



Letter of Comment

April 29, 2019

Honorable John F. Sopko, Inspector General
Special Inspector General for Afghanistan Reconstruction

We have reviewed the system of quality control for the audit organization of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in effect for the year ended September 30, 2018, and have issued our System Review Report thereon, dated April 29, 2019, in which SIGAR received a rating of *pass*. That report should be read in conjunction with the comments in this letter, as they were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion in that report.

Finding 1 | Training Documentation

The *U.S. Government Accountability Office (GAO) Guidance on GAGAS Requirements for Continuing Professional Education (CPE Guide)* outlines responsibilities and requirements for ensuring organizations and auditors maintain records of Continuing Professional Education (CPE) hours completed along with supporting documentation (that is, certificates, copies of course materials, copy of published material) and written statements supporting the number of CPE hours claimed.¹ The CPE Guide notes that CPE records should include, among other things, the dates the staff members attended and the number of CPE hours they earned. SIGAR's Quality Control (QC) maintains an official record of each auditor's CPE requirements and the credits earned annually. The *SIGAR Audit Policy and Procedures Manual (SIGAR Manual)* states that it is the responsibility of each auditor to maintain his/her professional competence and to ensure CPE hours are recorded accurately and in a timely manner. The SIGAR Manual does not outline specific expectations with regard to supporting documentation but references the CPE Guide in a footnote. SIGAR's *Self-Certified Training Form* directs staff to attach the agenda or other materials that describe the training received when a training certificate is not obtained.

Staff met the CPE requirements, but we found three areas where CPE documentation could be improved to conform to the CPE Guide. First, CPE hours earned for in-house training were not supported by an agenda to measure and confirm the number of CPE hours. The documentation included sign-in sheets indicating the total number of CPEs. However, the records often did not provide detailed information, such as course length, to support how the CPE hours were determined. Secondly, we found that some training certificates did not denote CPE hours, and the records did not include additional documentation (agenda or course outline) to support the recorded CPE credit hours earned. Finally, in some cases, staff did not complete SIGAR's *Self-Certified Training Form* properly or attach the agenda or other materials that described the

¹ Effective with the implementation of the 2018 revision of *Government Auditing Standards (GAS)*, GAO is retiring the CPE Guide. The CPE Guide requirements are being integrated into the 2018 revision. The 2018 revision of the GAS is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. GAO has indicated that early implementation is not permitted.

training received consistent with the instructions provided. Improving documentation will help SIGAR ensure and demonstrate staff's compliance with the GAS CPE requirements.

Recommendations. We recommend that SIGAR:

- (1) Update the SIGAR Manual to describe expectations and requirements for maintaining CPE records and supporting documentation consistent with the 2018 version of GAS, which will supersede the CPE Guide.
- (2) Reiterate to audit staff that documentation supporting the number of CPEs earned should provide details about the number of CPE hours claimed so that CPE credits can be independently measured.

Views of Responsible Official

SIGAR will revise the Audit Policies and Procedures Manual later this year and include the expectations and requirements for maintaining CPE records and supporting documentation consistent with the 2018 GAS revisions. Expected date of completed action is October 2019. In addition, SIGAR has implemented recommendation 2. SIGAR sent Emails to audit staff reiterating the importance of documenting the number of CPEs earned.

Finding 2 | SIGAR Manual Updates

We found three areas where the SIGAR Manual required updates to reflect GAS. Specifically, we notified SIGAR that corrections and improvements were needed, as follows:

Independence. GAS, Paragraph 3.14, discusses the broad categories of threats to independence that auditors should evaluate. This paragraph defines the following seven threat categories — (1) self-interest threat, (2) self-review threat, (3) bias threat, (4) familiarity threat, (5) undue influence threat, (6) management participation threat, and (7) structural threat. The SIGAR Manual listed all of the broad categories of threats to independence except for undue influence. Moreover, the SIGAR Manual incorrectly defined familiarity threat, using the definition for undue influence. During the course of our peer review, SIGAR updated the manual to include the undue influence threat and corrected the definition of familiarity threat.

Nonaudit Services. The SIGAR Manual did not include a discussion on evaluating the impact of previously performed nonaudit services on independence and disclosing the nature of nonaudit services that could not be eliminated or reduced. GAS, Paragraphs 3.42 – 3.44, discuss these impacts and disclosures. During the course of our peer review, SIGAR revised its manual to include a requirement to evaluate the impact of nonaudit services.

