

AUDIT MEMO

SUBJECT: External Quality Assurance and Peer Review Requirements	NO.: 19-02
REFERENCES: International Standards for the Professional Practice of Internal Auditing, Section 1312 Government Auditing Standards, Sections 3.96 and 3.106 Government Code Section 13886.5	DATE ISSUED: February 4, 2019

PURPOSE

This Audit Memo reminds and informs state entities and related audit units of their responsibility to undergo external quality assurance and peer reviews.

REQUIREMENTS

To ensure the quality of both internal and external audit work, the Institute of Internal Auditors and the Comptroller General of the United States have issued specific audit standards, which auditors must follow, as appropriate, when conducting their work. Both of these standard setting organizations require periodic external quality assurance or peer reviews.

Government Code

Government Code section 13886.5 specifies that the Controller's and the Director of Finance's respective staff, and all state entities that have their own internal auditors or that conduct internal audit activities shall conduct internal audit activity under the general and specified standards of internal auditing prescribed by the Institute of Internal Auditors or *Government Auditing Standards* issued by the Comptroller General of the United States, as appropriate.

International Standards for the Professional Practice of Internal Auditing

For entities performing audits in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, section 1312 of these standards requires the following:

- External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

Government Auditing Standards

For entities performing audits in accordance with the Comptroller General of the United States' *Government Auditing Standards*, sections 3.96 and 3.106 of these standards require the following:

- The audit organization should obtain an external peer review at least once every three years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.
- Audit organizations seeking to enter into a contract to perform an audit in accordance with *Government Auditing Standards* should provide the most recent peer review report and any subsequent peer review reports received during the period of the contract, to the party contracting for such services when requested.

RESPONSIBILITIES

It is the responsibility of the individual state entities to ensure that any quality assurance or peer review obtained meets the requirements of either standard setting organization, as applicable. Reviews must be conducted using existing resources.

Significant consequences to state entities whose audit organizations do not comply with these requirements include, but are not limited to, loss of federal or state funds, criticism by state control agencies, unfavorable lawsuit outcomes, loss of federal audit subsidies, and licensing boards' sanctions against the audit organization.

The Department of Finance will monitor state entities' compliance with these requirements and may contact your state entity for information. Please be prepared to provide recent audit reports and external quality assurance and peer review reports, if requested.

RESOURCES

External quality assurance or peer reviews may be obtained by a variety of means. Finance and Certified Public Accounting firms may provide these services on a reimbursement basis. In addition, the California Association of State Auditors (CASA) conducts external peer reviews/assessments through an exchange of resources with other state entities. The exchange of resources is accomplished through a Memorandum of Understanding and allows departments to meet their quality assurance or peer review requirements without additional funding. To obtain more information about this program, please contact the CASA President through the CASA website at <http://www.casa1.org/>.

Please distribute this Audit Memo to state entity Management, Internal Auditors, and others as appropriate. If you have any questions, please contact Cheryl McCormick, Assistant Chief, Finance, Office of State Audits and Evaluations, at (916) 322-2985.

/s/ Jennifer Whitaker

Jennifer Whitaker, Chief
Office of State Audits and Evaluations
Department of Finance