

Army Regulation 11-7

Army Programs

Army Internal Review Program

**Headquarters
Department of the Army
Washington, DC
22 June 2011**

UNCLASSIFIED

SUMMARY of CHANGE

AR 11-7

Army Internal Review Program

This major revision, dated 22 June 2011--

- o Requires the Headquarters, Department of the Army Internal Review office to collect peer review results and monitor for negative trends (para 1-4b(5)).
- o Requires the Headquarters, Department of the Army Internal Review office to identify topics for the annual Internal Review Armywide reviews and assign lead responsibilities (para 1-4b(9)).
- o Requires commanders to ensure that all Internal Review director, chief and evaluator positions when filled, meet the requirements for the 510 Professional Series, Accountant (Internal Review Evaluator) (para 1-4c(3)).
- o Requires commanders to ensure that directors, division chiefs, and subordinate activities provide input for the Internal Review annual plan (para 1-4c(5)).
- o Requires commanders to ensure the Internal Review Program's annual plan is reviewed, approved and signed prior to the covered period (para 1-4c(6)).
- o Requires commanders to ensure that directors, division chiefs, and subordinate activities fully cooperate with all Internal Review Program reviews and provide timely responses to all inquiries supporting Internal Review Program reviews in accordance with DODI 7600.2 (para 1-4c(10)).
- o Requires commanders to ensure the internal review is included as a topic in any staff officer orientation training (para 1-4c(13)).
- o Requires Internal Review Directors and Chiefs to provide a signed copy of the Internal Review annual plan to the Organizational Inspection Program officer (para 1-4d(6)).
- o Requires Internal Review Directors and Chiefs to ensure all data obtained during a review is safeguarded or destroyed as required (para 1-4d(19)).
- o Provides additional information on training and continuing professional education requirements (para 2-3a).
- o Requires that all scope restrictions be clearly documented in the final report with an explanation of the impact on the evaluator's opinion (para 2-4b).
- o Adds a paragraph on Internal Review's organizational interfaces. Specific topics are Lean Six Sigma, Installation Status Report submissions, and Organizational Inspection Programs (para 2-10).
- o Makes administrative changes (throughout).

Effective 22 July 2011

Army Programs

Army Internal Review Program

By Order of the Secretary of the Army:

MARTIN E. DEMPSEY
General, United States Army
Chief of Staff

Official:


JOYCE E. MORROW
Administrative Assistant to the
Secretary of the Army

this approval authority, in writing, to a division chief within the proponent agency or its direct reporting unit or field operating agency, in the grade of colonel or the civilian equivalent. Activities may request a waiver to this regulation by providing justification that includes a full analysis of the expected benefits and must include formal review by the activity's senior legal officer. All waiver requests will be endorsed by the commander or senior leader of the requesting activity and forwarded through their higher headquarters to the policy proponent. Refer to AR 25-30 for specific guidance.

Army Pentagon, Washington, DC 20310-0109.

Committee Continuance Approval.

The Department of the Army committee management official concurs in the establishment and/or continuance of the committee(s) outlined herein. AR 15-1 requires the proponent to justify establishing/continuing committee(s), coordinate draft publications, and coordinate changes in committee status with the U.S. Army Resources and Programs Agency, Department of the Army Committee Management Office (AARP-Z), 105 Army Pentagon, Washington, DC 20310-0105. Further, if it is determined that an established "group" identified within this regulation, later takes on the characteristics of a committee, as found in the AR 15-1, then the proponent will follow all AR 15-1 requirements for establishing and continuing the group as a committee.

Distribution. This publication is available in electronic media only and is intended for command levels C, D, and E for the active Army, the Army National Guard/Army National Guard of the United States, and the U.S. Army Reserve.

History. This publication is a major revision.

Summary. This regulation contains policies for establishing and operating an internal review activity within an Army organization.

Applicability. This regulation applies to the active Army, the Army National Guard/Army National Guard of the United States, and the U.S. Army Reserve, unless otherwise stated.

Proponent and exception authority. The proponent of this regulation is the Assistant Secretary of the Army (Financial Management and Comptroller). The proponent has the authority to approve exceptions or waivers to this regulation that are consistent with controlling law and regulations. The proponent may delegate

Army internal control process. This regulation contains internal control provisions and identifies key internal controls that must be evaluated (see appendix B).

Supplementation. Supplementation of this regulation and establishment of command and local forms are prohibited without prior approval from the Assistant Secretary of the Army (Financial Management and Comptroller) (SAFM-FOI), 109 Army Pentagon, Washington, DC 20310-0109.

Suggested improvements. Users are invited to send comments and suggested improvements on DA Form 2028 (Recommended Changes to Publications and Blank Forms) directly to the Assistant Secretary of the Army (Financial Management and Comptroller), SAFM-FOI, 109

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Glossary

Chapter 1 Introduction

1–1. Purpose

This regulation prescribes policies, roles, responsibilities, and standards for the Internal Review (IR) Program within the DA.

1–2. References

Required and related publications and prescribed and referenced forms are listed in appendix A.

1–3. Explanation of abbreviations and terms

Abbreviations and special terms used in this regulation are explained in the glossary.

1–4. Responsibilities

a. The Assistant Secretary of the Army (Financial Management & Comptroller) (ASA(FM&C)) has HQDA Staff responsibility for the IR Program. The ASA(FM&C) will exercise this responsibility through the Deputy Assistant Secretary of the Army (Financial Operations) (DASA (FO)).

b. The DA IR director is responsible to the DASA (FO) for management of the IR Program and will—

- (1) Interpret Comptroller General of the United States, DOD, and DA policies and decisions as they relate to IR.
- (2) Develop IR policy and standards.
- (3) Develop, administer, and execute a comprehensive IR continuing professional training program.
- (4) Assist and support effective execution of IR programs at Army commands, Army service component commands, direct reporting units, Army staff agencies, and other organizations where IR offices are established.
- (5) Collect and monitor the results of peer reviews; identify any negative trends within these reviews; and develop any necessary programs, guidance, or training to address the negative trends within IRs.
- (6) Provide guidance and assistance to organizations reporting to HQDA.
- (7) Advise commanders and activity heads on maintaining adequately staffed IR offices with appropriate grade structures.
- (8) Establish and select members to the Internal Review Steering Group in accordance with the IR Steering Group Charter.

(9) Identify topics for annual IR Armywide reviews; assign lead responsibility for each review to one of the participating IR offices; and serve as the lead for all findings and/or recommendations with Armywide implications.

c. Commanders at all levels, heads of HQDA activities, and U.S. Property and Fiscal Officers (USPFOs) will—

- (1) Establish and adequately resource an IR program as part of the command and control process.
- (2) Ensure IR offices are organizationally aligned as independent offices, which are located outside the typical staff structure that reports directly to the commander, principal deputy commander, or chief of staff of installation/garrison, division, district, or separate activity. As an independent office, the IR office will not be aligned under another directorate or staff section. Ensure that state-level National Guard IR offices are organizationally aligned under and report to the USPFO, the independent federal official in each state, in accordance with National Guard Regulation 130–6.
- (3) Ensure that the IR director or chief and all assigned IR evaluator positions, are designated as and meet the requirements for 510 Professional Series, Accountant (IR Evaluator).
- (4) Establish and maintain an effective follow-up program and provide liaison services to both internal and external audit organizations such as the U.S. Army Audit Agency (USAAA), Department of the Army Inspector General (DAIG), Criminal Investigation Division Command (CIDC), Government Accountability Office (GAO), and the United States Department of Defense Office of the Inspector General (DODIG).
- (5) Ensure functional directors, division chiefs, and subordinate activities are given an opportunity to provide input for the IR annual plan.
- (6) Ensure the IR annual plan is developed and submitted for review and approval to the activity commander, deputy commander, Chief of Staff, or for National Guard Bureau (NGB) IR Offices, jointly by the State Adjutant General or USPFO for approval prior to the beginning of the period covered by the plan.
- (7) Adjudicate and resolve disagreements on IR report results and associated recommendations between IR, subordinate commanders, and functional directors.
- (8) Provide IR services to support U.S. Army activities that do not have IR capability.
- (9) Ensure IR evaluators are granted timely, unrestricted access (consistent with their security level) to all records, electronic and otherwise, needed in connection with a review, inquiry, or other IR service.
- (10) Ensure functional directors, division chiefs, and subordinate activities fully cooperate with all IR Program reviews and provide timely responses to all inquiries supporting IR Program reviews in accordance with DODI 7600.2.
- (11) Ensure that assigned IR personnel complete professional training or equivalent training taken to comply with

continuing professional education (CPE) requirements prescribed by this regulation. Where appropriate, have an additional skill identifier (ASI) awarded to military evaluators who are qualified as an auditor or accountant.

(12) Ensure that Army Special Access Programs are adequately prioritized and considered in the command's IR Plan. At least one member of the IR staff will be cleared for access to the command's Special Access Program.

(13) Ensure that an IR is included in any staff officer orientation training or briefs to ensure new members of the command understand IR's function and their availability to assist the new members in accomplishing their mission.

d. The IR director or chief will—

(1) Serve as the principal advisor to the commander on internal controls.

(2) Advise and assist the commander regarding audit activity being conducted by USAAA, GAO, DODIG, and other external oversight organizations.

(3) Direct, manage, and execute a full range of IR services prescribed in this regulation and consistent with the needs of their customers.

(4) Establish and maintain a Risk Assessment File in accordance with paragraph 2-7, below.

(5) Develop and annually update a flexible IR review plan identifying areas most relevant to the command. The Risk Assessment File discussed in paragraph 2-7, below and command staff input will be used in developing the annual plan. The annual plan must be developed, updated, and submitted for approval by the Commander, Deputy Commander, Chief of Staff, or for NGB IR Offices, jointly by the State Adjutant General or USFPO prior to implementation.

(6) Provide a copy of the signed IR annual plan to the Organizational Inspection Program (OIP) coordinator.

(7) Elevate through the chain of command to the IR proponent, results of reviews that have Armywide implications. Release of local review information must be in accordance with section 2-4*d*, below.

(8) When directed by HQDA, submit semiannual reports to HQDA through each respective Army command, Army service component command, or direct reporting unit.

(9) Establish an internal quality control program in accordance with this regulation which evaluates the quality and level of service provided by the IR organization and subordinate IR elements. The internal quality control program will include formal annual self-evaluations and an external review not less than once every 3 years. Reviews will evaluate organization and staffing, program management, review planning, review process, audit compliance and liaison, and consulting and other advisory services. Each review will also address the overall effectiveness of IR elements, to include customer satisfaction and value added to the local command. Ensure subordinate IR offices receive an external review at least once every 3 years; any Army IR headquarters office, or other external professional audit organization may accomplish the external review.

(10) Ensure IR services are delivered in accordance with—

(a) The requirements of this regulation.

(b) DOD policies.

(c) Comptroller General Standards for Internal Control in the Federal Government.

(d) Army polices outlined in this regulation.

(11) Provide technical advice, assistance, and consultation on internal controls to the commander and assessable unit managers within their organizations as necessary.

(12) During the normal course of reviews, evaluate the effectiveness of internal controls, the adequacy of internal control evaluations, and actions taken to correct material weaknesses.

(13) Ensure proper career development, including professional training programs, of all assigned IR personnel.

