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United States
Department *of* Defense



Oversight Review

November 7, 2008

FY 2008 External Reviews of the
Quality Control Systems of the
Military Department Audit Agencies

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Acronyms

AAA	Army Audit Agency
AFAA	Air Force Audit Agency
NAVAUDSVC	Naval Audit Service
OAIG-APO	Office of the Assistant Inspector General for Audit Policy and Oversight
PCIE	President's Council on Integrity and Efficiency
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 2008 External Reviews of the Quality Control Systems of the Military
Department Audit Agencies (Report No. D-2009-6-002)

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 Department auditors to internal audit, contract audit, and internal review principles, policies, and procedures. Government Auditing Standards 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 an unmodified opinion on the system of audit quality control for each of the Military Department audit agencies – Army Audit Agency (AAA), Naval Audit Service (NAVAUDSVC), and the Air Force Audit Agency (AFAA). We determined that the systems of quality control for each of the Military Department audit agencies were suitably designed and complied with to provide reasonable assurance that the AAA, NAVAUDSVC, and AFAA 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 of each other and our quality control reviews of their Special Access Program (SAP) audits.

Key Observations Noted During the Review Process. Each of the review teams made observations and suggested actions to the audit agencies to strengthen their systems of quality control. Although not affecting the overall opinion on the Military Department audit agencies' quality control programs, we believe that the Military Department audit agencies should give particular regard to the following:

Independence. While there were no indications of external or personal impairments to independence, each of the Military Department audit agencies' non-SAP audit quality control reviews identified improvements needed for documentation of independence for audit personnel. In addition, one audit agency's SAP quality control

review also identified issues with documentation of independence. Those issues included lack of documentation, incomplete documentation, or documentation of independence of audit staff months after assignment to the audit.

Planning. All three of the Military Department audit agencies' quality control reviews of the SAP audits addressed areas for improvement in planning. In addition to the quality control reports of the SAP audits, one quality control report of the non-SAP audits also identified an issue with planning. Each review identified specific areas for improvement for planning. Those improvements included not preparing audit and survey programs at the beginning of each phase of the audit, changes made to the audit program without evidence of supervisory approval, and not including steps for the risk assessment for fraud. Recommendations were made in the quality control reports for auditors to comply with the corresponding internal audit policy for each issue identified.

Supervision. For supervision, each of the Military Department audit agencies' non-SAP audit quality control reviews addressed that supervision needed improvement. In addition, one SAP audit quality control review also identified needed improvements in the area of supervision. Each review identified specific areas for improvement for supervision. Those improvements included that supervisory reviews did not occur timely and that working papers did not contain evidence of supervisory reviews. While the policies that were established were appropriate to implement the Government Auditing Standards for supervision, it was recommended that supervisors be reminded and made aware of the requirements and the importance for following the policies.

Reporting. Each of the Military Department audit agencies' non-SAP audit quality control reviews identified areas for improvement for reporting. Each review identified specific improvements for reporting. Some of those improvements included:

- clearly state why the audit organization undertook the audit,
- appropriately mention if the auditors established the reliability of the data,
- clearly identify an evaluation of internal controls, and
- clearly represent management comments.

Other Issues. While not all the reports addressed areas for improvement in the following areas, the reports identified issues with quality control, competence, and evidence and documentation. For each of these areas, the reports contained recommendations or suggestions for improvements by either improving internal audit policies or having managers provide reminders to comply with internal audit policies.

Ensuring Integrity of Audit Documentation. The FY 2005 quality control reviews of the Military Department audit agencies identified that each organization had modifications or additions to audit documentation after final report issuance. None of the Military Department audit agencies identified this as an issue in the FY 2008 quality control reviews.

External Review Process and Methodology. The Office of the Assistant Inspector General for Audit Policy and Oversight (OAIG-APO) and the Military Department audit agencies used the 2005 President's Council on Integrity and Efficiency (PCIE) External Peer Review Guide to conduct their reviews of the Military Department audit agencies audits operations and modified the guide as appropriate. We performed procedures to provide a basis for reliance on the Military Department audit agencies review results and to ensure that the PCIE 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 up to three SAP audits from each Military Department audit agency to review. We reviewed the SAP audits using the guide as modified 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 external reviews of the quality control systems performed by the Military Department audit agencies and OAIG-APO would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance with it 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 any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

The external peer review opinion reports from the Military Department audit agency performing the reviews, the associated Letters of Comments, and the OAIG-APO reports on the SAP audits for each of the Military Department audit agencies should be considered jointly as our basis for supporting an overall unqualified opinion on their systems of audit quality control.

If you have any questions, please contact Robert L. Kienitz at (703) 604-8754 or Robert.Kienitz@dodig.mil.

A handwritten signature in cursive script, reading "Carolyn R. Davis".

Carolyn R. Davis
Assistant Inspector General
for Audit Policy and Oversight



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