits and examination engagements, it is important not to deviate from the required reporting elements contained in the SSAEs. For example, a required element of the report on agreed-upon procedures is a statement that the auditors were not engaged in and did not conduct an examination or a review of the subject matter.	<p>The audit organization's report template for AUPs did not assure the following required statements were included.</p> <ul style="list-style-type: none"> <li>The auditors were not engaged in and did not conduct an examination or a review of the subject matter, the objective of which would be the expression of an opinion or a conclusion, respectively, on the subject matter.</li> <li>That the sufficiency of the procedures were solely the responsibility of the parties specified in the report and a disclaimer of responsibility for sufficiency of those procedures.</li> </ul>	1		X



Table 2. Policies and Procedures (cont'd)

Government Auditing Standard/ AICPA Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>FIELD WORK STANDARDS FOR PERFORMANCE AUDITS</b>				
GAS 6.84 When auditors do not comply with applicable GAS 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 GAS requirements and the impact on the audit and on the auditors' conclusions. This applies to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the standard.	The audit organization's policies did not include guidance for documenting departures from GAS requirements and the impact on the audit and on the auditors' conclusions.	1		X
<b>REPORTING STANDARDS FOR PERFORMANCE AUDITS</b>				
GAS 7.07 If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported.	The audit organization's policies and procedures did not contain guidance for re-issuing or reposting reports if the auditors discovered that they did not have sufficient, appropriate evidence to support the reported findings or conclusions after the report was issued.	1		X

Source: DoD OIG prepared based on the December 2011 GAS revisions, AICPA attestation engagement guidance, and peer review reports issued to the 21 DoD audit organizations between April 4, 2017, and January 15, 2020.

## Appendix C

### Peer Review Deficiencies Identified for Adherence to General Standards

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

*Table 3. General Standards*

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>INDEPENDENCE</b>				
GAS 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 organization’s placement within the Government entity created a potential structural threat to the audit organization’s independence.	1	X	
GAS 3.34 states that before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAS audit it performs.	The audit organization did not document independence threat assessments for nonaudit services.	3	X	X

Table 3. General Standards (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 3.59 Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. GAS 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 GAS quality control and assurance requirements. The independence standard includes the following documentation requirements:	The audit organization did not adequately document independence considerations for all personnel assigned to the projects reviewed.	5	X	X
c. document consideration of audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor as indicated in paragraph 3.34; and	The audit organization did not document their consideration of management's ability to effectively oversee nonaudit services provided.	3	X	X
d. document the auditor's understanding with an audited entity for which the auditor will perform a nonaudit service as indicated in paragraph 3.39.	The audit organization did not establish and document their understanding with the audited entity's management; including the services to be performed.	1		X

Table 3. General Standards (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>COMPETENCE</b>				
GAS 3.74 Auditors performing attestation engagements should be knowledgeable in the AICPA general attestation standard related to criteria, the AICPA attestation standards for field work and reporting, and the related Statements on Standards for Attestation Engagements (SSAE), and they should be competent in applying these standards and SSAE to the attestation work.	The audit organization did not follow all GAS and AICPA standards when conducting attestation engagements.	3	X	
GAS 3.76 Auditors performing work in accordance with GAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAS, should maintain their professional competence through CPE. Therefore, each auditor performing work in accordance with GAS 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.	Audit organizations had CPE deficiencies. For example, two audit organizations had auditors that did not meet the 80 hour CPE requirement.	4		X

Table 3. General Standards (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 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.	Audit organizations had CPE record keeping deficiencies. For example the audit organization did not implement reliable processes for documenting and monitoring CPE, which resulted in documentation that did not include the CPE hours earned.	3		X
<b>QUALITY CONTROL AND ASSURANCE</b>				
GAS 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 compliance 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.	The audit organization did not effectively implement quality control procedures and did not encourage or emphasize quality throughout the audit life cycle.	1	X	

Table 3. General Standards (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 3.92 When performing GAS audits, audit organizations should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge, or if the documentation is lost or damaged. For audit documentation that is retained electronically, the audit organization should establish effective information systems controls concerning accessing and updating the audit documentation.	The audit organization did not develop adequate procedures for the safe custody and retention of electronic audit documentation.	1		X
GAS 3.93 Audit organizations should establish policies and procedures for monitoring of quality in the audit organization. Monitoring of quality is an ongoing, periodic assessment of work completed on audits designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice.	The audit organization did not effectively implement quality control procedures and did not encourage or emphasize quality throughout the audit life cycle.	3	X	

Table 3. General Standards (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 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 organizations should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.	The audit organization did not perform monitoring of quality procedures and did not annually summarize the results of monitoring of quality procedures.	3	X	X

Source: DoD OIG prepared based on the December 2011 GAS revisions and peer review reports issued to the 21 DoD audit organizations between April 4, 2017, and January 15, 2020.