(14) Ensure that weaknesses identified through internal reviews, internal and external audits are considered during preparation of the commander's annual assurance statement in accordance with AR 11-2.

(15) If aligned at the headquarters of a reporting organization, review the organization's annual statement of assurance and provide the commander an assessment of its thoroughness and validity.

(16) Establish and maintain an audit recommendation tracking system and an effective follow-up system on both internal and external audit reports that supports the USAAA audit follow-up program as provided in AR 36-2.

(17) Within the tracking system established in paragraph 1-4*d*(16), above, track and follow-up on recommendations of internal reviews.

(18) Serve as the commander's principal official for liaison with internal and external audit organizations (GAO, DODIG, USAAA), including—

(a) Assisting command, in coordination with HQDA elements, with assessing audit objectives, sites, milestones, and other information on audits about to start or underway.

(b) Arranging entrance conferences, discussions, and exit conferences with both internal and external audit organizations and the appropriate organization officials.

(c) Providing administrative support to external audit organizations, when possible.

(d) Ensuring accurate, adequate, responsive, and coordinated comments are provided to "draft" audit findings and recommendations.

(19) Ensure that all data obtained during IR reviews is safeguarded or destroyed as required.

1–5. Staff relationships

The IR will be an integral part of the commander's personal staff and/or special staff management team that is functionally aligned as an independent office along with The Inspector General and other special staff elements and will work closely to achieve a complementary effort. The IR Director will be aligned as both a personal and special staff officer. As a member of the commander's personal staff, the IR Director will have direct access to the commander whenever required. At other times, the IR Director will function as a member of the special staff.

1–6. Internal review concept

a. The fundamental tenet of Army management philosophy is that commanders at all levels are responsible for the accomplishment of their missions and for effective stewardship of the resources provided to them for mission accomplishment. Commanders are responsible for compliance with laws, policies, procedures; achieving program objectives; and for the accuracy, propriety, legality, and reliability of their actions. In discharging their responsibility, commanders will use their IR capability and other facets of their internal control system to ensure the preservation and proper use of resources.

b. Internal reviews are based on statutory, regulatory, and command requirements; valid requests for services; and needs developed from risk assessments. The IR evaluators will—

- (1) Meet the stated objective of the review;
- (2) Provide assurance or conclusions predicated on an evaluation of documentation and data against objective criteria (for example, specific requirements or measures, or good business practices);
- (3) Provide management and those charged with governance and responsibility to oversee or initiate corrective action(s) on objective analysis that may improve a program's performance and operation, reduce costs, facilitate decisionmaking, and contribute to public accountability.

c. Review internal controls that are in place and evaluate command compliance and effectiveness of the internal controls.

d. Services provided by IRs include—

- (1) Review services.
- (2) Antideficiency Act Violation investigations.
- (3) Consulting and advisory services.
- (4) Liaison with internal and external audit organizations.
- (5) Follow-up.

Chapter 2 The Internal Review Program

2–1. Program objective

a. The IR is an independent, objective, assurance, and consulting activity within the command designed to add value and improve the command's operations. The objective of the Army's IR Program is to provide commanders and their staffs with a full range of professional internal review services that are timely, support local decision-makers and ensure effective stewardship.

b. The IR is a primary tool of the commander's system of command and control, designed to mitigate risk and increase assurance of the effectiveness and efficiency of command operations.

2–2. Staffing

a. Internal Review Program resourcing will be commensurate with assigned responsibilities. Along with the annual plan and risk assessment file, the inventory of assessable units established under the Army Managers' Internal Control Program identifies some of the potential workload of an IR organization and will be used to help identify manpower requirements.

b. The IR professional staff will be comprised only of qualified accountant (IR evaluator) professional personnel. The grades of personnel will be established and maintained in accordance with standard Army civilian personnel position descriptions. Temporary augmentation by military, civilian and/or contractor functional experts, under the supervision of the IR director or chief, is encouraged to meet special technical requirements of individual engagements. (Throughout this document the term engagement will be used to refer to all types of reviews, all liaison work, and all follow-up work.) In exercising discretion to augment IR staffs, as described in this paragraph, commanders will ensure compliance with this regulation. Where appropriate due to the type of work accomplished, IR staffs may be temporarily augmented with industrial engineers, computer analysts or specialists, management analysts, statisticians, or other such personnel with special skills.

c. The National Guard will staff USPFO IR offices with competitive civilian employees to ensure an independent outlook and appearance is maintained and to fully comply with professional standards and this regulation.

d. National Guard M-Day and Army Reserve troop program unit Soldiers will be qualified for the position assigned. They will also be encouraged to obtain the ASI or skill identifier established by U.S. Army Human Resources Command for military auditors. The Army's goal is to have all military personnel that are qualified as an auditor or accountant identified with the ASI or skill identifier.

e. Contractor augmentation is authorized to technically augment or supplement the on-board IR staff. In these instances, the IR office will perform necessary contract oversight as required by the cognizant contracting officer.

2-3. Training

a. Proper training of IR personnel is essential to maintain the skills and knowledge required to operate an effective IR program as required by this regulation. IR personnel training requirements are defined in chapter 3, below. For every evaluator at least 24 hours of CPE will be directly related to the Army IR evaluator profession or Government auditing, the Government environment, or the specific or unique environment in which the reviewed Army organization operates. Commanders and IR directors and chiefs will ensure that each IR evaluator maintains proficiency through CPE and training at levels prescribed in this regulation and GAO's - Guidance on GAGAS Requirements for Continuing Professional Education (GAO-05-568G dated April 2005).

b. The Office of the ASA(FM&C) is the functional proponent for career program (CP)-11 and will provide professional training guidelines and opportunities for all IR personnel. The principal source of training for IR personnel will be from training programs identified and established by the DASA (FO). These programs are intended to provide uniform IR training and expand individual qualifications to enable maximum utilization of professional resources.

2-4. Scope of work

a. The scope of work performed by the IR office can encompass all aspects of management, internal control and all programs, functions, transactions, records, systems and documents. Properly cleared IR personnel will be entitled to full and unrestricted access to all personnel, facilities, records, reports, databases (read only), documents, or other information or material, equivalent to their security clearance, needed to accomplish announced review objectives. Only the commander may restrict IR personnel access to an area under their control and the reason for the restriction will be documented in the IR files.

b. Any scope limitations may impact the IR opinion and/or IR's ability to form an opinion. Scope restrictions will be clearly documented in the report with an explanation of the impact on the evaluator's opinion.

c. IR services will normally include performance of reviews, follow-ups, audit liaison, and consulting or advisory services. In determining the type of service to be provided, the IR director or chief will evaluate, among other considerations, how the information will be used and the time available for the work.

d. Engagements performed by the IR office and supporting documents will be considered part of the command or management deliberative process and therefore not releasable outside the command without the commander's approval or under a "Freedom of Information Act" request approved by the Office of The Judge Advocate General and the command's Freedom of Information Act officer.

2-5. Policy relationships

There are several audit and investigative organizations internal and external to the Army whose operations impact command operations and with whom liaison and coordination is to be maintained. The most commonly encountered organizations are the following:

a. *Government Accountability Office.* The GAO is an element of the legislative branch of the U.S. Government and performs audits, evaluations, and surveys of governmental organizations or functions as directed by the Congress.

b. *Department of Defense Inspector General.* The DODIG may initiate, conduct and supervise audits within the DOD as The Inspector General considers appropriate or which have been requested by the Secretary of Defense.

c. *United States Army Audit Agency.* The USAAA is the DA's central audit organization operating under The Auditor General of the Army. USAAA furnishes audit services to all organizational levels and functions throughout the Army.

d. *Department of the Army Inspector General.* The Office of The Inspector General and the U.S. Army Inspector General Agency provide the Secretary of the Army and the Chief of Staff, Army with periodic reports on the discipline, efficiency, economy, morale, training and readiness throughout the Army. The Office of The Inspector General and the U.S. Army Inspector General Agency provide the DA with a continuing assessment of the command, operational, logistical, and administrative effectiveness of the Army.

e. *Criminal Investigation Division Command.* The CIDC provides crime investigation support to Army commands and often works closely with USAAA and local IR offices.

2-6. Guidance

a. Commanders may use IR resources in any role consistent with the concepts and policies contained in this regulation. In exercising this broad discretion, commanders will consider the following—

(1) Cyclic reviews of appropriated fund functions or activities will not be scheduled by IR offices in their annual plans unless the command has a documented need warranting such a resource allocation.

(2) The IR office will not be used to make regularly scheduled reviews of nonappropriated fund instrumentalities (NAFIs) having a cash-basis, single-entry system of accounts. Normally, disinterested officers will review such funds.

(3) The IR office will not be used to perform periodic or cyclic reviews of private organizations, for example, Type 1 - Federally Sanctioned (Army Emergency Relief); Type 2 - Organization; or Type 3 - Independent (Thrift Shops). Appropriated funds cannot be used for this purpose.

(4) The IR office may review NAFIs, unit informal funds, and appropriated funds when the commander believes there are indications of fraud or misappropriation of funds or other assets, or when warranted by special circumstances. The reason for use will be documented. NAFI reviews will be conducted in accordance with AR 215-1, chapter 18.

(5) The IR personnel will not serve in operational roles outside of the IR organization. IR personnel will not develop or maintain financial records when participating as team members on process actions teams, as the IR office may be called upon to validate project expenditures and/or projected savings. The IR personnel may serve in an advisory role for command programs, for example, providing advice on the establishment of automated systems, process action teams, source selection evaluation boards, or administration of the command's internal control process, as long as a reasonable degree of independence can be maintained.

b. The commander, in consultation with the IR director or chief, will determine whether the performance of a particular service is consistent with the guidance in this regulation.

2-7. Risk assessment files

Army IR offices staffed with two or more IR evaluators will establish a risk assessment file. The risk assessment file will include all major programs, activities, functions, or systems. The organization's list of assessable unit managers and the Internal Control Plan, prepared in accordance with AR 11-2, can serve as the basis for the file, but will require modification. The risk assessment file will be expanded based upon the identified activities in the Internal Control Plan to include all programs, activities, functions, and systems. Additionally, IR offices, in conjunction with assessable unit managers, will rank the relative risk (high, medium, and low) for each activity identified. This file will also include serviced activities without organic IR resources.

2-8. Liaison with external audit organizations

The IR office will serve as the primary action office or audit focal point for monitoring all actions related to audits, surveys, and reviews performed by the USAAA or external audit agencies (GAO, DODIG, and commercial audit firms). The IR office will assist command elements with coordinating entrance, exit, and in-process review conferences. The IR office will assist and advise responsible command elements in preparing command responses. The IR office will ensure command responses to external audit products are accurate, responsive, properly coordinated with all responsible command elements, and meet suspense dates.

2-9. Audit follow-up

a. Audit follow-up is the collective effort between IR and commanders to ensure—

(1) Prompt and effective action is taken to implement agreed-to recommendations contained in IR, USAAA, GAO, DODIG, and commercial review and/or audit reports;

(2) Internal controls are adequate to prevent recurrence of cited deficiencies.

b. The IR Directors and Chiefs will provide commanders and their staff with periodic reports on the status of corrective actions, highlighting those actions not taken in a timely manner, justified and unjustified delays, and when feasible, a description of the effects of failure to take corrective actions or delayed corrective actions.

c. The IR offices will maintain an audit follow-up tracking system and will use the Internal Review Management System or an equivalent automated management system, for this purpose.

