

# **Appendix B – Checklist for Review of Adherence to General Standards**

# What I'll Cover Today

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## ➤ Purpose of Appendix B

## ➤ Details of GAS:



**1. Independence**

**2. Competence**

**3. Quality Control and Assurance**

**❖ Professional Judgment**

## ➤ Questions

# Purpose

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## ➤ Test Audit Organization's Compliance with General Standards

General Standards	2011 GAS	2007 GAS
Independence	3.01-3.59	3.02-3.30
Professional Judgment	3.60-3.68	3.31-3.39
Competence	3.69-3.81	3.40-3.49
Quality Control & Assurance	3.82-3.95	3.50-3.69

✓ **How much testing?**

# Appendix B

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**Appendix B**

**Checklist for Review of Adherence to  
General Standards – 2011 Revision to GAS**

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OIG UNDER REVIEW  
& PERIOD REVIEWED: \_\_\_\_\_

REVIEWER(S): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

DATE COMPLETED: \_\_\_\_\_

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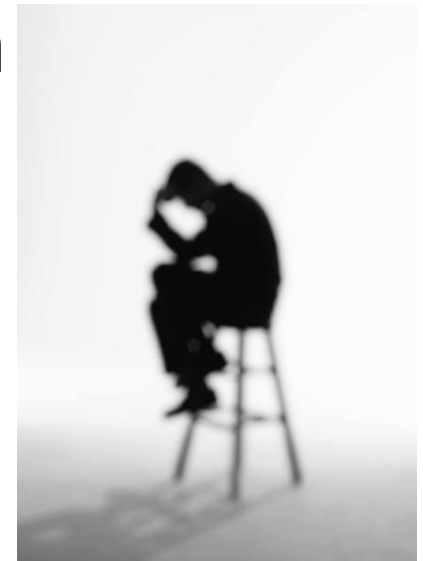
# Independence

2011 GAS	2007 GAS
In all matters relating to the audit work, the organization and auditor:	
Must be independent of mind and in appearance	Must be free from personal, external, organization impairments
Identify/evaluate threats to independence and reduce/eliminate them by adopting safeguards	Avoid appearance of impairments with policies/procedures, communications, monitoring, disciplinary, stress importance
Types of threats include self-interest, self-review, bias, familiarity, undue influence, and management participation	Personal and professional relationships, beliefs and biases, employment interests, and financial interests
Structural - organization placement and reporting level within entity	External forces and organizational placement
Nonaudit services may create threats to independence	Nonaudit and other services provided to the auditee may create impairment.
Decline the engagement or terminate an in-progress engagement if safeguards do not reduce or eliminate threats	If impairments can effect or appear to affect independence, decline to perform work or disclose the impairments and modify the GAGAS compliance statement

# Independence of Mind

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**GAS 3.03.a – The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgments, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.**



# Independence in Appearance

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**GAS 3.03.b. – The absence of circumstances that would cause a reasonable and informed third party, having knowledge of relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.**

# Independence Framework

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

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





# Independence

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## ➤ Things to Consider

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

# Independence

## ➤ More Things to Consider

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

# Independence

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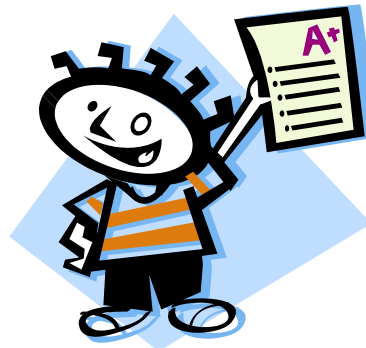
## ➤ Examples

- ✓ **I worked in CFO before moving to OIG and was in charge of Accounts Payable in FY 2012. Can I perform the audit of the FY 2012 statements?**
- ✓ **I was assigned to audit the manufacturing process at the Philadelphia Mint facility and my uncle is the deputy plant manager, can I perform the audit?**
- ✓ **I am seeking employment with the Office of the Comptroller of the Currency, can I perform an audit of one of their failed banks?**

# Competence

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- **Staff assigned to perform audit must collectively possess adequate professional competence needed to address objectives and perform work**
  - ✓ **Recruitment, hiring, continuous development, assignment, and evaluation**
  - ✓ **Blending of education and experience**
  - ✓ **Access to audit standards and reference materials**
  - ✓ **New hires have adequate education and experience**
  - ✓ **Technical skills**
  - ✓ **CPE requirements**

