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Oversight Review

April 2, 2012

FY 2011 External Reviews of the
Quality Control Systems of the
Military Department Audit Agencies

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Acronyms and Abbreviations

CIGIE	Council of Inspectors on Integrity and Efficiency
GAGAS	Generally Accepted Government Auditing Standards
SAP	Special Access Programs



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

SUBJECT: FY 2011 External Reviews of the Quality Control Systems of the Military
Department Audit Agencies (Report No. DODIG-2012-070)

Section 8 (c)(6) of the Inspector General Act of 1978, as amended, requires the Inspector General of the Department of Defense to monitor and evaluate the adherence of Defense auditors to internal audit, contract audit, and internal review principles, policies, and procedures. Generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States require that organizations conducting government audits and/or attestation engagements have an appropriate internal quality control system in place and undergo an external review at least once every three years by reviewers independent of the audit organization being reviewed.

Results of the Military Department Audit Agencies External Reviews. We are issuing a pass opinion on the system of audit quality control for each of the Military Department audit agencies – Army Audit Agency, Naval Audit Service, and the Air Force Audit Agency. We determined that the systems of quality control for each of the Military Department audit agencies are suitably designed and complied with to provide reasonable assurance that the Military Department audit agencies conform to applicable auditing standards, policies, and procedures in the conduct of their work. We made this determination based on our oversight of the external peer reviews conducted by the Military Department audit agencies on each other and our quality control reviews of their Special Access Program (SAP) audits.

Key Observations Noted During the Review Process. Each review team made observations and suggested actions to the audit agencies to strengthen their systems of quality control. Concerns identified during the reviews were not cumulatively significant enough to indicate that material deficiencies existed for complying with GAGAS; however, the Military Department audit agencies should give particular regard to the following.

Independence. While there is no indication of external or personal impairments to independence, two Military Department audit agency's non-SAP audit quality control reviews identified the need for improvements, including documentation of independence for audit personnel. In addition, one audit agency's SAP quality control review identified issues with documentation of independence. Each review identified specific areas for improvement in documenting independence, especially of audit directors or managers, and in ensuring that independence statements of auditors assigned to the audit are thoroughly completed and documented. Recommendations on independence addressed the need for all individuals assigned to an audit to prepare an independence statement documenting their independence.

Planning. All of the Military Department audit agencies' quality control reviews of the non-SAP audits addressed areas for improvement in audit planning. In addition to the quality control reports of the non-SAP audits, one quality control report of the SAP audits addressed areas for improvement in planning. Each review identified specific areas for improvement in audit planning to include ensuring that planning meetings are documented, that audit steps in the audit program are completed, that changes to the audit program are documented, and that a fraud assessment is completed. While the policies established for planning were appropriate in implementing GAGAS, recommendations were also made to include providing training to personnel addressing GAGAS planning standards and audit agency planning requirements documentation.

Supervision. For supervision, each of the Military Department audit agencies' non-SAP audit quality control review stated that supervision needed improvement. In addition, one SAP audit quality control review also identified needed improvements to supervision. Each review identified specific improvements including the need for supervisors to document their supervisory reviews and perform the reviews timely. Recommendations regarding supervision called for audit agencies to either provide training to audit supervisors or remind audit supervisors to complete and perform their supervisory reviews timely.

Audit Evidence and Documentation. Each of the Military Department audit agencies' non-SAP audit quality control review identified areas for improvement in audit evidence and documentation. In addition, one SAP audit quality control review also identified needed improvements. Each review identified specific improvements for audit evidence and documentation to include placing computer-processed data reliability documentation in working papers and summarizing or referencing all results to supporting work papers. Recommendations on audit evidence and documentation called for providing training to audit personnel or reminding audit personnel to include sufficient evidence and documentation to support the audit work, to include necessary working paper elements (e.g., purpose, sources, scope, results, and conclusion) and to properly cross-reference audit working papers.

Reporting. Each of the Military Department audit agencies' non-SAP audit quality control review identified areas for improvement to reporting. Each review identified the need for specific improvements in reporting such as including the correct GAGAS statement in audit reports and adequately describing in the scope and methodology how a sample was selected. Recommendations on reporting included training auditors to use the updated GAGAS compliance statement, updating report templates to include the updated GAGAS statements, and directing auditors to identify in the scope and methodology the actual samples used and the criteria/rational for each sample selection.

Quality Control. All of the Military Department audit agencies' non-SAP and two of the SAP audit quality control reviews identified areas for improvement in quality control. Each review identified specific areas for improvement to include performing an independent reference review on significant changes to the report, and ensuring that quality control checklists are completed and results of internal quality control reviews are provided to auditors in a timely manner. Recommendations addressing quality control issues included ensuring that independent

reference reviews on reports are completed, that checklists are completed before audit reports are issued, and that internal audit quality control results are provided to auditors in a timely manner.

Competence. Two of the three Military Department audit agencies' non-SAP audit quality control reviews identified areas for improvement in competence, particularly in documenting continuing professional education. Recommendations to correct the continuing professional education documentation issue included training auditors on requirements and documentation, and re-emphasizing the need for audit personnel to retain continuing professional education documentation for a set period of time.

External Review Process and Methodology. The Office of the Assistant Inspector General for Audit Policy and Oversight and the Military Department audit agencies conducted this review in accordance with the Council of Inspectors on Integrity and Efficiency (CIGIE) Audit Committee's Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General, dated March 2009. In addition, the Office of the Assistant Inspector General for Audit Policy and Oversight conducted the quality control review of SAP audits in accordance with the Quality Standards for Inspection and Evaluation. We performed procedures to provide a basis for reliance on the Military Department audit agencies' review results and to ensure that the CIGIE guidelines were consistently applied. We attended planning meetings, reviewed point papers for each of the audits selected, and reviewed previous quality control reviews for implementation of suggested actions or recommendations.

For the review of SAP audits, we judgmentally selected two SAP audits from each Military Department audit agency to review. We reviewed the SAP audits using the CIGIE guide and the Quality Standards for Inspections and Evaluations to ensure consistency with the Military Department audit agencies' review of non-SAP audits, and to reflect the unique nature of auditing within a SAP environment.

Limitations of Reviews. The Military Department audit agencies and the Office of the Assistant Inspector General for Audit Policy and Oversight quality control systems external reviews would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance because the reviews were based on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting the evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate as conditions change or the degree of compliance with procedures deteriorate.

The external peer review opinion reports of the Military Department audit agencies performing the reviews, the associated Letters of Comments, and the Office of the Inspector General for Audit Policy and Oversight reports on the SAP audits for each Military Department audit agency should be considered jointly as our basis for supporting a pass opinion on their systems of audit quality control.

If you have any questions, please contact Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877) or by e-mail, carolyn.davis@dodig.mil.


for Randolph R. Stone, SES
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Inspector General Department of Defense