2-10. Organizational interfaces

a. Lean Six Sigma. Due to a potential conflict with the IR independence standard, IR evaluators will not be directly involved in Lean Six Sigma projects, nor will they be team leaders or team member of Lean Six Sigma projects.

(1) The IR role in Lean Six Sigma projects will be limited to validating projected and realized savings, and follow-up on implementation of approved Lean Six Sigma projects. The IR evaluator will report the results to activity commanders.

(2) Based on the independence standard, as discussed in paragraph 3-2(a), below, an IR evaluator that served as a project leader or team member cannot at a later date, conduct a review of the activity, process, or validate the financial data from the project. Also because of the independence standard, no one in the IR office will at a later date conduct a

review of the activity, process, or validate the financial data from the project, because of the potential appearance that results of the review are not viewed as impartial.

b. Installation Status Report - Reporting. With the exception of the Installation Management Command Internal Review Offices at all levels (garrisons, district, and headquarters), all other Army Internal Review Offices are exempt from reporting into Installation Status Report.

c. Organizational Inspection Programs. Internal Review, as an added evaluation source for commanders and directors to determine organizational readiness, falls within the OIP for coordination purposes (see AR 1–201). IR offices will provide to the organization's OIP coordinator a signed annual plan for conducting internal reviews (para 1–4d(6), above) so that the coordinator can incorporate that plan into the overall OIP and, if necessary, work with the IR office to consolidate and/or coordinate inspection efforts. The IR office will also inform the OIP coordinator of additions and deletions to the annual plan throughout the year of execution. One of the principles of inspections outlined in AR 1–201 is to coordinate all inspection and evaluation efforts so that inspected organizations are not inspected at random but as part of a larger, coordinated plan that maximizes the organization's training and operational time while minimizing inspections.

Chapter 3

Internal Review General Standards

3–1. Introduction

This chapter establishes general standards and provides guidance for performing internal reviews, consulting and advisory services, follow-up, and liaison. These general standards concern the fundamental requirements for ensuring the credibility of evaluators' results. Credibility is essential to all Army IR activities performing work that Army leaders rely on for making decisions. These general standards encompass the independence of the IR organization and its individual evaluators; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of IR staff, including the need for their continuing professional education; and the existence of quality control systems and external peer reviews. These general standards provide the underlying framework that is critical in effectively applying the fieldwork and reporting standards described in the following chapters when performing the detailed work associated with Army IR engagements and when preparing related reports and other products. Therefore, these general standards are required to be followed by all Army IR organizations and IR evaluators.

3–2. Independence general standard

a. In all matters, IR organizations and the individual evaluators must be free both in fact and appearance from personal, external, and organizational impairments to independence. IR organizations and evaluators have a responsibility to maintain independence so that their opinions, conclusions, judgments, and recommendations will be impartial and viewed as impartial by knowledgeable third parties. Evaluators will avoid situations that could lead objective third parties with knowledge of the relevant information to conclude that the evaluators are not able to maintain independence and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work. Evaluators need to consider three general classes of impairments to independence—personal, external, and organizational. If one or more of these impairments affects, or may be perceived to affect, an evaluator's capability to perform the work and report results impartially, that evaluator will decline to perform the work. In those situations in which the IR evaluator cannot decline to perform the work, the impairment or impairments will be reported in the scope section of the review report.

b. If the work of a specialist is used, evaluators will consider the specialist as a member of the IR team and assess the specialist's ability to perform the work and report results impartially. In conducting this assessment, evaluators will provide the specialist with the independence requirements provided in this regulation and obtain representations from the specialist regarding the specialist's independence from the activity or program under review. If the specialist has impairment to independence, evaluators will not use the work of that specialist.

3–3. Personal impairment

Evaluators participating on an engagement must be free from personal impairments to independence. Personal impairments of evaluators result from relationships or beliefs that might cause evaluators to limit the extent of the inquiry, limit disclosure, or weaken or slant review results in any way. Individual evaluators will notify the appropriate officials within their organizations if they have any personal impairment to independence. Examples of personal impairments of individual evaluators include, but are not limited to, the following:

a. Immediate family or close family member, who is a director or officer of the reviewed entity, or, as an employee of the reviewed entity, is in a position to exert direct and significant influence over the entity or the program under review.

b. Financial interest that is direct, or is significant/material though indirect, in the reviewed entity or program.

c. Responsibility for managing an entity or making decisions that could affect operations of the entity or program being reviewed; for example, serving as a director, officer, or other senior position of the entity, activity, or program being reviewed, or as a member of management in any decisionmaking, supervisory, or ongoing monitoring function for the entity, activity, or program under review.

d. Concurrent or subsequent performance of a review by the same individual who maintained the official accounting records when such services involved preparing source documents or originating data, in electronic or other form; posting transactions (whether coded by management or not coded); authorizing, executing, or consummating transactions (for example, approving invoices, payrolls, claims, or other payments of the entity or program being reviewed); maintaining an entity's bank account or otherwise having custody of the reviewed entity's funds; or otherwise exercising authority on behalf of the entity, or having authority to do so.

e. Preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could impact or affect the review.

f. Biases, including those resulting from political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular type of policy, group, organization, or level of Government.

g. Seeking employment with an organization during or immediately prior to the conduct of the review of the particular organization.

3-4. External impairments

The IR organizations must also be free from external impairments to independence. Factors external to the IR organization may restrict the work or interfere with evaluators' ability to form independent and objective opinions and conclusions. External impairments to independence occur when evaluators are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the activity being reviewed or oversight organizations. For example, under the following conditions, evaluators may not have complete freedom to make an independent and objective judgment, and a review may be adversely affected:

a. External interference or influence that could improperly or imprudently limit or modify the scope of a review or threaten to do so, including pressure to reduce inappropriately the extent of work performed in order to reduce costs.

b. External interference with the selection or application of review procedures or in the selection of transactions to be examined.

c. Unreasonable restrictions on the time allowed for completing a review or issuing the report.

d. Restriction on access to records, Government officials, or other individuals needed to conduct the review.

e. Interference external to the IR organization in the assignment, appointment, and promotion of IR personnel.

f. Restrictions on funds or other resources provided to the IR organization that adversely affect the IR organization's ability to carry out its responsibilities.

g. Authority to overrule or to inappropriately influence the evaluators' judgment as to the appropriate content of the report.

h. Threat of replacing the evaluator over a disagreement with the contents of a review report, the evaluators' conclusions, or the application of an accounting principle or other criteria.

i. Influences that jeopardize the evaluators' continued employment for reasons other than incompetence, misconduct, or the need for IR services.

3-5. Organizational independence

Army IR organizations can be presumed to be free from organizational impairments to independence if the head of the IR organization meets all of the following criteria:

a. Is accountable to the highest levels of their Army organizations, such as commander, deputy commander, chief of staff, garrison commander, or, for the NGB and State National Guards, chief, and the USPFO, respectively.

b. Reports the review results both to the highest levels of their Army organizations, for example, commander, deputy commander, chief of staff, garrison commander, or, for the NGB and State National Guards, chief, and USPFO, respectively and to the activity under review.

c. Is located organizationally outside the staff or line-management function of the activity under review.

d. Has access to the highest levels of their Army organizations, for example, commander, deputy commander, chief of staff, garrison commander, or, for the NGB and State National Guards, chief, and the USPFO, respectively.

e. Is sufficiently removed from political pressures to conduct reviews and report results, opinions, and conclusion objectively without fear of political reprisal.

f. The independence standard does not pose any limitations on the types of services IR organizations can perform for their customers, as long as the services do not involve making management decisions. IR evaluators may also assist management officials in the implementation of recommended solutions, such as establishing internal controls or implementing a database system, or other systems and tools, that would result in more efficient operations.

3-6. Professional judgment

The IR evaluators will use professional judgment in planning and performing engagements and reporting the results.

Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which evaluators assume neither that management is dishonest nor of unquestioned honesty. Believing that management is honest is not a reason to accept less than sufficient appropriate evidence. IR evaluators who do not perform their work in accordance with the AR 11–7 standards, must justify any departures from the standards and disclose the potential impact on review findings and recommendations.

a. Using the evaluators’ professional knowledge, skills, and experience to diligently perform, in good faith and with integrity, the gathering of information and the objective evaluation of the sufficiency and appropriateness of evidence is a critical component of reviews. Professional judgment and competence are interrelated, because judgments made are dependent upon the evaluators’ competence.

b. Professional judgment represents the application of the collective knowledge, skills, and experiences of all the personnel involved with an engagement, as well as the professional judgment of individual evaluators. In addition to personnel directly involved in the review, professional judgment may involve collaboration with other stakeholders, outside experts, and management in the reviewed organization.

c. Using professional judgment in all aspects of carrying out their professional responsibilities, including following the independence standards, maintaining objectivity and credibility, assigning competent IR staff to the assignment, defining the scope of work, evaluating and reporting the results of the work, and maintaining appropriate quality control over the assignment process is essential to performing and reporting on a review.

d. Using professional judgment is important in determining the required level of understanding of the review’s subject matter and related circumstances. This includes consideration about whether the review team’s collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter under review may contain a significant inaccuracy or could be misinterpreted.

e. Considering the risk level of each assignment, including the risk that they may come to an improper conclusion is another important issue. Within the context of review risk, exercising professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions, based on the review objectives and any recommendations reported, is an integral part of the review process.

f. Evaluators will document significant decisions affecting the review’s objectives, scope, and methodology; findings; conclusions; and recommendations resulting from professional judgment.

g. While this standard places responsibility on each IR organization and evaluator to exercise professional judgment in planning and performing a review engagement, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the IR organization or an evaluator. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific review, but rather identifying, considering, minimizing, mitigating, and explaining them.

3–7. Competence

The Army IR staff assigned to perform engagements must collectively possess adequate professional competence for the tasks required. This standard places responsibility on IR activities to ensure that each engagement is performed by staff that collectively has the knowledge, skills, and experience necessary for that assignment. Accordingly, IR activities will have a process for recruiting, hiring, continuously developing, and evaluating its staff to assist the activity in maintaining a workforce that has adequate competence. The nature, extent, and formality of the process will depend on various factors such as, the size of the IR organization, its work, and its structure. The staff assigned to conduct an engagement must collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on the engagement. The staff assigned to an engagement will collectively possess—

a. Knowledge of the standards applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed.

b. General knowledge of the environment in which the reviewed entity operates and the subject matter under review.

c. Skills to communicate clearly and effectively, both orally and in writing.

d. Skills appropriate for the work being performed.

