

**BY ORDER OF THE COMMANDER
AIR FORCE AUDIT AGENCY**

**AIR FORCE AUDIT AGENCY
INSTRUCTION 65-105**



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Financial Management

INTERNAL QUALITY CONTROL PROGRAM

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This instruction, which implements Air Force Audit Agency (AFAA) Policy Directive 65-1, *Internal Auditing*, paragraph 4, contains procedures and responsibilities for administering the AFAA Internal Quality Control Program. This instruction is mandatory for all AFAA elements when performing their specified duties and responsibilities. Requests for waivers to this instruction must be submitted to HQ AFAA/DOV in writing. Field activities may not supplement this publication. This instruction does not apply to employees assigned to Air Force Reserve Units, the Air National Guard, or the Civil Air Patrol. All AFAA elements are encouraged to submit suggested changes to this instruction, through appropriate channels, to HQ AFAA/DOV using AF Form 847, *Recommendation for Change of Publication*. HQ AFAA/DO may approve or issue instructions to implement or supplement the procedures contained herein. Ensure that all records created as a result of processes prescribed in this publication are maintained in accordance with Air Force Manual (AFMAN) 33-363, *Management of Records*, and disposed of in accordance with the Air Force Records Disposition Schedule (RDS) located at <https://www.my.af.mil/gcss-af61a/afrims/afrims/>. The use of the name or mark of any specific manufacturer, commercial product, commodity, or service in this publication does not imply endorsement by the Air Force.

SUMMARY OF CHANGES

This document has been substantially revised and must be completely reviewed. Major changes in this revision: provide expanded discussion of the components for the internal quality control program (paragraph **3.**); decrease the types of reviews from four to three (paragraph **4.**); limit the use of quality assurance reviews to centrally directed audit (CDA) projects (paragraph **4.1.**); establish new processes for installation-level reviews (paragraph **4.2.**); and classify all other

internal quality control reviews as operational reviews (paragraph 4.3). This revision also includes new procedures for responding to review results (paragraph 6.4); redefines responsibilities and procedures for HQ AFAA/DOV (paragraph 7.); establishes reporting results in e-mail or memorandum format (paragraph 8.); and deletes the requirement for independent referencing of written results issued for internal quality control reviews. Finally, this publication establishes an annual attestation to independence with the requirement to report independence impairments on an exception basis before performing or assisting on projects (paragraph 10.).

1. Program Overview. Government auditing standards require audit organizations to implement an appropriate internal quality control system. HQ AFAA/DOV (Policy, Oversight, and Systems Division) is responsible for implementing the AFAA internal quality control program. However, all AFAA activities share responsibility for the success of the program.

2. Purpose. The internal quality control program provides AFAA management reasonable assurance that its operations adhere to:

2.1. Applicable government auditing standards promulgated by the Comptroller General of the United States in its publication *Government Auditing Standards* (The Yellow Book).

2.2. Auditing policies and procedures contained in AFAA Policy Directive 65-1; AFAA Instruction (AFAAI) 65-101, *Installation-Level Audit Procedures*; AFAAI 65-102, *Centrally Directed Audits*; and AFAAI 65-103, *Audit Management and Administration*.

3. Internal Quality Control Program Components. The AFAA internal quality control program consists of four components: supervision, project quality control procedures, internal quality control reviews, and external quality control reviews.

3.1. Supervision. Proper supervision is the most important component of the quality assurance program because all projects must undergo supervision from start to cancellation, termination, or completion. Supervision is a continuing process of review to make sure assigned auditors plan, control, direct, conduct, and complete their audit projects in accordance with government auditing standards and AFAA policies and procedures. All supervisors will reference AFAAI 65-103, which contains selected audit procedures and responsibilities for accomplishing installation-level audits and CDAs and establishes policies for the management and administration of AFAA offices. Installation-level supervisors will review audit projects in accordance with AFAAI 65-101 and CDA supervisors will review audit projects in accordance with AFAAI 65102. Supervisors must continuously review audit work, taking appropriate action to ensure auditors maintain a high degree of quality and professionalism while complying with government auditing standards and AFAA guidance. Compliance with government auditing standards requires attention in two primary areas.

