Training Objective

To prepare attendees to effectively serve as team members on peer review engagements.
Purpose of a Peer Review

To determine whether an audit organization's *internal quality control system (QCS)* was suitably designed and operating effectively to provide reasonable assurance of complying with GAGAS.
ALGA Peer Review Program

How it works

Audit standards require organizations to have periodic external peer reviews.

ALGA provides affordable, quality reviews for member organizations.

Peer review committee comprised of a chair, 7 regional coordinators, and 5 at-large members.

At-large committee members develop peer review guidance and work on continuous improvement for the program.

Review teams review documentation about the shop then travels to the location to conduct on-site review.

Organizations agree to:
- Cover travel expenses
- Provide documentation to team
- Provide reviewers for future review teams

Coordinators oversee 6 regions and arrange volunteer peer review teams when an organization requests a review.

Final report presented to organization.

~40 reviews per year.

100+ individual volunteer peer reviewers.
You are here: Home > Audit Excellence > Peer Review > Peer Review Guides

**Peer Review Guides**

**Yellow Book Peer Review Guide**

ALGA Yellow Book Peer Review Guide (2011)

- Table of Contents (2011)
  - Overview and Instructions (2011)
  - Section A - Standard Review Agreement (2011)
  - Section B - Qualifications and Independence Statement (2011)
  - Section C - Review Leader Checklist (2011)
  - Section D - Suggested Workpaper Index (2011)
  - Section E - Audit Organization Background Information (2011)
  - Section F - Background Information Forms - List of Projects and CPE (2011)
  - Section G - Audit Organization Description of QCS (2011)
  - Section H - Review of Audit Organization's QCS (2011)
  - Section IA - Review of Audit Engagement Documentation (2011)
  - Section IB - Review of Nonaudit Service Documentation (2011)
  - Section J - Summary of Exceptions (2011)
  - Section K - Suggested Report Format (2011)
  - Section L - Suggested Management Letter Format (2011)
  - Section M - Sample Report Cover (2011)
  - Section N - Peer Review Survey (2011)

For Financial Audits and Attestation Engagements for periods ending prior to December 15, 2012 and for Performance Audits beginning prior to December 15, 2011


**Red Book Peer Review Guide**

ALGA Peer Review Training Launch Page
EXERCISE 1

How does your shop....
PREP

30 Days Before Site Visit
Receive Organization Background Form and QCS Description

Review Background and QCS

Select Engagements for Review
"...cross-section of type of work, audit supervisors, auditors-in-charge, and review period."

30 Days Before Site Visit

Receive Organization Background Form and QCS Description

- Background
  - # of Staff
  - Budget
  - Types of Audits

- QCS Description
  - How Org ensures compliance with standards
Organizational Background and QCS Description

**Background**
- # of Staff
- Budget
- Types of Audits

**QCS Description**
- How Org ensures compliance with standards
The audit organization uses this form to provide the peer review team with information regarding the audit organization's operating environment and type of work performed. Additional pages may be attached, if necessary, to respond to the information requested in this form.

The audit organization should complete this form and provide a copy to each member of the review team no less than one month prior to the site visit.

1. Government Entity: City of Austin
2. Audit Organization: Office of the City Auditor
3. Name and Title of Audit Director: Connie Stokes, Acting City Auditor
4. Liaison for this review: Jason Hadari
   Name and Title: Acting Deputy City Auditor
   Address: 206 W. Cesar Chavez, Suite 200
   Austin, TX 78702
   Phone: 512-974-2469
   E-Mail: jason.hadari@austintexas.gov
5. Audit Organization Staffing Level:
   Professional Auditors: 25 (includes investigations)
   Support Staff: 1.5
   Total Staff: 26.5
6. Current Annual Operating Budget:
   Audit Organization: $3.06 M
   Government Entity: $3.5 B

7. Describe the authority of your audit organization, how the Audit Director is appointed, and the jurisdiction of the audit organization in the governmental entity. Please attach an organization chart, if available.