3–8. Continuing professional education

a. Army IR evaluators performing work under these standards, including planning, directing, performing fieldwork, or reporting on a review under these standards, will maintain their professional competence through CPE. Therefore, each evaluator performing work under the standards in this AR will complete, every 2–years, at least 24 hours of CPE that is directly related to the Army IR evaluator profession or Government auditing, the Government environment, or the specific or unique environment in which the reviewed Army organization operates. Evaluators who are involved in any amount of planning, directing, or reporting on IR engagements; and those evaluators who are not involved in those activities but charge 20 percent or more of their time annually to IR engagements, will also obtain at least an additional

56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the evaluator's professional proficiency to perform review engagements. Evaluators required to take the total 80 hours of CPE will complete at least 20 hours of CPE in each year of the 2-year period.

b. The CPE programs are structured educational activities with learning objectives designed to maintain or enhance participants' knowledge, skills, and abilities in areas applicable to performing review engagements. Determining what subjects are appropriate for individual evaluators to satisfy both the 80-hour and the 24-hour requirements is a matter of professional judgment to be exercised by evaluators in consultation with appropriate officials in their IR organizations. Among the considerations in exercising that judgment are the evaluators' experience, the responsibilities they assume in performing engagements, and the operating environment of the reviewed entity.

c. Improving their own competencies and meeting CPE requirements are primarily the responsibilities of individual evaluators. The IR organization will have quality control procedures to help ensure that evaluators meet the continuing education requirements, including documentation of the CPE completed. GAO has developed guidance pertaining to CPE requirements to assist in exercising professional judgment in complying with the CPE requirements.

d. External specialists assisting in performing an engagement will be qualified and maintain professional competence in their areas of specialization but are not required to meet the CPE requirements described above. However, evaluators who use the work of external specialists will assess the professional qualifications of such specialists and document their findings and conclusions. Internal specialists who are part of the IR organization and perform as a member of the IR staff will comply with these standards, including the CPE requirements.

3-9. Quality control and assurance standard

a. Each Army IR organization performing IR engagements in accordance with the standards in this AR will have an appropriate internal quality control system in place and will undergo an external peer review.

b. An IR organization's system of quality control encompasses the IR organization's structure and the policies adopted and procedures established to provide the organization with reasonable assurance of complying with applicable standards governing Army IR engagements. An IR organization's internal quality control system will include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied.

c. The nature and extent of an IR organization's internal quality control system depends on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its IR offices, the nature of its work, its organizational structure, and appropriate cost-benefit considerations. Thus, the system established by individual IR activities will vary as will the need for, and extent of, its documentation of the systems. However, each IR organization will prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures. The form and content of such documentation is a matter of judgment. Documentation of compliance will be retained for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the IR organization's compliance with the quality control policies and procedures.

d. Army IR activities performing IR engagements in accordance with the standards in this AR will have an external peer review of their IR engagement practices at least once every 3 years by evaluators independent of the IR organization being reviewed.¹ The external peer review will determine whether, during the period under review, the reviewed IR organization's internal quality control system was adequate; and whether quality control policies and procedures were being complied with to provide the IR organization with reasonable assurance of conforming to applicable professional standards. IR activities will take remedial, corrective actions as needed based on the results of the quality assurance review. The IR activity will conduct self-assessments in the years that an external peer review is not performed.

e. Members of the external peer review team will meet the following requirements:

(1) Each review team member will have current knowledge of the standards in this AR and of the Government environment relative to the work being reviewed.

(2) Each review team member will be independent (as identified in the standards in this AR) of the IR organization being reviewed, its staff, and the IR engagements selected for the external peer review. A review team or a member of the review team is not permitted to review the IR organization that conducted its IR organization's most recent external peer review.

(3) Each review team member will have knowledge on how to perform a peer review. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both.

f. The peer review will meet the following requirements—

(1) The peer review will include a review of the IR organization's internal quality control policies and procedures, including related monitoring procedures, IR engagement reports, and other necessary documents (for example, independence documentation, CPE records, and personnel management files related to compliance with hiring, performance

¹ Army IR activities will have an external quality assurance review conducted within 3 years from the date they start (that is, start of fieldwork) their first assignment in accordance with this general, field work, and reporting standards contained in this regulation. Subsequent external quality assurance reviews will be conducted every 3 years. Extensions of these timeframes beyond 3 months to meet the external quality assurance review requirements can only be granted by the Department of Army Program Manager's office and will only be requested for extraordinary circumstances.

evaluation, and assignment policies). The review will also include interviews with various levels of the reviewed IR organization's professional staff to assess their understanding of, and compliance with, relevant quality control policies and procedures.

(2) The review team will use one of the following approaches to selecting IR engagements for review:

(a) Select IR engagements that provide a reasonable cross section of the assignments performed by the reviewed IR organization in accordance with the standards in this AR.

(b) Select IR engagements that provide a reasonable cross section of the reviewed IR organization's work subject to quality control requirements, including one or more assignments performed in accordance with the standards in this AR.

(3) The peer review will be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed IR organization's system of quality control was complied with to provide the activity with reasonable assurance of conforming to professional standards in the conduct of its work. The review team will consider the adequacy and results of the reviewed IR organization's monitoring efforts to efficiently plan its peer review procedures.

(4) The review team will prepare a written report communicating the results of the external peer review. The report will indicate the scope of the review, including any limitations thereon, and will express an opinion on whether the system of quality control of the reviewed IR organization's engagement practices was adequate and being complied with during the year reviewed. This provides the IR organization with reasonable assurance of conforming to professional standards for IR engagements. The report will state the professional standards² to which the reviewed IR organization is being held. The report will also describe the reasons for any modification of the opinion. When there are matters that resulted in a modification to the opinion, evaluators will report a detailed description of the findings and recommendations, either in the peer review report or in a separate letter of comment or a management letter, to enable the reviewed IR organization to take appropriate actions. The written report will refer to the letter of comment or management letter if such a letter is issued, along with a modified report.

Chapter 4 Field Work Standards

4-1. Introduction

This chapter prescribes fieldwork standards and provides guidance for reviews conducted in accordance with standards established in this AR. The fieldwork standards for IR reviews relate to planning the review; supervising staff; obtaining sufficient, competent, and relevant evidence; and preparing review documentation. The concepts of reasonable assurance, significance, and review risk form a framework for applying these standards and are included throughout the discussion of reviews.

4-2. Reasonable assurance

Reviews that comply with the standards of this AR provide reasonable assurance that evidence is sufficient and appropriate to support the evaluators' findings and conclusions. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the review objectives, findings, and conclusions. Objectives for reviews range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists evaluators in determining the review scope and methodology needed to address the review's objectives, while providing the appropriate level of assurance that the obtained evidence is sufficient and appropriate to address the review objectives.

4-3. Significance in a review

The concept of significance assists evaluators throughout a review, including when deciding the type and extent of review work to perform, when evaluating results of review work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the review, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the reviewed program or activity. Professional judgment assists evaluators when evaluating the significance of matters within the context of the review objectives.

4-4. Review risk

Review risk is the possibility that the evaluator's findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate

² "Professional standards" refers to both the standards in this AR and quality control standards used by the reviewed IR organization.

review process, or intentional omissions or misleading information due to misrepresentation or fraud. The assessment of review risk involves both qualitative and quantitative considerations. Factors such as the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the reviewed entity's systems and processes to detect inconsistencies, significant errors, or fraud; and evaluators' access to records, also impact review risk. Review risk includes the risk that evaluators will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the review. Review risk can be reduced by taking actions such as increasing the scope of work; adding experts, additional evaluators, or other resources to the review team; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.

4-5. Planning

Evaluators must adequately plan and document the planning of the work necessary to address the review objectives. Evaluators must plan the review to reduce review risk to an appropriate level for the evaluators to provide reasonable assurance that the evidence is sufficient and appropriate to support the evaluators' findings and conclusions. This determination is a matter of professional judgment. In planning the review, evaluators will assess significance and review risk, and apply these assessments in defining the review objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the review. Therefore, evaluators may need to adjust the review objectives, scope, and methodology as work is being completed.

a. The objectives are what the review is intended to accomplish. They identify the review subjects and performance aspects to be included, as well as the potential finding and reporting elements that the evaluators expect to develop. Review objectives can be thought of as questions about the reviewed process that evaluators seek to answer based on evidence obtained and assessed against criteria.

b. Scope is the boundary of the review and is directly tied to the review objectives. The scope defines the subject matter that evaluators will assess and report on, such as a particular program, or aspect of a program the necessary documentation or records, the period of time reviewed, and the locations that will be included.

c. The methodology describes the nature and extent of review procedures for gathering and analyzing evidence to address the review objectives. Review procedures are the specific steps and tests evaluators will carry out to address the review objectives. Evaluators will design the methodology to obtain sufficient, appropriate evidence to address the review objectives, reduce review risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the evaluators' findings and conclusions. Methodology includes both the nature and extent of review procedures used to address the review objectives.

d. Evaluators will assess review risk and significance within the context of the review objectives by gaining an understanding of the following:

- (1) The nature and profile of the programs and the needs of potential users of the review report.
- (2) Internal control as it relates to the specific objectives and scope of the review.
- (3) Information systems controls for purposes of assessing review risk and planning the review within the context of the review.
- (4) Legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that is significant within the context of the risk objectives.
- (5) The results of previous reviews, audits, and command inspections that directly relate to the current review objectives.

e. During planning, evaluators will—

- (1) Identify the potential criteria needed to evaluate matters subject to review.
- (2) Identify sources of review evidence and consider the amount and type of evidence needed given review risk and significance.
- (3) Evaluate whether to use the work of other evaluators and experts to address some of the review objectives.
- (4) Assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the review.
- (5) Communicate about planning and performance of the review to management officials, those charged with governance, and others as applicable.
- (6) Prepare a written review plan.

4-6. Nature and profile of the program and user needs

a. As evaluators plan their reviews, they will obtain an understanding of the nature of the program or program's components under review and the potential use that will be made of the review results or reports. The nature and profile of a program include the following:

- (1) Visibility, sensitivity, and relevant risks associated with the program under review.
- (2) Age of the program or changes in its conditions.
- (3) The size of the program in terms of total dollars, number of citizens affected, or other measures.

- (4) Level and extent of review or other forms of independent oversight.
- (5) The program's strategic plan and objectives.
- (6) External factors or conditions that could directly affect the program.

b. One group of users of the evaluators' report is Government officials who may have authorized or requested the review. Other important users of the evaluators' report are the entity being reviewed, those responsible for acting on the evaluators' recommendations. An awareness of potential users' interests and influence can help evaluators judge whether possible findings could be significant to relevant users.

c. Obtaining an understanding of the program under review helps evaluators to assess the relevant risks associated with the program and the impact on the review objectives, scope, and methodology. The evaluators' understanding may come from knowledge they already have about the program or knowledge they gain from inquiries and observations they make in planning the review. The extent and breadth of those inquiries and observations will vary among reviews based on the review objectives, as will the need to understand individual aspects of the program, such as the following:

(1) *Laws, regulations, and provisions of contracts or grant agreements.* Government programs are usually created by law and are subject to specific laws and regulations. Laws and regulations usually set forth what is to be done, who is to do it, the purpose to be achieved, the population to be served, and related funding authority, guidelines, and/or restrictions. Government programs may also be subject to provisions of contracts and grant agreements. Thus, understanding the laws and legislative history establishing a program and the provisions of any contracts or grant agreements are essential to understanding the program itself. Obtaining that understanding is also a necessary step in identifying the provisions of laws, regulations, contracts, or grant agreements that are significant within the context of the review objectives.

