

5 June 1998

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Revised Quick Response Audit (QRA) Guidance

References:

- a. Memorandum from this office dated 6 January 1995, subject: Quick Reaction Auditing.
- b. ASA(FM&C) Memorandum dated 2 May 1996, subject: Qualifying Quick Response Audit Reports.

Together with consulting services, quick response auditing has become the commanders' preferred means of obtaining independent, objective and timely information on which to base decisions. The revised policy, attached, represents lessons learned by the Army's Internal Review community during the conduct of QRAs over the past four years. The revised QRA policy supercedes that prescribed in above referenced memorandums.

This latest QRA policy guidance was developed and staffed by a process reengineering team comprised of internal auditors from the Internal Review community. We'd like to express our sincere appreciation to these highly skilled and dedicated professionals.

Mr. Nelson McKown (Team Chief)	-	USA Space & Missile Defense Cmd
Ms. Donna Rovere	-	USA Engineer & Spt Ctr, Huntsville
Mr. Sam Edge	-	Alabama National Guard
Mr. Ellis Cox	-	USA Aviation & Missile Cmd
Mr. Rodger Keene	-	USA Aviation & Missile Cmd
Mr. Frank Hayes	-	USA Reserve Cmd

Questions concerning this memorandum may be directed to Mr. Bob Barnhart, SAFM-FOI, at DSN 225-2909, commercial (703) 695-2909, or e-mail barnhrw@hqda.army.mil.

//signed//

Karen K. Wolff

Director, Financial Reporting & Internal Review

2.

DISTRIBUTION:

HQDA (SAAA-IR)
 (DAMO-ZQ)
 (NGB-IR)
 (DACS-DMP)
 (DAMI-PB)
 (DASG-IRO)

COMMANDER IN CHIEF

 US ARMY EUROPE AND SEVENTH ARMY (AEAGX-IA)

COMMANDER

 US FORCES COMMAND (AFCS-IR)
 US ARMY MATERIEL COMMAND (AMCIR)
 US ARMY CORPS OF ENGINEERS (CEAO)
 US ARMY INTELLIGENCE AND SECURITY COMMAND (IACS-IR)
 US ARMY INFORMATION SYSTEMS COMMAND (AS-IR)
 MILITARY TRAFFIC MANAGEMENT COMMAND (MTIR)
 US ARMY MILITARY DISTRICT OF WASHINGTON (ANIR)
 US ARMY CRIMINAL INVESTIGATION COMMAND (CIIR-ZA)
 US ARMY MEDICAL COMMAND (MCIR)
 US ARMY TRAINING AND DOCTRINE COMMAND (ATIR)
 US ARMY SPECIAL OPERATIONS COMMAND (AOIR)
 US ARMY SOUTH (SOCS-IR)
 EIGHTH US ARMY (FKCS-IR)
 US ARMY RECRUITING COMMAND (RCCS-IA)
 US ARMY ENTRANCE PROCESSING COMMAND (MIR)
 US ARMY COMMUNITY AND FAMILY SUPPORT CENTER (CFSC-IR)
 US ARMY SPACE AND STRATEGIC DEFENSE COMMAND (CSSD-IR)
 US ARMY PACIFIC (APZV-IR)
 US ARMY PERSONNEL COMMAND (TAPC-IR)
 US ARMY RESERVE PERSONNEL CENTER (DARP-ZIR)
 US ARMY RESERVE COMMAND (AFRC-IR)
 US ARMY MEDICAL RESEARCH & DEVELOPMENT COMMAND
 (SGRD-IR)

SUPERINTENDENT

 US MILITARY ACADEMY (MAIR)

CF: DASA(FO)

 THE AUDITOR GENERAL

ARMY INTERNAL REVIEW QUICK RESPONSE AUDIT (QRA) POLICY

1. **Purpose.** The purpose of this policy is to provide Army Internal Review auditors with uniform guidance on planning, executing, and reporting quick response audits. This is general guidance and may be supplemented as required.

2. **Introduction.** QRAs are effective in situations where a client has recognized a problem, is seeking causes and solutions, and time is of the essence. A QRA will normally be generated by a request from a client, and the audit planning should be focused on that client's needs. The success of a QRA is dependent upon knowing exactly what the client wants and when he/she wants it. Quick response audits should be limited in scope and used to provide clients with real-time answers. The government auditing standards addressing general, field work, and reporting apply to quick response audits. The general standards are vital to any audit, but the field work and reporting standards allow some leeway in quick response auditing. The standards will be followed in QRAs to the maximum extent possible.

