
Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General

September 2014



Message from the Chair of the Council of the Inspectors General on Integrity and Efficiency Audit Committee

September 2014

Work conducted by Offices of Inspector General (OIGs) and other Federal audit organizations provides important accountability and transparency over government programs. To help OIGs fulfill their oversight roles and comply with statutory requirements, professional standards, and/or established policies and procedures, a peer review of a federal audit organization is required by generally accepted government auditing standards (GAGAS) or the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The September 2014 *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (September 2014 Guide) implements the CIGIE Audit Committee's peer review program. This guidance provides CIGIE member audit organizations with information on the implementation of the General Standard on Quality Control and Assurance in *Government Auditing Standards*, issued by the Comptroller General of the United States. Pursuant to its charter, the CIGIE Audit Committee administers the peer review program under GAGAS for OIGs. The September 2014 Guide is based on (1) changes adopted by the CIGIE Audit Committee and described in its policy statement and (2) the December 2011 revision to *Government Auditing Standards*, and supersedes the March 2009 Guide and its corresponding November 2012 update.

The September 2014 Guide

- Discusses two types of peer reviews — *External Peer Review* and *Modified Peer Review*. The External Peer Review is designed to assess the OIG audit organization's system of quality control in accordance with *Government Auditing Standards*. The Modified Peer Review, new to the September 2014 Guide, is designed to assess an OIG audit organization whose work conducted in the last 3 years did not include audits and attestation engagements performed in accordance with GAGAS, but the OIG audit organization maintained policies and procedures in anticipation of performing such work. The Modified Peer Review assesses audit policies and procedures to determine whether they are current and consistent with applicable professional standards. It is the belief of the Audit Committee members that the OIG should be subject to a peer review process, and although an audit organization may not have performed GAGAS audits and attestation engagements during the period under review, the OIG may have performed monitoring of contracted work and established and maintained policies and procedures to conduct audit work, in accordance with applicable professional standards.
- Consolidates illustrative materials with the applicable peer review guidance – *Section 2: Guide for Conducting the External Peer Review* and *Section 3: Guide for Conducting the Modified Peer Review*; and Appendix G, *Optional Audit Staff Questionnaire*.
- Updates Appendix C, *Checklist for Review of Financial Audits Performed by the Office of Inspector General*, and Appendix D, *Checklist for Review of Attestation Engagements Performed by the Office of Inspector General*, to be consistent with changes in the December 2011 revision to *Government Auditing Standards*.
- Removes duplicative materials and includes a general refresh of all materials.

This revision of the peer review guidance has gone through an extensive deliberative process, including comments and input from CIGIE and the Federal Audit Executive Committee members and audit organizations in the Federal Government who use or who have an interest in the guidance. The September 2014 revision is effective upon publication.

I extend special thanks to the members of the CIGIE Peer Review Guide working group and the members of CIGIE and the Federal Audit Executive Committee, and other Federal audit organizations for their extensive input and feedback throughout the process of revising the peer review guidance. The CIGIE Audit Committee welcomes any suggestions for further improving the peer review program. Comments and suggestions may be directed to APRG@oig.treas.gov.

The Honorable Jon T. Rymer
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Chair, CIGIE Audit Committee

Council of the Inspectors General on Integrity and Efficiency Audit Committee

September 2014

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Audit Committee Policy Statement on Systems of Quality Control and the Peer Review Program

I. Purpose

The purpose of this statement is to provide the members of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) with policy guidance to on the implementation of the General Standard on Quality Control and Assurance in *Government Auditing Standards (GAS)*.¹ Pursuant to its charter, the CIGIE Audit Committee administers the peer review program under generally accepted government auditing standards (GAGAS) for Federal Offices of Inspector General (OIGs).

II. Background

GAGAS requires audit organizations² that perform audits or attestation engagements³ in accordance with GAGAS to establish and maintain a system of quality control and to undergo an external peer review at least once every 3 years. GAGAS describes the elements of a system of quality control in greater detail, and the external peer review process. GAGAS also prescribes requirements for granting extensions of deadlines for submitting peer review reports. In the context of the September 2014 *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (September 2014 Guide), the term “External Peer Review” refers to the GAGAS required peer review.

CIGIE has also added a “Modified Peer Review” section to this September 2014 Guide to refer to a peer review of an OIG that did not perform GAGAS audits and attestation engagements, but maintained audit policies and procedures in anticipation of performing such work. It is the view of the CIGIE Audit Committee that it would be useful for such an OIG to be subject to a peer review process to help ensure that its audit policies and procedures, if established, are current and consistent with applicable professional standards. Whether an OIG conducts audits or other types of review in its oversight role of its agency, the OIG uses the CIGIE *Quality Standards for Federal Offices of Inspector General* to guide the conduct of its official duties in a professional manner. These quality standards incorporate, by reference, existing professional standards for audits, investigations, inspections, and evaluations.

¹ GAGAS are promulgated by the Comptroller General of the United States and contained in *Government Auditing Standards (GAS)* published by the Government Accountability Office. This September 2014 Guide is based on the December 2011 Revision to *Government Auditing Standards*. In general, the Inspector General Act of 1978 (Public Law 95-452), as amended, section 4(b) and 12(c)(2) (5 U.S.C. Appendix 3) requires Federal OIGs to comply with GAGAS and to adhere to professional standards developed by CIGIE.

² Throughout this document, the term “audit organization” refers to an OIG that, whether with or without an audit function, performs audits and attestation engagements in accordance with GAGAS.

³ Throughout this document, the term “audits”, when used alone, refers to audits and attestation engagements conducted in accordance with GAGAS. *GAS*, 1.07c refers to audits as financial audits, attestation engagements, and performance audits conducted in accordance with GAGAS. (Dec. 2011)

The CIGIE Audit Committee's policy statement on the system of quality control and the peer review guidance were first issued in August 1989, and are periodically revised. The policy statement provides guidance on the system of quality control, including quality assurance review programs and the peer review program. Starting with this September 2014 Guide, the CIGIE peer review program requires either an External Peer Review in accordance with GAGAS, or a Modified Peer Review in accordance with CIGIE guidance. CIGIE adopted the Modified Peer Review to cover an OIG that did not perform GAGAS audits and attestation engagements in the 3 years since its last peer review, yet maintained audit policies and procedures.

III. System of Quality Control

GAGAS requires audit organizations that conduct audits in accordance with GAGAS to establish and maintain a system of quality control for the audit organization. The system of quality control encompasses the organization's leadership, emphasis on performing 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. The nature, extent, and formality of an OIG's system of quality control will vary based on the OIG's circumstances. *Section 1: Guidelines for Office of Inspector General Quality Control and Assurance Programs* describes the requirements and guidelines for establishing a system of quality control for the audit organization.

GAGAS also requires audit organizations to document their quality control policies and procedures and communicate those policies and procedures to personnel. OIGs should also analyze and summarize the results of their monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. Monitoring of quality is an ongoing, periodic assessment of work for compliance with standards, laws, and policies.

IV. Peer Review Program

The CIGIE peer review program provides OIGs and their stakeholders with an assessment of (1) the system of quality control over the audit organization and the audit organization's compliance with the established system of quality control, referred to as an *External Peer Review*; or (2) established audit policies and procedures to determine whether they are current and consistent with applicable professional standards, referred to as a *Modified Peer Review*. The type of peer review needed is dependent on whether the reviewed OIG audit organization's work performed in the 3 years since its last peer review included GAGAS audits and/or attestation engagements. The objectives of the two types of peer reviews are different, and the reviewed OIG will need to ensure that it obtains the appropriate peer review for the type of work it performed:

- a. External Peer Review – This type of peer review is required of an OIG audit organization that performed GAGAS audits and attestation engagements. The objective of the External Peer Review is to determine whether, for the period under review, the reviewed OIG audit organization's system of quality control was suitably designed and whether the audit organization is complying with its system of quality control to provide it with reasonable

assurance of conforming with applicable professional standards in all material respects. Guidance for this peer review is detailed in *Section 2: Guide for Conducting the External Peer Review*.

- b. Modified Peer Review – This type of peer review is applicable to an OIG audit organization whose work did not include GAGAS audits and attestation engagements but who may have elected to maintain audit policies and procedures. The objective of the Modified Peer Review is to determine whether the reviewed OIG audit organization’s established policies and procedures are current and consistent with applicable professional standards. Guidance for this peer review is detailed in *Section 3: Guide for Conducting the Modified Peer Review*.

The Inspector General Act of 1978, as amended, (IG Act) requires that external peer reviews of an OIG be performed exclusively by an audit entity of the Federal Government (e.g., another OIG, or the Government Accountability Office (GAO)). Assignments for OIGs to obtain peer reviews are made by the CIGIE Audit Committee.

GAGAS requires audit organizations to obtain an external peer review at least once every 3 years. The GAGAS external peer review generally covers 1 year. For the GAGAS peer review, the scope typically consists of the period covered by the OIG’s two most recent semiannual reports to the Congress, but may be expanded as deemed necessary by the peer review team.

Whether an External Peer Review or a Modified Peer Review is needed, the same year-end (normally March 31 or September 30) should be maintained on the peer review (which should be 3 years from the previous year-end). For example, if the most recent peer review covered the year ended March 31, 2014, then the next peer review should cover the year ending March 31, 2017. The report should be issued within 6 months after the end of the period under review; in this instance, by September 30, 2017. For an External Peer Review, the extension of the deadline for submitting the peer review report exceeding 3 months beyond the due date must be granted by the CIGIE Audit Committee and GAO under GAGAS. For a Modified Peer Review, the extension of the deadline for submitting the peer review report exceeding 3 months beyond the due date must be granted by the CIGIE Audit Committee.

Whether conducting an External Peer Review or a Modified Peer Review, the OIG conducting the review and individual review team members should be independent (as defined in GAGAS) of the reviewed OIG, its staff, and as applicable, the engagements selected. The OIG conducting the peer review should also ensure that the review team collectively has current knowledge of GAGAS and government auditing and sufficient knowledge of how to perform the peer reviews.

The September 2014 Guide provides OIGs with procedures to ensure that peer reviews are conducted in an appropriate and consistent manner. The peer reviews will culminate in a written report, to include any expanded scope areas. OIGs are encouraged to seek technical clarification, GAGAS interpretations, or general GAGAS assistance from subject matter experts at GAO or the CIGIE Audit Committee, as needed. OIGs are encouraged to resolve areas of disagreement prior to issuing the peer review report. The CIGIE Audit Committee Chair may be consulted if the OIGs are unable to resolve disagreements. However, it is ultimately the responsibility of the reviewing OIG to render an opinion on the External Peer Review or provide the results of the Modified Peer Review.

Regarding peer review report distribution, OIGs are considered hybrid external and internal audit organizations.⁴ For this reason, the reviewed OIG should (1) make its most recent peer review report publicly available, for example posting the report on its website or using other methods for transparency; and (2) provide copies to others upon request and to those charged with governance.⁵ The OIG shall also provide copies of the final peer review report to the head of its agency, the Chair of the CIGIE, and the Chair of the CIGIE Audit Committee; and communicate the overall results and make its peer review report available to appropriate oversight bodies. Furthermore, the OIG shall include the results of its most recent peer review report in its semiannual report to Congress.⁶ In addition, and upon request, the reviewed OIG should coordinate with the previous peer review team to provide a copy of the previous final peer review report and related documentation to the current peer review team or to GAO.

Only an OIG that receives a rating of *pass* from its most recent External Peer Review will be allowed to perform a peer review of another OIG. An OIG 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. Furthermore, if an OIG under review receives notification at the official draft report stage of the External Peer Review that it will receive a rating other than *pass*, and if the reviewed OIG is simultaneously performing a peer review of another OIG, the reviewed OIG should notify the CIGIE Audit Committee. Reassignment will be made as appropriate. OIGs covered by the Modified Peer Review do not receive a rating and are therefore not restricted from conducting a peer review of another OIG.

⁴ GAS, 1.09 (Dec. 2011)

⁵ GAS, 3.105, this requirement does not include any letter of comment (Dec. 2011).

⁶ See section 5(a)(14) of the IG Act, as amended; guidance is available in the [CIGIE Implementing Guidance for OIG Reporting of Peer Review Results in Semiannual Reports to the Congress](#) (Ctrl+left click to open the link.). This requirement does not include the letter of comment.

Section 1

Guidelines for Office of Inspector General Quality Control and Assurance Programs

Preface

1. This section presents the guidance for establishing a system of quality control for an audit organization of Federal Offices of Inspector General (OIGs). This section was developed to help OIG audit organizations establish and maintain a system of quality control to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. An OIG's system of quality control for the audit organization may differ depending on the structure of the organization, the number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its audit work, and cost-benefit considerations. Taking these factors into consideration, the OIG's system of quality control for the audit organization must be structured and implemented to ensure an objective, timely, and comprehensive appraisal of operations.

General Considerations

2. An OIG's system of quality control for its audit organization encompasses the audit organization's leadership, emphasis on performing high-quality work, and its policies and procedures.⁷ The system should be designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements, including generally accepted government auditing standards, applicable Office of Management and Budget and Government Accountability Office (GAO) guidance, and statutory provisions applicable to the OIG. Additionally, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Federal Offices of Inspector General* sets forth the overall quality framework for OIGs, including audit organizations.⁸
3. The nature, extent, and formality of an OIG audit organization's system of quality control varies based on the OIG'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.
4. A quality control and assurance program must be structured and implemented to ensure an objective, timely, and comprehensive appraisal of operations.
5. The same professional care should be taken with performing a peer review as with other OIG efforts, including adequately planning the review, documenting findings, developing supportable recommendations, and soliciting comments from the management of the activity or unit reviewed.

⁷ GAS, 3.83 (Dec. 2011)

⁸ [CIGIE Quality Standards for Federal Offices of Inspector General](#) (Ctrl+left click to open the link.) (Jan. 2012).

6. An OIG audit organization's quality control and assurance programs should address:
 - a. Leadership responsibilities for quality in the audit organization;
 - b. Independence and legal and ethical requirements;
 - c. Initiation, acceptance, and continuance of audits;
 - d. Human resources;
 - e. Audit performance, documentation, and reporting; and
 - f. The monitoring of quality in the audit organization.

7. The audit organization should prepare written communications to appropriate OIG personnel to document the audit quality monitoring process, and at least annually: (1) analyze and summarize the results of its monitoring process, (2) identify any systemic or repetitive issues that need improvement, and (3) make recommendations for corrective actions.⁹ An OIG may refer to *Government Auditing Standards* for additional guidance to evaluate:
 - a. The suitability of the design of the system of quality control;
 - b. The effectiveness of policies and procedures; and
 - c. Adherence to professional standards, legal and regulatory requirements, and policies and procedures.

8. Examples of policies and procedures include the following:
 - a. Communication provided to help staff sufficiently understand the objectives of their work and applicable professional standards;
 - b. Audit planning and supervision;
 - c. Appropriate documentation of the work performed;
 - d. Review of the work performed, the significant judgments made, and the resulting audit documentation and report;
 - e. Review of the independence and qualifications of any external specialists and the scope and quality of their work;
 - f. Procedures for resolving difficult or contentious issues, or disagreements among team members, including specialists;
 - g. Obtaining and addressing comments from the audited entity on draft reports; and
 - h. Reporting supported by the evidence obtained, and in accordance with applicable professional standards and legal or regulatory requirements.

⁹ GAS, 3.95 (Dec. 2011).

Section 2

Guide for Conducting the External Peer Review

Preface

1. This section presents the general guidance for conducting an External Peer Review of an audit organization of Federal Offices of Inspector General (OIGs) that conducted audits in accordance with generally accepted government auditing standards (GAGAS) during the 3 year period since the prior peer review or since the organization started its first GAGAS engagement.¹⁰ The section was developed to ensure the adequacy and consistency of the External Peer Review in accordance with GAGAS and the September 2014 policy statement issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Audit Committee. The guidance contained herein is not intended to supplant the review team's professional judgment as to the specific approach to take or procedures needed to be performed. The general standard for quality control and assurance in GAGAS is the overarching criteria for the External Peer Review. In forming opinions on the rating to issue and determining the results to report on the External Peer Review, findings should be measured against GAGAS.

General Considerations

Definitions

2. The following terms are used throughout this section and the appendices:
 - **Audits.** For the purpose of providing guidance on the peer reviews, the term “audits”, when used alone, pertains to both audits and attestation engagements performed in accordance with GAGAS.
 - **Independent Public Accountant (IPA) Monitoring.** IPA monitoring consists of activities by the reviewed OIG to contract for and monitor GAGAS audit and attestation work performed by an IPA firm where the IPA served as the auditor. The Inspector General Act of 1978, as amended, 5 U.S.C. Appendix. 3 (IG Act) requires OIGs to establish guidelines to determine when it is appropriate to use non-Federal auditors.¹¹ The IG Act also requires OIGs to ensure that the work of non-Federal auditors adheres to GAGAS.¹² IPA monitoring conducted by an OIG is not an audit and GAGAS does not prescribe standards for IPA monitoring.

¹⁰ The 3 year period typically corresponds to either March 31 or September 30, and is used by (1) the CIGIE Audit Committee to schedule the peer reviews and (2) the peer review team as the period end date of the scope of the review.