(2) *Purpose and goals.* Purpose is the result or effect that is intended or desired from a program's operation. Legislatures usually establish the program's purpose when they provide authority for the program. Entity officials may provide more detailed information on the program's purpose to supplement the authorizing legislation. Entity officials are sometimes asked to set goals for program performance and operations, including both output and outcome goals. Evaluators may use the stated program purpose and goals as criteria for assessing program performance or may develop additional criteria to use when assessing performance.

(3) *Internal control.* Internal control, sometimes referred to as management control, in the broadest sense includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.

(4) *Effort.* Efforts are the amount of resources (in terms of money, material, personnel, and so on) that are put into a program. These resources may come from within or outside the entity operating the program. Measures of efforts can have a number of dimensions, such as cost, timing, and quality. Examples of measures of efforts are dollars spent, employee-hours expended, and square feet of building space.

(5) *Program operations.* Program operations are the strategies, processes, and activities management uses to convert efforts into outputs. Program operations may be subject to internal control.

(6) *Outputs.* Outputs represent the quantity of goods or services produced by a program. For example, an output measure for a job training program could be the number of persons completing training, and an output measure for an aviation safety inspection program could be the number of safety inspections completed.

(7) *Outcomes.* Outcomes are accomplishments or results of a program. For example, an outcome measure for a job training program could be the percentage of trained persons obtaining a job and still in the workplace after a specified period of time. An example of an outcome measure for an aviation safety inspection program could be the percentage reduction in safety problems found in subsequent inspections or the percentage of problems deemed corrected in follow-up inspections. Such outcome measures show the progress made in achieving the stated program purpose of helping unemployable citizens obtain and retain jobs, and improving the safety of aviation operations. Outcomes may be influenced by cultural, economic, physical, or technological factors outside the program. Evaluators may use approaches drawn from other disciplines, such as program evaluation, to isolate the effects of the program from these other influences. Outcomes also include unexpected and/or unintentional effects of a program, both positive and negative.

4-7. Internal control

a. Evaluators will obtain an understanding of internal control³ that is significant within the context of the review objectives. For internal control that is significant within the context of the review objectives, evaluators will assess whether internal controls have been properly designed and implemented. For those internal controls that are deemed significant within the context of the review objectives, evaluators will plan to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. Information systems controls are often an integral part of an entity's internal control. Thus, when obtaining an understanding of internal control significant to the review objectives, evaluators will also determine whether it is necessary to evaluate information systems controls.

b. Evaluators may modify the nature, timing, or extent of the review procedures based on the evaluators' assessment of internal control and the results of internal control testing. For example, poorly controlled aspects of a program have a higher risk of failure, so evaluators may choose to focus their efforts in these areas. Conversely, effective controls at the reviewed entity may enable the evaluators to limit the extent and type of review testing needed.

c. Evaluators may obtain an understanding of internal control through inquiries, observations, inspection of documents and records, review of other evaluators' reports, or direct tests. The procedures evaluators perform to obtain an understanding of internal control may vary among reviews based on review objectives and review risk. The extent of these procedures will vary based on the review objectives, known or potential internal control risks or problems, and the evaluators' knowledge about internal control gained in prior reviews.

d. The following discussion of the principal types of internal control objectives is intended to help evaluators better understand internal controls and determine whether or to what extent they are significant to the review objectives.

(1) Effectiveness and efficiency of program operations: Controls over program operations include policies and procedures that the reviewed entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency. Understanding these controls can help evaluators understand the program's operations that convert inputs and efforts to outputs and outcomes.

(2) Relevance and reliability of information: Controls over the relevance and reliability of information include policies, procedures, and practices that officials of the reviewed entity have implemented to provide themselves reasonable assurance that operational and financial information they use for decisionmaking and reporting externally is relevant and reliable and fairly disclosed in reports. Understanding these controls can help evaluators (1) assess the risk that the information gathered by the entity may not be relevant or reliable and (2) design appropriate tests of the information considering the review objectives.

(3) Compliance with applicable laws and regulations and provisions of contracts or grant agreements: Controls over compliance include policies and procedures that the reviewed entity has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements. Understanding the relevant controls concerning compliance with those laws and regulations and provisions of contracts or grant agreements that the evaluators have determined are significant within the context of the review objectives can help them assess the risk of illegal acts, violations of provisions of contracts or grant agreements, or abuse.

e. A subset of these categories of internal control objectives is the safeguarding of assets and resources. Controls over the safeguarding of assets and resources include policies and procedures that the reviewed entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

f. In performance reviews, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct—

- (1) Impairments of effectiveness or efficiency of operations.
- (2) Misstatements in financial or performance information.
- (3) Violations of laws and regulations, on a timely basis.

g. A deficiency in design exists when—

- (1) A control necessary to meet the control objective is missing.

(2) An existing control is not properly designed so that, even if the control operates as designed, the control objective is not met.

h. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

³ Refer to the internal control guidance contained in Internal Control--Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the COSO framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. The objectives of internal control relate to (1) financial reporting, (2) operations, and (3) compliance. Safeguarding of assets is a subset of these objectives. In that respect, management designs internal control to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected. In addition to the COSO document, the publication, Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999), which incorporates the relevant guidance developed by COSO, provides definitions and fundamental concepts pertaining to internal control at the federal level and may be useful to other auditors at any level of Government. The related Internal Control Management and Evaluation Tool, GAO-01-1008G (Washington, D.C.: August 2001), based on the federal internal control standards, provides a systematic, organized, and structured approach to assessing the internal control structure.

4-8. Information systems controls

a. Understanding information systems controls is important when information systems are used extensively throughout the program under review and the fundamental business processes related to the review objectives rely on information systems. Information systems controls consist of those internal controls that are dependent on information systems processing and include general controls and application controls. Information systems general controls are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning. Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master data, application interfaces, and data management system interfaces.

b. An organization's use of information systems controls may be extensive; however, evaluators are primarily interested in those information systems controls that are significant to the review objectives. Information systems controls are significant to the review objectives if evaluators determine that it is necessary to assess the effectiveness of information systems controls in order to obtain sufficient, appropriate evidence. When information systems controls are determined to be significant to the review objectives, evaluators will then assess the effectiveness of such controls. This assessment would include other information systems controls that impact the effectiveness of the significant controls or the reliability of information used in performing the significant controls. Evaluators will obtain a sufficient understanding of information systems controls necessary to assess review risk and plan the review within the context of the review objectives.⁴

c. Review procedures to evaluate the effectiveness of significant information systems controls include the following:

- (1) Gaining an understanding of the system as it relates to the information.
- (2) Identifying and evaluating the general controls and application controls that are critical to providing assurance over the reliability of the information required for the review.
- (3) If evaluators do not have the knowledge or expertise to assess the effectiveness of general or application controls, they will consult a specialist, refer the matter to other parties with oversight responsibility, or include a qualification in the final report that information system controls were not tested.

d. The assessment of information systems controls may be done in conjunction with the evaluators' consideration of internal control within the context of the review objectives, or as a separate review objective or review procedure, depending on the objectives of the review. Depending on the significance of information systems controls to the review objectives, the extent of review procedures to obtain such an understanding may be limited or extensive. In addition, the nature and extent of review risk related to information systems controls are affected by the nature of the hardware and software used, the configuration of the entity's systems and networks, and the entity's information systems strategy.

e. Evaluators will determine which review procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the review findings and conclusions. The following factors may assist evaluators in making this determination:

- (1) The extent to which internal controls that are significant to the review depend on the reliability of information processed or generated by information systems.
- (2) The availability of evidence outside the information system to support the findings and conclusions: It may not be possible for evaluators to obtain sufficient, appropriate evidence without assessing the effectiveness of relevant information systems controls. For example, if information supporting the findings and conclusions is generated by information systems or its reliability is dependent on information systems controls; there may not be sufficient supporting or corroborating information or documentary evidence that is available other than that produced by the information systems.
- (3) The relationship of information systems controls to data reliability: To obtain evidence about the reliability of computer-generated information, evaluators may decide to assess the effectiveness of information systems controls as part of obtaining evidence about the reliability of the data. If the evaluator concludes that information systems controls are effective, the evaluator may reduce the extent of direct testing of data.
- (4) Assessing the effectiveness of information systems controls as a review objective: When assessing the effectiveness of information systems controls is directly a part of a review objective, evaluators will test information systems controls necessary to address the review objectives. For example, the review may involve the effectiveness of information systems controls related to certain systems, facilities, or organizations.

⁴ Refer to additional criteria and guidance in the Federal Information System Controls Review Manual, GAO/AIMD-12.19.6 (Washington, D.C.: January 1999), and IS Standards, Guidelines and Procedures for Reviewing and Control Professionals, published by the Information Systems Review and Control Association).

4–9. Legal and regulatory requirements, contract provisions, and grants

a. Evaluators will determine which laws, regulations, and provisions of contracts or grant agreements are significant within the context of the review objectives and assess the risk that violations of those laws, regulations, and provisions of contracts or grant agreements could occur. Based on that risk assessment, the evaluators will design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements that are significant within the context of the review objectives.

b. The evaluators' assessment of review risk may be affected by such factors as the complexity or newness of the laws, regulations, and provisions of contracts or grant agreements. The evaluators' assessment of review risk also may be affected by whether the entity has controls that are effective in preventing or detecting violations of laws, regulations, and provisions of contracts or grant agreements. If evaluators obtain sufficient, appropriate evidence of the effectiveness of these controls, they can reduce the extent of their tests of compliance.

4–10. Fraud

a. In planning the review, evaluators will assess risks of fraud⁵ occurring that is significant within the context of the review objectives. Review team members will discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Evaluators will gather and assess information to identify risks of fraud that are significant within the scope of the review objectives or that could affect the findings and conclusions. For example, evaluators may obtain information through discussion with officials of the reviewed entity or through other means to determine the susceptibility of the program to fraud, the status of internal controls the entity has established to detect and prevent fraud or the risk that officials of the reviewed entity could override internal control. An attitude of professional skepticism in assessing these risks assists evaluators in assessing which factors or risks could significantly affect the review objectives.

b. When evaluators identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the review objectives, they will design procedures to provide reasonable assurance of detecting such fraud. Assessing the risk of fraud is an ongoing process throughout the review and relates not only to planning the review but also to evaluating evidence obtained during the review.

c. When information comes to the evaluators' attention indicating that fraud is significant within the context of the review objectives may have occurred, evaluators will extend the review steps and procedures, as necessary, to—

(1) Determine whether fraud has likely occurred.

(2) Determine, if fraud has occurred, its effect on the review findings. If the fraud that may have occurred is not significant within the context of the review objectives, the evaluators may conduct additional review work as a separate engagement, or refer the matter to other parties with oversight responsibility or jurisdiction.

4–11. Abuse

a. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement.

b. If during the course of the review, evaluators become aware of abuse that could be quantitatively or qualitatively significant to the program under review, evaluators will apply review procedures specifically directed to ascertain the potential effect on the program under review within the context of the review objectives. After performing additional work, evaluators may discover that the abuse represents potential fraud or illegal acts. Because the determination of abuse is subjective, evaluators are not required to provide reasonable assurance of detecting abuse.

