

AASHTO Peer Review Program Policies and Procedures

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Objectives of the Peer Review Program

Peer reviews provide an opportunity to enhance audit quality and confidence in the audit function by providing an independent assessment of the adequacy of the system of quality control and compliance with policies and procedures. As such, peer reviews are intended to be constructive in nature, not punitive. They assess conformity with auditing standards, not with the practices or preferences of team members. They focus on that which is material rather than individual deviations. To document this assessment, the team prepares a written opinion and, when applicable, a letter of comments addressing:

1. Matters that resulted in a modified opinion on the system of quality control,
2. Material deviations from auditing standards on individual audit engagements that were individually or collectively not critical enough to warrant a modified opinion,
3. Material weaknesses in the quality control system that could lead to violations of auditing standards and whether or not those weaknesses resulted in violations of standards.

Other matters of lesser significance should be communicated verbally at the exit conference.

Ensuring Quality in the Peer Review Program

The purpose of these policies and procedures is to ensure quality in the peer review program. Some important aspects of a quality program are consistency in approach and application of auditing standards, regardless of who is performing the peer review; open and ongoing dialogue between the team and the reviewed state so there are “no surprises”; and timely completion of peer reviews so the reviewed state can incorporate any recommendations into policies and procedures well in advance of the next peer review.

Confidentiality

The review team and the Peer Review Subcommittee should not disclose information concerning the reviewed state or any of its auditees without authorization from the head of the audit organization or his/her designee. The opinion and letter of comments, if applicable, are distributed to the state audit organization. Further distribution is at the discretion of the state audit organization. A copy of the opinion and letter of comments should be retained in the review documentation. Team members may retain a copy if they wish.

Independence

Review team members must maintain their independence with respect to the audit organization being reviewed. Independence for a peer review is no less than in any audit situation and should comply with professional auditing standards. Any relationships between potential reviewers and the audit organization should be considered before final team assignments. All team members must complete the Peer Review Team Applicant Questionnaire and provide it to the Peer Review

Subcommittee. The signed questionnaires are given to the team leader for inclusion in the peer review documentation.

Competence

Review teams must be composed of individuals who collectively have the knowledge and proficiency to perform such reviews. Consideration must be given to the types of audits to be reviewed and the nature of the audited entities. The Peer Review Subcommittee and team leader are responsible for ensuring the review team is competent to perform the review. Input should be obtained from the audit organization regarding any unique issues requiring specialized knowledge or expertise. Team members should complete a Peer Review Team Applicant Questionnaire, which should be signed by the head of their audit organization. These forms should be completed by team members before the review begins and retained in the peer review documentation.

Organization and Responsibilities of The Review Team

The Peer Review Subcommittee appoints review teams. The team leader directs the review, supervises team members and is responsible for preparation of the opinion and, where appropriate, the letter of comments. Audit organizations reviewed under the program are obligated to provide personnel for reviews of other states, to ensure program continuity.

Team Leader

A team leader is responsible for the overall planning and performance of the peer review including the opinion and letter of comments, if applicable. The primary responsibilities of a team leader include:

1. Establish the scope and extent of the review.
2. Review the prior report(s) and documentation, if applicable.
3. Organize the review and ensure the timeliness of the work.
4. Determine team assignments and provide assistance to team members.
5. Provide instructions to team members regarding documentation preparation.
6. Review work performed by team members.
7. Consult with the Peer Review Subcommittee regarding any problems that arise.
8. Conduct the exit conference with the audit organization.
9. Finalize the report, including appropriate consideration of comments received from the audit organization.

Team Member

Team members are responsible for performing tasks assigned by the team leader including:

1. Verify information provided by the audit organization on the Head of Audit Group questionnaire; the Review Guide Spreadsheet; Policy Standards for Financial Audits &

Attestations; Policy Standards for Performance Audits and the Review Guide Spreadsheet.