¹¹ Section 4(b)(1)(B) of the IG Act

¹² Ibid., section 4(b)(1)(C)

- **Nonaudit Services.** In general, nonaudit services are professional services other than audits performed by an OIG audit organization for the audited entity. Under GAGAS, activities such as financial statement preparation, cash to accrual conversions, and reconciliations are considered nonaudit services. Routine activities performed by auditors that relate to the performance of an audit, such as providing advice and responding to questions as part of an audit, are not considered nonaudit services. Additionally, reviews performed by the OIG under the CIGIE *Quality Standards for Inspection and Evaluation* are not considered nonaudit services.¹³ Prior to providing a nonaudit service, the audit organization considers whether providing such a service creates a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any audit it performs.
- **Quality Assurance Program.** A quality assurance program is an ongoing, periodic assessment of work completed on audits that were performed by OIG personnel and 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. The purpose of monitoring compliance with quality control policies and procedures is to provide an assessment of (1) adherence to professional standards and legal and regulatory requirements, (2) whether the system of quality control has been appropriately designed, and (3) whether quality control policies and procedures are operating effectively and complied with in practice. Examples of monitoring procedures may be found in *Government Auditing Standards* and the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*.
- **System of Quality Control.** An OIG audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high-quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization's system of quality control will vary based on the audit organization's circumstances. These include 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.

Objectives of the External Peer Review

3. An External Peer Review is applicable to an OIG audit organization that conducted audits and/or attestation engagements in accordance with GAGAS in the 3 years since its last peer review or since it started its first GAGAS engagement. The objectives of the External Peer Review are to determine whether, for the period under review, the reviewed OIG audit organization's system of quality control was suitably designed and whether the organization

¹³ According to the CIGIE *Quality Standards for Inspection and Evaluation*, inspections and evaluations are systematic and independent assessments of the design, implementation, and/or results of an Agency's operations, programs, or policies. They include inquiries and similar types of reviews that do not constitute an audit or a criminal investigation. They provide information and recommendations to agency managers, policymakers, and others on improvements and administrative actions. (Jan. 2012)

is complying with its system of quality control in order to provide it with reasonable assurance of conforming with applicable professional standards in all material respects. The scope of this review should also include IPA monitoring activities if IPAs were engaged by the reviewed OIG audit organization to perform audits and attestation engagements.

Responsibilities and Characteristics of the External Peer Review Team

4. The review team should exercise professional judgment in all matters relating to planning, performing, and reporting the results of the External Peer Review. Nothing in this section should be construed to limit the flexibility of the review team in planning and performing the review.
5. The review team should be led by a team captain with sufficient expertise and who reports to an individual or at a level within the reviewing OIG that will ensure independence and objectivity in performing the External Peer Review. The team captain should also ensure the proper supervision of the staff.
6. The review team should have knowledge related to performing peer reviews. The team should collectively have sufficient knowledge of how to perform an External Peer Review. The individuals managing and conducting the review should have experience and thorough knowledge of applicable professional standards, and the environment relative to the work being performed to ensure a quality review. Having team members with prior experience on an External Peer Review or an internal quality assurance review is desirable but not required.
7. The OIG conducting the External Peer Review and individual review team members should be independent (as defined in GAGAS) of the OIG being reviewed, its staff, and the audits and attestation engagements selected for the review. The team should use the GAGAS conceptual framework for independence to help identify threats and apply safeguards to the External Peer Review.
8. The number of staff assigned to the review team depends on several factors, including, but not limited to, the size and geographic dispersion of the reviewed OIG, and the nature and extent of its audit universe. The review team should be adequately staffed to complete the review in a timely manner. Members of the review team should be selected from one OIG or several OIGs to form an ad-hoc team.
9. Other factors that should be considered in selecting team members include the types and complexity of GAGAS engagements selected for review and any specialized skills that may be needed, such as information technology specialists, statisticians, auditors with financial audit experience, or auditors with experience monitoring the work of IPAs. Also, when the reviewed OIG's audit universe includes classified information, or the reviewed OIG uses electronic audit software to document their work, the review team should be capable of reviewing such work and plan accordingly, to include having the proper clearance to access the classified information, and training and any audit documentation software needed.

Planning and Performing the External Peer Review

Initiation of the External Peer Review and Administrative Matters

10. When the reviewed OIG conducted GAGAS engagements in the 3 years since the last peer review or since the date that the reviewed OIG started its first GAGAS engagement, the reviewed OIG makes informal contact with the reviewing OIG early in the process, and such contact is encouraged to ensure that the reviewed OIG obtains the External Peer Review report within the time frame required by GAGAS. Such contact also helps the reviewing OIG plan the review and identifies any special circumstances surrounding the External Peer Review.¹⁴ The peer review schedule is maintained by the CIGIE Audit Committee and identifies the OIGs scheduled for a peer review and the OIGs scheduled to perform the peer review, the peer review report scope, and due dates; and is categorized by the OIG audit staff size. After such contact is made, the reviewing OIG should forward an engagement letter signed by its Inspector General to the reviewed OIG's Inspector General announcing the initiation of the External Peer Review and requesting a formal entrance conference. The engagement letter should also contain a request that the information in paragraph 18 of this section be provided at or before the entrance conference. Sufficient time should be given to the reviewed OIG to compile the information.
11. An entrance conference should be held to bring the parties together, establish the ground rules of the review, and facilitate conducting the review. At that time, the reviewed OIG audit organization management should brief the review team on organizational issues and work practices (e.g., roles and responsibilities of the audit organization, the use of electronic audit software, and other matters); the level of security clearance/access needed; and any training that may be required before the review to facilitate preparation and planning. The proposed elements of the suggested memorandum of understanding (MOU) at paragraph 19 should also be discussed. An illustrative MOU is included at paragraph 48 for the team to use and should be modified, as appropriate, to fit the circumstances of the review.
12. Adequate work space should be provided for the review team.
13. If travel is necessary to accomplish the objectives of the review, the reviewing OIG should pay its own travel expenses. If the team is made up of members of different OIGs, the team members' respective OIGs should pay their travel expenses.
14. The review team should maintain administrative records of the staff days and calendar days taken to complete the review, as well as travel and other costs incurred. These records should be retained as part of the peer review documentation so that they are available for the next peer review team for its planning purposes.

¹⁴ GAS, 3.96 requires an audit organization conducting GAGAS audits to obtain a peer review once every 3 years. (Dec. 2011)

Scope of the External Peer Review

15. The scope of the External Peer Review is based on the period covered by the reviewed OIG's prior peer review (whether an External Peer Review or a Modified Peer Review was conducted). Specifically, it will cover the year-end which is 3 years from the year-end covered by the prior peer review. For example, if the prior peer review year-end was March 31, 2011, then the current peer review covers the year ending March 31, 2014. However, if this is the first peer review for an audit organization not already subject to a peer review requirement, then the scope should cover a review period ending no later than 3 years from the date an audit organization begins its first audit in accordance with GAGAS. The due date for the External Peer Review report is 6 months from the year-end covered by the peer review. Following our example, the due date for the External Peer Review report in this case is September 30, 2014. In accordance with GAGAS, approval of extensions to the due date exceeding 3 months beyond the due date must be obtained from the CIGIE Audit Committee and GAO. Typically the period under review covers 1 year, but may be expanded as deemed necessary by the review team.
16. GAGAS recognizes that the nature, extent, and formality of an audit organization's system of quality control depends on a number of factors, such as the 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. Nonetheless, the audit organization must have a system of quality control in place to provide reasonable assurance that the organization and its personnel comply with GAGAS and applicable legal and regulatory requirements. In addition, policies and procedures may vary among OIGs and internal procedures that are more stringent than GAGAS should not be applied in concluding whether the organization complies with applicable professional standards. However, the reviewing OIG should bring noncompliance with such internal procedures to the reviewed OIG audit organization management's attention for corrective action. Comments may either be provided verbally or in writing. Written comments may be in a letter of comment or similar document depending on the pervasiveness and severity of the noncompliance.
17. The scope of the External Peer Review should also include a review of the OIG audit organization's monitoring of audits contracted to IPAs where the IPA serves as the auditor. IPA monitoring activities are not audits performed in accordance with GAGAS. However, audit work performed by IPAs may be significant in many OIGs. Also, OIGs have responsibility under the IG Act to ensure that contracted IPA audit work conforms to GAGAS. Accordingly, the CIGIE Audit Committee determined that it is prudent to give this area appropriate coverage as part of the External Peer Review. The focus of the review on IPA monitoring activities will be on contracting and monitoring practices to ensure that contracted work complies with professional standards. Weaknesses found with IPA monitoring activities are to be reported in the letter of comment or similar written document.

Planning/Pre-Site Visit

18. The following steps should be performed prior to the entrance conference to obtain an understanding of the reviewed OIG audit organization and to determine the nature and extent

of the External Peer Review and the type of audits and attestation engagements to select for review by the team:

- a. **Audit Quality Control Policies and Procedures.** The review team should request the reviewed OIG to complete Section 1 of Appendix A, *Policies and Procedures*, and provide references to and a copy of its policies and procedures.
- b. **Semiannual Reports to Congress.** The review team should request, or obtain from the OIG's website, copies of the semiannual reports to Congress that were issued during the period to be covered by the External Peer Review. The semiannual reports provide information regarding the nature and volume of completed audit work, as well as other matters that may help the review team understand the environment in which the reviewed OIG operates. The reports should also serve as a source for selecting individual audits for review.
- c. **Prior Peer Review.** Arrangements should be made to obtain copies of the prior peer review final report and, as applicable, the letter of comment and to access the peer review documentation. The reviewed OIG should facilitate the arrangements and provide a written description of the corrective action taken in response to the prior peer review recommendations. As part of the External Peer Review fieldwork, the team should assess the effectiveness of corrective actions implemented by the reviewed OIG in response to the recommendations and include follow-up on the status of these recommendations.
- d. **Internal Quality Assurance Review Reports.** The review team should obtain internal quality assurance review reports issued during and subsequent to the peer review period. As appropriate, the review team may request, and the reviewed OIG should provide, any internal quality assurance reports issued (and related internal review documentation) during the 3-year period since the year-end covered by the preceding peer review.
- e. **Other Documentation.** The review team should obtain other documentation it deems necessary to conduct the External Peer Review, including but not limited to the annual audit plan(s) for the period covered; a printout of the audit tracking system of the specific information needed (e.g., audits scheduled, cancelled, terminated, or completed during the period); a listing of nonaudit services performed; an organization chart; a staff roster (including series and grades); professional designations; and a continuing education summary for all staff for the most recent 2-year reporting period. If readily available, the team should obtain information regarding the staff's advanced degrees or special skills. If information is not readily available, request this data, as needed, after the individual audits to be reviewed have been selected.
- f. **Terminated Audits.** During the planning phase, information should also be requested on audits terminated during the period, to determine whether the audit organization documented the results of the work to the date of termination, why the audit was terminated, and how the reason for termination was communicated to those charged with governance, appropriate officials of the audited entity, and other appropriate officials.

Memorandum of Understanding

19. An MOU is recommended to ensure mutual agreement regarding the fundamental aspects of the External Peer Review and to avoid any misunderstandings. The MOU is drafted by the reviewing OIG, discussed at the entrance conference, and signed by both Inspectors General prior to the initiation of fieldwork. An illustrative MOU is included at paragraph 48 and typically covers the following topics:
- a. **Scope of the Review.** See the paragraphs 15 to 17 of this Section.
 - b. **Staffing and Timeframe.** The review should be scheduled and conducted to ensure a report is issued within 6 months of the end of the period to be reviewed.
 - c. **Nonaudit Services.** The MOU should state that the reviewed OIG will provide, in writing, a listing and a description of all nonaudit services rendered within the prior 3 years.¹⁵ If applicable, once the individual audit and attestation engagements selected for review are revealed to the reviewed OIG, it needs to inform the peer review team in writing of any nonaudit services related to the selected audits. If the reviewed OIG performed any nonaudit services requiring supplemental safeguards as required by GAGAS, the reviewed OIG should provide the peer review team with the GAGAS-required documentation.¹⁶
 - d. **Preliminary Findings.** The MOU provides for timely interim discussion of preliminary findings including, as applicable, holding exit meetings at field offices visited. A commitment to open and ongoing communication between the parties is important to ensure that the review is conducted in an efficient manner.
 - e. **Reporting Results.** The MOU establishes the guidelines for the reporting process, specifically:
 - Designating the report's addressee and signer (e.g., draft issued to and from the respective Assistant Inspectors General for Audit or equivalent and final report issued to and from the Inspectors General);
 - Providing a discussion draft report and a formal draft report for the official response;
 - Scheduling the exit conference;
 - Designating a time period for responses to the applicable draft reports; and
 - Issuing the final report.
 - f. **Administrative Matters.** Other topics may be covered, as needed or considered appropriate including: the points of contact, purpose and objectives of the External Peer Review, access to audit and administrative files, review approach, handling of sensitive information or clearances required, and logistics and facilities access. When preparing the

¹⁵ OIGs frequently provide technical advice to management and others based on their technical expertise, often on an ad-hoc or informal basis, and such activities do not normally impair independence, and accordingly would not require supplemental safeguards. While it is not expected that the reviewed OIG maintain and provide a detailed listing of all instances where such advice is given, the review team should be informed of instances where the reviewed OIG: (1) participated in activities such as commissions, committees, task forces, panels, and focus groups on an ongoing basis and the nature of its participation, whether advisory, voting, nonvoting; and/or (2) provided tools and methodologies to agency management and others.

¹⁶ GAS, 3.33-3.52, 3.59 (Dec. 2011)

MOU, the parties should take care not to restrict, in any way, the review team's ability to conduct the work necessary to accomplish the objectives of the review. If restrictions exist, the OIGs may need to discuss whether there is a scope limitation because of these restrictions.

- g. **Request for Peer Review Documentation.** Include an appendix in the MOU covering the OIGs' respective responsibilities for producing peer review records in response to requests under the Freedom of Information Act and other legal demands and requests.

Risk Assessment

20. The review team should perform a risk assessment to help plan the External Peer Review and determine the nature and extent of the work needed. In assessing risk, the review team should consider the information gathered and analyzed in paragraph 18, and if used, the optional audit staff questionnaire discussed at paragraphs 24 to 26 in this Section, and at Appendix G, to determine the number and types of GAGAS audits and attestation engagements to select for review. The nature and extent of the work done in the review should be sufficiently comprehensive to assess whether the reviewed OIG audit organization's system of quality control meets its objectives. Based on the risk assessment, the team should select audits and attestation engagements that provide a reasonable cross-section of GAGAS work conducted by the reviewed OIG.
21. To evaluate the reviewed OIG audit organization's IPA monitoring activities, the peer review team should select a representative cross-section of audits and attestation engagements contracted to IPAs where the IPA served as the auditor. If the reviewed OIG contracted the financial statements audit for its agency, that audit should be included in the sample.

Documentation Requirements

22. Documentation should be prepared to support the work performed and the conclusions reached during the External Peer Review, including evidence of supervision. The review team should obtain sufficient, appropriate evidence and perform sufficient testing to provide a reasonable basis for determining whether the system of quality control meets its objectives, and whether the reviewed OIG audit organization complied with applicable professional standards.
23. The reviewing OIG should retain the External Peer Review documentation until after the subsequent peer review of the reviewed OIG is completed. Furthermore, the documentation should be retained for an appropriate period in accordance with the reviewing OIG's records retention policy. The reviewing OIG should also provide the current review team with access to the documentation, as requested. The reviewing OIG should apply the same custody and physical and electronic security practices with respect to the External Peer Review documentation that it applies to its audit documentation. These policies should include safeguards against unauthorized use or access to the documentation.

Optional Audit Staff Questionnaire

24. GAGAS states that the peer review team should include, as an element in the scope of the external peer review, interviews with a selection of the reviewed audit organization's professional staff at various levels to assess their understanding of and compliance with relevant quality control policies and procedures. An optional audit staff questionnaire is included as Appendix G, *Optional Audit Staff Questionnaire*, for the team to use during planning and/or fieldwork, if desired. When the questionnaire is used, consideration should be given to privacy-related concerns to determine whether personal information is needed as part of the peer review documentation. The questionnaire results may be used, along with evidence gathered during fieldwork, to help assess risk and to determine whether the system of quality control meets its objectives and whether the reviewed OIG complied with the system of quality control and GAGAS.
25. The questionnaire is designed to determine whether the reviewed OIG audit organization communicated quality control and assurance policies and procedures to its staff. It also asks the staff a number of questions about adherence to those policies and procedures, based on their own experience. The questions are directed at audits and attestation engagements performed by the reviewed OIG staff and not to the monitoring of audit work contracted to IPAs where the IPA serves as the auditor.
26. Negative responses to the questions should not be viewed in isolation. A small number of them may represent an isolated occurrence, a lack of knowledge or understanding by a staff member, or a personality conflict with other staff members or supervisors. On the other hand, a significant number of responses indicating that staff was not informed of some policies and procedures or that during the audits in which they participated some important aspects of these policies and procedures were not adhered to, may indicate a potential weakness in the system of quality control for the audit organization or the OIG's communication efforts. In such cases, the review team should explore the potential problem areas in greater detail.