4–12. Ongoing investigations or legal proceedings

Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, illegal acts, abuse, and violations of provisions in contracts or grant agreements. Laws, regulations, or policies might require evaluators to report indications of certain types of fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional review procedures. When investigations or legal proceedings are initiated or in process, evaluators will evaluate the impact on the current review. In some cases, it may be appropriate for the evaluators to work with investigators and/or legal authorities, or withdraw from or defer further work on the review or a portion of the review, to avoid interfering with an investigation.

4–13. Previous engagements

Evaluators will evaluate whether the reviewed entity has taken appropriate corrective action to address findings and

⁵ Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond evaluators' professional responsibility.

recommendations from previous engagements that are significant within the context of the review objectives. When planning the review, evaluators will ask management of the reviewed entity to identify previous reviews, performance audits, or other studies that directly relate to the objectives of the review, including whether related recommendations have been implemented. Evaluators will use this information in assessing risk and determining the nature, timing, and extent of current review work, to include determining the extent to which testing the implementation of the corrective actions is applicable to the current review objectives.

4-14. Identifying review criteria

a. Evaluators will identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expectations of what will exist, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Evaluators will use criteria that are relevant to the review objectives and permit consistent assessment of the subject matter.

b. The following are some examples of criteria:

- (1) Purpose or goals prescribed by law or regulation or set by officials of the reviewed entity.
- (2) Policies and procedures established by officials of the reviewed entity.
- (3) Technically developed standards or norms.
- (4) Expert opinions.
- (5) Prior periods' performance.
- (6) Defined business practices.
- (7) Contract or grant terms.
- (8) Performance of other entities or sectors used as defined benchmarks.

4-15. Identifying sources of evidence and the amount and type of evidence required

a. Evaluators will identify potential sources of information that could be used as evidence. Evaluators will determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the review objectives and adequately plan review work.

b. If evaluators believe that it is likely that sufficient, appropriate evidence will not be available, they may revise the review objectives or modify the scope and methodology and determine alternative procedures to obtain additional evidence or other forms of evidence to address the current review objectives. Evaluators will also assess whether the lack of sufficient, appropriate evidence is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for review findings.

4-16. Using the work of others

a. Evaluators will determine whether other evaluators have conducted, or are conducting, reviews of the program that could be relevant to the current review objectives. The results of other evaluators' work may be useful sources of information for planning and performing the review. If other evaluators have identified areas that warrant further review work or follow-up, their work may influence the evaluators' selection of objectives, scope, and methodology.

b. If other evaluators have completed review work related to the objectives of the current review, the current evaluators may be able to rely on the work of the other evaluators to support findings or conclusions for the current review and thereby avoid duplication of efforts. If evaluators rely on the work of other evaluators, they will perform procedures that provide a sufficient basis for that reliance. Evaluators will obtain evidence concerning the other evaluators' qualifications and independence and will determine whether the scope, quality, and timing of the review work performed by the other evaluators is adequate for reliance in the context of the current review objectives. Procedures that evaluators may perform in making this determination include reviewing the other evaluators' report, review plan, or review documentation, and/or performing tests of the other evaluators' work. The nature and extent of evidence needed will depend on the significance of the other evaluators' work to the current review objectives and the extent to which the evaluators will rely on that work.

c. Some reviews may necessitate the use of specialized techniques or methods that require the skills of a specialist. If evaluators intend to rely on the work of specialists, they will obtain an understanding of the qualifications and independence of the specialists. Evaluating the professional qualifications of the specialist involves the following:

- (1) The professional certification, license, or other recognition of the competence of the specialist in their field, as appropriate.
- (2) The reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance.
- (3) The specialist's experience and previous work in the subject matter.
- (4) The evaluators' prior experience in using the specialist's work.

4-17. Assigning staff and other resources

a. IR management will assign sufficient staff and specialists with adequate collective professional competence to perform the review. Staffing a review includes, among other things—

- (1) Assigning staff and specialists with the collective knowledge, skills, and experience appropriate for the job.
- (2) Assigning a sufficient number of staff and supervisors to the review.
- (3) Providing for on-the-job training of staff.
- (4) Engaging specialists when necessary.

b. If planning to use the work of a specialist, evaluators will document the nature and scope of the work to be performed by the specialist, including:

- (1) The objectives and scope of the specialist's work.
- (2) The intended use of the specialist's work to support the review objectives.
- (3) The specialist's procedures and findings so they can be evaluated and related to other planned review procedures.
- (4) The assumptions and methods used by the specialist.

4-18. Communicating with management, those charged with governance, and others

a. Evaluators will communicate an overview of the objectives, scope, and methodology, and timing of the review and planned reporting (including any potential restrictions on the report) to the following, as applicable:

- (1) Management of the reviewed entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being reviewed.
- (2) Those charged with governance.
- (3) The individuals requesting review services, such as contracting officials, grantees, or legislative members or staff, if applicable.

b. In situations in which those charged with governance are not clearly evident, evaluators will document the process followed and conclusions reached for identifying those charged with governance.

c. Determining the form, content, and frequency of the communication is a matter of professional judgment, although written communication is preferred. Evaluators may use an engagement letter to communicate the information. Evaluators will document this communication.

d. If a review is terminated before it is completed and a review report is not issued, evaluators will document the results of the work to the date of termination and why the review was terminated. Determining whether and how to communicate the reason for terminating the review to those charged with governance, appropriate officials of the reviewed entity, the entity contracting for or requesting the review, and other appropriate officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment.

4-19. Preparing the review plan

a. Evaluators must prepare a written review plan for each review. The form and content of the written review plan may vary among reviews and may include a review strategy, review program, project plan, and review planning paper, or other appropriate documentation of key decisions about the review objectives, scope, and methodology and of the evaluators' basis for those decisions. Evaluators will update the plan, as necessary, to reflect any significant changes to the plan made during the review.

b. A written review plan provides an opportunity for the review organization's management to supervise review planning and to determine whether—

- (1) The proposed review objectives are likely to result in a useful report.
- (2) The review plan adequately addresses relevant risks.
- (3) The proposed review scope and methodology are adequate to address the review objectives.
- (4) Available evidence is likely to be sufficient and appropriate for purposes of the review.
- (5) Sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources are available to perform the review and to meet expected time frames for completing the work.

4-20. Supervision

a. Review supervisors or those designated to supervise evaluators must properly supervise review staff.

b. Review supervision involves providing sufficient guidance and direction to staff assigned to the review to address the review objectives and follow applicable standards, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training.

c. The nature and extent of the supervision of review staff and the review of their work may vary depending on a number of factors, such as, the size of the review organization, the significance of the work, and the experience of the staff.

4-21. Obtaining sufficient and appropriate evidence

a. Evaluators must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.

b. The concept of sufficient, appropriate evidence is integral to a review. Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the review objectives. In assessing the overall appropriateness of evidence, evaluators will assess whether the evidence is relevant, valid, and reliable. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the review objectives. In assessing the sufficiency of evidence, evaluators will determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.

c. In assessing evidence, evaluators will evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the review objectives and supporting findings and conclusions. Review objectives may vary widely, as may the level of work necessary to assess the sufficiency and appropriateness of evidence to address the objectives. For example, in establishing the appropriateness of evidence, evaluators may test its reliability by obtaining supporting evidence, using statistical testing, or obtaining corroborating evidence. The concepts of review risk and significance assist evaluators with evaluating the review evidence.

d. Professional judgment assists evaluators in determining the sufficiency and appropriateness of evidence taken as a whole. Interpreting, summarizing, or analyzing evidence is typically used in the process of determining the sufficiency and appropriateness of evidence, and in reporting the results of the review work.

e. When appropriate, evaluators may use statistical methods to analyze and interpret evidence to assess its sufficiency.

4-22. Appropriateness

a. Appropriateness is the measure of the quality of evidence that encompasses the relevance, validity, and reliability of evidence used for addressing the review objectives and supporting findings and conclusions.

(1) Relevance refers to the extent to which the evidence has a logical relationship with, and importance to, the issue being addressed.

(2) Validity refers to the extent to which evidence is based on sound reasoning or accurate information.

(3) Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.

b. There are different types and sources of evidence that evaluators may use, depending on the review objectives. Evidence may be obtained by observation, inquiry, or inspection. Each type of evidence has its own strengths and weaknesses. The following contrasts are useful in judging the appropriateness of evidence. However, these contrasts are not adequate in themselves to determine appropriateness. The nature and types of evidence to support evaluators' findings and conclusions are matters of the evaluators' professional judgment, based on the review objectives and review risk.

(1) Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.

(2) Evidence obtained through the evaluators' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.

(3) Examination of original documents is generally more reliable than examination of copies.

(4) Testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated.

(5) Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is generally more reliable than testimonial evidence obtained from an individual who is biased or has indirect or partial knowledge about the area.

(6) Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the reviewed entity or others who have a direct interest in the reviewed entity.

c. Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Evaluators will evaluate the objectivity, credibility, and reliability of the testimonial evidence. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.

d. Surveys generally provide self-reported information about existing conditions or programs. Evaluation of the survey design and administration assists evaluators in evaluating the objectivity, credibility, and reliability of the self-reported information.

e. When sampling is used, the method of selection that is appropriate will depend on the review objectives. When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence than that obtained from non-statistical techniques. When a representative sample is not needed, a targeted selection may be effective if the evaluators have isolated certain risk factors or other criteria to target the selection.

f. When evaluators use information gathered by officials of the reviewed entity as part of their evidence, they will determine what the officials of the reviewed entity or other evaluators did to obtain assurance over the reliability of the

information. Evaluators may find it necessary to perform testing of management's procedures to obtain assurance or perform direct testing of the information. The nature and extent of the evaluators' procedures will depend on the significance of the information to the review objectives and the nature of the information being used.

g. Evaluators will assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to evaluators or extracted independently by the evaluators. The nature, timing, and extent of review procedures to assess sufficiency and appropriateness is affected by the effectiveness of the entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the evaluators' findings and conclusions in light of the review objectives.

4-23. Sufficiency

a. Sufficiency is a measure of the quantity of evidence used for addressing the review objectives and supporting findings and conclusions. Sufficiency also depends on the appropriateness of the evidence. In determining the sufficiency of evidence, evaluators will determine whether enough appropriate evidence exists to address the review objective and support the findings and conclusions.

b. The following presumptions are useful in judging the sufficiency of evidence. The sufficiency of evidence required to support the evaluators' findings and conclusions is a matter of the evaluators' professional judgment.

- (1) The greater the review risk, the greater the quantity and quality of evidence required.
- (2) Stronger evidence may allow less evidence to be used.
- (3) Having a large volume of review evidence does not compensate for a lack of relevance, validity, or reliability.

4-24. Overall assessment of evidence

a. Evaluators will determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the review objectives. Professional judgments about the sufficiency and appropriateness of evidence are closely interrelated, as evaluators interpret the results of review testing and evaluate whether the nature and extent of the evidence obtained is sufficient and appropriate. Evaluators will perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.

b. Sufficiency and appropriateness of evidence are relative concepts, which may be thought of in terms of a continuum rather than as absolutes. Sufficiency and appropriateness are evaluated in the context of the related findings and conclusions. For example, even though the evaluators may have some limitations or uncertainties about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence to support the findings and conclusions.

c. When assessing the sufficiency and appropriateness of evidence, evaluators will evaluate the expected significance of evidence to the review objectives, findings, and conclusions, available corroborating evidence, and the level of review risk. The steps to assess evidence may depend on the nature of the evidence, how the evidence is used in the review or report, and the review objectives.