Determining Whether and How to Communicate Matters Discussed in GAS, Paragraphs 5.49 and 5.59. The SIGAR Manual stated that auditors may use *professional judgement* when determining whether and how to communicate significant deficiencies, material weaknesses, instances of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse detected in attestation engagements, including review engagements and agreed-upon procedures engagements. However, GAS, Paragraphs 5.49 and 5.59, require auditors to report such matters to audited entity officials. While SIGAR has indicated it has not performed attestation engagements, it is important that its Manual be consistent with GAS. During the course of our peer review, SIGAR revised its manual to require auditors to report such instances to audited entity officials.

SIGAR agreed that the policies and procedures contained errors and needed to be enhanced. SIGAR took action to revise the Manual during the course of our review. We are not making any recommendations related to this finding.

Finding 3 | Audit Documentation

GAS, Paragraph 6.79, states that auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand the nature, timing, extent, and results of audit procedures performed from the audit documentation. The SIGAR Manual reiterates this requirement by stating that auditors must prepare audit documentation related to the planning, conducting, and reporting for each audit.

However, we found three areas where documentation of the work performed could be improved as follows:

- Status of Corrective Action on Previous Reports. GAS, Paragraph 6.36, states that auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. The SIGAR Manual is consistent with GAS, stating that auditors should review prior open recommendations from SIGAR reports and other oversight agencies, such as IGs, GAO, and the Special Inspector General for Iraq Reconstruction, for follow-up during the audit, if related to the audit objectives.

For the three audits we reviewed, the auditors documented the previous reports and recommendations that were significant in the context of the audit objectives but did not document the status of recommendations. SIGAR representatives informed us that the status of the recommendations was evaluated, but the evaluation was not included as part of the audit working paper file.

Consideration of Internal Control, Including Information System Control. GAS, Paragraph 6.06, states that “auditors must adequately plan and document the planning of the work necessary to address the audit objectives.” GAS, Paragraph 6.11, outlines how auditors should go about assessing audit risk and significance within the context of the audit objective. This includes gaining an understanding of internal control and information systems controls in context of the objective.

For one audit in our sample, we determined that SIGAR obtained an understanding and assessed internal controls, including information system controls for specific audit conditions but did not comply with its policies and procedures for documenting its assessment. Specifically, instructions on Form A-2.3, *SIGAR Audit Plan Form*, require the team document in the audit plan how audit risk can be reduced, but the team did not include needed information on this form. We found other audit documentation supported the evaluation of internal controls. Nonetheless, completion of the form will make it easier for peer reviewers, SIGAR QC reviewers, and supervisors to determine compliance with the standards.

- Awareness of Abuse that Could Be Significant to the Program Under Audit. GAS, Paragraph 6.34, states that “if auditors become aware of abuse significant to the

program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives.”

For one audit, the audit staff did not adequately complete the Audit Plan form. Instructions on SIGAR’s Audit Plan form direct staff to document the additional work to be performed and cross-reference any information related to the potential abuse in the Audit Plan form. The audit staff appropriately checked the box, indicating that the team had become aware of abuse that could be quantitatively or qualitatively significant to the program under audit. However, staff did not include the additional information required by the form. Even though the form was not complete, we were able to determine that SIGAR analyzed the potential effect of the abuse on the program from other documentation, such as working papers, explaining SIGAR’s methodology and the related analysis.

Recommendation. We recommend that SIGAR:

- (3) Emphasize to the audit staff the importance of documenting work related to planning, fieldwork, and reporting as discussed above, in the working papers, as specified in the SIGAR Manual and related forms.

Views of Responsible Official

SIGAR has implemented the recommendation. SIGAR sent an Email to all staff that reiterated the importance of documenting work related to planning, fieldwork, and reporting, emphasizing full compliance with all SIGAR requirements. In addition, the Email emphasized the importance of evaluating and documenting in the quality control file the status of prior audit recommendations relevant to the audit objectives.

Finding 4 | Contractor Oversight Documentation

GAS, Paragraph 3.107, requires that auditors who are using another audit organization’s work should request a copy of the audit organization’s latest peer review report. Consistent with GAS, SIGAR’s *Oversight Strategy and Documentation Requirements for SIGAR’s Contracted Financial Audits*² requires that a copy of the peer review report be obtained and included in the oversight file. In one instance, the auditors obtained a copy of the peer review report but did not maintain a copy of the report in the oversight file. The oversight file only included the acceptance letter of the firm’s peer review report by the Virginia Peer Review Committee.

Recommendation. We recommend that SIGAR:

- (4) Emphasize to the audit staff the importance of maintaining a copy of the latest peer review report of any audit organization completing work that will be used by SIGAR.