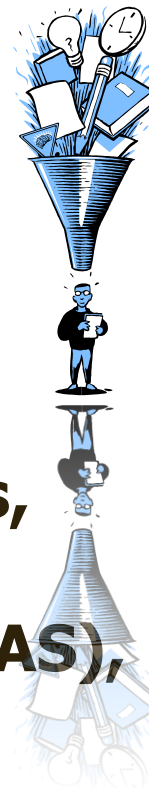


# Competence

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## ➤ Things to Consider

- ✓ Interviews/observations
- ✓ Review HR and training records and audit documentation
- ✓ GAGAS, environment/subject matter, statistical sampling, IT, engineering, actuary, general skills, communication skills
- ✓ GAAP or applicable financial framework (2011 GAS), AICPA, SAS, SSAE, CPAs or working for CPAs
- ✓ Nature, extent, formality of programs, policies, procedures depend on organization's size, structure, work



# Competence



## ✓ External Specialists

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

## ✓ Internal Specialists

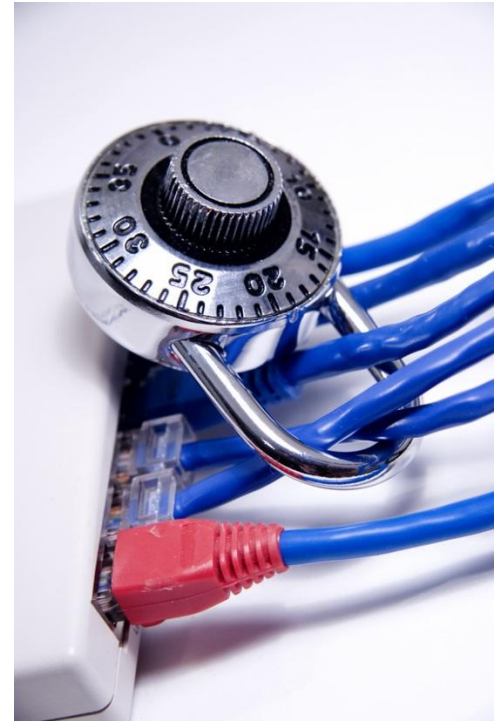
- **2007 – part of the audit organization and perform as a member of the audit team should comply with GAGAS CPE requirements**
- **2011 – do not need to meet GAGAS CPE requirements when do not direct, perform, report as part of the audit team**

# Quality Control and Assurance

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## ➤ **System Encompasses:**

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



# Quality Control and Assurance

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## ➤ What?

- ✓ **Establish as system of quality control designed to provide reasonable assurance of compliance with professional standards and applicable legal and regulatory requirements**
- ✓ **Have external peer review every 3 years**

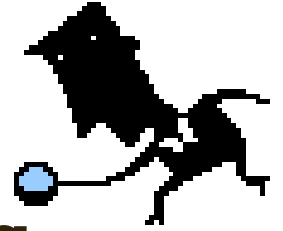




# Quality Control Monitoring

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## ➤ Things to Consider



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

# OIG's Monitoring Program

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## ✓ What to look for:

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



# OIG's Monitoring Program

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- **Does OIG perform monitoring to assess compliance with standards and policies/procedures?**
- **Things to Consider**

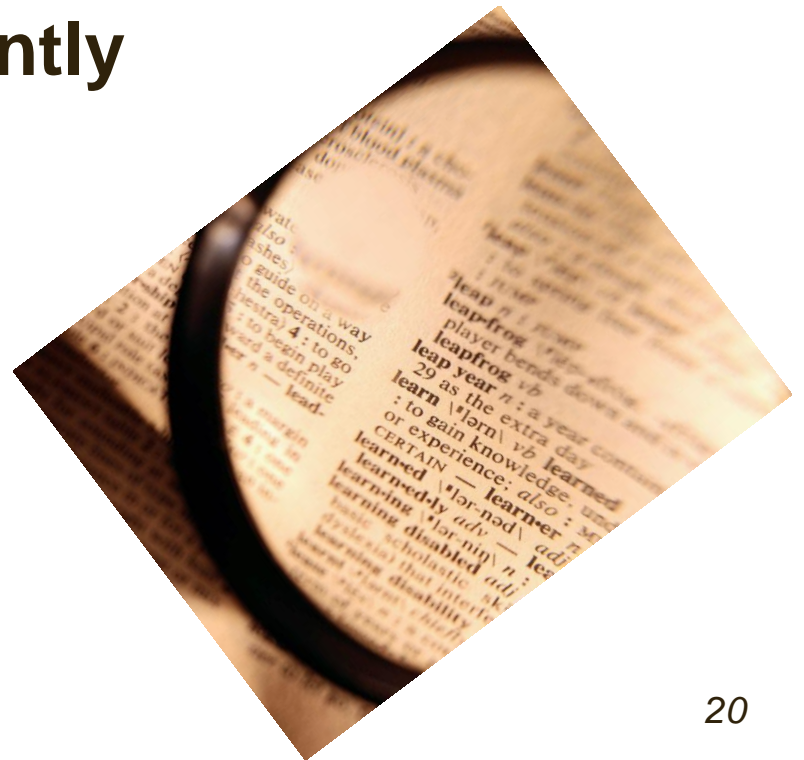
- ✓ **Sample monitoring reports and documentation**
- ✓ **Include in peer review sample engagements also reviewed by monitoring team**
- ✓ **Interviews and observations**
- ✓ **Other procedures**