## Appendix D

### Peer Review Deficiencies Identified for Attestation Engagements

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

Table 4. Attestation Engagements

Government Auditing Standard/AICPA Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>GENERAL STANDARDS</b>				
GAS 3.60 Auditors must use professional judgment in planning and performing audits and in reporting the results.	The audit organization had multiple evidence, documentation, reporting, or supervision deficiencies that were identified among the four attestation engagements reviewed, leading the review team to conclude that the audit staff, as a whole, did not exercise reasonable care when conducting the engagements. The number and significance of the deficiencies demonstrated that the audit staff did not exercise reasonable care in conducting the audit. As a result of the deficiencies, users of the resulting audit report could not rely on the reported conclusions.	1	X	
GAS 3.61 Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles.				
GAS 3.64 states that using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the audit process.				

Table 4. Attestation Engagements (cont'd)

Government Auditing Standard/AICPA Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>AGREED-UPON PROCEDURE ENGAGEMENTS</b>				
GAS 5.54 AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed. Such an understanding reduces the risk that either the auditors (practitioner) or the audited entity may misinterpret the needs or expectations of the other party.	The audit organization did not establish and document an understanding of the services to be performed, including the engagement objectives, management's responsibilities, the auditor's responsibilities, and limitations of the engagement.	1	X	
GAS 5.65 AUP engagements provide neither a high nor moderate level of assurance. As a result, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAS engagements.	The audit organization included recommendations in the AUP report that should not have been included.	1	X	
AICPA AT-C 215.A21 Auditors should avoid vague or ambiguous language; the procedures to be performed should be characterized by the action to be taken at a level of specificity sufficient for a reader to understand the nature and extent of the procedures performed. Examples of acceptable descriptions of actions include the terms inspect, confirm, compare, and agree.	The audit organization used vague or ambiguous language during the AUP engagement to discuss the procedures to be performed. In the engagement letter, the audit organization used language such as 'review' and 'verify' to identify the procedures to be performed.	1		X

Source: DoD OIG prepared based on the December 2011 GAS revisions, AICPA attestation engagement guidance, and peer review reports issued to the 21 DoD audit organizations between April 4, 2017, and January 15, 2020.

## Appendix E

### Peer Review Deficiencies Identified for Performance Audits

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

Table 5. Performance Audits

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>INDEPENDENCE</b>				
GAS 3.02 In all matters relating to the audit work, the audit organization and the individual auditor, whether Government or public, must be independent.	The audit organization did not document independence considerations for the audits performed.	1	X	
GAS 3.27 The ability of audit organizations in Government entities to perform work and report the results objectively can be affected by placement within Government and the structure of the Government entity being audited.	The audit organization’s organizational alignment and the lack of safeguards created a potential structural threat to the audit organization’s independence.	1	X	
GAS 3.59 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.	The audit organization did not adequately document their independence and did not follow the organization’s policies and procedures. For example, the audit organization did not document independence threat assessments.	7	X	X

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>PROFESSIONAL JUDGMENT</b>				
GAS 3.60 Auditors must use professional judgment in planning and performing audits and in reporting the results.	The audit organization did not exercise reasonable care when conducting the audits reviewed. Deficiencies were identified in the areas of supervision, audit documentation, and quality control for those audits.	1	X	
<b>PLANNING</b>				
GAS 6.06 Auditors must adequately plan and document the planning of the work necessary to address the audit objectives.	The audit organization did not complete audit planning steps, such as assessing audit risk, or documenting their understanding of an ongoing investigation. Also, the audit organization did not document rationale of significant changes made to the audit plan.	2	X	X
GAS 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.				
GAS 6.10 The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to address the audit objectives. 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 did not complete 11 of the 16 planning steps required by the audit organization's working paper template. In addition, the audit organization did not document a justification for not completing the planning steps.	1	X	