3.1.1. Project Supervision. Supervisors assign audit staff to a project when they collectively possess adequate professional competence for the tasks required. First-level supervisors must timely review working papers at various milestones (i.e., research, planning, program preparation, application, summarization, and report writing) and document project reviews with CCH® TeamMate (hereafter referred to as TeamMate) coaching notes. Second-level supervisors must carefully review monthly Project Plan Reports to monitor team progress in meeting established milestones. In addition, audit managers must monitor CDA application-site activities and schedule audit conferences

and site visits as needed to help field auditors understand and accomplish audit objectives (AFAAI 65-102, Chapter 1).

3.1.2. Auditor Supervision. Proper auditor supervision involves providing sufficient guidance and direction to assigned staff to address audit objectives and follow applicable standards, while staying informed of significant problems encountered and providing effective on-the-job training. Accordingly, supervisors ensure each auditor performing work under government auditing standards completes all continuing professional education requirements.

3.2. Project Quality Control Procedures. Project quality control procedures are AFAA internal control processes established to ensure auditors fully comply with government auditing standards, when properly implemented.

3.2.1. Independent Referencer Certification Package. The independent referencer certification package documents implementation of project quality control procedures designed to ensure audit results are accurate and supportable and reports objectively and accurately communicate the audit results.

3.2.1.1. The independent referencer is an auditor not associated with the project that reviews a hyperlinked (referenced) draft report (and final report, if necessary) and verifies the information contained in the report is accurate and supported in the working papers. The independent referencer also verifies the supervisor has reviewed individual working papers. If the supervisor has not performed all necessary working paper reviews, the independent referencer must return the project to the audit team to have working papers reviewed and approved prior to continuing and completing the independent referencing.

3.2.1.2. The independent referencer documents the review results using TeamMate coaching notes, which are subsequently consolidated in the Independent Referencer Review Record.

3.2.1.3. The independent referencer, auditor/audit manager, and team chief/program manager then use TeamMate coaching notes to certify that the project has been referenced in accordance with requirements established in AFAAI 65-101, AFAAI 65-102, and AFAAI 65-103; all suggestions and comments were satisfactorily resolved; and source data included in the working papers properly support the contents of the draft report.

3.2.1.4. For CDAs, the audit manager will assure receipt of written statements from each application-site team chief certifying the draft report and CDAP Response Sheet submissions were independently referenced and retain all certification statements in the CDA working paper files (AFAAI 65-102, Chapter 4).

3.2.2. Checklists. The Operations Directorate compiled checklists for audit teams to use as a tool to fully comply with government auditing standards and AFAA policies and procedures. The checklists are located on the AFAA Home Community of Practice (CoP) (Audit Resources menu, Templates & Files tab). There are separate checklists designed for CDA and installation-level audit projects.

3.2.2.1. CDA Project Checklists. The CDA Templates folder contains checklists for (1) CDA Application Site Visit, (2) Draft/Final Report Review, and (3) Working Paper Review.

3.2.2.2. Installation-Level Project Checklists. The Local Audit Templates folder contains the (1) Report of Audit Administrative Checklist, (2) Report of Audit Independent Referencer Checklist, (3) Local Report Review Checklist, and (4) Working Paper Review Checklist.

3.2.3. Second-Level Supervisory Reviews. Office chiefs and associate directors review and evaluate a non-statistical sample of audit working paper files to determine if they meet established standards and adequately support findings.

3.2.3.1. In accordance with AFAAI 65-101, Chapter 1, each office chief will review working papers in accordance with directorate policy. If the directorate does not specify, the minimum requirement is to review one set of audit working papers per team every 6 months.

3.2.3.2. In accordance with AFAAI 65-102, Chapter 1, each associate director will review audit working papers in accordance with directorate policy. If the directorate does not specify a policy, the minimum requirement is to review one set of working papers per branch annually.