System of Quality Control and Assurance Program

27. The reviewing OIG gains an understanding of the reviewed OIG audit organization's internal quality assurance program, evaluates its design, and assesses internal quality assurance reports to determine the adequacy of the program and the degree of control provided in the reviewed OIG audit organization's system of quality control.
28. The team should also evaluate the reviewed OIG audit organization's policies and procedures. Appendix A should be used to guide the review. Based on a review and evaluation of policies and procedures, supplemented as necessary by an inquiry of management, the review team should complete Section 2 of Appendix A. The purpose of this analysis is to determine whether, in the reviewer's opinion, the reviewed OIG audit organization's quality control policies and procedures are adequate as prescribed. As

necessary, specific review procedures should be designed to test compliance with policies and procedures by, if necessary, modifying the checklists at Appendices B through E.¹⁷

29. The purpose of reviewing the OIG audit organization's system of quality control is to determine whether the system is adequately designed. The CIGIE *Quality Standards for Federal Offices of Inspector General* provides an overall framework for establishing and maintaining a quality assurance program to ensure that work performed adheres to established OIG policies and procedures; meets established standards of performance, including applicable professional standards; and is carried out economically, efficiently, and effectively.

Selection of Offices and Audits

30. A sufficient number of audits and attestation engagements, including terminated assignments, should be selected to enable the review team to reach a defensible conclusion as to whether the system of quality control of the reviewed OIG audit organization was adequately designed and complied with during the period reviewed to provide the audit organization with reasonable assurance of conforming with professional standards. If the reviewed OIG performs financial audits with its own staff, the sample should include at least one of those financial audits. The sample should also include at least one audit or attestation engagement internally reviewed under the OIG's quality control and assurance program. In selecting offices and reports for review, the review team should consider the following:
- a. The assignments listed in the audit tracking system.
 - b. Audits and attestation engagements appearing or described in the reviewed OIG's semiannual reports to Congress.
 - c. The number of OIG offices.
 - d. Findings and comments from the prior peer review report.
 - e. Audits and attestation engagements related to nonaudit services provided.
31. The review team should request that the reviewed OIG provide audit documentation for the engagements selected for review within a reasonable timeframe. The review team should advise the reviewed OIG of the specific engagements selected for review only when it is ready to initiate the review of the individual audits. The reviewed OIG should provide reasonable access to all audit documentation, electronic and paper, requested by the review team. If the review team plans to conduct field site visits (regional offices, sub-offices, etc.), the team should advise the field offices of the engagements selected for review upon the review team's arrival at the field sites.

If the reviewed OIG cannot provide the requested audit files, whether electronic or paper, within a reasonable timeframe, the review team should request a written statement signed by the head of the reviewed OIG audit organization with: (1) an explanation of the delay; (2) an assertion that the audit documentation, including evidence of supervisory review, was

¹⁷ The checklists are available on the CIGIE website at <http://www.ignet.gov/pande/audit1.html>.

prepared in accordance with GAGAS;¹⁸ and (3) an explanation if such an assertion cannot be made. The review team should take these circumstances into consideration when assessing whether the audit documentation was prepared in accordance with GAGAS, and whether a scope limitation exists with the peer review.

Nature and Extent of Testing

32. The nature and extent of tests used for the External Peer Review should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed OIG audit organization's system of quality control was adequately designed and complied with during the period reviewed to provide the audit organization with reasonable assurance of conformance with professional standards. The extent of work performed by the reviewing OIG should be expanded as necessary to achieve that level of assurance.
33. The purpose of reviewing individual audits and attestation engagements is to determine whether applicable professional standards and established policies and procedures were followed. For the testing of audits and attestation engagements, Appendix C contains a checklist for the review of individual financial statement audits; Appendix D contains a checklist for the review of individual attestation engagements; and Appendix E contains a checklist for the review of individual performance audits.
34. The review of individual engagements should include a review of the auditors' report and the audit documentation, and discussions with the auditors who performed the work. The review team should exercise judgment in determining whether interviews with the auditors about matters noted in the reviewed audits and attestation engagements should be conducted in person or remotely.

IPA Monitoring

35. For audits and attestation engagements performed by an IPA as the auditor under contract with the reviewed OIG, the reviewing OIG should determine whether the reviewed OIG issued and implemented quality control policies and procedures for ensuring that the IPA's work meets professional standards and contractual requirements. The review team should gain an understanding of the extent the reviewed OIG uses IPAs to perform audits and attestation engagements and the policies and procedures for monitoring the IPA's work. IPA monitoring documentation for a sample of contracted engagements, emphasizing the reviewed OIG's monitoring activities, should be reviewed to ensure the IPA's adherence to professional standards.
36. Appendix F contains a checklist for reviewing the reviewed OIG's monitoring of these engagements.¹⁹ It is important to note that the scope of the evaluation of the reviewed OIG's

¹⁸ GAGAS requires auditors to document evidence of supervisory review, before the audit report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the audit report. See *GAS*, 4.15a, 5.17b, and 6.83c for details. (Dec. 2011)

¹⁹ The checklist is available on the CIGIE website at <http://www.ignet.gov/pande/audit1.html> and contains additional information about the various degrees of responsibility that an OIG may assume in connection with an IPA's work.

IPA monitoring activities does not contemplate visiting the IPA or reviewing the IPA's audit documentation. Findings related to an OIG's IPA monitoring practices do not affect the External Peer Review report opinion (or rating) on the OIG audit organization's system of quality control. However, these findings should be included in the letter of comment or other written or verbal communications. This checklist is not applicable to engagements where the reviewed OIG served as the auditor and contracted with an IPA to perform part of the work or in situations where the OIG takes full responsibility for the IPA's work. For these engagements, the peer review team should use Appendix C, D, or E, as applicable.

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

37. In understanding the reviewed OIG audit organization's system of quality control, the review team may conclude that the system is not designed appropriately or that the organization is not complying with GAGAS or policies and procedures. Similarly, the testing of the sampled audits may identify a design weakness that was not identified during the planning of the External Peer Review. To help the review team with potential issues, the definitions of *matter*, *finding*, *deficiency*, and *significant deficiency* in this paragraph may be useful in classifying the conditions noted.²⁰ Determining the relative importance of conditions identified during the review, individually or combined with others, requires professional judgment. Careful consideration is needed to form conclusions. The definitions below are intended to assist the team (1) aggregate, evaluate, and conclude on the results and (2) determine the findings and recommendations to include in the report and the report opinion to issue. Depending on the nature, causes, pattern, or pervasiveness, and relative importance of the finding to the OIG audit organization's system of quality control taken as a whole, the audit team may issue an External Peer Review report with a rating of *pass*, *pass with deficiencies*, or *fail*.

- a. **Matter.** A *matter* is a circumstance identified by the review team that warrants further consideration. Matters are identified through the team's evaluation of the design of the reviewed OIG audit organization's system of quality control and/or tests of compliance with that system.
- b. **Finding.** 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 OIG 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 finding not rising to the level of a deficiency or significant deficiency should be communicated in an appropriate manner. For the External Peer Review, if the team concludes that no finding, individually or combined with others, rises to the level of *deficiency* or *significant deficiency*, a rating of *pass* is appropriate.
- c. **Deficiency.** A *deficiency* is one or more findings that the review team has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the OIG audit organization's system of quality control taken as a whole, could

²⁰ See [GAO's Guidance for Understanding the New Peer Review Ratings](#) (Ctrl+left click to open the link) for additional information.

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. For the External Peer Review, *deficiencies* that do not rise to the level of a *significant deficiency* are communicated in a report with a rating of *pass with deficiencies*.

- d. **Significant Deficiency.** 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 it, such that the OIG audit organization's system of quality control taken as a whole does not provide the organization with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. For the External Peer Review, these deficiencies are communicated in a report with a rating of *fail*.

38. After completing the checklist for each audit, attestation engagement, and IPA monitoring activities reviewed, findings should be developed and conclusions formulated. The review team should:

- a. Summarize the checklists' results, including identifying any repeat findings from prior peer review or internal quality assurance reviews.
- b. Identify findings (noncompliance with GAGAS and/or the reviewed OIG audit organization's policies and procedures) in the individual audits and attestation engagements reviewed which could impact the External Peer Review report rating. Guidance in paragraph 37 is helpful in identifying the significance of conditions identified. It is important to note that GAGAS represents the overarching criteria. For example, if the reviewed OIG audit organization's policies and procedures encompassed more stringent requirements than those prescribed in GAGAS and the reviewing OIG noted a lack of compliance with those incremental requirements, this lack of compliance would not constitute a deficiency or significant deficiency and therefore should not impact the External Peer Review report rating. However, the reviewing OIG should consider including findings that do not rise to the level of a deficiency or significant deficiency in a letter of comment or other written communication.
- c. Identify any other matters that warrant disclosure to the reviewed OIG audit organization's management either verbally or in written forms like a letter of comment, including noncompliance with policies and procedures or deficiencies noted in its IPA monitoring activities.
- d. Assess the overall adequacy of the implementation of the reviewed OIG audit organization's system of quality control.

After all evidence has been compiled, the adequacy of the scope of the External Peer Review should be reassessed and expanded, if necessary, to ensure that sufficient work is done and documented to support the review team's conclusions, findings, and recommendations. If additional procedures are deemed necessary to reach the conclusion, the team may expand the scope to review additional audits or aspects of the system of quality control. The collective results of all tests performed during the review should be considered in order to reach an overall conclusion as to whether the reviewed OIG audit organization has established a system of quality

control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel complied with professional standards.

Reporting the External Peer Review Results

General Considerations

39. The process for the External Peer Review reporting should be discussed and agreed to between the OIGs, in the MOU, before the start of the peer review. The process should provide for the reviewed OIG to comment on the peer review report and, if applicable, the letter of comment or other written communications, prior to their final issuance. The review team should consider the comments before finalizing the reports, and should include the comments as part of the final report. Sample reports and transmittal letters are included as illustrative materials at paragraphs 49 to 58. The sample documents should be modified to fit the circumstances of the findings and recommendations.
40. A written report should be issued at the completion of the External Peer Review and, when applicable, should include recommendations for corrective actions. The report should contain the review team's opinion as to whether the system of quality control of the reviewed OIG audit organization was adequately designed and complied with during the period reviewed to provide it with reasonable assurance of conformance with applicable professional standards. The report should also describe the scope and methodology of the External Peer Review, and as applicable, the scope of work related to the IPA monitoring activities where IPAs were contracted to perform audits and attestation engagements as the auditor. In this regard, the report should state that the purpose of the review is not to express an opinion on the IPA monitoring activities and that no such opinion is expressed. Written comments for each recommendation should be obtained from the official responsible for managing the reviewed OIG audit organization describing either (1) the corrective actions already taken and/or target dates for prospective corrective actions, or (2) the basis for why corrective action is not considered necessary.
41. Findings not sufficiently significant to affect the External Peer Review report opinion should be included in a letter of comment or separate written communication. This separate written communication should also include any findings noted with the reviewed OIG's noncompliance with its policies and procedures or IPA monitoring activities.

Types of External Peer Review Report Ratings

42. Three types of External Peer Review report ratings may be issued: *pass*, *pass with deficiencies*, and *fail*. With each rating, the review team may also have a scope limitation depending on restrictions to access information, documentation, or people. The rating must be supported by sufficient, appropriate evidence. In forming the report rating, the review team should consider the nature and extent of the evidence taken as a whole. Foremost, however, determining what rating to issue is a matter of professional judgment and is the responsibility of the reviewing OIG.

- a. **Pass.** An External Peer Review report with a *pass* rating should be issued when the review team concludes that the system of quality control for the reviewed OIG audit organization has been suitably designed and complied with to provide the organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The team did not identify deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies or significant deficiencies, or recommendations. Findings and recommendations, if any, should be included in a separate letter of comment or other written communications to be issued by the reviewing OIG. In the event of a scope limitation, a report with rating of *pass with a scope limitation* is issued. Examples of possible scope limitation would be the (1) loss of audit documentation for a significant number of the reviewed OIG's audits completed during the review period caused by a natural disaster or other events or (2) the reviewed OIG excluded certain audits with sensitive topics from the universe of audits because of restricted access to the subject matter included in the audit reports, and the reviewing OIG could not perform other procedures to reduce the impact of the restricted access.
- b. **Pass With Deficiencies.** An External Peer Review report with a *pass with deficiencies* rating should be issued when the review team concludes that the system of quality control for the OIG audit organization has been suitably designed and complied with to provide the organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects except for a certain deficiency or deficiencies that are described in the report. These deficiencies are conditions related to the reviewed OIG audit organization's design of its system of quality control and compliance with GAGAS and policies and procedures that could create a situation in which the organization would have less than reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects due to the nature, causes, pattern, or pervasiveness, including the relative importance of the deficiencies to the system of quality control taken as a whole. In the event of a scope limitation, a report with a rating of *pass with deficiencies with a scope limitation* is issued.
- c. **Fail.** An External Peer Review report with a *fail* rating should be issued when the review team has identified a significant deficiency or significant deficiencies and concludes that (1) the system of quality control for the reviewed OIG audit organization is not suitably designed to provide the organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects; or (2) the audit organization has not complied with GAGAS and policies and procedures in all material respects. In the event of a scope limitation, a report with a rating of *fail with a scope limitation* is issued.

The formulation of the External Peer Review report rating to issue should be based upon the overall conclusion drawn from the assessment of the design of the reviewed OIG audit organization's system of quality control and the findings disclosed when determining the extent of compliance with the applicable professional standards and policies and procedures.

The significance of disclosed findings in the selected audits reviewed should be determined by the extent to which the reports could not be relied upon due to the failure of the reports and underlying work, including documentation, to adhere to GAGAS. Reliability of the reviewed OIG audit organization's audit reports may be impacted if one of the following conditions or combination of conditions exists:

- Evidence presented is untrue and findings are not correctly portrayed.
- Findings and conclusions are not supported by sufficient, appropriate evidence.
- Evidence included in the audit reports does not demonstrate the correctness and reasonableness of the matters reported.
- The report does not accurately describe the audit scope and methodology and findings, and conclusions are not presented in a manner consistent with the scope of work.
- The report contains significant errors in logic and reasoning.

The pervasiveness (extent identified in multiple audits issued by multiple organizational units) of the deficiencies should also be considered. A single, isolated (nonsystemic) deficiency would be insufficient to support a report with a rating of *pass with deficiencies* or *fail* unless extraordinary circumstances prevail (e.g., the magnitude of the deficiency significantly or irretrievably caused a lack of organizational credibility).

If instances of noncompliance with GAGAS are identified, the extent of the lack of adherence should be considered, given the flexibility afforded by the standards. For example, the fieldwork standard related to supervision requires that “reviews of audit work should be documented before the report is issued.”²¹ As GAGAS is generally not prescriptive, it understandably contains limited specificity as to what actions must be evidenced to be considered “proper supervision.” GAGAS provides for flexibility in complying with the standard, contingent upon the circumstances of the audit, to include “the size of the audit organization, the significance of the work, and the experience of the staff.”²² Reasonableness and judgment must be employed in assessing adherence with GAGAS. It is incumbent upon the review team to support assertions that the reviewed OIG has not met GAGAS by citing the specific criteria where the noncompliance exists and providing the basis for the conclusion.

In the absence of identifying significant and pervasive deficiencies in the selected audits reviewed, design deficiencies alone would not ordinarily be sufficient to result in an External Peer Review report rating of *pass with deficiencies* or *fail*. A rating of *pass with deficiencies* or *fail* would require extraordinary circumstances. If, however, reviewed audit reports are identified which are found to be unreliable, the causes of the deficiencies need to be examined, particularly as to whether design deficiencies were the sole or contributing factor. Causes attributable to design flaws in the system of quality control generally are of greater concerns in that the system should contain the necessary methods and measures to preclude, or timely detect, lack of adherence with GAGAS. If the design appears adequate as

²¹ GAS, 4.15a; 5.16b; 6.83c (Dec. 2011)

²² GAS, 6.55 (Dec. 2011)

prescribed but the deficiencies noted in reviewed audit reports were due to lack of compliance with the system of quality control, the design itself may need to be strengthened to increase compliance.

External Peer Review Report Contents

43. The External Peer Review report should:

- a. State at the top of the report, the title, “System Review Report.”
- b. State that the reviewed OIG’s system of quality control for the audit function was reviewed and include the period covered by the External Peer Review.
- c. State that the External Peer Review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.
- d. State that the reviewed OIG is responsible for establishing and maintaining a system of quality control and complying with it to provide the organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- e. State that the reviewer’s responsibility is to express an opinion on the design of the system of quality control and the OIG’s compliance therewith based on the review.
- f. Describe the nature, objectives, scope, limitations of, and procedures performed in the External Peer Review.
- g. Describe the process for the External Peer Review, including the process for the selection of the reviewed OIG’s audits for review.
- h. Describe the limitations of a system of quality control.
- i. Include a reference to a separate letter of comment or other written communication, if applicable. The reference to the letter of comment will indicate that the other matters or findings discussed therein do not affect the overall opinion.
- j. As applicable, describe the scope of the work related to the audit organization’s IPA monitoring activities where the IPA was engaged as the auditor. In this regard, the report will also state that the purpose of the review is not to express an opinion on the IPA monitoring activities and that no such opinion is expressed. The report will also reference whether there are any matters noted with IPA monitoring that are included in the letter of comment.
- k. Include an enclosure that describes the External Peer Review scope and methodology, including a list of the audit reports reviewed and the reviewed OIG offices visited. The enclosure should also discuss any limitations and expansions of the scope, if applicable.

