



Use of Specialists & Audit Follow Up

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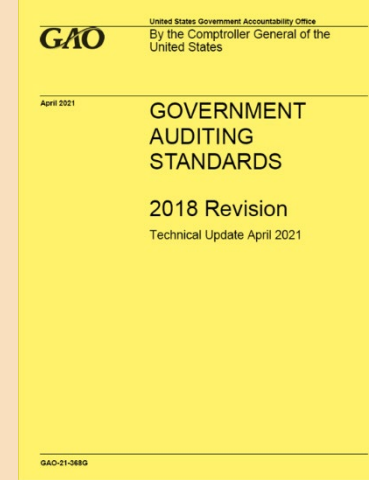
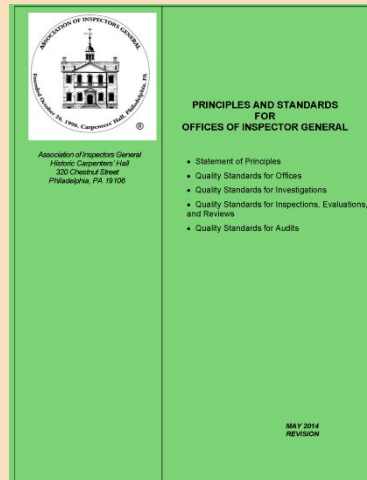
Use of Specialists

Outline

- Standards
 - Green Book – AIG
 - Red Book – IIA
 - Yellow Book – GAO
 - Professional Standards - AICPA
- Types of Matters
- Benefits & Challenges
- Sourcing & Procurement
- Q&A

Governing Standards and Guidance

- Standards – Green Book, Red Book, Yellow Book, and AICPA





Important to remember:

- No two inspector general functions are exactly the same
- No two inspector general audit functions are exactly the same
- Many flavors of inspector general functions

Principles and Standards for Offices of Inspector General

Quality Standards for Offices of Inspector General

- **General Standard** – OIG staff should collectively possess the variety of knowledge, skills, and experience needed to accomplish the OIG mission.
- **Basic Qualifications** – It is the Inspector General's responsibility to decide which skills can be obtained through support service contractors or outside consultants

Quality Standards for Audits

- Audits performed by Offices of Inspectors General (OIGs) should be done in accordance with auditing standards (Red Book or Yellow Book).



Red Book – Use of Specialists

- **1210 – Proficiency:** Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.
- **1210.A1** – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.
- **1210.C1** – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Government Auditing Standards – Use of Specialists

- **Specialist:** An individual or organization possessing special skill or knowledge in a particular field other than accounting or auditing that assists auditors in conducting engagements. A specialist may be either an internal specialist or an external specialist.

Government Auditing Standards – Use of Specialists

- GAS 4.12 (Competence & CPE) The engagement team should determine that specialists assisting the engagement team on a GAGAS engagement are qualified and competent in their areas of specialization.
- Specialists should be qualified and maintain professional competence in their areas of specialization.
 - Auditors should assess professional qualifications of specialists.
 - Certifications, licenses, reputation, and previous work
 - Bias, conflicts of interest, or influence impacting professional judgement

Government Auditing Standards – Use of Specialists

- 4.30 (Competence & CPE) **External specialists** are not auditors subject to the GAGAS CPE requirements. Also, internal specialists assisting on a GAGAS engagement who are not involved in planning, directing, performing engagement procedures, or reporting on a GAGAS engagement are not auditors subject to the GAGAS CPE requirements.
- 4.31 (Competence & CPE) **Internal specialists** who are performing work in accordance with GAGAS as part of the engagement team—including planning, directing, performing engagement procedures, or reporting on a GAGAS engagement—are considered auditors and are subject to the GAGAS CPE requirements. The GAGAS CPE requirements become effective for internal specialists when an audit organization first assigns an internal specialist to an engagement. Because internal specialists apply specialized knowledge in government engagements, CPE in their areas of specialization qualifies under the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

Government Auditing Standards – Use of Specialists

- GAS 8.31 (Performance Audits)
- Audit management should assign sufficient auditors with adequate collective professional competence, as described in paragraphs 4.02 through 4.15, to conduct the audit. Staffing an audit includes, among other things,
 - a. assigning auditors with the collective knowledge, skills, and abilities appropriate for the audit;
 - b. assigning a sufficient number of auditors to the audit;
 - c. providing for on-the-job training of auditors; and
 - d. **engaging specialists when necessary.**

Government Auditing Standards – Use of Specialists

- GAS 8.32 (Performance Audits)
- If planning to use the work of specialists, auditors should document the nature and scope of the work to be performed by the specialists, including
 - a. the objectives and scope of the specialists' work,
 - b. the intended use of the specialists' work to support the audit objectives,
 - c. the specialists' procedures and findings so they can be evaluated and related to other planned audit procedures, and
 - d. the assumptions and methods used by the specialists.



