

# **SE/SW Intergovernmental Audit Forum**



**Denise Wempe, CPA, CGFM**  
**Regional Inspector General**  
**Region IV and Caribbean**  
**U.S. Department of Education**

# GAO Yellow Book

...On February 1, 2007, the Comptroller General of the United States issued the 2007 revision of *Government Auditing Standards*, which supersedes the 2003 revision. The January 2007 version contains the final 2007 revisions to the standards, except for the quality control and peer review sections in chapter 3. Concurrent with the electronic issuance of this revision of *Government Auditing Standards*, GAO is exposing for comment redrafted sections on quality control and peer review in response to the wide range of comments we received on those sections. The printed version of the complete 2007 revision of *Government Auditing Standards* will be available after the quality assurance and peer review sections are finalized and incorporated into the standards.



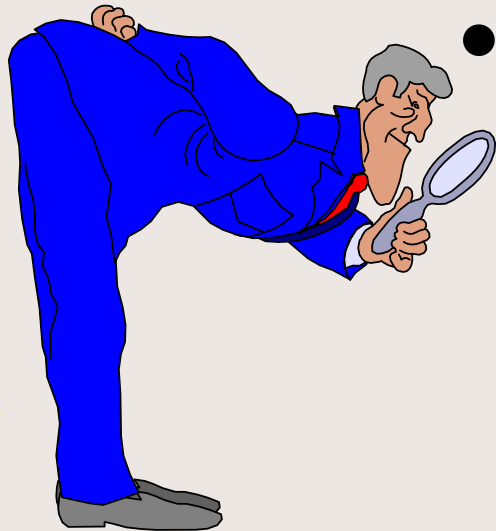


# Presentation Overview

---

- What We Did at the U.S. Department of Education, OIG to Implement the Yellow Book Revisions; and
- A Hint of Best Practices Type of Information on Implementation to ensure application to all audits from that day forward.

# OIG Implementation Process



- **Basic Grunt Work**

- Identify Revisions  
Requiring Changes to  
Policies and Procedures**

- ❖ Review GAO's statements of changes
- ❖ Meet with GAO to get a basic understanding of significant changes

## And More ...

---

### Revise 14 chapters of the OIG Policies and Procedures Manual

- ❖ In the process, we adjusted all our must and should statements to be consistent with the Yellow Book.
- ❖ A 6-month process, providing managers with 2 comment periods.

## And More ...

---

- ☑ Inform Managers and Staff – get staff on board
  - ❖ GAO presentation to OIG managers
  - .

# And More ...

## ☑ Ensure Application to Audits

### ❖ Revise OIG Quality Assurance (QAR) Checklist

- The checklist is a best practice type model that ensures application of Policies and Procedures to audits.
- The checklist is a work paper included in every audit with links to the work papers that document the auditor's adherence to the prescribed Policies and Procedures.
- The checklist is cross-referenced to the applicable source for the audit requirement.

# OIG QAR Checklist

---

- The QAR checklist is a total of 35 pages of audit requirements with line items listing 255 individual requirements.
- The checklist serves as a guide to ensure audit adherence to the Yellow Book audit standards and OIG Policies and Procedures.

A graphic of a spiral-bound notebook with a brown cover and a light beige page. The spiral binding is on the left side. The text is centered on the page.

# Examples – Excerpts from QAR Checklist

# OIG Responses to a Few Suggested Questions

## Internal Audit Standards

3.16 Internal Audit functions are encouraged to use the IIA “International Standards for the Professional Practice of Internal Auditing” in conjunction with GAGAS.

– *Does your audit organization follow Red Book standards? What processes have you instituted to integrate the Red Book and Yellow Book standards and document compliance with both?*

- OIG does not use the “Red Book”
- As discussed in the presentation, OIG (1) Updated the OIG audit manual; (2) Received training from GAO’s Marsha Buchanan when Yellow Book is revised; (3) Updated the quality assurance checklists that are used by the audit team throughout the audit to document compliance; (4) Revised our QAR schedule – OIG now performs an annual QAR process for independent peer review of a sample of audits for compliance.