Organization's Authority
The position of City Auditor is established in the citizen-approved Charter (essentially our constitution) for the City as a position appointed by the City Council and is responsible for financial, performance, investigative and other audits following governmental auditing standards. This provision was first approved in 1991 (see Charter Article VII Section 17); prior to the Charter provision the City Auditor reported internally to management. The duties and responsibilities for the City Auditor are laid out in City Code, primarily in Chapter 2-3 of the code. Among these duties and responsibilities, the City Auditor is given the responsibility to examine City operations to identify an opportunity to reduce costs, increase efficiency, quality, and effectiveness, or otherwise improve management of a City function, program, service, or policy and granted “free and open access” to City information, facilities, and operations.

Link to Charter and City Code, and excerpts from Charter and Code
Audit Director Appointment
As mentioned above, the Charter provides that the Audit Director is appointed by the City Council.

Audit Organization Reporting/Placement
As mentioned above, the City Auditor reports directly to the City Council. As shown in the org chart below, the Auditor, along with the City Manager, City Clerk, Municipal Court Clerk, and Municipal Judges, is a direct report to the City Council. Most items related to the Office of the City Auditor are first reported to the Council Audit and Finance Committee, which is made up of the Mayor Pro-Tem and three Council Members (all members are selected by the Mayor). Due to revisions in the overall Council Committee structure approved in January 2015, the Audit and Finance Committee does not approve items on its agenda; instead it makes recommendations to the full Council regarding these items.
G. AUDIT ORGANIZATION
DESCRIPTION OF QUALITY CONTROL SYSTEM
ALGA Peer Review Guide (2011)
(Revision Date: 12/03/14)

FOUNDATION AND ETHICAL PRINCIPLES
The information presented in Chapter 1. Ethical Principles in Government Auditing, deals with fundamental principles and does not contain additional requirements. However, audit organizations may choose to establish procedures that align with the principles included in generally accepted government auditing standards (GAGAS).

Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with GAGAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment.

The ethical principles that guide the work of the auditors who conduct audits in accordance with GAGAS are: a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources, and positions; and e. professional behavior. (GAS 1.14)

P&P Reference: 0.04 - Code of Ethics
QCS Description: All employees agree to abide by this policy by annually reviewing and signing our code of ethics statement which incorporates the GAGAS ethical principles.

GENERAL STANDARD ON INDEPENDENCE: In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent in mind and appearance. (3.02-03)

1. Audit organizations are responsible for establishing an internal quality control system to assure compliance with the independence standards. Quality Control System procedures should include:

<table>
<thead>
<tr>
<th>Standard</th>
<th>P&amp;P Ref.</th>
<th>QCS Description</th>
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</thead>
</table>
| Verify auditors were independent during the period covered by the subject matter of the audit and the period of the audit. | 0.02 | TeamMate

Unit March 2015, we utilized a process where each employee attested to their independence for all projects on our annual plan at the beginning of the year.

II. G - 1

Description of Quality Control System

STANDARDS FOR PERFORMANCE AUDITS

[NOTE: See Section E of Peer Review forms for a copy of our Policy Manual and TeamMate Procedures which are referenced throughout the sections below]

FIELD WORK STANDARDS FOR PERFORMANCE AUDITS: PLANNING

18. Auditors must plan and document the planning of the audit work necessary to address the audit objectives, scope and methodology such that their work will provide reasonable assurance that sufficient, appropriate evidence will support their findings and conclusions. Auditors should assess significance and audit risk when defining the audit objectives, scope, and methodology. (6.06, 6.07, 6.10)

P&P Reference: Policy A03, TeamMate Procedures Section B.1.PRG

QCS Description: Our policy on the Audit Process, along with our required TeamMate Procedures and templates for planning, are used to ensure that auditors plan and document audit work and routinely assess audit evidence.

