

Appendix A

Chapter 3 General Standards

External Peer Review

3.98 The peer review team should include the following elements in the scope of the peer review:

- a. review of the audit organization's quality control policies and procedures;
- b. consideration of the adequacy and results of the audit organization's internal monitoring procedures;
- c. review of selected auditors' reports and related documentation;
- d. review of other documents necessary for assessing compliance with standards, for example, independence documentation, CPE records, and relevant human resource management files; and
- e. interviews with a selection of the reviewed audit organization's professional staff at various levels to assess their understanding of and compliance with relevant quality control policies and procedures.

3.99 The peer review team should perform an assessment of peer review risk to help determine the number and types of audits to select for review.⁴⁸ Based on the risk assessment, the team should use one or a combination of the following approaches to select individual audits for review with greater emphasis on those audits with higher assessed levels of peer review risk: (1) select GAGAS audits that provide a reasonable cross-section of the GAGAS audits performed by the reviewed audit organization; or (2) select audits that provide a reasonable cross-section from all types of work subject to the reviewed audit organization's quality control system, including one or more audits performed in accordance with GAGAS. The second approach is generally applicable to audit organizations that perform only a small number of GAGAS audits in relation to other types of audits. In these cases, one or more GAGAS audits may represent more than what would be selected when looking at a cross-section of the audit organization's work as a whole.

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3.100 The peer review team should prepare one or more written reports communicating the results of the peer review, including the following:

- a.** a description of the scope of the peer review, including any limitations;
- b.** an opinion on whether the system of quality control of the reviewed audit organization's audit practices was adequately designed and complied with during the period reviewed to provide the audit organization with reasonable assurance of conforming with applicable professional standards;
- c.** specification of the professional standards to which the reviewed audit organization is being held; and
- d.** reference to a separate written communication, if issued under the peer review program.

3.101 The peer review team uses professional judgment in deciding the type of peer review report. The following are the types of peer review reports.

- a.** Peer Review Rating of Pass: A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b.** Peer Review Rating of Pass with Deficiencies: A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

⁴⁸See paragraph A3.11 for examples of factors to consider in assessing peer review risk.

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c. Peer Review Rating of Fail: A conclusion, based on the significant deficiencies that are described in the report, that the audit organization's system of quality control is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, or the audit organization has not complied with its system of quality control to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

3.102 When the scope of the review is limited by conditions that preclude the application of one or more peer review procedures considered necessary in the circumstances and the peer reviewer cannot accomplish the objectives of those procedures through alternative procedures, the types of reports described in paragraphs 3.101 a-c are modified by including statements in the report's scope paragraph, body and opinion paragraph. These statements describe the relationship of the excluded audit(s) or functional area(s) to the reviewed organization's full scope of practice and system of quality control and the effects of the exclusion on the scope and results of the review.

3.103 For any deficiencies or significant deficiencies included in the peer review report or other written communication, the peer review team should include, either in the peer review report or in a separate written communication, a detailed description of the findings, conclusions, and recommendations related to the deficiencies or significant deficiencies.

3.104 The peer review team should meet the following criteria:

a. The review team collectively has current knowledge of GAGAS and government auditing.

b. The organization conducting the peer review and individual review team members are independent (as defined in GAGAS)⁴⁹ of the audit organization being reviewed, its staff, and the audits selected for the peer review.

c. The review team collectively has sufficient knowledge of how to perform a peer review. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Having personnel on the peer review team with prior experience on a peer review or internal inspection team is desirable.

3.105 An external audit organization^o should make its most recent peer review report publicly available.⁵¹ For example, an audit organization may satisfy this requirement by posting the peer review report on a

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publicly available web site or to a publicly available file designed for public transparency of peer review results. Alternatively, if neither of these options is available to the audit organization, then it should use the same transparency mechanism it uses to make other information public. The audit organization should provide the peer review report to others upon request. If a separate communication detailing findings, conclusions, and recommendations is issued, public availability of that communication is not required. Internal audit organizations that report internally to management and those charged with governance should provide a copy of the peer review report to those charged with governance.

⁴⁹See paragraphs 3.02 through 3.32 for discussion of independence.

⁵⁰See paragraph 1.07b for the definition of "audit organizations" and paragraph 1.08 for discussion of external audit organizations.

⁵¹See paragraph A3.12 for additional discussion of peer review report transparency.