- l. Identify the different peer review ratings that the reviewed OIG could receive: *pass*, *pass with deficiencies*²³, and *fail*.
- m. In a report with a rating of *pass*:
 - Express an opinion that the system of quality control for the audit function of the reviewed OIG in effect for the year ended has been suitably designed and complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
 - State at the end of the opinion paragraph that, therefore, the reviewed OIG has received a rating of *pass*.
- n. In a report with a rating of *pass with deficiencies*:
 - Express an opinion that, except for the deficiencies described, the system of quality control for the audit function of the reviewed OIG in effect for the year ended has been suitably designed and complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
 - State at the end of the opinion paragraph that, therefore, the reviewed OIG has received a rating of *pass with deficiencies*.
- o. In a report with a rating of *fail*:
 - Express an opinion that as a result of the significant deficiencies described, the system of quality control for the audit function of the reviewed OIG in effect for the year ended was not suitably designed or complied with to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
 - State at the end of the opinion paragraph that, therefore, the reviewed OIG has received a rating of *fail*.
- p. In the event of a scope limitation for any of the report ratings (*pass*, *pass with deficiencies*, or *fail*), include an additional paragraph to describe the nature of the scope limitation. The illustrative reports at paragraphs 50, 52, and 54 include the sample changes to the standard report language for a scope limitation and are marked in ***Bold Italics***. For purposes of the illustrative reports, we have not included the illustrative sections for when a letter of comment is issued and the scope of the review includes IPA monitoring.
- q. Include, for reports with a rating of *pass with deficiencies* or *fail*, a description of the deficiencies or significant deficiencies and the review team's recommendations.
- r. Identify any deficiencies or significant deficiencies included in the report with a rating of *pass with deficiencies* or *fail*, or that were included in the letter of comment that had been included in the previous peer review report issued on the reviewed OIG. This should be

²³ References to the plural forms of reports, deficiencies, and such could also apply to a singular form of the item within these guidelines. For instance, there could be deficiencies or a deficiency. The wording in the report should be tailored as necessary.

determined based on the underlying systemic cause of the deficiencies or significant deficiencies.

- s. Include in a final report with a rating of *pass with deficiencies* or *fail*, an enclosure with the reviewed OIG's official response to the findings and recommendations.
- t. If a separate letter of comment is issued, include the reviewed OIG's official response to any findings and recommendations as an enclosure to the letter of comment.

Letter of Comment

44. A letter of comment or separate written communication should be issued in connection with the External Peer Review report if the review team believes that findings resulted in conditions being created in which there was more than a remote possibility that the reviewed OIG would not conform with professional standards, but the findings were not sufficiently significant to affect the report rating. The letter of comment should also include any findings noted with a noncompliance with the reviewed OIG's policies and procedures or the reviewed OIG's IPA monitoring activities. The letter of comment should provide reasonably detailed descriptions of the findings and recommendations to enable the reviewed OIG to take appropriate actions. Written comments should be obtained from the reviewed OIG on these findings and recommendations and be included as an enclosure in the letter of comment. An illustrative letter of comment is included at paragraph 55.

Views of Responsible Officials

45. To ensure the objectivity, accuracy, and completeness of the findings, the review team should obtain the views of responsible officials of the reviewed OIG. When deficiencies are found during the review, the team should discuss the issues with senior audit management and staff, or the responsible official(s) designated by the reviewed OIG. All preliminary draft findings and conclusions must be presented during the review to the official(s) designated by the reviewed OIG to avoid any misunderstandings and to help ensure that all material facts are considered before a draft report is prepared. These disclosures may be conveyed informally, but should be in writing, to facilitate agreement regarding the conditions noted. Upon issuance of the discussion draft report, an exit conference should be held, modifications made to the report as necessary, and then a formal draft report conveyed with a request for written comments. The peer review team should consider any written comments from the reviewed OIG and if necessary, include the team comments or rebuttals in the final report. The entire written response from the reviewed OIG should be included in the final report.

Report Distribution and Follow-Up

46. The reviewed OIG should make its most recent External Peer Review report publicly available and provide copies of the final report to the head of its agency, appropriate oversight bodies, the Chair of the CIGIE, and the Chair of the CIGIE Audit Committee. In addition to transparency through methods such as website posting and transmittal to those charged with governance, the OIG is required to include, in its semiannual reports to Congress, a discussion of the results of the external peer reviews conducted by another OIG,

and any outstanding recommendations from past peer reviews. These requirements do not include the letter of comment and its results and recommendations.

47. The reviewed OIG is responsible for implementing recommendations in the External Peer Review report. A follow-up on implemented recommendations should be included in the scope of the reviewed OIG's next peer review.

Illustrative Materials

48. Illustrative External Peer Review Memorandum of Understanding

**EXTERNAL PEER REVIEW MEMORANDUM OF UNDERSTANDING
BETWEEN THE INSPECTORS GENERAL FOR (AGENCY NAME)
AND (AGENCY NAME)**

Purpose

The purpose of this memorandum of understanding (MOU) is to ensure a mutual understanding between the (insert name of reviewing agency) Office of Inspector General (OIG) and the (insert name of reviewed agency) OIG regarding the fundamental aspects of the External Peer Review of the (insert name of reviewed agency) OIG audit organization. The parties listed in the MOU entered into this agreement pursuant to the authority of the Inspector General Act of 1978, as amended.

Points of Contact

(list contacts for reviewing agency OIG)

(list contacts for the reviewed agency OIG)

Staffing of (insert name of agency) OIG Review Team

The review team captain is (name and title). The team members will collectively have sufficient knowledge to perform the External Peer Review. To the extent feasible, the team includes personnel with prior experience with external peer or internal quality assurance reviews. The review team captain is responsible for the proper supervision of the review team.

Objective

The objective of this External Peer Review is to determine whether, for the period under review, the (insert name of reviewed agency) OIG audit organization's system of quality control was suitably designed and whether the audit organization is complying with its system of quality control to provide it with reasonable assurance of conformance with applicable professional standards. As applicable, the External Peer Review will also determine whether controls over monitoring of contracted audits performed by Independent Public Accountants (IPA), where the IPA serves as the auditor, are suitably designed and complied with.

Review Approach

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* will be used in the conduct of the review (if desired, add a footnote with the date of the Guide). As set forth in the Guide, the approach will be to:

- Gain an understanding of (insert name of reviewed agency) OIG audit organization and its system of quality control.

- Evaluate whether (insert name of reviewed agency) OIG’s policies and procedures are designed to provide reasonable assurance that generally accepted government auditing standards (GAGAS) and other pertinent requirements are met.
- Interview various levels of (insert name of reviewed agency) OIG’s professional staff to assess their understanding of and compliance with relevant quality control policies and procedures.
- Gain an understanding of (insert name of reviewed agency) OIG’s quality control and assurance program, and review selected internal quality assurance reports.
- Using the knowledge obtained from the preceding steps, assess review risk, select the office(s) and GAGAS assignments to review, and determine the nature and extent of tests to perform.
- Review a sample of individual audits and attestation engagements, collectively referred to as “audits”, to determine their adherence to GAGAS.
- Gain an understanding as to the extent (insert name of reviewed agency) OIG uses contracted IPAs to perform audits where the IPA is the auditor, and the policies and procedures for monitoring of IPA work.
- Review (insert name of reviewed agency) OIG’s IPA monitoring documentation for a sample of contracted audits, emphasizing the monitoring activities to ensure the IPA’s adherence to professional standards.
- Review other documents necessary for assessing compliance with standards; for example, independence and continuing professional education documentation, and relevant human resources files.
- Maintain open communication with (insert name of reviewed agency) OIG to ensure an understanding of the issues evaluated and an awareness of potential issues as they arise.

As indicated above, the office(s) selected for review and the nature and extent of testing will depend largely on the assessment of review risk. The review team will sample the audits and internal quality assurance activities at field offices as well as at headquarters. The review team will also sample the audits it believes are necessary to meet the review objectives. During the review, the team will exercise professional judgment in all matters relating to planning, performing, and reporting the results of the External Peer Review.

Scope of the External Peer Review

The scope of the External Peer Review will cover the elements of (insert name of reviewed agency) OIG audit organization’s system of quality control that are designed to provide reasonable assurance that audits conducted by the office, or for which it directly contracts, are carried out in accordance with GAGAS. The review will include audit reports issued during the 1-year period that ends 3 years after the end date of the period covered by (insert name of reviewed agency) OIG’s prior peer review. The review team may review other audits as it deems necessary. The review team will also review select internal quality assurance review reports and related review documentation issued during and subsequent to the 3-year period.

(Insert name of reviewed agency) Nonaudit Services

(Insert name of reviewed agency) OIG shall provide, in writing, a description and a listing of all nonaudit services rendered within the prior 3 years. (Insert name of reviewed agency) OIG shall also provide any related audit documentation required for the independence standards described in the December 2011 revision of *Government Auditing Standards*, 3.59 (if desired, add a footnote with “GAS is issued by the Comptroller General.)

Administration

(Insert name of reviewed agency) OIG shall designate an individual to facilitate administrative support and provide the review team with the appropriate office space, desks, telephone service, and other office equipment; and access to copying facilities. The review team shall have access to all (insert name of reviewed

agency) OIG's personnel. The review team shall be provided access to all internal quality assurance documents, audit documentation, operational manuals, and other files of the reviewed OIG audit organization deemed necessary to conduct the External Peer Review. (Insert name of reviewed agency) OIG will inform the review team of any circumstances, such as audits containing classified information, that will require a certain level of security clearance to review. The review team will provide personnel with the appropriate clearance level to review these audits, as well as follow (insert name of reviewed agency) OIG's procedures for handling classified information.

Review Milestones

The following represents the review team's estimated timeline for its review (dates below are for illustrative purposes only):

- Preliminary work to be completed, October 2014.
- Entrance conference, November 2014.
- Fieldwork to be completed, January 2015.
- Discussion draft report transmitted to (insert name of reviewed agency) OIG's Assistant Inspector General for Audit (AIGA), January 2015.
- Exit conference and submission of any unofficial comments, February 2015.
- Formal draft report transmitted to (insert name of reviewed agency) OIG's AIGA, February 2015.
- Formal written response from (insert name of reviewed agency) OIG's AIGA, March 2015.
- Final report issued to (insert name of reviewed agency)'s Inspector General, March 2015.

Preliminary Findings and Briefings

There will be timely interim discussions of preliminary findings with the goal of reaching agreement on each potential issue at the earliest point in the review process. An exit meeting will be held for each site reviewed. The primary purpose of these meetings is to verify facts related to the audits or other documentation.

At the completion of the fieldwork, the review team will hold an exit briefing. The purpose of this exit briefing is to discuss the preliminary results of the review, the opinion to be expressed, and any areas of noncompliance.

Reporting

After the preliminary findings have been discussed and facts verified, (insert name of reviewing agency) OIG's AIGA will issue a discussion draft report to (insert name of reviewed agency) OIG's AIGA rendering preliminary results and opinion on the system of quality control. A separate letter of comment will also be provided as necessary. (Insert name of reviewing agency) OIG will then arrange and hold an exit conference. The purpose of the exit conference is to discuss the results of the review, the opinion to be expressed, and any areas of noncompliance. (Insert name of reviewed agency) OIG will provide informal comments on the discussion draft at the exit conference. (Insert name of reviewing agency) OIG's AIGA will issue a formal draft report to (insert name of reviewed agency) OIG's AIGA. (Insert name of reviewed agency) OIG will provide its written comments within 30 days after the formal draft report is issued. A final written report will be signed by the (insert name of reviewing agency) Inspector General and issued to the (insert name of reviewed agency) Inspector General. The final written report will be prepared in accordance with the *CIGIE Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. (Insert name of reviewed agency) OIG will be responsible for distributing the report in accordance with GAGAS and CIGIE guidance. (Insert name of reviewing agency) OIG will refer any third party requests for the report to (insert name of reviewed agency) OIG.

Disposition of Review Documentation

The review team will prepare appropriate documentation to support the work performed and the results of the peer review. (Insert name of reviewing agency) OIG shall keep this documentation until a subsequent peer review is performed on (insert name of reviewed agency) OIG. (Insert name of reviewed agency) OIG shall have access, upon request, to the review team’s documentation during the comment period and after the issuance of the final report. If either OIG receives a request (e.g., Freedom of Information Act requests, litigation [discovery] demands, or requests from oversight bodies) for documentation that was obtained from the other OIG during the external peer review, the OIG receiving the request shall not release or disseminate such documentation without consulting with the other OIG, and obtaining, if possible, the other OIG’s disclosure recommendations. Depending on the nature of the request, the reviewing OIG may need to refer the requested/demanded documentation to the reviewed OIG for further processing. Additional details on the handling of such requests are provided in the Appendix.

Semiannual Reports to Congress

(Insert name of reviewed agency) OIG and (insert name of reviewing agency) OIG will report on this External Peer Review in their respective semiannual reports to Congress in accordance with the Inspector General Act of 1978, as amended, 5 U.S.C. App.3, § 5(a)(14) to (16), and consistent with the CIGIE *Implementing Guidance for OIG Reporting of Peer Review Results in Semiannual Reports to the Congress* (if desired, add a footnote with the date of the Guide). Specifically, (insert name of reviewed agency) OIG will report on the external peer review conducted by (insert name of reviewing agency) OIG for the applicable semiannual reporting periods, and provide a list of any recommendations from prior peer review reports, and not from the letter of comment, that have not been fully implemented, including a statement describing the status of the implementation and why implementation is not complete. (Insert name of reviewing agency) OIG shall report on this peer review for the applicable semiannual reporting periods, and include a list of any outstanding recommendations from prior peer review reports, and not from the letter of comment, that remain outstanding or have not been fully implemented. In this regard, (insert name of reviewed agency) OIG will coordinate with (insert name of reviewing agency) OIG as necessary so that (insert name of reviewing agency) OIG can meet this reporting responsibility.

The undersigned are in agreement with the conditions contained in this MOU.

_____ Date _____
Inspector General
(Agency Name)

_____ Date _____
Inspector General
(Agency Name)

Additional Information Related to Disposition of Review Documentation

In the case of requests or legal demands received by the **reviewing OIG** for the External Peer Review documentation, the reviewing OIG will consider the documentation it received from the reviewed OIG to still be within the reviewed OIG's possession and control, and:

- For requests under the Freedom of Information Act (5 U.S.C. § 552), the reviewing OIG (a) will provide documentation supplied by the reviewed OIG to the reviewed OIG for response directly to the requester; and (b) will consult with the reviewed OIG regarding **reviewed-OIG information** contained in documentation **generated** by the reviewing OIG and will obtain the reviewed OIG's disclosure recommendations and legal basis relative to such information, provided however, that the reviewing OIG (or, where applicable, the reviewing OIG's agency) has final say as to the response to the requester. In all cases, the reviewed and reviewing entities will comply with statutory provisions, implementing guidance from the reviewed OIG's agency, and applicable case law in making their disclosures or withholding of peer review documentation.
- For discovery demands under the applicable rules of civil procedure or similar legal process and other legal authorities—to include subpoenas—for some or all of the External Peer Review documentation, the reviewing OIG will advise the reviewed OIG of the existence of such demands and will advise the litigating parties or adjudicative body that the documentation being sought belongs to the reviewed OIG. The reviewed OIG will have the responsibility to (a) advise the reviewing OIG regarding whether, or under what circumstances, to produce the documentation being sought or (b) intervene or otherwise communicate with the litigating parties or adjudicative body regarding the production of such documentation or the obtaining of protective orders or equivalent, as permitted under applicable law.
- For requests from oversight bodies, such as the Government Accountability Office or reviewing bodies empowered to examine peer reviewing OIGs, the reviewing OIG will advise the reviewed OIG of the existence of such request and will advise the oversight body that the requested documentation belongs to the reviewed OIG. The reviewed OIG will have the responsibility (a) to advise the reviewing OIG regarding whether, or under what circumstances, to provide the requested documentation or (b) communicate with the oversight body regarding the requested documentation.

In the case of requests or legal demands received by the **reviewed** OIG for External Peer Review documentation, the reviewed OIG will consider the documentation it provided to the reviewing OIG to still be within the reviewed OIG's possession and control. If, as part of its efforts to respond to such requests or legal demands, the reviewed OIG needs access to the documentation that it had provided to the reviewing OIG, the reviewed OIG shall be given access, upon its request, to the documentation and may review and/or copy the documentation (or, if agreed upon by the parties, the reviewing OIG shall make copies of the documentation and provide those copies to the reviewed OIG).

49. Illustrative External Peer Review Report with a Rating of *Pass*

(OIG Letterhead)

System Review Report

(Date)

To (Name), Inspector General

(Name of Agency)

We have reviewed the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX. A system of quality control encompasses (reviewed OIG)'s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (if desired, add a footnote with "GAS is issued by the Comptroller General and date). The elements of quality control are described in *Government Auditing Standards*. (Reviewed OIG) is responsible for establishing and maintaining a system of quality control that is designed to provide (reviewed OIG) with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and (reviewed OIG)'s compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (if desired, add a footnote with the date of the Guide). During our review, we interviewed (reviewed OIG) personnel and obtained an understanding of the nature of the (reviewed OIG) audit organization, and the design of (reviewed OIG)'s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with (reviewed OIG)'s system of quality control. The audits selected represented a reasonable cross-section of (reviewed OIG) audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with (reviewed OIG) management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the (reviewed OIG) audit organization. In addition, we tested compliance with (reviewed OIG)'s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of (reviewed OIG)'s policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

Enclosure 1 to this report identifies (reviewed OIG) offices that we visited and the audits that we reviewed.

In our opinion, the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX, has been suitably designed and complied with to provide (reviewed OIG) with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. (Reviewed OIG) has received an External Peer Review rating of *pass*.