3.2.3.3. Second-level supervisors may use the appropriate Working Paper Review Checklist on the AFAA Home CoP or a similar locally developed checklist to document discrepancies and corrective actions taken. Second-level supervisory reviews should evaluate all aspects of a project, from planning through cancellation, termination or issuance of the final report.

3.3. Internal Quality Control Reviews. HQ AFAA/DOV program managers periodically perform internal quality control reviews to assess compliance with government auditing standards and AFAA policies and procedures and ensure AFAA organizational elements have fully implemented standards, policies, and procedures in a competent and efficient manner.

3.4. External Quality Control Reviews. The Department of Defense Inspector General and the Government Accountability Office, among others, can conduct external quality control reviews of the AFAA. The Agency also undergoes a peer review every 3 years as discussed in the Yellow Book, Chapter 3.

4. Types of Reviews. The AFAA internal quality control program consists of three review types: CDA Quality Assurance Reviews, Installation Project Reviews, and Operational Reviews.

4.1. CDA Quality Assurance Reviews. Quality assurance reviews evaluate selected CDA projects to determine whether AFAA activities meet government auditing standards and comply with AFAA policies and procedures. Quality assurance reviews evaluate all aspects of the selected audits, from planning through issuance of the final report.

4.1.1. HQ AFAA/DOV program managers use checklists developed specifically for conducting quality assurance reviews. The checklists are based on the guide for conducting quality control reviews developed by the President's Council on Integrity and

Efficiency (PCIE) for Inspector General Peer Reviews. The checklists are available on the AFAA Home CoP (Audit Resources menu, Operational Review Checklists tab).

4.1.2. HQ AFAA/DOV may use experienced field auditors and audit managers to augment review teams.

4.2. Installation Project Reviews. Installation project reviews consist of three building blocks to evaluate whether installation-level audits meet government auditing standards and comply with AFAA policies and procedures.

4.2.1. Quarterly Project Reviews. HQ AFAA/DOV program managers select a sample from all local projects completed in the previous quarter and perform a review using checklists to evaluate the installation audit process.

4.2.2. Quarterly Functional Reviews. When time permits, HQ AFAA/DOV program managers may select a sample of projects completed within a quarter and perform a review of high risk functional areas identified by peer review or AFAA management.

4.2.3. Annual Installation Summary Results. HQ AFAA/DOV summarizes the results of the quarterly project reviews and any quarterly functional reviews performed during the year. HQ AFAA/DOV evaluates whether discrepancies were isolated occurrences or systemic problems requiring additional corrective actions at the region or Agency level to fully comply with government auditing standards and AFAA guidance.

4.3. Operational Reviews. Operational reviews evaluate all aspects of AFAA operations and cross organizational lines. The review subjects are selected from internal review ideas submitted from all AFAA directorates. These reviews evaluate AFAA policies and procedures in specific audit-related areas or determine if AFAA internal processes are sufficient in high-risk, non-audit-related areas. These reviews cover AFAA responsibilities in carrying out the requirements of the Federal Managers' Financial Integrity Act and Internal Management Control program. Also included are evaluations of Auditor General special interest items or programs.

5. Annual Plan. HQ AFAA/DOV will develop an annual plan that describes the internal quality control reviews planned for the next year. HQ AFAA/DOV will:

5.1. Review and evaluate the subjects suggested for inclusion in the annual plan.

5.2. Establish objectives and identify resource requirements for each project included in the plan.

5.3. Brief the annual plan to SAF/AG prior to posting and advise SAF/AG semiannually on the status of the annual plan. Post the approved plan on the AFAA Home CoP (Audit Resources menu, Operational Review Checklists tab).

5.4. Coordinate with HQ AFAA/DO on all deviations from the approved plan.

6. AFAA Management Responsibilities. All AFAA management levels will support the Agency's internal quality control program by:

6.1. Providing review teams adequate working space and supplies, as needed, to complete review assignments.

6.2. Providing field auditors and audit managers knowledgeable of government auditing standards and AFAA policies and procedures to augment quality control review teams (such as peer review teams), when requested.