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 6.11a Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the nature and profile of the programs.	The audit organization did not assess audit risk and significance within the context of the audit objectives by gaining an understanding of the nature and profile of the programs.	1		X
GAS 6.13 Auditors should obtain an understanding of the nature of the program or program component under audit and the potential use that will be made of the audit results or report as they plan a performance audit.				
6.11b Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the internal control as it relates to the specific objectives and scope of the audit.	The audit organization did not perform sufficient procedures to identify internal controls related to the audit objectives, or did not fully document internal control assessments.	3		X
GAS 6.16 Auditors should obtain an understanding of internal control that is significant within the context of the audit objectives. For internal control that is significant within the context of the audit objectives, auditors should assess whether internal control has been properly designed and implemented and should perform procedures designed to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. Information systems controls are often an integral part of an entity's internal control. The effectiveness of significant internal controls is frequently dependent on the effectiveness of information systems controls. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls.				

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<p>GAS 6.24 An organization's use of information systems controls may be extensive; however, auditors are primarily interested in those information systems controls that are significant to the audit objectives. Information systems controls are significant to the audit objectives if auditors determine that it is necessary to evaluate the effectiveness of information systems controls in order to obtain sufficient, appropriate evidence. When information systems controls are determined to be significant to the audit objectives or when the effectiveness of significant controls is dependent on the effectiveness of information systems controls, auditors should then evaluate the design and operating effectiveness of such controls. This evaluation would include other information systems controls that impact the effectiveness of the significant controls or the reliability of information used in performing the significant controls. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives.</p>	<p>The audit organization's audit report referenced information systems and auditors relied on data obtained from these systems. However, the audit organization did not adequately assess information systems controls, including the application control and user controls.</p>	1		X

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<p>GAS 6.11e Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of ongoing investigations or legal proceedings within the context of the audit objectives.</p> <p>GAS 6.35 Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse. Laws, regulations, and policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an ongoing investigation or legal proceeding.</p>	<p>The audit organization did not assess audit risk and significance within the context of the audit objectives by gaining an understanding of ongoing investigations or legal proceedings within the context of the audit objectives.</p>	2		X



Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 6.36 Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.	The audit organization did not evaluate whether the audited entity had taken appropriate corrective actions to address findings and recommendations from previous engagements.	2		X
GAS 6.12a During planning, auditors should also identify the potential criteria needed to evaluate matters subject to audit.	The audit organization did not identify the criteria needed that are relevant to the audit objectives and that permit consistent assessment of the subject matter.	1	X	
GAS 6.12b During planning, auditors should identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance.	The audit organization did not identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance.	1	X	

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 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.	The audit organization did not update the audit plan to include the use of a sample to address the audit objectives.	1		X
<b>SUPERVISION</b>				
GAS 6.53 Audit supervisors or those designated to supervise auditors must properly supervise audit staff.	Supervisors did not perform adequate reviews of audit work. For example, the supervisor did not document approval of significant audit plan revisions.	5	X	X
GAS 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.	The audit organization did not document supervisory reviews.	5		X
<b>EVIDENCE AND DOCUMENTATION</b>				
GAS 6.50 If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and the reasons why the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the audit, and other appropriate officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment.	The audit organization did not document the results of the work to the date of termination and the reason why the audit was terminated.	1		X

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 6.56 Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.	The audit organization's evidence was not sufficient to provide a reasonable understanding of the findings and conclusions in the audit report.	2		X
GAS 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. 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. The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes.	The audit organization did not assess the sufficiency and appropriateness of computer-processed information.	2		X
GAS 6.67 Sufficiency is a measure of the quantity of evidence used for addressing the audit objectives and supporting findings and conclusions. Sufficiency also depends on the appropriateness of the evidence. In determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions.	The audit organization did not obtain documentation that supported their findings or documentation that supported actions related to the audit organization's determination that audit recommendations were implemented.	1	X	