Use When a Letter of Comment Is Issued: *(immediately follows the last sentence in the opinion paragraph)*

As is customary, we have issued a letter dated (insert date) that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

Use When the Scope of the Review Includes IPA Monitoring:

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to (reviewed OIG)'s monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether (reviewed OIG) had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on (reviewed OIG)'s monitoring of work performed by IPAs.

If Applicable, and a Letter of Comment is Issued with the System Review Report: *(immediately follows the last sentence in the IPA monitoring scope paragraph)*

We made certain comments related to (reviewed OIG)'s monitoring of audits performed by IPAs that are included in the above referenced letter dated (insert date).

If Applicable, and a Letter of Comment is not Already Issued with the System Review Report: *(immediately follows the last sentence in the IPA monitoring scope paragraph)*

We have issued a letter dated (insert date) that sets forth comments on (reviewed OIG)'s monitoring of audits performed by IPAs. These comments do not affect the opinion expressed in this report.

/s/

(Name), Inspector General

Enclosures

Scope and Methodology

We tested compliance with (reviewed OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of X of XX audit reports issued during the period April 1, 20XX, through March 31, 20XX (identify the time period used to select the audits). We also reviewed the internal quality control reviews performed by (reviewed OIG).

In addition, we reviewed (reviewed OIG)'s monitoring of audits performed by IPAs where the IPA served as the auditor during the period April 1, 20XX, through March 31, 20XX. During the period, (reviewed OIG) contracted for the audit of its agency's fiscal year 20XX financial statements. (Reviewed OIG) also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited (reviewed OIG) offices located in Houston, TX; Louisville, KY; and Atlanta, GA.

Reviewed Audits Performed by (Reviewed OIG) (*Identify audit reports selected for review. For example:*)

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908765C	12/13/20XX	Audit Report on Contracting Practices

Reviewed Monitoring Files of (Reviewed OIG) for Contracted Audits (*Identify audit reports issued by IPAs selected for review of the OIG's monitoring activities. For example:*)

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908766F	11/15/20XX	Audit Report on Department of (name of agency)'s Financial Statements for Fiscal Year 20XX

50. Illustrative External Peer Review Report Rating of *Pass with a Scope Limitation*

(OIG Letterhead)

System Review Report

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX. A system of quality control encompasses (reviewed OIG)'s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (if desired, add a footnote with "GAS is issued by the Comptroller General" and date). The elements of quality control are described in *Government Auditing Standards*. (Reviewed OIG) is responsible for establishing and maintaining a system of quality control that is designed to provide (reviewed OIG) with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and (reviewed OIG)'s compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (if desired, add a footnote with the date of the Guide). During our review, we interviewed (reviewed OIG) personnel and obtained an understanding of the nature of the (reviewed OIG) audit organization, and the design of (reviewed OIG)'s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audit and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with (reviewed OIG)'s system of quality control. ***Except as discussed below***, the audits selected represented a reasonable cross-section of the (reviewed OIG) audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with (reviewed OIG) management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the (reviewed OIG) audit organization. In addition, we tested compliance with (reviewed OIG)'s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of (reviewed OIG)'s policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

(Reviewed OIG) notified us that all documentation for audits performed by its Southern Region office during the period under review and for the 5 prior years were destroyed as a result of a natural disaster. As a result, we were unable to review a cross-section of all (reviewed OIG)'s offices in accordance with the peer review guidelines established by the CIGIE.

Enclosure 1 to this report identifies (reviewed OIG) offices that we visited and the audits that we reviewed.

In our opinion, ***except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review audits performed by the (reviewed OIG)'s Southern Region office, as described above***, the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX, has been suitably designed and complied with to provide (reviewed OIG) with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. (Reviewed OIG) has received an External Peer Review rating of *pass with a scope limitation*.

/s/

(Name), Inspector General

Enclosures

Enclosure 1

Scope and Methodology

We tested compliance with (reviewed OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of X of XX audit reports issued during the period April 1, 20XX, through March 31, 20XX (identify the time period used to select the audits). We also reviewed the internal quality control reviews performed by (reviewed OIG).

In addition, we reviewed (reviewed OIG)'s monitoring of audits performed by IPAs where the IPA served as the auditor during the period April 1, 20XX, through March 31, 20XX. During the period, (reviewed OIG) contracted for the audit of its agency's fiscal year 20XX financial statements. (Reviewed OIG) also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited (reviewed OIG) offices located in Houston, TX; Louisville, KY; and Atlanta, GA.

Reviewed Audits Performed by (Reviewed OIG) *(Identify audit reports selected for review. For example:)*

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908765C	12/13/20XX	Audit Report on Contracting Practices

Reviewed Monitoring Files of (Reviewed OIG) for Contracted Audits *(Identify audit reports issued by IPAs selected for review of the OIG's monitoring activities. For example:)*

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908766F	11/15/20XX	Audit Report on Department of (name of agency)'s Financial Statements for Fiscal Year 20XX

51. Illustrative External Peer Review Report Rating of *Pass with Deficiencies*

(OIG Letterhead)

System Review Report

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX. A system of quality control encompasses (reviewed OIG)'s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (if desired, add a footnote with "GAS is issued by the Comptroller General" and date). The elements of quality control are described in *Government Auditing Standards*. (Reviewed OIG) is responsible for establishing and maintaining a system of quality control that is designed to provide (reviewed OIG) with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and (reviewed OIG)'s compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (if desired, add a footnote with the date of the Guide). During our review, we interviewed (reviewed OIG) personnel and obtained an understanding of the nature of the (reviewed OIG) audit organization, and the design of (reviewed OIG)'s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audit and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with (reviewed OIG)'s system of quality control. The audits selected represented a reasonable cross-section of the (reviewed OIG)'s audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with (reviewed OIG) management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the (reviewed OIG) audit organization. In addition, we tested compliance with (reviewed OIG)'s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of (reviewed OIG)'s policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

Enclosure 1 to this report identifies (reviewed OIG) offices that we visited and the audits that we reviewed.

We noted the following deficiencies during our review.

1. Deficiency – We identified errors in XX of the XX audit reports examined that limited the reliability of the reports. These XX audits reports were issued by XX of the XX audit divisions reviewed. We attributed these errors to the absence of control measures in the audit organization's policies and procedures

designed to assure compliance with generally accepted government auditing standards. The errors found, and the impact they had on the reliability of the reports, are summarized below:

- Report No. XX, Title (Date). The report stated that the actions taken by the program office were in noncompliance with Departmental Regulation No. XX 'Title.' The support contained in the audit documentation shows that the program office was in compliance with the regulation as it existed at the time the program office took the action. The audit documentation shows that the issue for which noncompliance was cited did not become effective until 6 months later. Therefore, the audit report finding was inaccurate and the recommendation was not applicable. Although an independent referencing step in the guide called for validation of the finding's criteria, we were informed that this step was not performed due to time constraints.

Recommendation – (Reviewed OIG) should strengthen its referencing requirements to include a certification by the referencer that all required steps have been completed.

Views of Responsible Official. Agree. The OIG will revise its referencing checklist as recommended.

2. Deficiency – (Describe)

Enclosure 2 to this report includes the response by (reviewed OIG) to the above deficiencies.

In our opinion, except for the deficiencies described above, the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX, has been suitably designed and complied with to provide (reviewed OIG) with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. (Reviewed OIG) has received an External Peer Review rating of *pass with deficiencies*.

Use When a Letter of Comment Is Issued: *(immediately follows the last sentence in the opinion paragraph)*

As is customary, we have issued a letter dated (insert date) that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

(Note: A letter of comment should not be prepared when an External Peer Review rating of pass with deficiencies is issued where all of the findings are considered deficiencies and impacted the rating.)

Use When the Scope of the Review Includes IPA Monitoring

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to (reviewed OIG)'s monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether (reviewed OIG) had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on (reviewed OIG)'s monitoring of work performed by IPAs.

If Applicable, and a Letter of Comment is Issued with the System Review Report: *(immediately follows the last sentence in the IPA monitoring scope paragraph)*

We made certain comments related to (reviewed OIG)'s monitoring of audits performed by IPAs that are included in the above referenced letter dated (insert date).

If Applicable, and a Letter of Comment is not Already Issued with the System Review Report: *(immediately follows the last sentence in the IPA monitoring scope paragraph)*

We have issued a letter dated (insert date) that sets forth comments on (reviewed OIG)'s monitoring of audits performed by IPAs. These comments do not affect the opinion expressed in this report.

/s/
(Name), Inspector General

Enclosures

Enclosure 1

Scope and Methodology

We tested compliance with (reviewed OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of X of XX audit reports issued during the period April 1, 20XX, through March 31, 20XX, and semiannual reporting periods (identify the time period used to select the audits). We also reviewed the internal quality control reviews performed by (reviewed OIG).

In addition, we reviewed (reviewed OIG)'s monitoring of audits performed by IPAs where the IPA served as the auditor during the period April 1, 20XX, through March 31, 20XX. During the period, (reviewed OIG) contracted for the audit of its agency's fiscal year 20XX financial statements. (Reviewed OIG) also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited the (reviewed OIG) offices located in Houston, TX; Louisville, KY; and Atlanta, GA offices of (the reviewed OIG).

Reviewed Audits Performed by (Reviewed OIG) *(Identify audit reports selected for review. For example:)*

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908765C	12/13/20XX	Audit Report on Contracting Practices

Reviewed Monitoring Files of (Reviewed OIG) for Contracted Audits *(Identify audit reports issued by IPAs selected for review of the OIG's monitoring activities. For example:)*

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908766F	11/15/20XX	Audit Report on Department of (name of agency)'s Financial Statements for Fiscal Year 20XX

52. Illustrative External Peer Review Report with a Rating of *Pass with Deficiencies with a Scope Limitation*

(OIG Letterhead)

System Review Report

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX. A system of quality control encompasses (reviewed OIG)'s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (if desired, add a footnote with "GAS is issued by the Comptroller General" and date). The elements of quality control are described in *Government Auditing Standards*. (Reviewed OIG) is responsible for establishing and maintaining a system of quality control that is designed to provide (reviewed OIG) with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and (reviewed OIG)'s compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (if desired, add a footnote with the date of the Guide). During our review, we interviewed (reviewed OIG) personnel and obtained an understanding of the nature of the (reviewed OIG) audit organization, and the design of (reviewed OIG)'s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audit and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with (reviewed OIG)'s system of quality control. ***Except as discussed below***, the audits selected represented a reasonable cross-section of (reviewed OIG)'s audit organization, with emphasis on higher-risk audits. Prior to concluding the review, we reassessed the adequacy of the scope of the External Peer Review procedures and met with (reviewed OIG) management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the (reviewed OIG) audit organization. In addition, we tested compliance with (reviewed OIG)'s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of (reviewed OIG)'s policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

(Reviewed OIG) notified us that all documentation for audits performed by its Southern Region office during the period under review and for the 5 prior years were destroyed as a result of a natural disaster. As a result, we were unable to review a cross-section of all (reviewed OIG) offices in accordance with the peer review guidelines established by the CIGIE.

Enclosure 1 to this report identifies (reviewed OIG) offices that we visited and the audits that we reviewed.

We noted the following deficiencies during our review.

1. **Deficiency** – We identified errors in XX of the XX audit reports examined that limited the reliability of the reports. These XX audits were issued by XX of the XX audit divisions reviewed. We attributed these errors to the absence of control measures in the audit organization’s policies and procedures designed to assure compliance with generally accepted government auditing standards. The errors found, and the impact they had on the reliability of the reports, are summarized below:
 - **Report No. XX, Title (Date)**. The report stated that the actions taken by the program office were in noncompliance with Departmental Regulation No. XX ‘Title.’ The support contained in the audit documentation shows that the program office was in compliance with the regulation as it existed at the time the program office took the action. The audit documentation shows that the issue for which noncompliance was cited did not become effective until 6 months later. Therefore, the report finding was inaccurate and the recommendation was not applicable. Although an independent referencing step in the guide called for validation of the finding’s criteria, we were informed that it was not performed due to time constraints.

Recommendation – (reviewed OIG) should strengthen its referencing requirements to include a certification by the referencer that all required steps have been completed.

Views of Responsible Official. Agree.

Enclosure 2 to this report includes the response by (reviewed OIG) to the above deficiencies.

In our opinion, except for the deficiencies described above **and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review audits performed by the (reviewed OIG)’s Southern Region office, as described above**, the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX, has been suitably designed and complied with to provide (reviewed OIG) with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. (Reviewed OIG) has received an External Peer Review rating of *pass with deficiencies with a scope limitation*.

/s/

(Name), Inspector General

Enclosures

Scope and Methodology

We tested compliance with (reviewed OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of X of XX audit reports issued during the period April 1, 20XX, through March 31, 20XX (identify the time period used to select the audits). We also reviewed the internal quality control reviews performed by (reviewed OIG).

In addition, we reviewed (reviewed OIG)'s monitoring of audits performed by IPAs where the IPA served as the auditor during the period April 1, 20XX, through March 31, 20XX. During the period, (reviewed OIG) contracted for the audit of its agency's fiscal year 20XX financial statements. (Reviewed OIG) also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited (reviewed OIG) offices located in Houston, TX; Louisville, KY; and Atlanta, GA.

Reviewed Audits Performed by (Reviewed OIG) (*Identify audit reports selected for review. For example:*)

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908765C	12/13/20XX	Audit Report on Contracting Practices

Reviewed Monitoring Files of (Reviewed OIG) for Contracted Audits (*Identify audit reports issued by IPAs selected for review of the OIG's monitoring activities. For example:*)

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908766F	11/15/20XX	Audit Report on Department of (name of agency)'s Financial Statements for Fiscal Year 20XX

53. Illustrative External Peer Review Report with a Rating of *Fail*

(OIG Letterhead)

System Review Report

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX. A system of quality control encompasses (reviewed OIG)'s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (if desired, add a footnote with "GAS is issued by the Comptroller General" and date). The elements of quality control are described in *Government Auditing Standards*. (Reviewed OIG) is responsible for establishing and maintaining a system of quality control that is designed to provide (reviewed OIG) with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and (reviewed OIG)'s compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (if desired, add a footnote with the date of the Guide). During our review, we interviewed (reviewed OIG) personnel and obtained an understanding of the nature of the (reviewed OIG) audit organization, and the design of (reviewed OIG)'s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with (reviewed OIG)'s system of quality control. The audits selected represented a reasonable cross-section of the (reviewed OIG)'s audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with (reviewed OIG) management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the (reviewed OIG) audit organization. In addition, we tested compliance with (reviewed OIG)'s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of (reviewed OIG)'s policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

Enclosure 1 to this report identifies (reviewed OIG) offices that we visited and the audits that we reviewed.

We noted the following significant deficiencies during our review.

1. Deficiency – (Reviewed OIG)'s system of quality control does not include a quality control process, such as independent referencing, for each audit and compensating controls for the lack of such a process were not in place. As a result, the system as designed did not provide reasonable assurance

that applicable auditing standards, policies, and procedures were met. The system design inadequacies were attributable to management's determination that a quality control process for each audit was redundant, given other control measures, such as supervisory reviews. In addition, our review of individual audits disclosed errors in XX of the XX audit reports reviewed. These XX audit reports were issued by all XX of the audit divisions reviewed. We believe that these errors had not been precluded or detected in a timely manner due to weaknesses in the system of quality control. The errors found and the impact they had on the reliability of these eight reports are summarized below:

- Report No. XX, "Title" (Date). Our review of this report disclosed XX errors that negatively impacted the reliability of the audit report. For example, the audit report stated that internal controls had been evaluated over the program activity audited, but the audit program did not include a provision for internal control testing, nor did the audit documentation reflect the performance of any such tests. Our discussions with audit management and assigned staff disclosed that they interpreted program compliance issues to be internal control weaknesses, and thus formalized testing was not needed. We attributed the report's misstatements to a lack of formalized policies and procedures requiring an independent quality control process for each audit.

Recommendation – (Reviewed OIG) should develop and implement policies for providing reasonable assurance of the accuracy of data in final audit reports such as a quality control process for each audit.

Views of Responsible Official. Agree. The OIG will immediately develop and implement policies establishing an independent referencing process to provide reasonable assurance of the accuracy of data in final audit reports.

2. Deficiency – (Describe)

Enclosure 2 to this report includes the response by (reviewed OIG) to the above deficiencies.

In our opinion, as a result of the significant deficiencies described above, the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX, was not suitably designed and complied with to provide (reviewed OIG) with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. (Reviewed OIG) has received an External Peer Review rating of *fail*.

Use When a Letter of Comment Is Issued: *(immediately follows the last sentence in the opinion paragraph)*

As is customary, we have issued a letter dated (insert date) that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

Use When the Scope of the Review Includes IPA Monitoring

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to (reviewed OIG)'s monitoring of audit performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether (reviewed OIG) had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an

opinion and accordingly, we do not express an opinion, on (reviewed OIG)'s monitoring of work performed by IPAs.

If Applicable, and a Letter of Comment is Issued with the System Review Report: *(immediately follows the last sentence in the IPA monitoring scope paragraph)*

We made certain comments related to (reviewed OIG)'s monitoring of audits performed by IPAs that are included in the above referenced letter dated (insert date).

If Applicable, and a Letter of Comment is not Already Issued with the System Review Report: *(immediately follows the last sentence in the IPA monitoring scope paragraph)*

We have issued a letter dated (insert date) that sets forth comments on (reviewed OIG)'s monitoring of audits performed by IPAs. These comments do not affect the opinion expressed in this report.