² The *Oversight Strategy and Documentation Requirements for SIGAR’s Contracted Financial Audits* establishes and articulates documentation requirements for SIGAR’s Financial Audit Team for each contracted financial audit.

Views of Responsible Official

SIGAR has implemented the recommendation. SIGAR sent Emails to staff reiterating the requirements and guidance on obtaining peer review reports and retaining such reports in the audit files.

In addition to the findings presented above, we discussed with SIGAR certain observations and best practices related to the design and implementation of its quality control systems. We did not consider these observations and best practices to be sufficiently significant to include in this letter.

We appreciate the courtesy and cooperation extended to our staff during the course of this review. If you have any questions, please contact me at (703) 562-2035 or Terry L. Gibson, Assistant Inspector General for Program Audits and Evaluations, at (703) 562-2529.



Jay N. Lerner
Inspector General

SIGAR COMMENTS ON THE DRAFT REPORT



SIGAR | Office of the Special Inspector General
for Afghanistan Reconstruction

John F. Sopko
Special Inspector General

April 17, 2019

Honorable Jay N. Lerner
Office of Inspector General
Federal Deposit Insurance Corporation
3501 Fairfax Drive
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Dear Mr. Lerner,

We have reviewed the draft report on the results of your external quality control review of SIGAR's audit organization. We concur with your conclusion that our system of quality control is suitably designed and complied with to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We also concur with the comments in your letter of comment to improve our quality control processes. We have taken action or plan to take action in response to the four recommendations as noted below.

(1) Recommendation: Update the SIGAR Manual to describe expectations and requirements for maintaining CPE records and supporting documentation consistent with the 2018 version of GAS, which will supersede the CPE Guide.

SIGAR Response: Concur. As noted in the draft Letter of Comment, the 2018 revision of the GAS is effective for performance audits beginning on or after July 1, 2019. SIGAR will revise the Audit Policies and Procedures Manual (APPM) later this year and include the expectations and requirements for maintaining CPE records and supporting documentation consistent with the 2018 GAS revision.

(2) Recommendation: Reiterate to audit staff that documentation supporting the number of CPEs earned should provide details about the number of CPE hours claimed so that CPE credits can be independently measured.

SIGAR Response: Concur. SIGAR has implemented this recommendation. On February 28, 2019, SIGAR's training coordinator sent an email to headquarters' audit staff, reminding them, as they prepare self-certification forms, to include a link to the training site and, if possible, a separate file that includes an agenda or class description with timeframes for each topic covered. On March 14, 2019, the Assistant Inspector General for Audits and Inspections (AIG/A&I) forwarded this email to Kabul-based staff. The AIG/A&I discussed the peer review findings and recommendations at staff meetings with Kabul and headquarters staff on April 9 and 10, 2019, respectively, and followed up

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SIGAR COMMENTS ON THE DRAFT REPORT

this discussion with an email sent on April 15, 2019, reiterating the importance of documenting the number of CPEs earned.

(3) *Recommendation:* Emphasize to the audit staff the importance of documenting work related to planning, fieldwork, and reporting as discussed in the Letter of Comment, in the working papers, as specified in the SIGAR Manual and related forms.

SIGAR Response: Concur. SIGAR has implemented this recommendation. Included in the April 15 email to all staff, the AIG/A&I reiterated the importance of documenting work related to planning, fieldwork, and reporting, emphasizing full compliance with all SIGAR requirements. In addition, the AIG/A&I reminded audit teams to evaluate and document audit risks, particularly for internal control and abuse risks, that are relevant to the audit objectives. Similarly, the email emphasized the importance of evaluating and documenting in the quality control file the status of prior audit recommendations that are relevant to the audit objectives. The email included information on where to find such guidance in SIGAR's APPM.

(4) *Recommendation:* Emphasize to the audit staff the importance of maintaining a copy of the latest peer review report of any audit organization completing work that will be used by SIGAR.

SIGAR Response: Concur. SIGAR has implemented this recommendation. On March 28, 2019, SIGAR's deputy division director for financial audits emailed the financial audits staff reiterating all requirements and guidance on obtaining peer review reports and retaining such reports in the audit files. Following up on this point, the AIG/A&I's April 15 email emphasized to all audit staff the importance of obtaining and retaining the latest peer review report of any audit organization that has completed work used by SIGAR.

I would like to take this opportunity to thank your staff for their professionalism during the course of this peer review. We appreciated their diligent efforts to analyze our system of quality control and offer constructive improvements.

Sincerely,



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