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 6.72 Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. Limitations also include errors identified by the auditors in their testing. When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should apply additional procedures, as appropriate.	The audit organization became aware of a scope limitation and documented in the working papers that they would perform additional procedures. However, the audit organization did not perform the additional procedures or document their rationale for not performing the additional procedures.	1	X	
GAS 6.73 Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. In addition, if auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding.	The audit organization did not adequately develop the elements of a finding necessary to address the audit objectives and recommendations for corrective action.	2	X	X
GAS 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.	The audit organization did not prepare audit documentation in sufficient detail to provide the results of the audit procedures performed and conclusions reached. For example, the audit organization's summary working papers did not include one or more of the working paper elements such as the results section.	3	X	X

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
<b>REPORTING</b>				
GAS 7.07 If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.	The audit organization had to reissue an audit report due to inaccurate support identified by the review team during the peer review.	1		X
<b>REPORT CONTENTS</b>				
GAS 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.	The audit organization incorrectly reported the scope of a follow-up audit.	1	X	
GAS 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.	The audit organization did not include discussion of the sample, universe, or relationship between the population and the items tested in the audit report.	3		X

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 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.	The audit organization did not adequately report the methodology of the audit. For example, the audit report did not describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.	6		X
GAS 7.14 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. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives. However, the extent to which the elements for a finding are developed depends on the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives.	The audit organization did adequately develop the elements of a finding. Also, the audit organization did not develop recommendations that flowed logically from the findings.	2	X	X

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 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.	The audit organization's audit report discussed the use of a statistical sample. However, the audit report did not include the universe from which the sample was selected.	1		X
GAS 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. 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. Auditors should refer to that written communication in the audit report if the written communication is separate from the audit report. When auditors detect deficiencies that do not warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to audited entity officials is a matter of professional judgment.	The audit organization's audit report did not identify the scope of internal control testing performed or address the audit organization's review of internal controls.	2		X



Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 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.	The audit organization's audit report did not provide a conclusion to address all of the audit objectives, or conclusions in the audit report contradicted supporting information in the working papers.	2	X	
GAS 7.28 Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.	The audit organization did not develop recommendations that flowed logically from the findings. Also, the audit organization did not make recommendations to correct the deficiencies identified in a follow-up audit.	3	X	X

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
GAS 7.30 When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS: "We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives."	The audit organization did not use the unmodified GAGAS compliance statement in the audit reports.	2		X
GAS 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.	The audit organization did not request, or did not include in the audit report, an evaluation of management comments.	2	X	X
GAS 7.34 When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.				

Table 5. Performance Audits (cont'd)

Government Auditing Standard	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
QUALITY CONTROL POLICIES AND PROCEDURES				
GAS 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 audit organization did not follow the audit organization's quality control policies and procedures, such as cross-referencing audit reports, independent reference review procedures, and internal quality assurance reviews.	6	X	X

Source: DoD OIG prepared based on the December 2011 GAS revisions and the peer review reports for the 21 DoD audit organizations issued between April 4, 2017, and January 15, 2020.

## Appendix F

### Peer Review Deficiencies Identified for Monitoring of Audit Work Performed by an Independent Public Accounting Firm

This appendix shows the deficiencies found in the peer review reports applicable to CIGIE Guide Appendix F, “Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm.” This appendix also shows the number of DoD audit organizations affected for each deficiency and whether the deficiency was reported in the System Review Report or Letter of Comment.

*Table 6. Monitoring of Audit Work Performed by an Independent Public Accounting Firm*

CIGIE Guidance	Issue	Number of DoD Audit Organizations Affected	System Review Report	Letter of Comment
Section 2 of the CIGIE Peer Review Guide: Did the audit organization review the IPA’s audit documentation and reports for adherence to GAS?	The audit organization did not document the audit organization’s assessment of the IPA’s performance prior to the issuance of the AFR.	2		X
	The audit organization prepared and approved working papers that documented the audit organization’s oversight 30 days after the transmittal letter was signed by the Acting Inspector General.			

Source: DoD OIG prepared by reviewing the most recent peer review reports issued for the 21 DoD audit organizations between April 4, 2017, and January 15, 2020.

## Acronyms and Abbreviations

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<b>AFR</b>	Agency Financial Report
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>AUP</b>	Agreed-Upon Procedures
<b>CIGIE</b>	Council of the Inspectors General on Integrity and Efficiency
<b>CPE</b>	Continuing Professional Education
<b>GAS</b>	Government Auditing Standards
<b>IPA</b>	Independent Public Accounting
<b>IRR</b>	Independent Reference Review

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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