/s/

(Name), Inspector General

Enclosures

Enclosure 1

Scope and Methodology

We tested compliance with (reviewed OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of X of XX audit reports issued during the period April 1, 20XX, through March 31, 20XX (identify the time period used to select the audits). We also reviewed the internal quality control reviews performed by (reviewed OIG).

In addition, we reviewed (reviewed OIG)'s monitoring of audits performed by IPAs where the IPA served as the auditor during the period April 1, 20XX, through March 31, 20XX. During the period, (reviewed OIG) contracted for the audit of its agency's fiscal year 20XX financial statements. (Reviewed OIG) also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited (reviewed OIG) offices located in Houston, TX; Louisville, KY; and Atlanta, GA.

Reviewed Audits Performed by (Reviewed OIG) *(Identify audit reports selected for review. For example:)*

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908765C	12/13/20XX	Audit Report on Contracting Practices

Reviewed Monitoring Files of (Reviewed OIG) for Contracted Audits *(Identify audit reports issued by IPAs selected for review of the OIG's monitoring activities. For example:)*

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908766F	11/15/20XX	Audit Report on Department of (name of agency)'s Financial Statements for Fiscal Year 20XX

54. Illustrative External Peer Review Report with a Rating of *Fail with a Scope Limitation*

(OIG Letterhead)

System Review Report

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX. A system of quality control encompasses (the reviewed OIG)'s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (if desired, add a footnote with "GAS is issued by the Comptroller General" and date). The elements of quality control are described in *Government Auditing Standards*. (Reviewed OIG) is responsible for establishing and maintaining a system of quality control that is designed to provide (reviewed OIG) with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and (reviewed OIG)'s compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (if desired, add a footnote with the date of the Guide). During our review, we interviewed (reviewed OIG) personnel and obtained an understanding of the nature of the (reviewed OIG) audit organization, and the design of (reviewed OIG)'s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with (reviewed OIG)'s system of quality control. **Except as discussed below**, the audits selected represented a reasonable cross-section of the (reviewed OIG)'s audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with (reviewed OIG) management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the (reviewed OIG) audit organization. In addition, we tested compliance with (reviewed OIG)'s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of (reviewed OIG)'s policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

(Reviewed OIG) notified us that all documentation for audits performed by its Southern Region office during the period under review and for the 5 prior years were destroyed as a result of a natural disaster. As a result, we were unable to review a cross-section of all (reviewed OIG) offices in accordance with the external peer review guidelines established by the CIGIE.

Enclosure 1 to this report identifies (reviewed OIG) offices that we visited and the audits that we reviewed.

We noted the following significant deficiencies during our review.

1. Deficiency – (Reviewed OIG)’s system of quality control does not include a quality control process, such as independent referencing for each audit, and compensating controls for the lack of such a process were not in place. As a result, the system as designed did not provide reasonable assurance that applicable auditing standards, policies, and procedures were met. The system design inadequacies were attributable to management’s determination that a quality control process for each audit was redundant, given other control measures, such as supervisory reviews. In addition, our review of individual audits disclosed errors in XX of the XX audit reports reviewed. These XX audit reports were issued by all XX of the audit divisions reviewed. We believe that these errors had not been precluded or detected in a timely manner due to weaknesses in the system of quality control. The errors found and the impact they had on the reliability of these eight reports are summarized below:
 - Report No. XX, “Title” (Date). Our review of this report disclosed XX errors that negatively impacted the reliability of the audit report. For example, the audit report stated that internal controls had been evaluated over the program activity audited, but the audit program did not include a provision for internal control testing, nor did the audit documentation reflect the performance of any such tests. Our discussions with audit management and assigned staff disclosed that they interpreted program compliance issues to be internal control weaknesses, and thus formalized testing was not needed. We attributed the report’s misstatements to a lack of formalized policies and procedures requiring an independent quality control process for each audit.
 - Report No. XX, “Title” (Date) (Describe error).

Recommendation – (Reviewed OIG) should develop and implement policies for providing reasonable assurance of the accuracy of data in final audit reports such as a quality control process for each audit.

Views of Responsible Official. Agree. The OIG will immediately develop and implement policies establishing an independent referencing process to provide reasonable assurance of the accuracy of data in final audit reports.

2. Deficiency – (Describe)

Enclosure 2 to this report includes the response by (reviewed OIG) to the above deficiencies.

In our opinion, as a result of the significant deficiencies described above, ***and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review audits performed by the (reviewed OIG)’s Southern Region office as described above***, the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX, was not suitably designed and complied with to provide (reviewed OIG) with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. (Reviewed OIG) has received an External Peer Review rating of ***fail with a scope limitation***.

/s/

(Name), Inspector General
Enclosures

Scope and Methodology

We tested compliance with (reviewed OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of X of XX audit reports issued during the period April 1, 20XX, through March 31, 20XX (identify the time period used to select the audits). We also reviewed the internal quality control reviews performed by (reviewed OIG).

In addition, we reviewed (reviewed OIG)'s monitoring of audits performed by IPAs where the IPA served as the auditor during the period April 1, 20XX, through March 31, 20XX. During the period, (reviewed OIG) contracted for the audit of its agency's fiscal year 20XX financial statements. (Reviewed OIG) also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited (reviewed OIG) offices located in Houston, TX; Louisville, KY; and Atlanta, GA.

Reviewed Audits Performed by (Reviewed OIG) (*Identify audit reports selected for review. For example:*)

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908765C	12/13/20XX	Audit Report on Contracting Practices

Reviewed Monitoring Files of (Reviewed OIG) for Contracted Audits (*Identify audit reports issued by IPAs selected for review of the OIG's monitoring activities. For example:*)

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
AA0908766F	11/15/20XX	Audit Report on Department of (name of agency)'s Financial Statements for Fiscal Year 20XX

55. Illustrative External Peer Review Letter of Comment

(OIG Letterhead)

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed the system of quality control for the audit organization of (reviewed OIG) in effect for the year ended March 31, 20XX, and have issued our report thereon dated September 30, 20XX, in which (reviewed OIG) received a rating of (as applicable, *pass*, *pass with deficiencies*, or *fail*). That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The finding(s) described below was (were) not considered to be of sufficient significance to affect the opinion expressed in that report.

Finding 1. Independence – Required Checklist Not Completed

For every audit, the OIG audit organization’s quality control policies and procedures require each member of the audit team to complete a checklist designed to help identify personal and external impairments to independence and document compliance with the *Government Auditing Standards* independence requirements (if desired, add a footnote with “GAS is issued by the Comptroller General” and date). These checklists were not completed on 3 of 10 audits reviewed. Based on discussions with the members of the audit teams involved, we concluded that no actual impairments existed.

Recommendation – The OIG should reemphasize its policy on independence checklists and amend its audit review checklist to include a review item for the completion of the independence checklist.

Views of Responsible Official. Agree.

Finding 2. Audit Performance – Timely Supervisory Review of Work

The OIG’s policies and procedures require that supervisors be involved and review work on an ongoing basis throughout the audit. On 4 of 10 audits reviewed, the supervisory review of the work occurred at the end of the audit. According to the supervisors involved, this occurred because other ongoing audits, which had higher priority at the time, demanded their attention. When review of the work is delayed until the end of the audit, there is a greater risk that problems with the audit work will not be identified until it is too late to correct.

Recommendation – OIG management should review the pattern of assignments to supervisors involved and determine whether the workload was such that the supervisors could have reasonably been expected to comply with the OIG’s policy requiring an ongoing review of all audit work.

Views of Responsible Official. Agree.

Use if Scope of External Peer Review Included IPA Monitoring and Weaknesses Were Identified:

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the Council of the Inspectors General on Integrity and Efficiency related to (reviewed OIG)’s monitoring of audit work performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. The matter described below was identified:

Finding 3. IPA Monitoring – IPA Peer Review Reports

The audit organization’s policies and procedures require for all contracted audits, that staff should obtain and document in the monitoring records a copy of the IPA’s most recent peer review report and, if one is issued, the letter of comment associated with the peer review report. We noted that the monitoring files for the contracted audit of the (agency name) fiscal year 20XX financial statements did not contain a copy of the peer review report. Monitoring staff confirmed that one was not obtained. While the staff subsequently obtained a copy which showed that the IPA received a peer review rating of pass, this should have been done as part of the monitoring of the contracted work not after the fact in case there were issues raised with the IPA’s past audit work that may have impacted the scope of the monitoring activities.

Recommendation – The AIGA should reemphasize its policy to obtain the latest Peer Review report and associated letter of comment as part of monitoring activities for contracted IPA audit work.

Views of Responsible Office. Agree.

/s/

(Name), Inspector General

Enclosures

56. Illustrative Transmittal Memo for the External Peer Review Discussion Draft

(Name)
Assistant Inspector General for Audit
(Name of Department or Agency)
(Address)

Subject: External Peer Review Discussion Draft Report on the (Name of Department or Agency) Office of Inspector General Audit Organization

Dear (Name of Assistant Inspector General for Audit):

Attached is the discussion draft of the External Peer Review Report of the (Name of Department or Agency's) Office of Inspector General audit organization conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Please review the report and prepare unofficial comments for discussion at the exit conference. We will contact you soon to arrange for an exit conference.

If you have any questions, please contact (name and phone number of designee).

(Name)
Assistant Inspector General for Audit

Attachment

57. Illustrative Transmittal Memo for the External Peer Review Formal Draft

(Name)
Assistant Inspector General for Audit
(Name of Department or Agency)
(Address)

Subject: External Peer Review Formal Draft Report on the (Name of Department or Agency) Office of Inspector General Audit Organization

Dear (Name of Assistant Inspector General):

Attached is the formal draft of the External Peer Review Report of the (Name of Department or Agency) Office of Inspector General audit organization conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. This review was discussed with you and members of your staff on (date). Based on comments at the exit conference, we made (substantive or minor) revisions to the report (if applicable).

Please provide your written response to the formal draft by (date) specifying corrective actions taken or planned on each recommendation and proposed completion dates for implementation of such actions. Your response along with our conclusions will be incorporated into the final report.

If you have any questions, please contact (name and phone number of designee).

(Name)
Assistant Inspector General for Audit

Attachment

58. Illustrative Transmittal Memo for the External Peer Review Final Report

(Name)²⁴

Inspector General

(Name of Department or Agency)

(Address)

Subject: External Peer Review Report on the (Name of Department or Agency) Office of Inspector General Audit Organization

Dear (Name of Inspector General):

Attached is the External Peer Review Report of the (Name of Department or Agency) Office of Inspector General audit organization conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Your response to the draft report is included as Enclosure 2 with excerpts and our position incorporated into the relevant sections of the report.

We appreciate the cooperation and courtesies extended to our staff during the review.

(Name)

Inspector General

Attachment

²⁴ The term “Honorable” should be used to address the IGs who are appointed by the President and confirmed by the Senate. Address all others using “Mr.,” “Ms.,” or other forms preferred by the recipient.

Section 3

Guide for Conducting the Modified Peer Review

Preface

1. This section is new to the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* and presents guidance for conducting a Modified Peer Review. The Modified Peer Review is applicable to an Office of Inspector General (OIG) whose work conducted during the 3-year-period since the prior peer review did not include audits and attestation engagements performed in accordance with generally accepted government auditing standards (GAGAS). The OIG may, nevertheless, maintain audit policies and procedures in anticipation of performing such work. Moreover, the OIG may have elected to perform other types of work in its oversight role of its agencies in accordance with its authorities under the Inspector General Act of 1978, as amended, 5 U.S.C. Appendix 3 (IG Act). It is the view of the CIGIE Audit Committee that it would be useful for such an OIG to be subject to a peer review process to help ensure that its audit policies and procedures, if established, are current and consistent with professional standards. The guidance contained in this section is not intended to supplant the peer review team’s professional judgment as to the approach to take or the specific procedures that need to be performed.

General Considerations

Definitions

2. The following terms are used throughout this section and the appendices:
 - **Audits.** For the purpose of providing guidance on the peer reviews, the term “audits”, when used alone, pertains to both audits and attestation engagements performed in accordance with GAGAS.
 - **Independent Public Accountant (IPA) Monitoring.** IPA monitoring consists of activities by the reviewed OIG to contract for and monitor audit and attestation work performed by an IPA firm where the IPA served as the auditor. The IG Act requires OIGs to establish guidelines to determine when it is appropriate to use non-Federal auditors.²⁵ The Act also requires OIGs to ensure that the work of non-Federal auditors adheres to GAGAS.²⁶ IPA monitoring conducted by an OIG is not an audit, and GAGAS does not prescribe standards for IPA monitoring.

²⁵ Section 4(b)(1)(B) of the IG Act

²⁶ *Ibid.*, section 4(b)(1)(C)

Objective of the Modified Peer Review

3. A Modified Peer Review is applicable to an OIG whose work conducted during the 3-year period since the prior peer review did not include audits and attestation engagements in accordance with GAGAS. The objective of the Modified Peer Review is to determine whether the reviewed OIG's established policies and procedures for the audit function are current and consistent with applicable professional standards. The scope of the Modified Peer Review should also include IPA monitoring activities if IPAs were engaged by the reviewed OIG to perform audits and attestation engagements. Some OIGs do not maintain audit policies and procedures because the OIG did not and does not intend to perform GAGAS audits. Not having policies and procedures should not be considered to be a weakness, and in this case, the scope of the Modified Peer Review should only be of the IPA monitoring activities.

Responsibilities and Characteristics of the Modified Peer Review Team

4. The peer review team should exercise professional judgment in all matters relating to planning, performing, and reporting the results of the Modified Peer Review. Nothing in this section should be construed to limit the flexibility of the peer review team in planning and performing the peer review.
5. The peer review team should be led by a team captain with sufficient expertise with GAGAS and who reports to an individual or a level within the reviewing OIG that will ensure independence and objectivity in performing the Modified Peer Review. The team captain should ensure the proper supervision of the staff.
6. The peer review team should have knowledge related to performing peer reviews. The team should collectively have sufficient knowledge of how to perform a Modified Peer Review. The individuals managing and conducting the peer review should have experience and a thorough knowledge of applicable professional standards, and of the environment relative to the work being performed to ensure a quality review. Having team members with prior experience on peer reviews or an internal quality assurance review is desirable but not required.
7. The OIG conducting the Modified Peer Review and individual peer review team members should be independent (as defined in GAGAS) of the OIG being reviewed, its staff, and the IPA monitoring activities selected for the peer review. The team should use the GAGAS conceptual framework for independence to identify threats and apply safeguards to the Modified Peer Review.
8. The number of staff assigned to the Modified Peer Review team depends on several factors, including, but not limited to, the size and geographic dispersion of the reviewed OIG, and the nature and extent of its IPA monitoring universe. The peer review team should be adequately staffed to complete the review in a timely manner and should have the appropriate experience such as IPA monitoring. Members of the peer review team can be from one OIG or several OIGs as an ad-hoc team.

Planning and Performing the Modified Peer Review

Initiation of the Modified Peer Review and Administrative Matters

9. When the reviewed OIG's work in the 3 years since the last peer review did not include GAGAS engagements, the reviewed OIG will need to obtain a Modified Peer Review report. The reviewed OIG makes informal contacts with the reviewing OIG early in the process, and such contact is encouraged to ensure that the reviewed OIG obtains the Modified Peer Review report within the time frame required by CIGIE. Such contact also helps the reviewing OIG in planning the Modified Peer Review and discussing any special circumstances surrounding the peer review. The peer review schedule is maintained by the CIGIE Audit Committee. The peer review schedule identifies, among other things, the OIGs scheduled for a peer review and the OIGs scheduled to perform the peer review, the peer review report scope (i.e., the period to be covered by the peer review), and due dates, and is categorized by the OIG audit staff size. After such contact is made, the reviewing OIG should forward an engagement letter to the reviewed OIG announcing the initiation of the Modified Peer Review and requesting a formal entrance conference. The engagement letter should also contain a request that the information in paragraph 17 of this section be provided at or before the entrance conference. Sufficient time should be given to the reviewed OIG to compile the information.
10. An entrance conference should be held to bring the parties together, establish the ground rules of the Modified Peer Review, and facilitate conducting the review. At that time, the reviewed OIG management should brief the peer review team on organizational issues and work practices (e.g., roles and responsibilities of the OIG related to audits and other matters); established audit policies and procedures; the level of security clearance/access needed; and any training that may be required before the peer review to facilitate preparation and planning. The proposed elements of the suggested memorandum of understanding (MOU) at paragraph 18 should also be discussed.
11. Adequate work space should be provided for the peer review team.
12. If travel is necessary to accomplish the objectives of the Modified Peer Review, the reviewing OIG should pay its own travel expenses. If the team is made up of members of different OIGs, the team members' respective OIG should pay their travel expenses.
13. The peer review team should maintain administrative records of the staff days and calendar days taken to complete the Modified Peer Review, as well as travel and other costs incurred. These records should be retained as part of the peer review documentation so that they are available to the next peer review team for its planning purposes.

Scope of the Modified Peer Review

14. The scope of the Modified Peer Review is based on the period covered by the prior peer review (whether it was an External Peer Review or a Modified Peer Review). The peer review schedule is maintained by the CIGIE Audit Committee. Specifically, the current peer review will cover the year-end that is 3 years from the year-end covered by the prior peer

review. For example, if the prior peer review period end date was March 31, 2011, then the current peer review covers the period ending March 31, 2014. The due date for the Modified Peer Review report is 6 months from the period end date covered by the peer review. Following this example, the due date for the Modified Peer Review report is September 30, 2014. Approval of extensions to the due date exceeding 3 months beyond the routine 6-month due date must be obtained by the reviewed OIG from the CIGIE Audit Committee.