# Monitoring Reports

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- **Determine whether monitoring reports:**
  - ✓ **Described work performed**
  - ✓ **Were recent enough to be of value**
  - ✓ **Scope of work sufficiently comprehensive**



# Monitoring Documentation

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

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

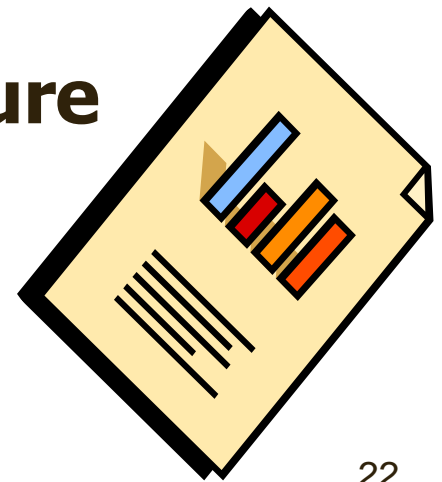


# Monitoring Recommendations

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## Determine whether recommendations:

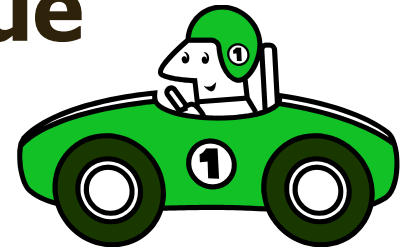
- ✓ **Supported by adequate documentation**
- ✓ **Included written comments from responsible OIG official with corrective actions taken or proposed (and adequately assessed)**
- ✓ **Tracked and monitored to ensure corrective action taken**



# Monitoring and Peer Reviews

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



# External Peer Reviews



## ➤ **Did the OIG:**

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

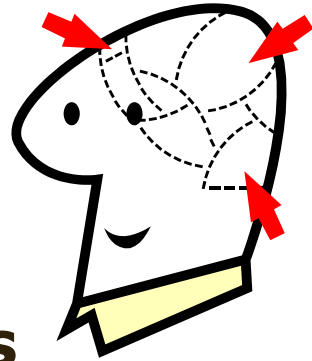


# Professional Judgment

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## ➤ What?

- ✓ **Must use professional judgment in planning and performing audits and reporting results**
- ✓ **Exercising reasonable care and professional skepticism**
- ✓ **Acting diligently, complying with applicable professional standards and ethical principles**
- ✓ **Comments:**
  - **Difficult to test**
  - **Not generally tested in Appendix B**
  - **Tested as part of sampled engagement covered in Appendices C, D, E, F**



# Professional Judgment

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## ➤ How? Did audit show that Auditors had:

- ✓ Questioning mind
- ✓ Critically assessed evidence
- ✓ Performed work in good faith and with integrity
- ✓ Objectively evaluated information
- ✓ Collective knowledge, skills, and experience of all personnel involved with audit
- ✓ Documented significant decisions affecting the objectives, scope, methodology, findings, conclusions, and recommendations
- ✓ Reasonable documentation



# Professional Judgment

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- **Things to Consider**
  - ✓ **Subjective**
  - ✓ **Professional Judgment**
  - ✓ **Observations**
  - ✓ **Interviews**
  - ✓ **Records and audit documentation**
  - ✓ **Other procedures**



# How Much Testing?

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- **Nature and extent should be sufficiently comprehensive to provide a reasonable basis for conclusion and depends on:**
  - ✓ **Adequacy policies and procedures**
  - ✓ **Compliance with policies and procedures**
  - ✓ **Prior peer review results**
  - ✓ **Organization's structure and size**
  - ✓ **Monitoring results**
  - ✓ **Other factors**



# Something to think about



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

# Appendix B

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