

Guidance for Understanding the New Peer Review Ratings

The 2011 Revision of Generally Accepted Government Auditing Standards (GAGAS) modifies the reporting used to communicate the results of a peer review. In accordance with paragraph 3.101 of the 2011 GAGAS, the peer review report includes one of three possible ratings, based on the peer reviewers' opinion on the audit organization's system of quality control: Pass, Pass with Deficiencies, or Fail. **The 2011 GAGAS does not change the thresholds for deficiency reporting.** The table below compares peer review reporting under the 2007 GAGAS Revision to reporting under the 2011 Revision. Terms are defined on page 2.

Conditions Identified during Peer Review	Reporting under 2007 and Previous GAGAS	Reporting under 2011 GAGAS
The audit organization's system of quality control was suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable standards in all material respects.	Unmodified opinion.	Peer review rating of Pass.
The audit organization's system of quality control was suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable standards in all material respects, except for a deficiency or deficiencies.	Modified opinion. Report includes the reasons for the modification (the deficiency or deficiencies that resulted in a modified opinion) and a detailed description of the findings and recommendations.	Peer review rating of Pass with Deficiencies. The report includes a description of the identified deficiencies.
The audit organization's system of quality control did not provide the audit organization with reasonable assurance of performing or reporting in conformity with applicable standards in all material respects due to a significant deficiency or significant deficiencies in the design of or the audit organization's compliance with its system of quality control.	Adverse opinion. The report includes the reasons for the adverse opinion (the deficiency or deficiencies that resulted in an adverse opinion) and a detailed description of the findings and recommendations.	Peer review rating of Fail. The report includes a description of the identified significant deficiencies.

Peer reviewers determine the type of peer review rating to issue based on the importance of observed circumstances to the audit organization's system of quality control as a whole and the nature, causes, patterns, and pervasiveness of those circumstances. The circumstances are

assessed both alone and in aggregate. Determinations are a matter of professional judgment on the part of the peer review team.

The following definitions apply to this guidance.

A *matter* is a circumstance identified by a peer reviewer that warrants further consideration by the peer reviewers. Matters are identified through the peer reviewers' evaluation of the design of the reviewed audit organization's system of quality control and/or tests of compliance with that system.

A *finding* is one or more related matters that result from a condition such that there is more than a remote possibility that the reviewed audit organization would not perform and/or report in conformity with the requirements of applicable professional standards.

A *deficiency* is one or more findings that the peer reviewer has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the audit organization's system of quality control taken as a whole, could create a situation in which the organization would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects.

A *significant deficiency* is one or more deficiencies that the peer reviewer has concluded results from a condition in the audit organization's system of quality control or compliance with that system such that the system taken as a whole does not provide the organization with reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects.

A peer review provides an opportunity for auditors to evaluate the audit organization's effectiveness in carrying out its mission. To allow auditors to best take advantage of this opportunity, a peer review team may communicate matters or findings that do not meet the definitions of deficiency or significant deficiency above.

Peer reviewers can use the flowchart on the following page to assist in determining the type of report to issue.

Developing Peer Review Communications in Accordance with GAGAS

