

Peer Review: What Are Your Colleagues Saying?



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- Contextual Background
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Contextual Background

- “No one should evaluate an IG but God.”
 - Paul Light’s *Monitoring Government: Inspectors General and the Search for Accountability*
- Benefits and Costs Associated with the Peer Review Process
 - “Managing Partners’ Perceptions of Peer Review” – McCabe, Luzzi, and Brennan

“Managing Partners’ Perceptions of Peer Review” – McCabe, Luzi, and Brennan

- Eleven (11) Benefits
 - Provided impetus to comply with professional pronouncements;
 - Increased confidence in our practices and procedures
 - Improved firm’s quality control
 - Improved position in CPA community
 - Enhanced ability to attract top quality employees
 - Improved profits

“Managing Partners’ Perceptions of Peer Review” – McCabe, Luzi, and Brennan

- Five (5) Costs
 - Amount of time spent on peer review related matters
 - Having to abide by the AICPA Division’s standards caused efficiency reductions
 - Costs of the reviews, membership fees, etc. have been significant
 - Concern about passing the first peer review
 - Having to abide by AICPA Division standards reduced our sense of freedom

Methodology

- Attempted to use just AIGAs
- Interviewed 11 individuals from 9 OIGs
- 6 PCIE and 3 ECIE
- 7 Federal Audit Executives Were Used in the dissertation
- Interviewed participants using a questionnaire that solicited experiences (good and bad) from the perspective of a peer review performer and peer review recipient

Methodology

- Department of Agriculture
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Homeland Security
- Department of Labor
- Corporation for Public Broadcasting
- Board of Governors of the Federal Reserve System
- Securities and Exchange Commission

What Did Your Federal Audit Executives Say? – Benefits

- “Peer reviewers could more easily identify problems that were not clear to the peer review recipient.”
- “A negative opinion would dearly cost the receiving organization in prestige and image” ... “you don’t want others to know that (the audit function) issued reports that were not produced under generally accepted auditing standards.”

What Did Your Federal Audit Executives Say? – Benefits

- Peer reviews provided “opportunities to see how other office performed their audits” ... “worked as an organization ... assured that reports were factual and accurate.”
- Peer reviews “re-enforced auditing standards, re-enforced responsibilities to the profession, re-enforced values, re-enforced the credibility of OIGs.”

What Did Your Federal Audit Executives Say? – Benefits

- Peer reviewers' standards are enhanced by the knowledge that come from “examining the policies and procedures of other offices and questioning peer reviewed offices on how it may have come to its perspective on auditing standards.”
- Peer reviews provide “opportunities to ‘self-police’ which is a much better and more constructive process than receiving oversight from outside the OIG community.”

What Did Your Federal Audit Executives Say? - Benefits

- Peer review performer and peer review recipient “could interpret the same standard as requiring different methods or operational procedures.” (Flexibility to interpret standards)
- Peer review procedures and reports were developed around the ‘important’ organizational internal quality controls.

What Did Your Federal Audit Executives Say? - Benefits

- “Peer reviews identified training required by GAO’s Yellow Book standards” that had not been taken.”
- “(P)eer reviews identified holes in the peer reviewed’s policies and procedures.”

What Did Your Federal Audit Executives Say? - Benefits

- “(R)evIEWS forced the reviewed agency to step back and look at what it had been doing in the way of internal quality controls to produce quality audit products.”
- “Visiting teams ‘helped’ the peer reviewed function to reemphasize the audit office’s functional objectives.”

What Did Your Federal Audit Executives Say? – Costs

- Peer reviews were “mildly disruptive to the audit function’s work plan.”
- “Annual audit programs had to be adjusted to allow for peer reviews.”
- “Some of the better qualified and more experience auditors (have been lost) to the peer review process.”

What Did Your Federal Audit Executives Say? - Costs

- Peer review reports contained “gotcha’ findings” that were not significant or helpful.
- “(O)rganization’s policies and procedures were used to ‘beat up’ on the peer reviewed organization.”

What Did Your Federal Audit Executives Say? – Costs

- Because of the negative impact of a bad peer review, organizations have learned to “game the system”.
- Peer reviews were “focused on determining whether or not the organization complied with standards while little to no focus was placed on the ‘effectiveness and efficiency with which the audit function performed.’”

What Did Your Federal Audit Executives Say? – Costs

- The PCIE Peer Review Guide was “onerous” and stifled the judgment of the team when the team had to address particular audit procedural issues.”
- The peer review guide appendices promoted a “checklist mentality.”

What Did Your Federal Audit Executives Say? – Costs

- It was “disincentive for both performer and reviewer to produce peer review findings because of the time to defend the report and the time to correct peer review findings.”
- “(S)ubjectivity was a difficult part of the process. How the peer review team and how the peer reviewed organization interpret auditing standards has been a divide.”

What Did Your Federal Audit Executives Say? - Costs

- Federal audit executive has had to deal with teams that, collectively, did not bring to the peer review good thinking and good judgment. (Executive 3)
- Federal audit executive has had to deal with peer review teams who had the facts wrong and it was “difficult to have the issues re-considered (and) it took months and additional work” to resolve issues. (Executive 3)

What Did Your Federal Audit Executives Say? – Costs

“(O)verly focused reviewers,” when not finding major internal quality control problems, looked for and reported on ‘knits and knats’.” Federal audit executive has had to deal with peer review teams led by a non-auditor who had very little experience in auditing and was a “nitpicker”. (Executive 3)

Concluding Remarks

- Peer review program meets its stated objectives:
 - 1) to assess and render an opinion on the internal quality control processes of the federal offices of inspector general
 - 2) to be a positive and constructive process.
- It works well as a self-regulating function that provides an impetus to comply with GAGAS.
- It increased confidence that internal quality controls were performing as they should by the cross-feeding of ideas.

Concluding Remarks

- To a lesser degree, peer review improves the audit function's morale and position in the inspector general's community.
- Public sector and private sector audit executives agreed that the amount of time related to peer reviews was substantial. However, federal audit executives believed adequate planning went a long way towards mitigating the time issue.
- Federal audit executives agreed that peer review teams that were "nit-pickey" caused efficiency reductions and slightly reduced audit operations' sense of freedom.

Concluding Remarks

- More attention to the attitudinal qualities of individuals assigned to conduct peer reviews
- Better technical training of peer review performers

Concluding Remarks

- Consider the establishment of professional peer reviewers, similar to the AICPA's practice
- Consider developing and including subjective questions to evaluate audit program effectiveness and efficiency