

**AUDIT COMMITTEE
POLICY STATEMENT ON INTERNAL
QUALITY CONTROL AND EXTERNAL PEER REVIEWS**

Approved by the Audit Committee on March 2, 2004

I. PURPOSE

To provide policy guidance for members of the President's Council on Integrity and Efficiency on the implementation of the general standard on quality control and assurance in the *Government Auditing Standards*.

II. BACKGROUND

1. In January 1986, the PCIE adopted and published Quality Standards for Federal Offices of Inspector General (Quality Standards). These standards covered the entire OIG organization and were considered advisory in nature.
2. Subsequently, beginning with the 1988 edition, *Government Auditing Standards* required government audit organizations to have an appropriate internal quality control system in place and undergo an external peer review. In the 2003 edition of the *Government Auditing Standards*, policies have been clarified as to what information should be reviewed, qualifications of the review staff, distribution of external peer review reports, and who may grant extensions of timeframes for performing external peer reviews.
3. The 1988 amendments to the Inspector General Act of 1978 requires the external peer reviews to be performed exclusively by an audit entity of the Federal Government, including the General Accounting Office or an Office of the Inspector General.
4. The PCIE's *Policy Statement on Quality Control Reviews* issued on August 8, 1989, was revised in April 1997, and again in February 2002. This policy statement provided guidance on the internal quality control systems, internal review programs and general guidance on the PCIE external peer review process. The September 2003 policy statement supersedes the February 2002 policy statement.

III. INTERNAL QUALITY CONTROL SYSTEM

1. Each Inspector General organization will implement and maintain an internal quality control system for its audit work and attestation engagements. The internal quality control system is the process (i.e., the organization structure and established policies and procedures) designed to provide reasonable assurance that the organization follows applicable standards governing audits and attestation engagements. The nature, extent and formality of the internal quality control system will depend on a number of factors, such as the organization size, the degree of operating autonomy allowed its

personnel and its audit offices, the nature of its work, its organizational structure, and appropriate cost-benefit considerations.

2. Each audit organization should prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures.

Documentation of compliance should be retained for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with the quality control policies and procedures. The organization's internal quality control policies and procedures should, at a minimum, encompass the elements of (1) Staff Qualifications, (2) Independence, (3) Audit Performance, and (4) Quality Assurance. The standards in the 1986 Quality Standards, and the 2003 revisions, that apply to these elements are as follows:

- a. Staff Qualifications – Core Competencies and Skills Assessment
- b. Independence – Auditor and Audit Organization Independence
- c. Audit Performance– Ensuring Internal Control and Professional Standards
- d. Quality Assurance – Maintaining Quality Assurance (as supplemented by the guidance in this policy statement)

3. An OIG's internal review or quality assurance program should have the following characteristics:

- a. Review team led by a senior audit manager.
- b. The review leader should report to an individual or a level within the organization that will assure independence and objectivity in the performance of reviews.
- c. The scope of the review will include a determination as to the degree of compliance by the audit organization with the Government Auditing Standards, applicable Office of Management and Budget Circulars, applicable PCIE audit policy statements and appropriate statutory provisions applicable to an audit organization.
- d. Competent evidential matter should be gathered and, where applicable, sufficient testing will be accomplished to determine that the audit organization is in compliance with applicable auditing standards, policies and procedures.
- e. Written results should be prepared for each review and, when applicable, will include recommendations for corrective actions.

- f. Written comments should be provided on each recommendation by the official responsible for managing the audit organization reviewed setting forth the corrective actions already taken or the corrective actions proposed to be taken.
- g. Procedures should be established for the resolution and follow up of recommended corrective actions.

4. Some Inspector General organizations do not have an audit staff of sufficient size to fully implement the internal quality control system outlined in III. 2 and 3 above. In such cases, adequate internal controls should be incorporated in the audit process to promote compliance with applicable auditing standards and policies, e.g., supervisory review of working papers, cross-referencing of reports, formal audit programs, etc. In addition, provision should be made for some form of independent review of completed audits. At a minimum, this should include independent referencing of all reports. The elements of the internal quality control system should be set forth in the written policies and procedures of the Office of the Inspector General, together with the justification for using a less extensive system and explanation as to why the alternative controls can be effective for that organization.