(1) Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the review objectives.

(2) Evidence is not sufficient or not appropriate when using the evidence carries an unacceptably high risk that it could lead to an incorrect or improper conclusion; the evidence has significant limitations, given the review objectives and intended use of the evidence; or the evidence does not provide an adequate basis for addressing the review objectives or supporting the findings and conclusions. In these cases, evaluators will not use such evidence as support for findings and conclusions.

d. Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed or cannot be assessed, given the review objectives and the intended use of the evidence. Limitations also include errors identified by the evaluators in their testing. When the evaluators identify limitations or uncertainties in evidence that are significant to the review findings and conclusions, they will apply additional procedures, as appropriate. Such procedures include—

- (1) Seeking independent, corroborating evidence from other sources.
- (2) Redefining the review objectives or limiting the review scope to eliminate the need to use the evidence.
- (3) Presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions.
- (4) Determining whether to report the limitations or uncertainties as a finding, including any related, significant internal control deficiencies.

4-25. Developing elements of a finding

a. Evaluators will plan and perform procedures to develop the elements of a finding necessary to address the review objectives. In addition, if evaluators are able to sufficiently develop the elements of a finding, they will develop

recommendations for corrective action if they are significant within the context of the review objectives. The elements needed for a finding depend entirely on the objectives of the review. Thus, a finding or set of findings is complete to the extent that the review objectives are addressed and the report clearly relates those objectives to the elements of a finding. For example, a review objective may be limited to determining the current status or condition of program operations or progress in implementing legislative requirements, and not the related cause or effect. In this situation, developing the condition would address the review objective, and development of the other elements of a finding would not be necessary.

b. The element of criteria is discussed in paragraph 4–14, above, and the other elements of a finding—condition, cause, and effect follow:

(1) *Condition.* Condition is a situation that exists. The condition is determined and documented during the review.

(2) *Cause.* The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions.

(a) Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Evaluators may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference. When the evaluators' objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the review occurred, they are referred to as "cause."

(b) Identifying the cause of problems may assist evaluators in making constructive recommendations for corrective action. Because problems can result from a number of plausible factors or multiple causes, the recommendation can be more persuasive if evaluators can clearly demonstrate and explain with evidence and reasoning the link between the problems and the factor or factors they have identified as the cause or causes. Evaluators may identify deficiencies in program design or structure as the cause of deficient performance. Evaluators may also identify deficiencies in internal control that are significant to the subject matter of the performance review as the cause of deficient performance. In developing these types of findings, the deficiencies in program design or internal control would be described as the "cause". Often the causes of deficient program performance are complex and involve multiple factors, including fundamental, systemic root causes. Alternatively, when the evaluators' objectives include estimating the program's effect on changes in physical, social, or economic conditions, evaluators seek evidence of the extent to which the program itself is the "cause" of those changes.

(3) *Effect or potential effect.* The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the evaluators' objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the review, "effect" is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks. When the evaluators' objectives include estimating the extent to which a program has caused changes in physical, social, or economic conditions, "effect" is a measure of the impact achieved by the program. In this case, effect is the extent to which positive or negative changes in actual physical, social, or economic conditions can be identified and attributed to the program.

4–26. Review documentation

a. Evaluators must prepare review documentation related to planning, conducting, and reporting for each review. Evaluators will prepare review documentation in sufficient detail to enable an experienced reviewer⁶, having no previous connection to the review, to understand from the review documentation the nature, timing, extent, and results of review procedures performed, the review evidence obtained and its source and the conclusions reached, including evidence that supports the evaluators' significant judgments and conclusions. Evaluators will prepare review documentation that contains support for findings, conclusions, and recommendations before they issue their report.

b. Evaluators will design the form and content of review documentation to meet the circumstances of the particular review. The review documentation constitutes the principal record of the work that the evaluators have performed in accordance with standards and the conclusions that the evaluators have reached. The quantity, type, and content of review documentation are a matter of the evaluators' professional judgment.

c. Review documentation is an essential element of review quality. The process of preparing and reviewing review documentation also contributes to the quality of a review. Review documentation serves to—

(1) Provide the principal support for the evaluators' report.

⁶ An experienced reviewer means an individual (whether internal or external to the review organization) who possesses the competencies and skills that would have enabled him or her to perform the performance review. These competencies and skills include an understanding of (a) the review processes, (b) the standards in this AR and applicable legal and regulatory requirements, and (c) the subject matter associated with achieving the review objectives, and (d) issues related to the reviewed entity's environment.

- (2) Aid evaluators in conducting and supervising the review.
- (3) Allow for the appraisal of review quality.
- d.* Under the standards in this AR, evaluators will document the following—
 - (1) The objectives, scope, and methodology of the review.
 - (2) The work performed to support significant judgments and conclusions, including descriptions of transactions and records examined.⁷
 - (3) Evidence of supervisory review, before the review report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the review report.
- e.* When evaluators do not comply with applicable requirements in the AR due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the review, the evaluators will document the departure from the standard requirements and the impact on the review and on the evaluators' conclusions. This applies to departures from both mandatory requirements and presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the standard (see paras 5–11*a* and 5–11*b*, below).
- f.* Review organizations will establish policies and procedures for the safe custody and retention of review documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Whether review documentation is on paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the evaluators' knowledge, or if the documentation is lost or damaged. For review documentation that is retained electronically, the IR organization will establish information systems controls concerning accessing and updating the review documentation.
- g.* IR organizations will develop policies to deal with requests by outside parties to obtain access to review documentation, especially when an outside party attempts to obtain information indirectly through the reviewer rather than directly from the reviewed entity. In developing such policies, IR organizations will determine what laws and regulations apply, if any.

Chapter 5

Reporting Standards

5–1. Introduction

This chapter establishes reporting standards and provides guidance for reviews conducted in accordance with the standards provided in this AR. The reporting standards for reviews relate to the form of the report, the report contents, and report issuance and distribution.

5–2. Reporting

- a.* Evaluators must issue reports communicating the results of each completed review. Evaluators will use a form of the review report that is appropriate for its intended use and is in writing or in some other retrievable form. For example, the evaluator may present reports using electronic media that are retrievable by report users and the IR organization. The users' needs will influence the form of the review report. Different forms of reports include formal written reports, memorandum, briefing slides, or other presentation materials.
- b.* The purposes of review reports are to—
 - (1) Communicate the results of reviews to those charged with governance, the appropriate officials of the reviewed entity, and the appropriate oversight officials.
 - (2) Make the results less susceptible to misunderstanding.
 - (3) Make the results available to the public, as applicable.
 - (4) Facilitate follow-up to determine whether appropriate corrective actions have been taken.
- c.* If a review is terminated before it is completed and a review report is not issued, evaluators will follow the guidance in paragraph 4–18*d*, above.
- d.* If after the report is issued, the evaluators discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they will communicate with those charged with governance, the appropriate officials of the reviewed entity, and the appropriate officials of the organizations requiring or arranging for the reviews, so that they do not continue to rely on the findings or conclusions that were not supported. The evaluators will then determine whether to conduct additional review work necessary to reissue the report with revised findings or conclusions.

⁷ Evaluators may meet this requirement by listing file numbers, case numbers, or other means of identifying specific documents they examined. They are not required to include copies of documents they examined as part of the review documentation, nor are they required to list detailed information from those documents.

5-3. Report contents

Evaluators will prepare review reports that contain—

- a.* The objectives, scope, and methodology of the review.
- b.* The review results, including findings, conclusions, and recommendations, as appropriate.
- c.* A statement about the evaluators' compliance with these standards.
- d.* A summary of views of responsible officials.
- e.* If applicable, the nature of any confidential or sensitive information omitted.

5-4. Objectives, scope, and methodology

a. Evaluators will include in the report, a description of the review objectives and the scope and methodology used for addressing the review objectives. Report users need this information to understand the purpose of the review, the nature and extent of the review work performed the context and perspective regarding what is reported, and any significant limitations in review objectives, scope, or methodology.

b. Review objectives for reviews may vary widely. Evaluators will communicate review objectives in the review report in a clear, specific, neutral, and unbiased manner that includes relevant assumptions, including why the IR organization undertook the assignment and the underlying purpose of the review and resulting report. When review objectives are limited and broader objectives can be inferred by users, stating in the review report that certain issues were outside the scope of the review can avoid potential misunderstanding.

c. Evaluators will describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Evaluators will also report any significant constraints imposed on the review approach by information limitations or scope impairments, including denials of access to certain records or individuals.

d. In describing the work conducted to address the review objectives and support the reported findings and conclusions, evaluators will, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the evaluators' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.

e. In reporting review methodology, evaluators will explain how the completed review work supports the review objectives, including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the evaluators addressed the review objectives. When the evaluators used extensive or multiple sources of information, the evaluators may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as review evidence. Evaluators will identify significant assumptions made in conducting the review; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the evaluators' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

5-5. Reporting findings

a. In the review report, evaluators will present sufficient, appropriate evidence to support the findings and conclusions in relation to the review objectives. Clearly developed findings assist management or oversight officials of the reviewed entity in understanding the need for taking corrective action. If evaluators are able to sufficiently develop the elements of a finding, they will provide recommendations for corrective action, if they are significant within the context of the review objectives. However, the extent to which the elements for a finding are developed depends on the review objectives. Thus, a finding or set of findings is complete to the extent that the evaluators address the review objectives.

- b.* Evaluators will describe in their report limitations or uncertainties with the reliability or validity of evidence if—
- (1) The evidence is significant to the findings and conclusions within the context of the review objectives.
 - (2) Such disclosure is necessary to avoid misleading the report users about the findings and conclusions.

c. As discussed in chapter 4, even though the evaluators may have some uncertainty about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence given the findings and conclusions. Evaluators will describe the limitations or uncertainties regarding evidence in conjunction with the findings and conclusions, in addition to describing those limitations or uncertainties as part of the objectives, scope and methodology. Additionally, this description provides report users with a clear understanding regarding how much responsibility the evaluators are taking for the information.

d. Evaluators will place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, evaluators will, as applicable, relate the instances identified to the population or

the number of cases examined and quantify the results in terms of dollar value, or other measures, as appropriate. If the results cannot be projected, evaluators will limit their conclusions appropriately.

e. Evaluators may provide selective background information to establish the context for the overall message and to help the reader understand the findings and significance of the issues discussed.⁸ When reporting on the results of their work, evaluators will disclose significant facts relevant to the objectives of their work and known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices.

f. Evaluators will report deficiencies⁹ in internal control that are significant within the context of the objectives of the review, all instances of fraud, illegal acts¹⁰ unless they are inconsequential within the context of the review objectives, significant violations of provisions of contracts or grant agreements, and significant abuse, that have occurred or are likely to have occurred.