6.3. Participating in discussions, as required, with team members during the reviews (e.g., in-briefings, validation of results, and out-briefings).

6.4. Submitting requested responses to HQ AFAA/DOV review results within the suspense period.

6.4.1. Numbered Memorandum Reports. Management will normally respond to CDA Quality Assurance Reviews, Annual Installation Summary Results, and Operational Reviews within 15 business days via memorandum. However, e-mails provided to HQ AFAA/DOV throughout the review process detailing concurrence with review results and corrective actions planned or taken may prove sufficient as management's written response.

6.4.1.1. The written response for Numbered Memorandum Reports will include a statement of concurrence or nonconcurrence with each review result, describe actions taken or planned for each recommended corrective action, and provide actual or estimated completion dates.

6.4.1.2. If additional time is needed to prepare a response, request an extension to the due date via e-mail. HQ AFAA/DOV may allow up to 10 additional business days if circumstances warrant (i.e., personnel responsible for responses unavailable due to training, TDY, pre-scheduled annual leave, or illness).

6.4.2. Quarterly Project Reviews. Management will respond to HQ AFAA/DOV within 10 business days (e-mailed responses are acceptable) on all installation-level quarterly project reviews.

6.4.3. Quarterly Functional Reviews. Management will respond to HQ AFAA/DOV within 15 business days (e-mail responses are acceptable).

6.5. Taking responsive actions to correct reported deficiencies and reporting quarterly to HQ AFAA/DOV on the status of all open corrective actions.

6.6. Participating, when requested, in developing the annual internal quality control review plan (paragraph 5.).

7. HQ AFAA/DOV Responsibilities. HQ AFAA/DOV will select internal quality control review projects from the annual plan and notify the applicable Assistant Auditors General (AAGs) when reviews will start. For each review, the HQ AFAA/DOV program manager will:

7.1. Perform the review and report the results in compliance with AFAA internal quality control program policies and procedures. In addition, the review team members will sign annual independence statements and inform the HQ AFAA/DOV chief of any potential independence impairment should one arise for any specific review.

7.2. Prepare the announcement memorandum for all reviews except quarterly project reviews. The memorandum will contain the review objectives, application sites, and timeframes. Quarterly installation project reviews will be announced via e-mail.

7.3. Conduct each review using a written program. For CDA quality assurance reviews, use the standard HQ AFAA/DOV-developed checklists (paragraph 4.1.1). For installation-level project reviews, use the standard installation-level review checklists (paragraph 4.2.1). For all other reviews, conduct research as needed and develop a program to achieve the review objectives.

7.3.1. The program will include a series of steps to achieve each review objective. Also, when applicable, the program will include steps to evaluate compliance with AFAA independence policies and procedures.

7.3.2. The HQ AFAA/DOV Chief will review and approve all program manager-developed review programs.

7.4. Prepare working papers in accordance with AFAA working paper policies and procedures (AFAAI 65-103, Chapter 6). The HQ AFAA/DOV Chief will:

7.4.1. Review the working papers and use TeamMate coaching notes to indicate the review dates and record questions, taskings, and overall comments (both favorable and critical).

7.4.2. Review and sign-off on each program manager-prepared working paper.

7.5. Coordinate with Operating Personnel.

7.5.1. Planning the Review. After issuing the announcement memorandum, determine if management requires an inbrief to further clarify the purpose, scope, or duration of the review; what projects will be reviewed; and which personnel will be contacted. Most project information can be accessed electronically and will not require a site visit; therefore, inbriefs can be conducted via telephone or video-teleconferencing.

7.5.2. Review Conclusion. Discuss review results with appropriate management officials (team chiefs, office chiefs, region chiefs, audit managers, program managers, and associate directors).

7.5.2.1. Brief AAGs, as required, on significant issues affecting their activities identified during the review. Discuss installation-level project reviews with region, office, and team personnel.