5. The written results of the internal quality control reviews and supporting workpapers will be made available to external quality control review groups and, on request, to the General Accounting Office.

IV. EXTERNAL PEER REVIEW PROGRAM

1. The external peer review guidelines that follow provide an effective and efficient basis for providing reasonable assurance that audit organizations are complying with applicable auditing standards, policies and procedures.

2. Only Offices of Inspector General who receive an unqualified opinion on its previous peer review will be allowed to perform external reviews on other OIG audit organizations. (Also see IV. – 14 below.) The PCIE has adopted a schedule of assignments for the 2003-2004 cycle of external reviews. Each OIG is responsible for contacting the OIG that is assigned to conduct its external review and make arrangements to schedule the review to meet the peer review due date. The PCIE Audit Committee is responsible for amending the schedule of assignments as circumstances warrant. Contact the PCIE Audit Committee or visit the PCIE website for the most recent peer review schedule.

3. At a minimum, the objective of the external review will be to determine whether the OIG's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies, procedures and applicable auditing standards are being followed in its audit work. The scope of the external review may be expanded to other areas as required, with mutual agreement between the OIG being

reviewed and the external review team. Should such mutual agreement be reached, the results of the expanded scope review should be included in the written report.

4. It is recommended that understandings between the reviewed OIG and the external review team concerning the performance of the review should be in writing to avoid any misunderstandings. The memorandum of understanding or other documentation may cover such areas as objectives and scope of review, grade levels of review team, reporting process, facilities and administrative support to be provided, etc.

5. A senior audit manager should lead the external review team. Reviewers should be qualified, including current knowledge of the type of work to be reviewed and the applicable auditing standards.

6. Reviewers should be independent of the audit organization being reviewed, its staff, and the auditees whose audits are selected for review. An audit organization is not permitted to review the organization that conducted its most recent external quality control review.

7. Except as provided in 8. below, reviewers should gain an understanding of the OIG's internal quality control system to properly plan, conduct, and conclude on the objectives of the external review.

8. External quality control review procedures should be tailored to the size and nature of an organization's audit work. For example, an organization that performs only a few audits may be more effectively reviewed by emphasizing a review of the quality of those audits rather than the organization's internal quality control policies and procedures.

9. Reviewers should use sound professional judgment in conducting and reporting the results of the external peer review.

10. Reviewers should select audits that provide a reasonable cross section of the audits conducted.

11. The review should include a review of the audit reports, working papers, and other necessary documents (for example, correspondence and continuing education documentation) as well as interviews with the reviewed OIG's professional staff.

12. A written report should be prepared communicating the results of the external peer review.

13. A draft report (and letter of comments, if applicable) should be provided to the Assistant Inspector General for Audit being reviewed for comments on the review findings and recommendations. The final report should be addressed to the Inspector General and include the comments of his/her Assistant Inspector General for Audit.

14. If an agency under review (reviewed agency) receives notification at the official draft stage of the peer review process, that they will receive less than an unqualified opinion, and the reviewed agency is at the same time doing a peer review of another agency, the reviewed agency should discontinue its on-going review of another agency, and notify the Audit Committee. Reassignment of the on-going peer review will be made as appropriate.
15. The OIG being reviewed is responsible for the resolution and followup of recommendations for corrective actions.
16. Copies of the final review report and supporting workpapers should be made available to subsequent external review groups and, on request, to the General Accounting Office.
17. Copies of the final review report should be provided to the head of the agency, the Chair of the PCIE, the Vice Chair of the PCIE, and the Chairman of the PCIE Audit Committee. It is recommended that, upon request, the peer review report and letter of comment be made available to the Congress and public in a timely manner.^{1/}
18. OIG's receiving other than unqualified opinions on external reviews may request an off-cycle peer review to demonstrate that corrective action has been taken.

Everett L. Mosley, Chair
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^{1/}This is in accordance with the 2003 revision of the *Government Auditing Standards*, paragraph 3.56.