2. Review audit engagements using the Review Guide Spreadsheet: Field Work Standards for Financial Audits & Attestations and the Review Guide Spreadsheet: Fieldwork Standards for Performance Audits.
3. Summarize findings and adequately document the basis for findings.
4. Consult with audit organization personnel, as needed, to complete assigned tasks.
5. Actively participate in team meetings.
6. Inform the team leader of the status of assignments and of any problems that arise.
7. Provide assistance to other team members, as needed.
8. Write assigned sections of the report.
9. Attend the exit conference.
10. Provide any necessary input to the team leader to complete the report.

Elements of A Peer Review

AASHTO's external quality control reviews are divided into three stages.

Preliminary Phase

The preliminary phase consists of tasks performed prior to the team's arrival at the audit organization and helps ensure the review is completed timely. The audit organization completes the Head of Audit Group questionnaire along with a copy of their audit manual and provides it to the team lead several weeks in advance of field work. The team leader summarizes the findings of each team member and reports the results to the team before field work begins. The team leader works with the head of the audit organization and team members to determine appropriate deadlines.

The audit organization should also reproduce the Audit Staff questionnaire and distribute it to the audit staff, with instructions for the completed questionnaires to be returned directly to the team leader. If the agency has a very large staff, the team leader should use good judgment in deciding whether to survey a representative sample of the staff. The team leader should summarize responses and send the results to the team members before the start of field work.

The team leader should review the audit agency's latest external quality control review opinion and letter of comments. If deficiencies were noted, the team leader should consider expanding work on the current review. Team members should consider the impact of prior findings on the work they are assigned during the current review and evaluate the actions the audit agency has taken in response to the previous opinion and letter of comments.

Other aspects of the preliminary phase include travel and lodging arrangements, selection of engagements for review by team members, determination of team member assignments, etc. The detailed steps to be accomplished in the preliminary phase are documented in the Peer Review Audit Work Program.

Field Work

The field work begins with the team's arrival at the audit agency. This phase concentrates on completing an assessment of the adequacy of quality control policies and procedures, reviewing audit engagements to determine whether quality control policies and procedures were adhered to and determining whether the audit organization complied with applicable auditing standards. The Peer Review Audit Work Program identifies the specific steps the review team follows. Throughout field work, the team should regularly communicate the status of their work to the head of the audit agency or his/her designee. It is especially important to communicate any problems or concerns as they arise, so the audit organization has ample opportunity to answer questions and provide additional documentation, and so the Peer Review Subcommittee can be consulted if necessary.

The opinion and letter of comments are prepared in draft form and presented to the head of the audit organization at an exit conference near the end of field work. The audit organization's responses should be considered and the draft modified if necessary. The review team should provide a final draft of the opinion and letter of comments to the audit organization before leaving the field.

Completion of The Review

After field work, the completion of the review consists primarily of finalizing the opinion and the letter of comments. The team leader coordinates with the audit organization, individual team members and the Peer Review Subcommittee, as needed, concerning revisions or problems. The audit organization should provide a written response for inclusion in the final report. The completed opinion, letter of comments and documentation should be transmitted to the Peer Review Subcommittee within 30 days of field work completion.

Planning and Performing Field Work

Scope of The Review

The scope of the review should cover the professional aspects of the auditing functions performed by the audit organization. The review covers the financial and/or performance audit functions, as applicable to the specific audit organization. The review does not include audit organization compliance with state statutes related to the agency, nor an evaluation of efficiency. While comparing the policies and procedures of the various team member states to the state under review is often interesting and beneficial, under no circumstances should “That’s the way we do it in my state” be considered cause for a finding or a valid criterion in support of a finding. Criteria consist of the auditing standards and the audit organization’s quality control policies and procedures.

All audits the organization has stated to have been performed in accordance with the applicable auditing standards are subject to the review. If an organization performs some audits in accordance with other standards, for example generally accepted auditing standards (GAAS), those audits may also be reviewed. The team and the audit organization must mutually agree upon the scope of the review. Any scope limitation should be discussed during the preliminary phase and the Peer Review Subcommittee should be involved. Scope limitations should be addressed in the opinion and letter of comments.