## Overall Assessment

7.68 Auditors should perform and document an overall assessment on the collective evidence used to support findings and conclusions.

*What processes have you established for your organization to perform and document the overall assessment?*

- Exception (Point) are prepared, referenced, reviewed, and then shared with auditees.

*How do you evaluate whether there is sufficient appropriate evidence to support the audit findings?*

- (1) Technical experts (CAAT) are used when needed; (2) Statistical sampling is the preferred OIG method of sampling; (3) Corroborating evidence is gathered – especially for monetary findings; (4) Message agreement is held with experts in the program areas to ensure everyone involved agrees with the evidence; (5) Auditee is given a chance to comment on the evidence before a report is finalized through the exit meeting and draft report process; (6) independent math verification and independent referencing.

## Quality Control and Assurance

3.53 An audit organization should include policies and procedures in its system of quality control that collectively address: a) leadership responsibilities for quality control; 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.

3.54 The audit organization should analyze and summarize the results of monitoring procedures at least annually.

*How has your audit organization enhanced its quality control system to comply with the Yellow Book?*

- (1) Updated quality assurance checklists used by audit team throughout audit; (2) Annual Quality Assurance Review process; (3) Used of standardized Teammate procedures/documents when possible using Team Stores.

*What are the processes for summarizing the results of your monitoring procedures at least annually? How and to whom are these results communicated?*

- Quality Assurance Review process reports to the Deputy Inspector General.

## Auditors' Electronic Documentation

- 7.82 For audit documentation that is retained electronically, the audit organization should establish information systems controls concerning accessing and updating the audit documentation.

*What are your processes for establishing controls over your electronic data?*

- (1) Encrypted computers and thumb drives; (2) Teammate passwords; (3) Backup systems for LAN storage; (4) network system passwords; (5) Password protected or encrypted email transmission of sensitive data

## Independence/Non-Audit Services

- 1.34 Audit organizations that provide non-audit services must evaluate whether providing non-audit services creates an independence impairment either in fact or appearance.

*What processes are in place to evaluate potential impairments to independence?*

- (1) Audit team certifications that are reviewed for each audit; (2) Headquarter staff annual certifications.

*What policies have been established to accept non-audit engagements?*

- (1) Each request reviewed by AIGA; (2) Generally only contract pre-award engagements are performed routinely.

## Internal Control

7.16 For internal control that is significant within the context of the audit objectives, auditors should assess whether internal control has been properly designed and implemented.

*What processes do you use to obtain an understanding of internal control and how do you determine if it is significant to your audit objectives?*

- (1) Audit team flowcharts internal control process including individuals/systems having key responsibilities along the path; (2) Testing of transactions subjected to the internal control process especially those transactions subjected to controls identified by the auditors as weak.

*How do you determine that your evidence is sufficient and appropriate to support your assessment of the effectiveness of internal control?*

- Through testing of transactions subjected to the internal control process.

## Internal Control

---

7.24 When information systems controls are determined to be significant to the audit objectives, auditors should evaluate the design and operating effectiveness of such controls.

*What processes do you have in place to determine the significance of information systems control to the audit objectives?*

- (1) Use of technical experts (CAAT);
- (2) Reconciliation of transactions.

## Fraud

---

7.30 Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect findings and conclusions.

*What processes have you designed to accept this higher level of responsibility to “assess risk of fraud, rather than consider risks due to fraud (2003 Yellow Book)” in evaluating whether fraud could or has occurred?*

- (1) Hold a meeting with the Investigators to brainstorm the entity to be audited; (2) Hold an audit team brainstorming issue to identify potential “red flags”; (3) Continued discussion among audit team throughout the audit; (4) Add audit steps to incorporated looking at high risk and fraud indicators.

A spiral-bound notebook with a brown cover and a light beige page. The word "QUESTIONS?" is written in the center of the page in a bold, black, serif font. A horizontal line is drawn across the page, just above the text. The spiral binding is visible on the left side.

**QUESTIONS?**