19. Auditors should assess audit risk and significance within the context of the audit objectives by gauging an understanding of the:

a. Nature and profile of the program and user needs (6.11a, 6.13)
b. Design and implementation of internal controls (6.11b, 6.16)c. Design and implementation of information system controls (6.11c, 6.24, 6.27)
d. Legal and regulatory requirements, contract provisions, grant agreements, potential fraud and abuse (6.11d, 6.28, 6.30-6.32, 6.34)
e. Impact of ongoing investigation and legal proceedings (6.11e, 6.35)f. Results of previous engagements (6.11f, 6.36)

P&P Reference: Policy A03, TeamMate Procedures B.1.PRG

QCS Description: Our policy on the Audit Process, along with our required TeamMate Procedures and templates for planning, are used to ensure that auditors gain an understanding of these elements.

Example templates include:

II. G - 14
EXERCISE 2
QCS Preliminary review
Select Engagements for Review

"cross-section of type of work, audit supervisors, auditors-in-charge, and review period."
Planning Meeting & Entrance Conference
Complete QCS Checklist

- Preliminary Review
- Further Review of Policies & Procedures
- Staff Interviews/Personnel File Review
- Prior Peer Review Findings
- CPE Compliance
- Engagement Reviews (Audit, Non-Audit)
Preliminary Review
Further Review of Policies & Procedures
Staff Interviews/
Personnel File Review
Prior Peer Review Findings
CPE Compliance
Engagement Reviews

Audit

Non-Audit
Complete Summary of Exceptions Form
<table>
<thead>
<tr>
<th>GCS or Engagements Reviewed</th>
<th>Independence</th>
<th>Professional Judgment</th>
<th>Competence</th>
<th>Quality Control</th>
<th>Planning</th>
<th>Supervision</th>
<th>Evidence</th>
<th>Documentation</th>
<th>Reporting</th>
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<tr>
<th>Applicable Standard</th>
<th>Description of unique observed matters aggregated above, including specific effects on the audit organization's system of quality control.</th>
<th>Potential for negative impact on audit quality if more than remote? If yes, does the finding when aggregated with other findings indicate a deficiency?</th>
<th>If yes, is the deficiency deemed significant to system of quality control?</th>
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</table>
Discuss Preliminary Findings with Management
Determine Overall Level of Compliance
The Summary of Exceptions form is used to compile and summarize the matters, findings, and deficiencies identified during the reviews of the audit organization's quality control system and audit engagement documentation. These observed circumstances must originate from an issue of noncompliance with generally accepted government auditing standards.

The following is an excerpt from the "Guidance for Understanding the New Peer Review Ratings" issued by the Government Accountability Office in January 2014:

Peer reviewers determine the type of peer review rating to issue based on the importance of observed circumstances to the audit organization's system of quality control as a whole and the nature, causes, pattern, and pervasiveness of those circumstances. The circumstances are assessed both alone and in aggregate. Determinations are a matter of professional judgment on the part of the peer review team.

The following definitions apply to this guidance:

- A matter is a circumstance identified by a peer reviewer that warrants further consideration by the peer reviewers. Matters are identified through the peer reviewers' evaluation of the design of the reviewed audit organization's system of quality control and/or tests of compliance with that system.

- 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 audit organization would not perform and/or report in conformity with the requirements of applicable professional standards.

- A deficiency is one or more findings that the peer reviewer has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance of the findings to the audit organization's system of quality control taken as a whole, could 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.

- A significant deficiency is one or more deficiencies that the peer reviewer has concluded results from a condition in the audit organization's system of quality control or compliance with that system such that the system 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.

A peer review provides an opportunity for auditors to evaluate the audit organization's effectiveness in carrying out its mission. To allow auditors to best take advantage of this opportunity, a peer review team may communicate matters or findings that do not meet the definitions of deficiency or significant deficiency above.

These definitions are incorporated into AGA's Peer Review Program to improve the consistency of the resulting opinion and management letters. Each observed circumstance identified on the Summary of Exceptions form should be categorized according to the definitions above, which will determine how the observed circumstances are reported, the peer review rating, and the type of report issued:

- Observed Circumstance: Matters, Findings, Deficiency, Significant Deficiency
- Peer Review Rating: Pass, Pass with Deficiencies, Fail
EXERCISE 4

Summarize Exceptions and Determine Level of Compliance
Prepare Final Report, Obtain Response & Compile Work Papers
Surveys:

- Team Member
- Team Leader
- Audit Org