Government Auditing Standards – Use of Specialists

- GAS 8.82 (Performance Audits) If the engagement team intends to use the work of a specialist, it should assess the independence of the specialist.
- When auditors use the work of specialist, auditors should assess the specialist's ability to perform the work and report the results impartially as it relates to their relationship with the program or entity under audit. If the specialist's independence is impaired, auditors should not use the work of that specialist.
- External specialists report their findings to the Inspector General/Auditor



AICPA – Use of Specialist

- **AU-C Section 620** (SAS No. 122) – Using the work of an Auditor's Specialist
- **Auditor's specialist.** An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's specialist may be either an auditor's internal specialist (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm) or an auditor's external specialist.

AICPA – Auditor's Responsibility

- Determine need for specialist
- Evaluate competence, capabilities and objectivity
- Determine and document nature, scope, and objectives of work
- Document respective roles and responsibilities
- Document nature, timing, and extent of communications including report
- Document confidentiality requirements
- Evaluate adequacy of work including significant assumptions and methods

AICPA - Regarding Independence

- **External Auditors** – If the outside service provider is also the organization's external auditor, you should ascertain that work performed does not impair the external auditor's independence.
- When external auditors act or appear to act as members of senior management, management, or as employees of the organization, then their independence is impaired.

AICPA - Effect on Opinion

- Auditor maintains sole responsibility for their opinion
 - **Unmodified Opinion** – do not mention work of specialist in report as it may appear to be a modification
 - **Modified Opinion** - Can issue a modified opinion based on the specialist findings with explanation. When this is done, you must include a statement that such a reference does not reduce the auditor's responsibility for that opinion.

Examples of Types of Matters That The Auditor May Consider For Use of a Specialist

- Valuation of:
 - Special-purpose of inventories
 - High technology materials and equipments
 - Pharmaceutical products
 - Complex financial instruments
 - Real estate
 - Works of art
 - Environmental Contingencies

Benefits of Using Specialists

- Extends the abilities of audit staff
- Specialized knowledge
- Technical skills
- Staff flexibility
- Best practices

Challenges of Using Specialists

- Cost
- Business knowledge
- Organization knowledge
- Time to manage
- Staff development and retention
- Management and control

Sourcing Options

- In Sourcing – Other employees in the organization included on team (from inside OIG, inside organization, in OIG community).
- Co-sourcing – Audit staff take active part in all facets and keep control of engagement.
- Consultants – Work independently to produce deliverables.

Procurement Needs

- Identify need early
- RFP
- Assess sourcing options
- Method of compensation
- Milestones
- Deliverables
- Invoicing

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Questions/ Comments



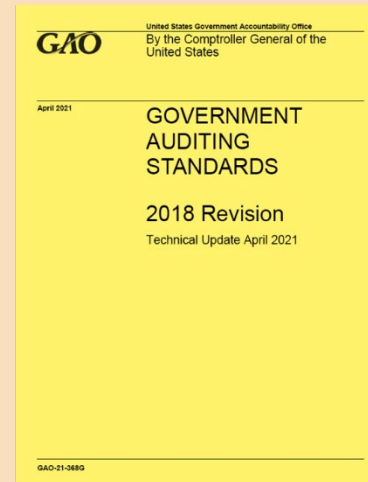
Audit Follow Up

Outline

- Standards and Guidance
 - Red Book – IIA
 - Yellow Book – GAO
 - Professional Standards – AICPA
 - OMB Circular No. A-50
 - Uniform Guidance
- Example – Audit Tracking and Monitoring
- Q&A

Governing Standards

- Standards – Red Book, Yellow Book, and AICPA



- OMB Circular No. A-50 (Audit Follow-up)
- Uniform Guidance

Red Book – Audit Follow-up

2060 – Reporting to Senior Management and the Board

- The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.
- **Interpretation:** The chief audit executive's reporting and communication to senior management and the board must include information about: . . . Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.

Red Book – Audit Follow-up

2500 – Monitoring Progress

- The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
 - **2500.A1** – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
 - **2500.C1** – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

Red Book – Audit Follow-up

2600 – Communicating the Acceptance of Risks

- When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Government Auditing Standards

- GAS 8.30 (Fieldwork Standards for Performance Audits)
- 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. When planning the audit, auditors should ask management of the audited entity to identify previous engagements or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

OMB Circular No. A-50

Circular No. A-50 Revised

September 29, 1982

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit Followup

1. Purpose. This circular provides the policies and procedures for use by executive agencies when considering reports issued by the Inspectors General (IGs), other executive branch audit organizations, the General Accounting Office (GAO), and non-Federal auditors where followup is necessary.

OMB Circular No. A-50

- Policy – Audit Follow Up is:
 - “Good Management”
 - A shared responsibility – Management and Audit
 - Essential to improving the efficiency and effectiveness of government operations
- Goals:
 - Prompt and proper resolution of audit findings
 - Complete record of action taken



OMB Circular No. A-50 - Responsibilities

■ Agency Head

- Oversee audit follow up
- Assuring that management officials throughout the agency understand the value of the audit process and are responsive to audit recommendations.