5–6. Deficiencies in internal control

a. Evaluators will include in the review report—

- (1) The scope of their work on internal control.
- (2) Any deficiencies in internal control that are significant within the context of the review objectives and based upon the review work performed.

b. When evaluators detect deficiencies in internal control that are not significant to the objectives of the review, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the reviewed entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Evaluators will refer to that written communication in the review report, if the written communication is separate from the review report. Determining whether or how to communicate to officials of the reviewed entity deficiencies that are inconsequential within the context of the review objectives is a matter of professional judgment. Evaluators will document such communications.

c. In a performance review, evaluators may conclude that identified deficiencies in internal control that are significant within the context of the review objectives are the cause of deficient performance of the program or operations being reviewed. In reporting this type of finding, the internal control deficiency would be described as the cause.

5–7. Fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse

a. When evaluators conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they will report the matter as a finding.

b. When evaluators detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they will communicate those findings in writing to officials of the reviewed entity unless the findings are inconsequential within the context of the review objectives, considering both qualitative and quantitative factors. Determining whether or how to communicate to officials of the reviewed entity about fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the evaluators' professional judgment. Evaluators will document such communications.

c. When fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, evaluators may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Evaluators may limit their public reporting to matters that would not compromise those proceedings, and for example, report only on information that is already a part of the public record.

5–8. Reporting findings directly to parties outside the reviewed entity

a. Evaluators will report known or likely fraud, illegal acts, and violations of contracts provision or grant agreements, or abuse directly to parties outside the reviewed entity in the following two circumstances—¹¹

- (1) When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, evaluators will first communicate the failure to report such information to those charged with governance. If the reviewed entity still does not report this information to the specified external parties as soon as practicable after the evaluators' communication with those charged with governance, then the evaluators will report the information directly to the specified external parties.

⁸ Appropriate background information may include information on how programs and operations work; the significance of programs and operations (for example, dollars, impact, purposes, and past review work if relevant); a description of the reviewed entity's responsibilities; and explanation of terms, organizational structure, and the statutory basis for the program and operations.

⁹ As discussed in chapter 4, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis.

¹⁰ Whether a particular act is, in fact, illegal may have to await final determination by a court of law or other adjudicative body. Disclosing matters that have led reviewers to conclude that an illegal act is likely to have occurred is not a final determination of illegality.

¹¹ Internal Review organizations do not have a duty to report outside that entity unless required by law, rule, regulation, or policy.

(2) When entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that—

(a) Is significant to the findings and conclusions.

(b) Involves funding received directly or indirectly from a Government agency, evaluators will first report management's failure to take timely and appropriate steps to those charged with governance.

(3) If the reviewed entity still does not take timely and appropriate steps as soon as practicable after the evaluators' communication with those charged with governance, then the evaluators will report the entity's failure to take timely and appropriate steps directly to the funding agency.

b. The reporting in paragraph 5–8 is in addition to any legal requirements to report such information directly to parties outside the reviewed entity. Evaluators will comply with these requirements even if they have resigned or been dismissed from the review prior to its completion.

c. Evaluators will obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the reviewed entity that it has reported such findings in accordance with laws, regulations, and funding agreements. When evaluators are unable to do so, they will report such information directly as discussed above.

5–9. Conclusions

Evaluators will report conclusions, as applicable, based on the review objectives and the review findings. Report conclusions are logical inferences about the program based on the evaluators' findings, not merely a summary of the findings. The strength of the evaluators' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they lead to the evaluators' recommendations and convince the knowledgeable user of the report that action is necessary.

5–10. Recommendations

Evaluators will recommend actions to correct problems identified during the review and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Evaluators will make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified problems, and clearly state the actions recommended. Effective recommendations encourage improvements in the conduct of Government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.

5–11. Reporting evaluators' compliance with standards

a. When evaluators comply with all applicable standards, they will use the following language, which represents an unmodified standards compliance statement, in the review report to indicate that they performed the review in accordance with standards: "We conducted this performance review in accordance with standards in AR 11–7. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives."

b. When evaluators do not comply with all applicable AR 11–7 standards, they will include a modified compliance statement in the review report. Evaluators will use a statement that includes the language in paragraph 5–11a, above, modified to indicate the standards that were not followed.

5–12. Reporting views of responsible officials

a. Providing a draft report with findings for review and comment by responsible officials of the reviewed entity and others helps the evaluators develop a report that is fair, complete, and objective. Including the views of responsible officials' results in a report that presents not only the evaluators' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the reviewed entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable.

b. When evaluators receive written comments from the responsible officials, they will include in their report a copy of the officials' written comments, or a summary of the comments received. When the responsible officials provide oral comments only, the evaluators will prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.

c. Evaluators will also include in the report an evaluation of the comments, as appropriate. In cases in which the reviewed entity provides technical comments in addition to its written or oral comments on the report, evaluators may disclose in the report that such comments were received.

d. Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; evaluators have worked closely with the responsible officials throughout the conduct of the work and the parties are familiar with the findings and issues addressed in the draft report; or the evaluators do not expect major

disagreements with the draft report's findings, conclusions, and recommendations, or major controversies with regard to the issues discussed in the draft report.

e. When the reviewed entity's comments are inconsistent or in conflict with the report's findings, conclusions, or recommendations or when planned corrective actions do not adequately address the evaluators' recommendations, the evaluators will evaluate the validity of the reviewed entity's comments. If the evaluators disagree with the comments, they will explain in the report their reasons for disagreement. Conversely, the evaluators will modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

f. If the reviewed entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the evaluators may issue the report without receiving comments from the reviewed entity. In such cases, the evaluators will indicate in the report that the reviewed entity did not provide comments.

5-13. Reporting confidential or sensitive information

a. If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, evaluators will disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary.

b. Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, evaluators may issue a separate, classified or limited-official-use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.

c. Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that could be caused by the misuse of this information. In such circumstances, evaluators may issue a limited-official-use report containing such information and distribute the report only to those parties responsible for acting on the evaluators' recommendations. The evaluators may consult with legal counsel regarding any requirements or other circumstances that may necessitate the omission of certain information.

d. The broad public interest in the program or activity under review assists evaluators when deciding whether to exclude certain information from publicly available reports. When circumstances call for omission of certain information, evaluators will evaluate whether this omission could distort the review results or conceal improper or illegal practices.

e. When review organizations are subject to public records laws, evaluators will determine whether public records laws could impact the availability of classified or limited-official-use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. For example, the evaluators may communicate general information in a written report and communicate detailed information verbally. The reviewer may consult with legal counsel regarding applicable public records laws.

5-14. Distributing reports

Distribution of reports completed under this AR is in accordance with paragraph 2-4c, above. Evaluators will document any limitation on report distribution. The following discussion outlines distribution for reports completed under this AR:

a. Review organizations in Government entities will distribute review reports to those charged with governance, to the appropriate officials of the reviewed entity, and to the appropriate oversight bodies or organizations requiring or arranging for the reviews.

b. Evaluators will also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on review findings and recommendations, and to others authorized to receive such reports.

Appendix A References

Section I Required Publications

AR 11–2
Managers’ Internal Control Program (Cited in paras 1–4d(14), 2–7.)

AR 36–2
Audit Services in the Department of the Army (Cited in para 1–4d(16).)

Section II Related Publications

A related publication is a source of additional information. The user does not have to read it to understand this regulation.

AR 1–201
Army Inspection Policy

AR 215–1
Military Morale, Welfare, and Recreation Programs and Nonappropriated Fund Instrumentalities

DOD 7600.7–M
DOD Audit Manual

DODD 7650.3
Follow-up on General Accounting Office (GAO), DOD Inspector General (DODIG), and Internal Audit Reports

DODI 7600.2
Audit Policies

DODI 7600.6
Audit of Nonappropriated Fund Instrumentalities and Related Activities

GAO/AIMD–00–21.3.1
Standards for Internal Control in the Federal Government (Available at <http://www.gao.gov/>.)

GAO/AIMD–12.19.6
Federal Information System Controls Audit Manual (Available at <http://www.gao.gov/>.)

GAO–01–1008G
Internal Control Management and Evaluation Tool (Available at <http://www.gao.gov/>.)

GAO–05–568G
Government Auditing Standards-Guidance on GAGAS Requirements for Continuing Professional Education (Available at <http://www.gao.gov/>.)

GAO–07–731G
Government Auditing Standards (Available at <http://www.gao.gov/>.)

American Institute of Certified Public Accountants (AICPA) Standards
(Available at <http://www.aicpa.org/>.)

Institute of Internal Auditors Internal Audit Standards
(Available at <http://www.theiia.org/>.)

Section III Prescribed Forms

This section contains no entries.

Section IV

Referenced Forms

DA Forms are available on the Army Publishing Directorate Web site (<http://www.apd.army.mil>).

DA Form 11-2

Management Control Evaluation Certification

DA Form 2028

Recommended Changes to Publications and Blank Forms

Appendix B

Internal Control Evaluation Checklist

B-1. Function

The function covered by this checklist is the Army Internal Review Program.

B-2. Purpose

The purpose of this checklist is to assist IR chiefs and IR personnel in evaluating the key internal controls outlined below. It is not intended to cover all controls.

B-3. Instructions

Answers will be based on the actual testing of key internal controls (for example, document analysis, direct observation, sampling, simulation, and so on). Answers that indicate deficiencies will be explained and corrective action indicated in supporting documentation. Certification that this evaluation has been conducted will be accomplished on DA Form 11-2 (Internal Control Evaluation Certification Statement).

B-4. Test questions

- a.* Do all IR personnel complete, every 2 years, at least 80 hours of continuing professional education (CPE) that directly enhance the individual's professional proficiency? Are at least 24 of the 80 hours of CPE directly related to the individual's assigned duties? Are at least 20 of the 80 hours completed in any 1 year of the 2 year period?
- b.* Is an IR quality assurance program established and implemented in accordance with AR 11-7?
- c.* Has the IR Program undergone an external quality review (peer review) at least once every 3 years, with internal quality review in the intervening years conducted by the IR director?
- d.* Is there an approved annual plan in place?
- e.* Is the local IR office placed appropriately to ensure organizational independence?

B-5. Supersession

No supersession.

B-6. Comments

Help to make this a better tool for evaluating internal controls. Submit comments to: Office of the Assistant Secretary of the Army (Financial Management and Comptroller), SAFM-FOI, 109 Army Pentagon, Washington, DC 20310-0109.

Glossary

Section I Abbreviations

ASA(FM&C)

Assistant Secretary of the Army (Financial Management & Comptroller)

ARNG

Army National Guard

AR

Army regulation

CIDC

Criminal Investigation Division Command

COSO

Committee of Sponsoring Organization of the Treadway Commission

CP

career program

CPE

Continuing Professional Education

DA

Department of the Army

DASA (FO)

Deputy Assistant Secretary of the Army (Financial Operations)

DOD

Department of Defense

DODI

Department of Defense instruction

DODIG

Department of Defense Inspector General

GAGAS

generally accepted Government auditing standards

GAO

Government Accountability Office

GAS

Government auditing standards

HQDA

Headquarters, Department of the Army

IR

internal review

NAFI

nonappropriated fund instrumentality

NGB

National Guard Bureau

OASA(FM&C)

Office of Assistant Secretary of the Army (Financial Management & Comptroller)

OIP

Organization Inspection Program

USAAA

United States Army Audit Agency

USAR

United States Army Reserve

USPFO

United States property and fiscal officer

Section II

Terms

This section contains no entries.

Section III

Special Abbreviations and Terms

This section contains no entries.

UNCLASSIFIED

PIN 000279-000