



DEPARTMENT OF THE AIR FORCE  
AIR FORCE AUDIT AGENCY

29 September 2014

MEMORANDUM FOR THE ACTING AUDITOR GENERAL OF THE NAVY

FROM: HQ AFAA/DO

1500 West Perimeter Road, Suite 4700  
Joint Base Andrews MD 20762

SUBJECT: Opinion Report on the Fiscal Year 2014 External Quality Control Peer Review of the Naval Audit Service (Project F2014-A13000-0223.000)

1. We reviewed the Naval Audit Service (NAS) system of quality control for the audit function in effect for the year ended 30 September 2013. The objective of our review was to determine whether the NAS internal quality control system provided reasonable assurance NAS auditors followed established policies, procedures, and applicable auditing standards.
2. We conducted the review in accordance with generally accepted government auditing standards, the guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), March 2009, and our Memorandum of Understanding dated 26 November 2013. Specifically, we tested compliance with the NAS system of quality control to the extent we considered appropriate (see attached). These tests included a review of six audit reports and one quality assurance review report. In performing our review, we considered the requirements of quality control standards and other auditing standards contained in the 2007 and 2011 Revision of the *Government Auditing Standards* issued by the Comptroller General of the United States.
3. In our opinion, the system of quality control for the NAS audit function, in effect for the year ended 30 September 2013, was designed in accordance with quality standards established by the CIGIE. Further, the internal quality control system was operating effectively to provide reasonable assurance that audit personnel followed established policies, procedures, and applicable auditing standards. Accordingly, the NAS received a peer review rating of pass for the review period ended 30 September 2013.
4. We identified other issues that did not warrant inclusion in the formal opinion report. These issues were provided to the NAS in a separate letter of comments dated 29 September 2014. These issues did not affect our overall opinion.

5. Thank you for the courtesies and cooperation extended to us during the review. Should you have any questions, your staff may contact Ms. Bobbi Karibian at (240) 612-5116, or Ms. Terri Dilly at (240) 612-5140.

MICHAEL V. BARBINO  
Director of Operations

Attachment:  
Peer Review Scope and Methodology

cc:  
DoDIG (AIG/APO)  
Deputy Auditor General, Policy & Operations Management (NAS)

## Peer Review Scope and Methodology

We performed this review from January to July 2014. We used the CIGIE Guide, Section 2, *External Peer Review Guide*, to judgmentally select six reports from an NAS-provided listing of 31 reports published between 1 April 2013 and 30 September 2013 and the one quality assurance review report published during the year-ended 30 September 2013. We judgmentally selected one report from each of the five NAS directorates, to include the one report that identified potential monetary benefits and one attestation report. The projects were selected based on which topics had the greatest mission impact or because they were part of the 2013 NAS quality assurance review. We judgmentally selected the quality assurance review report on Audit Programs because it was the most recent and likely to allow comparison of findings with Peer Review findings. We reviewed and examined selected information from the published reports and compared the reported information to supporting work papers and applicable auditing standards and NAS policies and procedures. We also examined auditor continuing professional education completion and documentation for a sample of 148 auditors and 2 data analysts, and we interviewed 50 NAS personnel to assess competency and professional judgment. Finally, we reviewed transcripts for a sample of 12 auditors hired by the NAS during Fiscal Year 2013 to assess staff qualifications.

We did not review oversight of contracted audit work since the NAS did not contract for audit work during the period under review. In addition, although the NAS performed non-audit services, these services did not relate to the projects selected for review. However, we did assess NAS policies and procedures for conducting non-audit services and determined the types of services performed did not impede their organizational independence.

We evaluated the NAS quality control system and the following eight CIGIE elements for the selected reports reviewed:

- Quality Assurance Program
- Independence
- Professional Judgment
- Competence
- Audit Planning
- Supervision
- Audit Evidence and Documentation
- Reporting and Quality Control

During the review, we visited the NAS Headquarters at the Washington Navy Yard in Washington, D.C. and the NAS office at the Norfolk Naval Base, Norfolk, Virginia. The following table identifies the seven reports reviewed:

<b>Report Number</b>	<b>Report Date</b>	<b>Report Title</b>
N2013-0021	8 Apr 2013	Internal Controls Over Naval Criminal Investigative Service Salary Payments and Travel Process
N2013-0028	3 Jun 2013	Agreed Upon Procedures Attestation Engagement of Assessing Internal Controls Over Financial Reporting in the Department of the Navy, Phase 4
N2013-0041	28 Aug 2013	Marine Corps War Reserve Levels
N2013-0046	24 Sep 2013	Service Contract Administration at Naval Air Warfare Center Aircraft Division, Patuxent River
N2013-0049	27 Sep 2013	Department of the Navy Tax Exempt Commercial Lodging
N2013-0050	30 Sep 2013	Long-Term Temporary Duty Orders for Marine Corps Reserves Performing Duty within the Continental United States and Hawaii
Q2013-0001	14 Feb 2013	Quality Control Review of Audit Programs