■ Management Officials

- Receive and analyze audit reports
- Provide timely responses
- Take corrective actions
- Resolve disagreements – auditors and followup officials

OMB Circular No. A-50 - Responsibilities

■ **Audit Followup Officials**

- Systems of audit followup, resolution, and corrective action are documented and in place
- Timely responses are made to all audit reports
- Disagreements are resolved
- Corrective actions are actually taken
- Semi-annual reports to agency head

■ **Inspector General**

- Conduct independent audits and investigations
- Overseeing the work of non-Federal auditors
- Reviewing responses to audit reports and reporting significant disagreements to the audit followup official.

OMB Circular No. A-50 – Follow-up Systems

- **Follow-up Systems:** Resolution - recommendations and corrective actions
 - Appoint a top-level followup official
 - Require prompt resolution of recommendations and corrective actions
 - Specify criteria for proper resolution
 - Maintain accurate records
 - Timely responses to resolve major disagreements
 - Consistent with laws, regulations, and policies
 - Coordination resolution across agencies, programs and levels of government
 - Semi-annual reports
 - Analysis for trends and system-wide problems
 - Evaluate Follow-up System for efficient, prompt, and proper resolutions and corrective action on audit recommendations.

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

200.25 Cooperative audit resolution

- *Cooperative audit resolution* means the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the Federal agency and the non-Federal entity. This approach is based upon:
 - (a) A strong commitment by Federal agency and non-Federal entity leadership to program integrity;
 - (b) Federal agencies strengthening partnerships and working cooperatively with non-Federal entities and their auditors; and non-Federal entities and their auditors working cooperatively with Federal agencies;
 - (c) A focus on current conditions and corrective action going forward;
 - (d) Federal agencies offering appropriate relief for past noncompliance when audits show prompt corrective action has occurred; and
 - (e) Federal agency leadership sending a clear message that continued failure to correct conditions identified by audits which are likely to cause improper payments, fraud, waste, or abuse is unacceptable and will result in sanctions.

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

200.511 Audit findings follow-up

- Auditee is responsible for follow-up and corrective action on ALL audit findings
- Prepare a summary schedule of prior audit findings
 - Corrected
 - Not corrected or partially corrected
 - No longer valid or do not warrant further action
- Prepare a corrective action plan for current year audit findings
 - Responsible official
 - Corrective actions planned
 - Anticipated completion date
 - If Disagree – provide an explanation with specific reasons

Uniform Guidance – Cognizant Agency Responsibilities

200.513 Responsibilities

- Follow-up on audit findings to ensure that the recipient takes appropriate and timely corrective action. As part of audit follow-up, the Federal awarding agency must:
 - (i) Issue a management decision
 - (ii) Monitor the recipient taking appropriate and timely corrective action
 - (iii) Use cooperative audit resolution mechanisms
 - (iv) Develop a baseline, metrics, and targets to track, over time, the effectiveness of the Federal agency's process to follow-up on audit findings and on the effectiveness of Single Audits in improving non-Federal entity accountability and their use by Federal awarding agencies in making award decisions.

Auditor Responsibilities for Audit Follow-Up

- Design audit program to test actions taken by responsible officials in response to the audit's identified deficiencies and recommendations; i.e., ensure reported deficiencies are corrected.
- Select a sample from the resolved/closed recommendations for testing.
- During follow-up, the auditor must determine whether:
 - Auditee has taken the corrective actions recommended in previous audits
 - Action taken corrects the identified deficiencies
 - Action taken produces non-monetary improvements or achieves agreed-to monetary benefits
 - Auditee demonstrates that the audit findings and recommendations were either invalid or no longer warrant management action



Audit recommendations do not produce the desired outcomes unless they are implemented

Status

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
1	<i>The Capital Improvement Program Budget Process Needs Improvement.</i>					
	A. Management develop realistic budgets for projects included in the CIP. The budget developed should be based on an estimate supported by calculations and supporting documentation retained. The budget should reflect the anticipated expenditures and resources for the given time frame.			✓		
	B. For each subsequent year of a project's implementation, the project status be evaluated and required updates be reflected in the CIP budget and resource section. Changes should be reflected in the CIP Summary of Changes.	✓				
	C. Internal controls and procedures be put into place to prevent the issues noted.			✓		
	D. Management conduct a due diligence review of the budgets for current Penny for Pinellas capital projects.	✓				
2	<i>Risks Associated With Deferring Projects Are Not Adequately Disclosed To The Board Of County Commissioners.</i>					
	Management review the budgeting procedures and internal controls for capital projects funded by the Penny for Pinellas. The budgeting process should include, but not be limited to: <ul style="list-style-type: none"> • Required documentation for the initial project budget. • A required reconciliation of significant changes 			✓		

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Questions/ Comments