Many DOT audit organizations separate their internal and external audit functions. The audit organization may elect to have the review cover only the internal or external function. This is not a scope limitation.

Reviews should cover a current period, generally of one year, to be mutually agreed upon by the audit organization and the team leader. The review should encompass the quality control policies and procedures in effect and compliance therewith for the period under review. Engagements subject to selection for review are those where reports were issued during the period under review or where the audit work was substantially complete, and the report issued immediately after the end of the period under review.

An audit organization may have legitimate reasons for not permitting the documentation for certain engagements to be reviewed (e.g. they may be the subject of litigation). The team should satisfy itself as to the reasonableness of the explanation. If the team is not satisfied, the matter should be reported to the Peer Review Subcommittee and the team should consider what other actions are appropriate. If engagements excluded from the review are few in number and the review team is able to conclude, by reviewing engagements of a similar function or area and by reviewing other work of the supervisory personnel connected with the excluded engagements, that the engagements do not materially affect the review coverage, the team may conclude the scope of the review was not unduly restricted.

Selection of Engagements

Selecting audits for review requires professional judgment. Some factors to be considered include:

- the size, nature, and complexity of the audits performed, and the different audit managers or equivalent supervisory personnel associated with those audits
- the team's initial evaluation of the audit organization's system of quality control
- the extent to which policies and procedures have been communicated to staff
- the results of the audit agency's internal quality control reviews
- the results of the audit agency's last external quality control review

The review team should select a reasonable cross section of the audit work included in the scope of the review. The number of audits and percentage of audit hours are left to the professional judgment of the team leader. The team leader should make a preliminary selection before arriving on-site and one or more audits should be selected after arriving on-site.

Extent of Engagement Review

The objectives of the review of engagements are to evaluate compliance with quality control policies and procedures and whether the quality control policies and procedures are appropriately comprehensive and suitably designed. The depth of the documentation review is left to the professional judgment of the reviewers but should be directed primarily to the key areas of the engagement to determine whether the work was well-planned, appropriately executed and suitably documented.

Peer Review Audit Work Program

The review team should use the peer review audit work program developed by the Peer Review Subcommittee. The peer review audit work program indicates the procedures necessary to accomplish the objectives of the review, aids in instructing team members in the work to be performed and provides documentation of the procedures performed in conducting the review.

Questionnaires

In addition to the peer review audit work program, peer reviews should be performed using the questionnaires prepared by the Peer Review Subcommittee. These consist of:

1. CAE questionnaire
2. Audit Staff questionnaire
3. Department Head questionnaire
4. External Auditee Questionnaire
5. Internal Auditee Questionnaire
6. Audit Report User Questionnaire
7. Audit Committee Questionnaire

These documents provide detailed guidance for performing peer reviews. The Head of Audit Group questionnaire provides background information on the audit organization, such as organizational structure, types of audits performed and details of completed audits. It is completed

by the reviewed state. The Audit Staff questionnaire solicits the views of audit staff on policy and procedural matters and can be an indicator of quality control weaknesses. Audit Staff questionnaires are completed by all or a sample of audit staff and responses should be considered confidential.

Review Team Documentation

Documentation should be prepared and organized as for any audit. The team leader is responsible for instructing the team members on documentation preparation. The team leader should use the Peer Review Work Program to document the work performed. Additional templates that should be used are:

1. Peer Review – Team Assignments
2. Independence and Confidentiality Agreement
3. Questionnaire Summary
4. Review Guide Spreadsheet: Policy Standards (different questionnaires for financial audits, attestations, performance audits and IIA audits)
5. Review Guide Spreadsheet: Field Work Standards (different questionnaires for financial audits, attestations, performance audits, and IIA Audits)
6. Peer Review Evaluation Matrix

After the issuance of the opinion and letter of comments, the Peer Review Subcommittee forwards the documentation to the audit agency. The audit agency should retain the documentation until after the issuance of the subsequent peer review.