7.5.2.2. For CDA quality assurance reviews, provide the audit team a copy of the completed checklists.

7.5.2.3. For installation-level quarterly project reviews, provide the audit team a copy of the completed checklist(s).

7.6. Summarize and Analyze Results. Cross-reference summary results to checklists and supporting working papers.

7.7. Prepare and process the review results to management (paragraph 8.).

7.8. Prepare and submit final numbered memorandum reports to HQ AFAA/DO for signature and release (paragraph 8.1), when required.

7.9. Retain working papers according to the Air Force Records Information Management System (AFRIMS) Table 65-03, *Auditing*. Rule 02.00 establishes disposition of information 3 fiscal years after report issue date. However, Rule 7 applies when information related to

accounts or records for which the report disclosed deficiencies involving monies owed to the U.S. Government, suspected fraud, falsification of documents, or criminal conduct and requires 6 years retention.

8. Reporting Review Results. HQ AFAA/DOV will issue review results via e-mail or memorandum format detailing the results depending on the type of review performed.

8.1. Numbered Memorandum Reports. HQ AFAA/DOV will issue numbered memorandum reports for CDA Quality Assurance Reviews, Annual Installation Summary Results, and Operational Reviews. HQ AFAA/DOV program managers will cross-reference draft memorandum reports to supporting working papers. HQ AFAA/DOV will issue a draft memorandum report requesting applicable AAGs provide comments identifying corrective actions taken or planned within 15 business days. The final numbered memorandum report format will contain paragraphs for the introduction, objectives, scope, conclusions, evaluation of management comments, and HQ AFAA/DOV point of contact information.

8.1.1. Draft Numbered Memorandum Report Processing. HQ AFAA/DOV will issue a draft report to the applicable directorate/division requesting comments on concurrence with review results and corrective actions taken or planned.

8.1.2. Final Numbered Memorandum Report Processing. HQ AFAA/DOV will:

8.1.2.1. Include determination of corrective action responsiveness in the final memorandum report.

8.1.2.2. Distribute the final memorandum report to SAF/AG and all AFAA organizational elements. Place a copy of the report on the AFAA home CoP.

8.2. Quarterly Project Reviews. HQ AFAA/DOV will e-mail the results (i.e., checklists) of the quarterly installation project reviews to the applicable audit team(s) for validation and comment. The office chief and team chief will annotate their responses on the checklists in the "Audit Team Reviewed Response" block explaining corrective actions planned or taken to address the deficiencies identified. HQ AFAA/DOV will also provide a summary of the quarterly review results to the applicable regions.

8.3. Quarterly Functional Review Memorandums. HQ AFAA/DOV program managers will cross-reference draft memorandums to supporting working papers. HQ AFAA/DOV will issue draft memorandums requesting applicable region chiefs provide comments identifying corrective actions taken or planned within 15 business days. HQ AFAA/DOV will issue a final standard format memorandum to include the subject, introduction, objectives, scope, conclusions, evaluation of corrective actions, HQ AFAA/DOV contact information, and an attachment listing projects reviewed.

9. External Reviews. HQ AFAA/DOV will:

9.1. Perform reviews of external audit organizations (e.g., peer reviews) as directed by SAF/AG and retain associated working papers and reports for at least 3 years.

9.2. Act as the point of contact for external quality control reviews of the AFAA. In this capacity, HQ AFAA/DOV will arrange all entrance and exit conferences, coordinate external team visits, obtain requested information, and prepare or coordinate AFAA replies to draft reports.

10. Independence. As part of the AFAA internal quality control system, all AFAA managers and supervisors must ensure audit team members complete their assigned audits free from external and personal impairments to independence. AFAA personnel performing or assisting on an audit or internal quality control assignment will complete an AFAA Independence Statement at the beginning of each fiscal year. On an exception basis, audit personnel will document and report any independence impairments throughout the year before performing or assisting on projects.

11. Prescribed and Adopted Forms.

11.1. Prescribed Forms:

No forms prescribed.

11.2. Adopted Forms:

AF Form 847, *Recommendation for Change of Publication*

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