3. **General standards.** An extremely important factor in auditing is credibility. For this reason, compliance with the general standards is vital. These four standards - qualifications, independence, due professional care, and quality control - are the foundation of professional auditing credibility.

a. **Qualifications.** Due to its very nature, staff qualifications are critical in a QRA. Because of the limited time allowed for QRAs, the auditor or audit team should be strong analysts and experienced in the function being audited. For inexperienced personnel, adequate supervision is a must. Of course, auditors cannot be functional experts in all areas. In cases where auditors lack functional expertise, functional experts should be brought in from the outside to assist. See the DODIG Internal Audit Manual, Chapter 11, Part IV for guidance on use of technical experts.

b. **Independence.** Maintaining independence may provide a unique challenge for QRAs. The client's request may be based on a preconception, and the auditor must guard against being influenced to produce this desired outcome. In cases where independence cannot be maintained, make sure this fact is brought to the attention of the client and included in the report.

c. **Due professional care.** Due professional care involves following the audit standards, or qualifying reports. Where standards are not followed, make sure this is disclosed in the working papers and the report.

d. **Quality control.** Having an adequate quality control system becomes even more important in QRAs. In QRAs, the risk of misstatement of a material fact is much greater than in a traditional audit with all its review processes. Therefore, the audit organization should arrange to have an external quality control review performed at least once every 3 years. The Internal Review Quality Assurance Guide issued by DA IR should be used for this purpose.

4. **Field Work Standards.** The field work standards govern the audit process. Although the field work, and reporting, standards apply fully to QRAs, the revised standards allow much greater flexibility for performing QRAs.

a. **Planning.** GASs first field work standard requires that "work be adequately planned". Since QRAs are time sensitive, adequate planning is critical to the quick response auditing process. For the QRA, the plan should be brief, and document agreements reached with the client on objectives, scope, audit methodologies, report format, requirements for written comments, and reporting date. It should not include a lot of background and criteria. The audit plan, when signed by the auditor and the client, can serve as documentation for the assignment agreement. However, if preferred, a memorandum separate from the audit plan can be used to document the auditor/client agreement.

(1) Objectives. QRAs are normally limited to one or two objectives, guided by what the client wants to know. Work with the requester to set objectives. Remember, the number of objectives will directly impact the timeliness of the audit report. When a client insists on multiple objectives or extensive scope, but still needs answers quickly, you should work with him/her to prioritize the objectives and provide the results incrementally.

(2) Scope. The scope should be limited to the extent necessary to satisfy the objectives. For example: limit the time period reviewed; limit the number of locations reviewed; limit the number of transactions examined; limit the number of interviews conducted; or limit the inquiry to a known incident.

(3) Audit methodology. Selecting appropriate methodology is essential to a quick response audit. Using the "right" audit tools can significantly speed up the QRA audit process. Common methodologies that can be used in QRAs include: statistical sampling - allows for quicker conclusions and more prompt audit results; flow charting - can identify control weaknesses more quickly; ratio and trend analysis, and regression analysis - highlight areas warranting further examination. Auditors who are not trained in these techniques should obtain necessary training to become proficient in the use of computer assisted audit techniques.

(4) Report format, comments and completion date. Agreement should be reached in advance with the client on report format, the necessity for management

comments, and delivery date. This should be documented in the assignment agreement. See paragraph 5 below for more information on report format.

(5) Follow-up. To ensure timeliness, a formal follow-up on findings and recommendations from previous audits may be omitted. However, if there are outstanding issues related to the audit objectives that will not be evaluated, the audit report should be qualified to state that no follow-up work was done.

(6) Relying on others' work. A way to save time in a QRA is to use the work of others to the maximum extent possible. This could include work by other auditors, inspectors, consultants, or experts and specialists. However, a cautionary note - use should be made of other's work only to the extent that they follow and rely on professional standards.

b. **Supervision.** If you have less experienced staff, adequate supervision is critical in a QRA. As with any audit assignment, the auditors work should be independently reviewed. The nature of the review might vary depending on the experience level of the staff assigned.

c. **Compliance.** The revised standards allow that compliance should only be included when laws, regulations, and other compliance requirements are significant to the audit objectives. (underscoring supplied) The compliance standard only applies to QRAs if the client is seeking to validate allegations of wrongdoing, suspected fraud, or compliance with laws and regulations. If it is determined that laws and regulation violations would impact QRA objectives, it is best not to perform a QRA.

d. **Management controls.** Only controls that are relevant to the audit need be reviewed. QRAs do not have to include a specific objective to evaluate the implementation of the Management Control Process.

e. **Evidence.** The evidence standard applies in QRAs, but the auditor must be prudent. Over-documentation can undermine the timeliness of a QRA. Documentation should be limited to only that necessary to support conclusions. The working papers, whether they be automated or hardcopy, need not contain copies of documents nor detailed information but should describe records reviewed so that an experienced auditor would be able to examine those same records and reach the same conclusions.