Reporting

Peer reviews evaluate whether the audit organization's system of quality control is appropriately comprehensive and suitably designed, whether the quality control policies and procedures are adequately documented and communicated to professional personnel, and whether they are being complied with to provide reasonable assurance of compliance with government auditing standards.

The review team communicates its findings in an opinion and a letter of comments, if applicable. At the exit conference, the review team also communicates those items that did not merit reporting in the letter of comments but merit discussion with the audit organization.

The opinion and letter of comments are issued after the Peer Review Subcommittee completes its review and resolves any questions. Any disagreements between team members must be resolved before the release of the written report. The opinion and letter of comments are addressed to the head of the audit organization and dated as of the last day of field work. The documents are signed by the team leader, on behalf of the entire team, and the Peer Review Subcommittee chair or his/her designee.

Audit organization responses should be included in the documents. The audit organization should provide its responses timely, generally within two weeks of field work completion, to facilitate the issuance of the reports. Responses should be addressed to the team leader. The team leader will disseminate the responses to the team members and include the responses in the final opinion and letter of comments. If the review team disagrees with the responses, the review team may include an appropriate comment, however, the team should work diligently with the audit organization to resolve any differences of opinion and should consult with the Peer Review Subcommittee for guidance when necessary.

Reporting Considerations

The review team's opinion and letter of comments, if applicable, are based on an understanding of the basic elements of quality control and the exercise of sound professional judgment. The use of professional judgment is particularly critical due to the absence of quantitative measurement criteria for evaluating the significance of deficiencies in the system of quality control and the degree of compliance therewith.

The deficiencies noted should be considered for their significance in relation to the audit organization's quality control policies and procedures, organizational structure and the nature of its function. A deficiency noted in certain quality control policies and procedures may be partially or wholly offset by other policies or procedures. The review team should consider the interrelationships among the elements of quality control and weigh deficiencies against other compensating policies and procedures.

Compliance means adherence to a prescribed policy or procedure in a substantial majority of situations; it does not imply adherence in every case. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. The review team should consider the nature, significance and frequency of instances of noncompliance in evaluating an audit organization's compliance with its quality control policies and procedures in a substantial majority of situations, or whether modification of

the opinion is necessary.

A review team may issue an opinion of Pass, Pass with Deficiencies or Fail. Whenever a review team is considering the issuance of a modified opinion, the team leader should consult with the Peer Review Subcommittee.

An opinion of pass should be issued if the review team determines the audit organization's quality control system was appropriately comprehensive and suitably designed for the organization, was adequately documented and communicated to the professional staff, and was complied with to provide the organization with reasonable assurance of conformance with government auditing standards.

An opinion of pass with deficiencies should be issued when the scope of the review is limited by conditions that preclude the application of procedures considered necessary by the review team or significant deficiencies are noted in the quality control policies and procedures and/or compliance therewith. The materiality of the items noted governs the use of the pass with deficiencies opinion. The items must be sufficiently significant to warrant inclusion in the team's opinion, but not so significant as to necessitate a opinion of fail.

An opinion of fail should be issued when the review discloses significant deficiencies in the quality control policies and procedures or a significant lack of compliance with the prescribed policies and procedures. The deficiencies or noncompliance must be so significant as to preclude the expression of a opinion of pass with deficiencies.

For peer reviews over IIA audit groups, the opinions issued are Generally Conforms, Partially Conforms or Does Not Conform.

An opinion of Generally Conforms should be issued when the internal audit activity conforms with the requirements of the standards or elements of the Code of Ethics in all material respects.

An opinion of Partially Conforms should be issued when the internal audit activity is making a good faith effort to conform with the requirements of the standards or elements of the Code of Ethics but falls short of achieving some major objectives.

An opinion of Does Not Conform should be issued when the internal audit activity is not aware of, is not making a good faith effort to conform with or is failing to achieve many or all of the objectives of the standards and/or the elements of the Code of Ethics.