15. CIGIE recognizes that the policies and procedures may vary among OIGs and that some OIGs may not have adopted policies and procedures for the audit function if they do not (or do not plan to) perform audits in accordance with GAGAS in their oversight role of their agency. Additionally, policies and procedures, if adopted, depend on a number of factors, such as the OIG's size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its agency's work, and cost-benefit considerations. If the OIG does not maintain audit policies and procedures because the OIG does not (or does not intend to) conduct audits, this should not be reported as a weakness but should be noted as part of the Modified Peer Review documentation in Appendix A and discussed in the Modified Peer Review report.
16. Whether the reviewed OIG maintains audit policies and procedures, the scope of the Modified Peer Review should also include a review of the OIG's monitoring of audits contracted to IPAs where the IPA serves as the auditor. IPA monitoring activities are not audits performed in accordance with GAGAS. However, audit work performed by IPAs may be significant in many OIGs. Also, OIGs have responsibility under the IG Act to ensure contracted IPA audit work conforms to GAGAS. Accordingly, the CIGIE Audit Committee determined that it is prudent to give this area appropriate coverage as part of the Modified Peer Review. The focus of the review on IPA monitoring activities will be on contracting and monitoring practices to ensure that contracted work complies with professional standards. Weaknesses found with IPA monitoring activities are to be reported in the letter of comment or similar written document.

Planning/Pre-Site Visit

17. The following steps should be performed prior to the entrance conference to obtain an understanding of the reviewed OIG and to determine the nature and extent of the Modified Peer Review and the type of IPA monitoring activities to select for review by the team:
 - a. **Audit Policies and Procedures.** The review team should request the reviewed OIG to complete Section 1 of Appendix A, *Policies and Procedures*, and provide references to and a copy of its policies and procedures. If the reviewed OIG did not establish policies and procedures for the audit function, it should indicate such information in Appendix A and the reviewing OIG should only review the IPA monitoring activities as part of the Modified Peer Review.
 - b. **Semiannual Reports to Congress.** The review team should request, or obtain from the OIG's website, copies of the semiannual reports to Congress that were issued during the period to be covered by the Modified Peer Review. The semiannual reports provide information regarding the nature and volume of completed work as well as other matters

that may help the review team understand the environment in which the reviewed OIG operates. The reports should also serve as a source for selecting for review, individual IPA monitoring activities on audits and attestation engagements where the IPA was contracted to be the auditor.

- c. **Prior Peer Review.** Arrangements should be made to obtain copies of the prior peer review final report and, as applicable, the letter of comment and access to the review documentation. The reviewed OIG should facilitate the arrangements and provide a written description of the corrective action taken in response to the prior peer review recommendations. The team should assess the effectiveness of corrective actions implemented by the reviewed OIG in response to the recommendations and include follow-up on the status of these recommendations.
- d. **Other Documentation.** The review team should obtain other documentation it deems necessary to conduct the review including but not limited to the current annual work plan(s), or a similar document, if applicable; a printout of the assignment tracking system of the specific information needed such as the types of reviews scheduled and completed during the period; an organization chart; a staff roster, including series, grades, and professional designations; and other materials needed. If readily available, the team should obtain information regarding the staff's advanced degrees or special skills or request as needed after the IPA monitoring projects have been selected.

Memorandum of Understanding

18. An MOU is recommended to ensure mutual agreement regarding the fundamental aspects of the Modified Peer Review and to avoid any misunderstandings. The MOU is drafted by the reviewing OIG, discussed at the entrance conference, and signed by both Inspectors General prior to the initiation of fieldwork. An illustrative MOU is included at paragraph 35 for the team to use and modify, as appropriate, to fit the circumstances of the review. The MOU typically covers the following topics:

- a. **Scope of the Review.** See the paragraphs 14 to 16 of this Section.
- b. **Staffing and Timeframe.** The review should be scheduled and conducted to ensure a report is issued within 6 months of the end date of the period to be reviewed.
- c. **Preliminary Findings.** The MOU provides for timely interim discussion of preliminary findings. A commitment to open and ongoing communication between the parties is important to ensure that the review is conducted in an efficient manner.
- d. **Reporting Results.** The MOU establishes the guidelines for the reporting process, specifically:
 - Designating the report's addressee and signer (e.g., draft issued to and from the respective Assistant Inspectors General for Audit or equivalent and final report issued to and from the Inspectors General);
 - Providing a discussion draft report and formal draft report for the official response;

- Scheduling the exit conference;
 - Designating a time period for responses to the applicable draft reports; and
 - Issuing the final report.
- e. **Administrative Matters.** Other topics may be covered, as needed or considered appropriate including: the points of contact, purpose and objective of the Modified Peer Review, review approach, handling of sensitive information or clearances required, and logistics and facilities access. When preparing the MOU, the parties should take care not to limit, in any way, the review team's ability to conduct the work necessary to accomplish the objective of the review.
- f. **Request for Peer Review Documentation.** Include an appendix in the MOU to cover the instructions for the request for peer review documentation resulting from Freedom of Information Act and other legal demands and requests.

Conducting the Modified Peer Review

19. The review team should perform a risk assessment to help plan the review and determine the extent of the work needed to review policies and procedures and to evaluate the reviewed OIG's IPA monitoring activities. In assessing risk, the review team should consider the information gathered and analyzed in paragraph 17.
20. Documentation should be prepared to support the work performed and the conclusions reached during the Modified Peer Review, including evidence of supervision.
21. The reviewing OIG should retain the Modified Peer Review documentation until after the subsequent peer review of the reviewed OIG is completed. Furthermore, the documentation should be retained for an appropriate period in accordance with the reviewing OIG's records retention policy. The reviewing OIG should also provide the current peer review team with access to the documentation, as requested. The reviewing OIG should apply the same custody and physical and electronic security practices on the peer review documentation that it requires of its other work documentation. These policies should include safeguards against unauthorized use or access to the documentation.
22. Evaluate the reviewed OIG's established policies and procedures for its audit function to determine if the policies and procedures are current and consistent with applicable professional standards. Appendix A²⁷ should be used to guide the review and should be modified as needed. Based on a review and evaluation of policies and procedures, supplemented as necessary by an inquiry of management, the review team should complete Section 2 of Appendix A. In its analysis to determine whether, in the reviewer's opinion, the reviewed OIG's quality control policies and procedures are current and consistent with applicable professional standards as described, the peer review team should:
- a. Gain an understanding of the reviewed OIG's work performed during the period under review, including the professional standards followed.

²⁷ The checklist is available on the CIGIE website at <http://www.ignet.gov/pande/audit1.html>.

- b. Evaluate, if applicable, the reviewed OIG's established policies and procedures to determine if the policies and procedures are current and consistent with applicable professional standards. If the reviewed OIG established and maintained audit policies and procedures, the checklist at Appendix A should be used to guide the review, and should be modified as needed.
 - c. Policies and procedures are current and relevant if they are periodically updated and they describe the applicable professional standards the reviewed OIG intends to follow for the audit function.
23. Gain an understanding as to the extent the reviewed OIG uses contracted IPAs to perform audits and attestation engagements and the policies and procedures for monitoring the IPAs' GAGAS work. Based on the risk assessment, the team should select a representative cross-section of audits and attestation engagements contracted to IPAs where the IPA served as the auditor. If the reviewed OIG contracted the financial statements audit for its agency, the financial statements audit should be included in the sample. In selecting other IPA monitoring audits and attestation engagements for review, the review team should consider the following to ensure a cross-section of the contracted work:
- a. Audits and attestation engagement described in the reviewed OIG's semiannual reports to Congress that were conducted by IPAs.
 - b. The degree of centralized controls in place.
 - c. The number of OIG offices.
 - d. Findings and comments from any prior peer review reports.
24. Review IPA monitoring documentation for contracted audits and attestation engagements selected, emphasizing the reviewed OIG's monitoring activities to ensure the IPA's adherence to professional standards. Appendix F should be used to guide the review, and should be modified as needed.²⁸ It is important to note that the review of the OIG's IPA monitoring activities does not entail visiting the IPA or reviewing the IPA's audit documentation.

Identifying Findings and Recommendations

25. Potential issues need to be considered individually and in the aggregate to determine the materiality of the findings and make recommendations to include in the report. Determining the relative importance of matters and findings identified during the Modified Peer Review, individually or combined with others matters and findings, requires professional judgment and careful consideration is needed to form conclusions.
26. After completing the checklists at Appendices A and F for the Modified Peer Review, findings should be developed, if appropriate. The review team should:

²⁸ The checklist is available on the CIGIE website at <http://www.ignet.gov/pande/audit1.html> and contains additional information about the various degrees of responsibility that an OIG may assume in connection with an IPA's work,

- a. Summarize the checklist's results and assess whether policies and procedures are current and consistent with applicable professional standards.
- b. Identify findings and any other matters that warrant disclosure to the OIG's management, including any deficiencies noted in its IPA monitoring activities for inclusion in a letter of comment or a separate written communication.

Reporting the Modified Peer Review Results

General Considerations

27. The process for reporting should be discussed and subsequently agreed to by the OIGs, in the MOU, before the start of the review. The process should provide for the reviewed OIG to comment on the draft reports and, if applicable, the letter of comment or other written communications, prior to their final issuance. The review team should consider the comments before finalizing the reports, and should include the comments as part of the final report. Sample documents are included as illustrative materials at paragraphs 36 to 42 and should be modified to fit the circumstances of the findings and recommendations.
28. A written report should be issued at the completion of the Modified Peer Review. The report should contain the review team's assessment of whether established audit policies and procedures, if any, are current and consistent with applicable professional standards. If the OIG does not have audit policies and procedures, the report should state that the OIG did not establish audit policies and procedures and include the reviewed OIG's reason for choosing to not have policies and procedures. The report should also describe the scope of work related to the reviewed OIG's IPA monitoring activities where the OIG contracted with IPAs to perform audits and/or attestation engagements as the auditor. Written comments for each recommendation should be obtained from the reviewed OIG's management, describing the corrective actions already taken and/or target dates for prospective corrective actions. For the Modified Peer Review report, approval of extensions to the due date exceeding 3 months beyond the due date must be obtained by the reviewed OIG from the CIGIE Audit Committee. Illustrative reports are included at paragraphs 36 and 38, depending on whether the OIG chose to have audit policies and procedures.
29. Findings not sufficiently significant to be included in the Modified Peer Review report should be included in a letter of comment or separate written communication. This separate written communication should also include any findings noted with IPA monitoring activities.

Modified Peer Review Report Contents

30. The written report should:
 - a. State at the top of the report the title "Modified Peer Review Report."
 - b. State that the OIG's policies and procedures for the audit function were reviewed and the date covered, or that the OIG had no such procedures and include the reviewed OIG's reason(s) for choosing to not have policies and procedures.

- c. State that the Modified Peer Review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.
- d. State that the reviewed OIG is responsible for establishing and maintaining policies and procedures for the audit function, including the process for monitoring the work of IPAs.
- e. State that the reviewer's responsibility is to assess whether policies and procedures submitted for review were current and consistent with applicable professional standards.
- f. Describe the objective, scope, limitations of, and procedures performed in the Modified Peer Review.
- g. As applicable, include in the scope the work related to IPA monitoring activities where the IPA was engaged as the auditor. Include a listing of the IPA monitoring projects reviewed and, if applicable, the OIG offices visited.
- h. Include material findings related to policies and procedures in the report and the reviewed OIG's official response to any findings and recommendations as an enclosure to the report.
- i. If applicable, include a reference to the letter of comment or a separate written communication, if one is issued to report (1) findings related to policies and procedures that are not material to be included in the report but needed to be brought to the attention of the reviewed OIG's management, or (2) findings on IPA monitoring activities.

Letter of Comment

31. A letter of comment or separate written communication should be issued in connection with the Modified Peer Review report for any findings noted with policies and procedures that are not material to be included in the report and/or with IPA monitoring activities. The letter of comment should provide reasonably detailed descriptions of the findings and recommendations to enable the reviewed OIG to take appropriate actions. Written comments should be obtained from the reviewed OIG on these findings and recommendations and be included as part of the letter of comment. Illustrative letters of comment are included at paragraphs 37 and 39, depending on whether the OIG chose to have audit policies and procedures.

Views of Responsible Officials

32. To ensure the objectivity, accuracy, and completeness of the findings, the review team should obtain the views of responsible officials of the reviewed OIG. When deficiencies are found during the review, the team should discuss the issues with senior audit management and staff or with the responsible official(s) designated by the reviewed OIG. All preliminary draft findings and conclusions must be presented during the review to the official(s) designated by the reviewed OIG to avoid any misunderstandings and to help ensure that all material facts are considered before a draft report is prepared. These disclosures may be conveyed informally, but should be in writing, to facilitate agreement regarding the conditions noted. Upon issuance of the discussion draft report, an exit conference should be held, modifications should be made to the report as necessary, and then a formal draft report

should be sent with a request for written comments. The peer review team should consider any written comments from the reviewed OIG, and if necessary, include the team comments or rebuttals in the final report. The entire written response from the reviewed OIG should be included in the final report.

Report Distribution and Follow-Up

33. The reviewed OIG should make its most recent Modified Peer Review report publicly available and provide a copy of the report to the head of its agency, appropriate oversight bodies, the Chair of the CIGIE, and the Chair of the CIGIE Audit Committee. In addition to transparency through website posting and to those charged with governance, the OIG is required to include in its semiannual reports to Congress a discussion of the results from the Modified Peer Review report conducted by another OIG, and any outstanding recommendations from past peer review reports. These requirements do not include the letter of comment.
34. The reviewed OIG is responsible for implementing recommendations in the Modified Peer Review report. A follow-up on implemented recommendations should be included in the scope of the reviewed OIG's next peer review.

Illustrative Materials

35. Illustrative Modified Peer Review Memorandum of Understanding

**MODIFIED PEER REVIEW MEMORANDUM OF UNDERSTANDING
BETWEEN THE INSPECTORS GENERAL FOR (AGENCY NAME)
AND (AGENCY NAME)**

Purpose

The purpose of this memorandum of understanding (MOU) is to ensure a mutual understanding between the (insert name of reviewing agency) Office of Inspector General (OIG) and the (insert name of reviewed agency) OIG regarding the fundamental aspects of the Modified Peer Review of (insert name of reviewed agency) OIG audit organization policies and procedures. The parties listed in the MOU entered into this agreement pursuant to the authority of the Inspector General Act of 1978, as amended.

Points of Contact

(list of contacts for reviewing agency OIG)

(list of contacts for the reviewed agency OIG)

Staffing of (insert name of agency) OIG Review Team

The review team captain is (name and title). The team members will collectively have sufficient knowledge to perform the peer review. To the extent feasible, the team includes personnel with prior experience on an external peer review or internal quality assurance review. The review team captain is responsible for the proper supervision of the review team.

Objective

The objective of this Modified Peer Review is to determine whether (insert name of reviewed agency) OIG's established policies and procedures, if any, for the audit function were current and consistent with professional standards. As applicable, the review will also include controls over monitoring of contracted audits performed by Independent Public Accountants (IPAs), where the IPA serves as the auditor.

Review Approach

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General (include year if desired)* will be used in the conduct of the review. As set forth by CIGIE, the approach will be to:

- Gain an understanding of (insert name of reviewed agency) OIG, and if applicable, established policies and procedures for the audit function.
- If appropriate, evaluate whether (insert name of reviewed agency) OIG's policies and procedures are current and consistent with applicable professional standards.
- Gain an understanding as to the extent (insert name of reviewed agency) OIG uses contracted IPAs to perform audits and attestation engagements where the IPA is the auditor, and the policies and procedures for monitoring of IPA work.
- Review (insert name of reviewed agency) OIG's IPA monitoring documentation for a sample of contracted audits and attestation engagements, emphasizing the monitoring activities to ensure the IPAs' adherence to professional standards.
- Maintain open communication with (insert name of reviewed agency) OIG to ensure an understanding of the issues evaluated and an awareness of potential issues as they arise.

During the Modified Peer Review, the team will exercise professional judgment in all matters relating to planning, performing, and reporting the results of the review.

Scope of the Modified Peer Review

The scope of the Modified Peer Review will cover any established audit policies and procedures of the (insert name of reviewed agency) OIG that are designed to provide it with reasonable assurance that audits and attestation engagements anticipated to be conducted by the OIG will be carried out in accordance with applicable professional standards. If appropriate, the scope will also include the monitoring activities of the IPAs for which the OIG directly contracted to perform audits and attestation engagements to ensure the IPAs' adherence to professional standards. The review team may review other documentation as it deems necessary

Administration

(Insert name of reviewed agency) OIG shall designate an individual to facilitate administrative support and provide the review team with the appropriate office space, desks, telephone service, and other office equipment; and access to copying facilities. The review team shall have access to (insert name of reviewed agency) OIG's personnel. (Insert name of the reviewed agency) OIG shall provide the review team with access to documents, operational manuals, and other files necessary to conduct the Modified Peer Review.

