

PORT OF SEATTLE
MEMORANDUM

DATE: November 1, 2011
TO: Audit Committee
FROM: Joyce Kirangi, Internal Audit Director
SUBJECT: Peer Review Briefing

Audit Committee,

Professional standards for conducting audits in government have been promulgated by the comptroller general of the United States and published in Government Auditing Standards, sometimes referred to as the "Yellow Book." Generally Accepted Government Auditing Standards (GAGAS) help ensure that government auditors maintain competence, integrity, objectivity, and independence in planning, conducting, and reporting their work. Auditors enhance their credibility by following standards so their work can lead to improved government management, decision making, and oversight.

One requirement of GAGAS is that audit organizations receive an external peer review once every three years.

To quote from the published 2007 GAGAS:

"3.50 Each audit organization performing audits or attestation engagements in accordance with GAGAS must:

- a. establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and*
- b. have an external peer review at least once every 3 years."*

The Association of Local Government Auditors (ALGA) has developed a program to assist local government auditors in meeting this peer review requirement. This program has been in place since 1991. The objective of a peer review is to determine whether an internal audit's internal quality control system is in place and operating effectively as intended. The review team also provides assurance that the established quality control policies and procedures and applicable auditing standards are being followed.

Scope of ALGA Review:

During the course of the review, the review team will have full access to Internal Audit policies and procedures, personnel files, audit reports, supporting working papers, documents relating to non-audit services, and any other reports, correspondence, files, documents deemed pertinent by the review team. Internal Audit staff or members of the Audit Committee will also be available for interview by the ALGA review team as needed.

The ALGA peer review program and checklist have a broad discussion and expectations. The team will review Internal Audit department's quality control system, policies, and procedures over the following key areas:

- Auditor's Independence
 - Organizational independence
 - External impairments
- Professional Judgment
- Competence
 - Staff recruitment, hiring, continuous development
 - Staff assignments
 - Technical knowledge, skills, and experience
 - Continuing Professional Education (CPE)
- Quality Control System
 - Policies and procedures – IA operating polies and procedures
 - Monitoring
 - External peer review
- Planning
 - Work documentation to define audit objective, scope and methodology to provide reasonable assurance.
 - Adequacy of planning as it relates to the:
 - Nature of the program
 - Internal controls
 - Information system controls
 - Potential Fraud and Abuse
 - Results of previous audits
 - Identification of potential criteria and sources of evidence
 - Determination of the type and amount of adequate and sufficient evidence
 - Extension of audit procedures in the present of potential fraud and abuse indicators
 - Assignment of appropriately skilled staff
 - Communication to management and those charged with governance
 - Audit plan preparation
- Audit Supervision
- Evidence
 - Sufficient and appropriate evidence to provide reasonable basis for findings and conclusions
- Documentation
 - Documentation related to planning, conducting and reporting
 - Policies and procedures related to custody, retention, retrieval and sharing.
- Reporting
 - Issue report and make the report available
 - Describe clearly in an unbiased manner the objectives, scope, and methodology.
 - Present sufficient and appropriate evidence to support the findings and conclusions
 - Report likely fraud, illegal acts, significant violations of contracts or grant agreements, or significant abuse.
 - Report conclusions based on objectives and findings

- Recommend actions to correct identified problems
- Cite compliance with GAGAS when applicable
- Include a management comment, if applicable
- Submit report to those charged with governance, appropriate officials, and appropriate oversight bodies

At the completion of the peer review, the review team will prepare a signed report and a letter to management with their conclusions, and if appropriate, exit with the Audit Committee. The report includes the scope of the review, an independent opinion on whether the system of quality control was adequate and being complied with, the professional standards to which the organization is being held, and if applicable a management letter describing any findings and recommendations.

ALGA has completed over 300 peer reviews since 1991 for various government organizations, including cities, counties, community colleges, metropolitan transit authorities, airports, school districts, utilities, and more. Those organizations include governments in the region such as the City of Seattle and Snohomish County.

ALGA has a program that it uses to conduct the peer review, and the program has been acknowledged by U.S. Government Accountability Office (GAO) which issues the GAGAS. The review process is independent and objective. Neither the Internal Audit staff nor the Audit Committee will control the review process.

Internal Audit has taken several steps in preparing for a peer review by ALGA, including having implemented an automated audit documentation system (i.e., TeamMate) and refining a system of quality control. Additionally Internal Audit management has trained to undergo a peer review based on the ALGA program.

The of Port of Seattle Internal Audit policies/procedures, practices and systems are aligned with the Generally Accepted Government Auditing Standards (GAGAS). As a result, it makes sense that the review team that conducts our External Peer Review be familiar with GAGAS. The Association of Local Government Auditors (ALGA) is comprised of peer auditors from various local governments. ALGA has been in place for many years and has a well-recognized peer review program.

There is no charge for the peer review service. However, the Port would be required to pay for the out-of-pocket (e.g., travel and lodging) expenses of the ALGA review team.