Letter of Comments

When applicable, the review team prepares a letter of comments that provides information much like a traditional "management letter" that accompanies a financial audit report. When prepared, the letter of comments should address matters that resulted in a modified opinion on the audit organization's system of quality control, material deviations from auditing standards on individual audit engagements that were individually or collectively not critical enough to warrant a modified opinion, or material weaknesses in the audit organization's quality control system that could lead to violations of auditing standards (the review team will also report whether or not the material weakness actually resulted in a violation of standards).

When prepared, the letter should be addressed, dated, and signed in the same manner as the

opinion. Subsequent external quality control reviewers should follow-up on issues identified in the letter of comments.

Recommendations are more likely to be implemented when the letter of comments is written in a clear, concise manner. Certain points to keep in mind when writing a letter of comments include:

- If a modified opinion is issued, the letter should be divided into two sections: (1) matters that resulted in a modified opinion and (2) matters that did not result in a modified opinion.
- Indicate criteria (the standard that was violated or the quality control policy or procedure that was not adhered to), describe the condition observed, and make recommendations to correct the condition. Stating the criteria is very important. The letter of comments should never include findings that cannot be connected to the violation of an auditing standard or failure to adhere to quality control policies or procedures. Findings on conditions that represent a difference from the way things are done in a team member's audit organization are inappropriate.
- If any of the matters in the letter of comments were included in the audit organization's previous letter of comments, that fact should be noted in describing the matter.
- Group the findings to a common criterion into a single comment.
- Identify the likely cause of deficiencies.
- Whenever possible, indicate the number or percentage of findings in relation to the total tested or use general terms to indicate frequency.

Other Items For Consideration

Situations often arise where the review team has an isolated, nonmaterial finding(s) or comment(s) that does not rise to the level of reporting in the letter of comments but merits discussion with the audit organization. These items should be discussed with the audit organization at the exit conference. If requested by the audit organization, summary notes or an outline can be prepared to facilitate discussion. Summary documentation should be prepared of the items discussed and included in the peer review documentation. The team leader on the next review team should follow-up on these items as deemed necessary.

Engagements Discontinued Before Completion

A review cannot be discontinued because of the expected results; however, specific circumstances may make it necessary to discontinue or suspend a review. In situations where discontinuance is appropriate, the head of the audit organization should notify the team leader and the Peer Review Subcommittee in writing of the reasons for the termination. A review may only be terminated with the prior approval of the Peer Review Subcommittee.

Disagreements Within Review Teams

The team decision-making process must respect the professional judgment of each team member, while preserving a structure to reach group decisions. Team members must be mindful that their judgment must be supported by valid interpretations of government auditing standards.

Many team decisions are essentially subjective judgments; accordingly, the team may not always reach unanimous agreement. It may be difficult to reach unanimous agreement on the significance

of a problem. Especially difficult decisions may center on how a problem should be reported (e.g. letter of comments or qualified opinion). Teams may need to gather additional information on government auditing standards, accounting principles, etc. to make an informed decision and resolve disagreements. In addition to the team's own research efforts, the team leader should feel free to consult with the Peer Review Subcommittee.

The team leader and Peer Review Subcommittee should decide whether additional outside technical assistance or information is needed. The Peer Review Subcommittee should be contacted before assistance is requested from other sources. When requesting outside technical assistance or information, state-specific information should not be divulged.

If after thoughtful consideration of all available information a disagreement still exists, the type of opinion and contents of the letter of comments shall be decided jointly by the team leader and the Peer Review Subcommittee Chair. To resolve the disagreement(s), the Chair may wish to consult with other members of the Peer Review Subcommittee or former Subcommittee members.

Once the disagreement(s) is resolved, the team's findings should be presented in a "unified" voice. Dissenting viewpoints by team members who disagree with the final decisions should not be presented at the exit conference or in the final report. They should, however, be documented in the review documentation.

Disagreements Between the Review Team and the Audit Organization Regarding the Opinion

Disagreements about the opinion may occur between the review team and the audit organization. If these disagreements cannot be resolved by ordinary good-faith efforts, the matter should be referred to the Peer Review Subcommittee Chair for resolution. If an issue is referred, the Chair may consult with current and former Subcommittee members.