Review Milestone

The following represents the review team's estimated timeline for its review (dates below are for illustrative purposes only):

- Preliminary work to be completed, October 2014.
- Entrance conference, November 2014.
- Fieldwork to be completed, January 2015.
- Discussion draft report transmitted to (insert name of reviewed agency) OIG's Assistant Inspector General for Audit (AIGA), January 2015.
- Exit conference and submission of any unofficial comments, February 2015.
- Formal draft report transmitted to (insert name of reviewed agency) OIG's AIGA, February 2015.
- Formal written response from (insert name of reviewed agency) OIG's AIGA, March 2015.
- Final report issued to (insert name of reviewed agency)'s Inspector General, March 2015.

Reporting

After fieldwork is completed, (insert name of reviewing agency) OIG's AIGA will issue a discussion draft report to (insert name of reviewed agency) OIG's AIGA providing preliminary results of the Modified Peer Review. (Insert name of reviewing agency) OIG will then arrange and hold an exit conference. The purpose of the exit conference is to discuss the results of the review. (Insert name of reviewed agency) OIG will provide informal comments on the discussion draft at the exit conference. (Insert name of reviewing agency) OIG's AIGA will issue a formal draft report to (insert name of reviewed agency) OIG's AIGA. (Insert name of reviewed agency) OIG will provide its written comments within 30 days after the formal draft report is issued. A final written report will be signed by the (insert name of reviewing agency) Inspector General and issued to the (insert name of reviewed agency) Inspector General. The report will be prepared in accordance with the CIGIE *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. (Insert name of reviewed agency) OIG will be responsible for distributing the report in accordance with the CIGIE guidelines. (Insert name of reviewing agency) OIG will refer any third party requests for the report to (insert name of reviewed agency) OIG.

Disposition of Review Documentation

The review team will prepare appropriate documentation to support the work performed and the results of the review. (Insert name of reviewing agency) OIG shall keep this documentation until a subsequent peer review is performed of (insert name of reviewed agency) OIG and shall provide the documentation to the subsequent reviewing OIG. (Insert name of reviewed agency) OIG shall have access upon request to the review team's documentation during the comment period and after the issuance of the final report. If either OIG receives a request (e.g., Freedom of Information Act requests, litigation [discovery] demands, or requests from oversight bodies) for documentation that was obtained from the other OIG during the Modified Peer Review, the OIG receiving the request shall not release or disseminate such documentation without consulting with the other OIG, and obtaining, if possible, the other OIG's disclosure recommendations. Depending on the nature of the request, the reviewing OIG may need to refer the requested/demanded documentation to the reviewed OIG for further processing. Additional details on the handling of such requests are provided in the Appendix.

Semiannual Reports to Congress

(Insert name of reviewed agency) OIG and (insert name of reviewing agency) OIG will report on this Modified Peer Review in their respective semiannual reports to Congress in accordance with the Inspector General Act of 1978, as amended, 5 U.S.C. App.3, § 5(a)(14) to (16), and consistent with the CIGIE *Implementing Guidance for OIG Reporting of Peer Review Results in Semiannual Reports to the Congress* (if desired, add a footnote with the date of the Guide.) Specifically, (insert name of reviewed agency) OIG will report on the Modified Peer Review conducted by (insert name of reviewing agency) OIG for the applicable semiannual reporting periods, and provide a list of any outstanding recommendations from prior peer review reports, and not from

letter of comment, that have not been fully implemented, including a statement describing the status of the implementation and why implementation is not complete. (Insert name of reviewing agency) OIG shall report on this peer review for the applicable semiannual reporting periods, and include a list of any outstanding recommendations from prior peer review reports, and not from the letter of comment, that remain outstanding or have not been fully implemented. In this regard, (insert name of reviewed agency) OIG will coordinate with (insert name of reviewing agency) OIG as necessary so that (insert name of reviewing agency) OIG can meet this reporting responsibility.

The undersigned are in agreement with the conditions contained in this MOU.

_____ Date _____

Inspector General
(Agency Name)

_____ Date _____

Inspector General
(Agency Name)

Appendix

Additional Information Related to Disposition of Review Documentation

In the case of requests or legal demands received by the **reviewing** OIG for the Modified Peer Review documentation, the reviewing OIG will consider the documentation it received from the reviewed OIG to still be within the reviewed OIG's possession and control, and:

- For requests under the Freedom of Information Act (5 U.S.C. § 552), the reviewing OIG (a) will provide documentation supplied by the reviewed OIG to the reviewed OIG for response directly to the requester; and (b) will consult with the reviewed OIG regarding **reviewed-OIG information** contained in documentation **generated** by the reviewing OIG and will obtain the reviewed OIG's disclosure recommendations and legal basis relative to such information, provided however, that the reviewing OIG (or, where applicable, the reviewing OIG's agency) has final say as to the response to the requester. In all cases, the reviewed and reviewing entities will comply with statutory provisions, implementing guidance from the reviewed OIG's agency, and applicable case law in making their disclosures or withholding of peer review documentation.
- For discovery demands under the applicable rules of civil procedure or similar legal process and other legal authorities--to include subpoenas--for some or all of the peer review documentation, the reviewing OIG will advise the reviewed OIG of the existence of such demands and will advise the litigating parties or adjudicative body that the documentation being sought belongs to the reviewed OIG. The reviewed OIG will have the responsibility to (a) advise the reviewing OIG regarding whether, or under what circumstances, to produce the documentation being sought or (b) intervene or otherwise communicate with the litigating parties or adjudicative body regarding the production of such documentation or the obtaining of protective orders or equivalent, as permitted under applicable law.
- For requests from oversight bodies, such as the Government Accountability Office or reviewing bodies empowered to examine peer reviewing entities, the reviewing OIG will advise the reviewed OIG of the existence of such request and will advise the oversight body that the requested documentation belongs to the reviewed OIG. The reviewed OIG will have the responsibility (a) to advise the reviewing OIG regarding

whether, or under what circumstances, to provide the requested documentation or (b) communicate with the oversight body regarding the requested documentation.

In the case of requests or legal demands received by the **reviewed** OIG for the Modified Peer Review documentation, the reviewed OIG will consider the documentation it provided to the reviewing OIG to still be within the reviewed OIG's possession and control. If, as part of its efforts to respond to such requests or legal demands, the reviewed OIG needs access to the documentation that it had provided to the reviewing OIG, the reviewed OIG shall be given access, upon its request, to the documentation and may review and/or copy the documentation (or, if agreed upon by the parties, the reviewing OIG shall make copies of the documentation and provide those copies to the reviewed OIG).

36. Illustrative Modified Peer Review Report (with Audit Policies and Procedures)

(OIG Letterhead)

Modified Peer Review Report

(Date)

To (Name), Inspector General
(Name of Agency)

At the request of (reviewed Agency) Office of Inspector General (OIG), we reviewed established policies and procedures for the audit function of (reviewed Agency) OIG in effect at March 31, 20XX. Established policies and procedures are one of the components of a system of quality control to provide (reviewed Agency) OIG with reasonable assurance of conforming with applicable professional standards. The components of a system of quality control are described in the *Government Auditing Standards* (if desired, add a footnote with "GAS is issued by the Comptroller General" and date). (Reviewed Agency) OIG is responsible for establishing and maintaining policies and procedures for the audit function. Our responsibility is to assess whether policies and procedures submitted for review were current and consistent with applicable professional standards.

Our review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* for assessing established audit policies and procedures.

(Use When the Scope of the Review Includes IPA Monitoring) In addition to reviewing established policies and procedures for the audit function of (reviewed Agency) OIG, we applied certain limited procedures in accordance with guidance established by the CIGIE related to (reviewed OIG)'s monitoring of audits and attestation engagements, collectively referred to as "audits", performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether (reviewed OIG) had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on (reviewed OIG)'s monitoring of work performed by IPAs.

During our review, we (1) obtained an understanding of the nature of the (reviewed Agency) OIG {or *OIG audit organization if one exists*} and (2) assessed established audit policies and procedures and (reviewed Agency) OIG's IPA monitoring process {add other or delete steps as needed such as *interviewing (reviewed Agency) OIG personnel*}. We also visited the following offices and reviewed the following IPA monitoring projects:

1. Washington, D.C.

2. Boston, MA
3. Project ABC123
4. Project XYZ987

Based on our review, the established policies and procedures for the audit function at March 31, 20XX, were {or were not} current and consistent with applicable professional standards as stated. {If not current or consistent, add “We have identified several areas where (reviewed agency) OIG could improve the established policies and procedures.” If current and consistent with professional standards but was not material to include in this report, then add, “We have also identified several areas where (reviewed agency) OIG could improve the established policies and procedures but were not material to include in this report.”}

(Use When a Letter of Comment Is Issued: *(immediately follows the last sentence in the previous paragraph)*

As is customary, we have issued a letter dated (insert date) that sets forth findings that were not considered to be of sufficient significance to affect our conclusions on the established policies and procedures.

Findings and Recommendations

Finding 1. Procedures for the Monitoring of Quality

(Reviewed OIG) audit policies and procedures do not include requirements for the monitoring of quality of the audit function. Generally accepted government auditing standards require audit organizations to 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 OIG with reasonable assurance that policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. Even though (reviewed) OIG has not performed audits, including monitoring requirements policies and procedures will help ensure that when it performs audits that the established system is adequate and effective.

Recommendation – The OIG should revise its policies and procedures to include requirements for the monitoring of quality for the audit function.

Views of Responsible Official – Agree.

/s/

(Name), Inspector General

Enclosures

37. Illustrative Modified Peer Review Letter of Comment (with Audit Policies and Procedures)

(OIG Letterhead)

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed the established audit policies and procedures of the (reviewed OIG) in effect for the year ended March 31, 20XX, including monitoring of work conducted by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor, and have issued our report thereon dated September 30, 20XX, in which we determined that the OIG's policies and procedures for the audit function were current and consistent with applicable professional standards *{or were not current and consistent with professional standards}*. That report should be read in conjunction with the comments in this letter, which were considered in determining our results. The finding(s) described below was (were) not considered to be of sufficient significance to impact the determination made on the established policies and procedures described in that report.

Finding 1. Independence

The established policies and procedures do not describe specific requirements for documenting the identification of threats to independence and the resulting safeguards adopted to reduce or eliminate the identified threats.

Recommendation – The OIG should prescribe requirements for documenting threats to independence and applicable safeguards implemented in accordance with *Government Auditing Standards*.

Views of Responsible Official – Agree.

Finding 2. IPA Monitoring – IPA Peer Review Reports

The OIG's policies and procedures require, for all contracted audits, that staff obtain and document in the monitoring records a copy of the IPA's most recent peer review report and, if applicable, the Finding for Further Consideration forms submitted to the administering entity. We noted that the monitoring files for the contracted audit of the (agency name) fiscal year 20XX financial statements did not contain a copy of the peer review report. Monitoring staff confirmed that one had not been obtained. While the staff subsequently obtained a copy which showed that the IPA had received a peer review rating of pass, this should have been done as part of the monitoring of the contracted work, not after the fact, in case there were issues raised with the IPA's past audit work that may have impacted the scope of the monitoring activities.

Recommendation – The OIG should reemphasize its policy to obtain the latest peer review report and, if applicable, the Finding for Further Consideration forms submitted to the administering entity, as part of monitoring activities for contracted IPA audit work.

Views of Responsible Office – Agree.

/s/

(Name), Inspector General

Enclosures

38. Illustrative Modified Peer Review Report (No Audit Policies and Procedures)

(OIG Letterhead)

Modified Peer Review Report

(Date)

To (Name), Inspector General
(Name of Agency)

Established policies and procedures are one of the components of a system of quality control to provide an Office of Inspector General (OIG) with reasonable assurance of conforming with applicable professional standards. The components of a system of quality control are described in the *Government Auditing Standards* (if desired, add a footnote with “GAS is issued by the Comptroller General” and date). It is the prerogative of (reviewed Agency) OIG to establish and maintain policies and procedures for the audit function. Our responsibility is to assess whether policies and procedures, if submitted for review, were current and consistent with applicable professional standards. (Insert name of reviewing agency) OIG did not establish audit policies and procedures because (*explain why the OIG chose to not have policies and procedures*). In this case, not having audit policies and procedures is not considered a weakness, and we did not review any policies and procedures as part of this review.

(Use When the Scope of the Review Includes IPA Monitoring) We applied certain limited procedures in accordance with guidance established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* related to the OIG’s monitoring of audits and attestation engagements, collectively referred to as “audits”, performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether (reviewed OIG) had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on (reviewed OIG)’s monitoring of work performed by IPAs.

During our review, we (1) obtained an understanding of the nature of the (reviewed Agency) OIG {*or OIG audit organization if one exists*} and (2) assessed the (reviewed Agency) OIG’s IPA monitoring process {*add other or delete steps as needed such as interviewing (reviewed Agency) OIG personnel*}. We reviewed the following IPA monitoring projects:

1. Project ABC123
2. Project XYZ987

(Use When a Letter of Comment Is Issued) As is customary, we have issued a letter dated (insert date) that sets forth findings related to the IPA monitoring process.

/s/

(Name), Inspector General

Enclosures

39. Illustrative Modified Peer Review Letter of Comment (No Audit Policies and Procedures)

(OIG Letterhead)

(Date)

To (Name), Inspector General
(Name of Agency)

We have reviewed (reviewed agency name) OIG’s monitoring of work conducted by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor for compliance with related IPA monitoring policies and procedures. Based on the review, (reviewed OIG) did not obtain a copy of the peer review report of the IPA when contracting for the work.

Finding. IPA Monitoring – IPA Peer Review Reports

The OIG’s policies and procedures require, for all contracted audits, that staff obtain and document in the monitoring records a copy of the IPA’s most recent peer review report and, if applicable, the Finding for Further Consideration forms submitted to the administering entity. We noted that the monitoring files for the contracted audit of the (agency name) fiscal year 20XX financial statements did not contain a copy of the peer review report. Monitoring staff confirmed that one was not obtained. While the staff subsequently obtained a copy which showed that the IPA received a peer review rating of pass, this should have been done as part of the monitoring of the contracted work, not after the fact, in case there were issues raised with the IPA’s past audit work that may have impacted the scope of the monitoring activities.

Recommendation – The OIG should reemphasize its policy to obtain the latest peer review report and, if applicable, the Finding for Further Consideration forms submitted to the administering entity, as part of monitoring activities for contracted IPA audit work.

Views of Responsible Office – Agree.

/s/
(Name), Inspector General

Enclosures

40. Illustrative Transmittal Memo for the Modified Peer Review Discussion Draft

(Name)
Assistant Inspector General for Audit
(Name of Department or Agency)
(Address)

Subject: Modified Peer Review Discussion Draft Report on the (Name of Department or Agency's) Office of Inspector General

Dear (Name of Assistant Inspector General for Audit):

Attached is the discussion draft of the Modified Peer Review Report of the (Name of Department or Agency's) Office of Inspector General conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Please review the report and prepare unofficial comments for discussion at the exit conference. We will contact you soon to arrange for the exit conference.

If you have any questions, please contact (name and phone number of designee).

(Name)
Assistant Inspector General for Audit

Attachment

41. Illustrative Transmittal Memo for the Modified Peer Review Formal Draft

(Name)
Assistant Inspector General for Audit
(Name of Department or Agency)
(Address)

Subject: Modified Peer Review Formal Draft Report on the (Name of Department or Agency's) Office of Inspector General

Dear (Name of Assistant Inspector General):

Attached is the formal draft of the Modified Peer Review Report of the (Name of Department or Agency's) Office of Inspector General conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. This review was discussed with you and members of your staff on (date). Based on comments at the exit conference, we made (substantive or minor) revisions to the report (if applicable).

Please provide your written response to the formal draft by (date) specifying corrective actions taken or planned on each recommendation and proposed completion dates for implementation of such actions. Your response along with our conclusions will be incorporated into the final report.

If you have any questions, please contact (name and phone number of designee).

(Name)
Assistant Inspector General for Audit

Attachment

42. Illustrative Transmittal Memo for the Modified Peer Review Final Report

(Name)
Inspector General
(Name of Department or Agency)
(Address)

Subject: Modified Peer Review Report on the (Name of Department or Agency's) Office of Inspector General
Audit Organization

Dear (Name of Inspector General):

Attached is the Modified Peer Review Report of the (Name of Department or Agency's) Office of Inspector General conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Your response to the report is included as an Exhibit with excerpts and our comments incorporated into the relevant sections of the report.

We appreciate the cooperation and courtesies extended to our staff during the review.

(Name)
Inspector General

Attachment

Section 4

Participants in the Peer Review Guide Update Project 2014

Dr. Brett Baker, National Science Foundation OIG *Chair, Federal Audit Executive Committee*
Ashton Coleman, Department of Defense OIG
Solita Dallas, Naval Audit Service
Michelle Emigh, Department of Veterans Affairs OIG
Bradley Grubb, Peace Corps OIG
Tabitha Hart, Department of Justice OIG
Andrea Holmes, Securities and Exchange Commission OIG
Colleen McElwee, Department of the Treasury OIG
Valerie McMichael, Naval Audit Service
Katherine Moore, Amtrak OIG
Allan Reid, Department of Transportation OIG
Nancy Reuter, Naval Audit Service
Kieu Rubb, Department of the Treasury OIG
Allan Sherman, Federal Deposit Insurance Corporation OIG
Petra Swartzlander, Department of Transportation OIG
Nomi Taslitt, Special Inspector General for Afghanistan Reconstruction
Latesha Turner, Department of Justice OIG
Justin Walker, Department of the Treasury OIG
Catherine Walters, National Science Foundation OIG
Michael Wiley, Department of the Treasury OIG

*Editor
Project Lead*

General questions or comments related to this guide
may be directed to APRG@oig.treas.gov