(1) Findings. Every finding does not have to include all the elements of condition, criteria, cause and effect. The revised standards allow that a finding is complete to the extent that it satisfies the audit objective. Thus, if the audit objective is only to relay the cause of a known condition, the other factors need not be developed and documented in the working papers.

(2) Working papers. The revised standards allow for less documentation in the working papers. Auditors are not required to include in the working papers voluminous documentation examined nor are they required to list detailed information from those documents. The following comprise minimum criteria for supporting a QRA:

- a. Audit assignment agreement.
- b. Audit program, outlining objective(s) agreed to with the requester, and steps to achieve the objective(s).
- c. Record of significant meetings and discussions.
- d. Prior audit reports, if applicable.
- e. Supporting working papers, with a summary if needed by the volume of the working papers. Supporting working papers would include flowcharts, sampling plans, test results, etc.
- e. Copy of the final report, cross referenced to the supporting working papers.
- f. Monetary benefits working paper with management agreement, if applicable.

5. **Reporting.** GAS reporting standards generally require auditors to prepare timely written reports communicating the results of each audit. However, under the revised audit standards, an audit report can take any one of several forms. A quick response audit report can be written, it can be a briefing, it can be done by electronic means, or a combination of these. Whatever reporting form is used, the standards require that it be retrievable by report users and the audit organization.

a. **Content.** The report should be no longer than necessary to convey and support the message. The report should concisely describe the audit objectives, scope, methodology, findings related to the audit objectives (see 4 e (1) above), and if applicable, conclusions and recommendations. In situations where there are only one or two objectives, as will be the case in most quick response audits, a conclusions paragraph need not be written. Standards not complied with during the audit should be identified in the scope section.

(1) **Findings.** Revised standards state the elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding is complete to the extent that the audit objectives are satisfied. Your objective may be limited to determining a cause and providing a recommendation to correct a situation. In those cases, the request may be satisfied without spending the time necessary to develop and write a condition, criteria, cause, and effect paragraph.

(2) **Management Comments.** Because quick response reports are normally issued directly to the client, it is not necessary to include the views of responsible officials in the report. However, whether comments will be included in the report should be agreed upon and documented in the audit/client agreement. Generally, verbal comments should be obtained on a real time basis during the QRA process. However, if it becomes necessary to issue the report to other than the client, management comments should be obtained.

(3) **Qualifying quick response audit reports.** The GAS standards will be followed to the maximum extent practicable in quick response audits. As stated, the four general standards - qualifications, independence, due professional care, and quality controls - are all vital to a quick response audit. The field work standards and the reporting standards allow some leeway in conducting quick response audits. Where any of the standards are not followed, e.g. if management controls are not reviewed, this fact should be made known, up front, in the report. All QRA reports will be qualified as to compliance with GAS as appropriate. GAS 5.12 specifically requires:

"The statement should be qualified in situations where the auditors did not follow an applicable standard. In these situations, the auditors should disclose the applicable standard that was not followed, the reasons therefore, and how not following the standard affected the results of the audit."

b. **Report distribution.** At the discretion of the IRAC Office, reports may be distributed only to the requester of an audit. In such cases, however, the Chief of Staff or next higher authority should provide written approval of this practice. A method of doing this is to include it in the annual solicitation letter signed by the Commander or Chief of Staff. For example, the solicitation letter might include a paragraph on quick response auditing services, and state that "these services may be requested by the staff with the results of the review provided directly to the requestor".

6. **Other issues.** GAO has issued audit guides for evaluating and testing specific audit areas. These guides include: *Assessing Internal Controls in Performance Audits*, *Assessing Compliance with applicable Laws and Regulations*, *Assessing reliability of Automated Systems*, *Using Statistical Sampling*, and *Evaluating and Testing controls over Sensitive Payments*. These guides should be referred to when necessary to meet the QRAs objectives. Some QRA related comments follow:

a. Assessing the reliability of automated systems. Care must be taken to adhere to the first general standard - "qualification". When necessary the audit team should be augmented with in-house information management specialists.

b. Using statistical sampling. Due to the time requirements of a QRA, judgmental sampling is generally used. Care should be exercised, however, since such a sample cannot be used to make projections. The DOD Internal Audit Manual (DOD Directive 7600.7-M) requires the judgmental sample be documented as to the sample objective, methods used, size and characters of the universe being sampled, discussion of sample limitations, and sample results.

c. Follow-up. Follow-up on a QRA report is generally not necessary. However, a follow-up should always be performed if the customer requests it, or if a significant finding, e.g. a material weakness, is uncovered.