

## **SW/SE Intergovernmental Audit Forums**

### **Panel Session: Processes to Implement the New Yellow Book**

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Implementation Issues Related to Changes in  
Quality Control and Assurance

*(July 2007 Revision to Government Auditing Standards)*

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## **QUALITY CONTROL AND ASSURANCE**

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**The general standard related to quality control and assurance contained in ¶3.50 of the Government Auditing Standards (GAS), July 2007 Revision, adopted by the United States Government Accountability Office (more commonly known as the "Yellow Book") is:**

**Each audit organization performing audits or attestation engagements in accordance with Generally Accepted Government Auditing Standards (GAGAS) must:**

**a. establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and**

**b. have an external peer review at least once every 3 years.**

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## **Major Additions Related to Quality Control and Assurance**

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- Added a requirement for an audit organization to include policies and procedures in its system of quality control that collectively address (a) leadership responsibilities for quality within the audit organization, (b) independence, legal, and ethical requirements, (c) initiation, acceptance, and continuance of audit and attestation engagements, (d) human resources, (e) audit and attestation engagement performance, documentation, and reporting, and (f) monitoring of quality. (Para. 3.53)**
  
- Added a requirement for audit organizations to analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. (Para. 3.54)**
  
- Added a requirement for external audit organizations to make peer review reports publicly available and for internal audit organizations to provide a copy to those charged with governance. (Para. 3.61)**

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## **Creation of the Office of Quality Assurance**

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- Provides leadership responsibilities for quality control within the Department and increases emphasis on quality throughout the Department.
  
- Centralizes Department's quality assurance activities under one umbrella to provide: 1) assistance regarding new and existing auditing standards, 2) independent monitoring of audit quality, 3) monitoring of staff/department's compliance with professional standards, and applicable legal and regulatory requirements.
  
- Reports results of internal quality controls and external peer reviews as appropriate.

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## **Office of Quality Assurance Implementation Issues**

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- ❑ Effective date July 1, 2007
- ❑ Office reports directly to State Auditor
- ❑ EAD will provide two positions and SGD and HAD will each provide 1 position as follows:
  - ❑ Director (EAD)
  - ❑ Manager (SGD)
  - ❑ Supervisor (HAD)
  - ❑ Senior Auditor (EAD)
- ❑ 2 Offices located on the 5<sup>th</sup> floor (currently used as conference rooms), one office on fourth floor and one located in Leesburg.
- ❑ See attached details relating to implementation of the [Office of Quality Assurance.xls](#)

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## **Elements of Department's Quality Assurance System**

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1. The Department's system of quality control for financial and compliance and performance audit engagements will include policies and procedures that address the following elements:
  - Leadership Responsibilities
  - Independence, Legal and Ethical Requirements
  - Acceptance and Continuance of Engagements
  - Human Resources
  - Engagement Performance and Reporting
  - Monitoring of Quality and Addressing Findings
  - Obtaining and Reporting Results of External Peer Reviews

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## Quality Assurance System Monitoring

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2. The monitoring of the Department's financial and compliance audit engagements will:
    - Be a formal, documented process,
    - Be planned for the entire year and performed on a continuing basis to provide timely feedback,
    - Cover all elements of the quality control system,
    - Include review of audit documentation for selected engagements, interviews, and functional tests,
    - Be performed by Office of Quality Assurance staff who are not directly associated with the engagements being reviewed,
    - Result in a written report and follow-up to ensure consideration is given in addressing findings and improvements identified in the report.
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## Annual and Continuing Inspection Program

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- The Office of Quality Assurance will conduct a rigorous, annual inspection program with the objective of evaluating the adequacy of quality control policies and procedures and their implementation, including:
    - A review of documentation related to independence and human capital management
    - A review of audit documentation for an appropriate sized sample of audit engagements
    - Discussions/interviews with personnel
    - A formal report to the State Auditor and top management within each Division, including discussion of findings that indicate improvements are needed
    - Consideration of findings by management personnel who are in a position to take corrective action
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## **Transparency and Other Required Criteria**

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- Transparency criteria – will make public:**
  - Copies of the Department’s external peer review opinion and letter of comment (if applicable).
- Other criteria – will make available to Staff:**
  - A description of the Department’s overall system of quality assurance pertaining to financial and compliance and performance audits,
  - Results of the annual inspection processes including conclusions and recommendations about the design and effectiveness of each Division’s quality assurance system.