Quality Management Subcommittee

Working Group on the 2024 Revision to the Yellow Book, Quality Requirements

Presentation to the CIGIE
Audit Committee – June 24, 2025

Presentation to the Federal Audit
Executive Council – June 16, 2025

Agenda

- Background on QM Subcommittee Initiative
- System of Quality Management (SQM)
- Assigning SQM Responsibilities
- Quality Risk Assessment Process
- Toolkit
- Next steps toward facilitating OIG implementation
- Questions

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Government Auditing Standards Chapter 5: SQM

Overall Requirement:

To design, implement, and operate an SQM that provides the audit organization with reasonable assurance that your audit organization and personnel

- fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
- perform and report on engagements in accordance with such standards and requirements.

GAS 5.05

GAS SQM: Four Elements

December 15, 2025

Assigning Roles and Responsibilities

(GAS 5.13)

Quality Management Risk Assessment Process

(GAS 5.19)

Monitoring and Remediation Process

(GAS 5.87)

December 15, 2026

Annual SQM Evaluation

(GAS 5.128)

Focus of the QM Subcommittee
Toolkit for Implementing Quality Risk Assessments

Assigning SQM Roles and Responsibilities

Relatively straightforward:

- SQM responsibility and accountability with senior-level official
- Operational responsibility (overall or certain aspects)

Audit organization <u>nature and circumstances</u> matter!

Quality Management Risk Assessment Process

Six Required Quality Components (GAS 5.30)

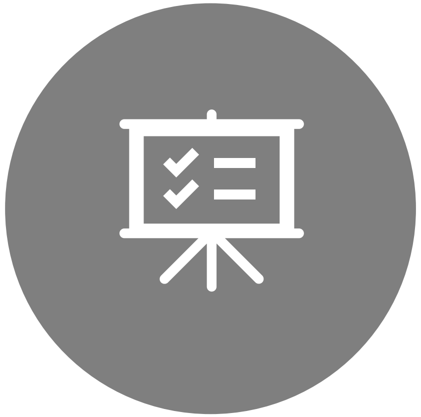
Governance and Leadership (GAS 5.45)	Independence, Legal, and Ethical Requirements (GAS 5.47)	Acceptance, Initiation, and Continuance of Engagements (GAS 5.51)
Engagement Performance (GAS 5.54)	Resources (GAS 5.74)	Information and Communication (GAS 5.81)

“RISK” for SQM

A condition, event, circumstance, action, or inaction... vis-à-vis a quality objective.

Quality Management
Risk Assessment Process Concepts

Quality Objective



Each quality component has a set of desired outcomes called <u>quality objectives</u>

(GAS 5.29)

Quality Risk

A condition, event, circumstance, action, or inaction that has a reasonable possibility of occurring and would adversely affect one or more quality objectives is a **<u>quality risk</u>**

(GAS 5.34)

Response

A **<u>response</u>** is the policies and procedures we design and implement to address one or more quality risk

(GAS 5.40)

Example Quality Objective

Governance and Leadership (GAS 5.45)

a. We demonstrate commitment to quality through a culture that exists throughout the audit organization.

b. Our leadership is responsible and accountable for quality.

c. Our leadership demonstrates a commitment to quality through its actions and behaviors.

d. Our organizational structure and assignment of roles, responsibilities, and authority are appropriate to set up and support our SQM.

e. Resource needs are planned for, obtained, allocated, and assigned in a manner consistent with the audit organization’s commitment to quality.

From Risk to Quality Risk

- ✓ Not all risks are quality risks – only those risks that are likely and impactful (would affect a quality objective) based on the nature and circumstances of your organization and engagements.
- ✓ If a risk is a quality risk, <u>it requires a response to address it</u>. (GAS 5.41).

Toolkit Purposes

1. Provide information on how Federal OIGs may identify and assign SQM responsibilities and how to assess quality risks.

2. Include a template OIGs may use to document quality risk assessments.

3. Offer some potential quality risks and responses as starting points

Each OIG needs to apply professional judgement and consider its own unique nature and circumstances when deciding how best to implement its SQM.

Toolkit Appendix A:
Documenting Assessments and Tracking Responses

Toolkit Appendix A:
Includes "required responses" (GAS 5.48 and 5.55)

Quality Objectives and Risks for Independence, Legal, and Ethical Requirements		GAS 5.34a Risk Likelihood (High, Medium, Low)	GAS 5.34b Risk Impact (High, Medium,	Quality Risk? (Yes, No)	Response
GAS 5.47a. The audit organization and its personnel (1) understand the independence and legal and ethical requirements to which the audit organization and its engagements are subject and (2) fulfill their responsibilities in relation to the independence and legal and ethical requirements to which the audit organization and its engagements are					
Example Risk	*Personnel do not understand the independence and legal and ethical requirements*	*High*	*High*	*Yes*	*Example Response: Policy no. XX, dated XX, instructs audit personnel how to identify, evaluate, and address threats to compliance with independence requirements and applicable legal and ethical requirements and appropriately respond to the causes and consequences of any breaches of these requirements.*
Example Risk	*Personnel do not fulfill their responsibilites in relation to independence and legal and ethical requirements.*	*High*	*High*	*Yes*	*Example Response: Policy no. YY, dated YY, requires that each auditor provide annual, written affirmation of compliance with independence policies and procedures on independence. This affirmation is due on October 1 each year.*

Toolkit Appendix B: Examples of Risks and Responses

Quality Component - Independence, Legal, and Ethical Requirements

The audit organization and its personnel (1) understand the independence and legal and ethical requirements to which the audit organization and its engagements are subject and (2) fulfill their responsibilities in relation to the independence and legal and ethical requirements to which the audit organization and its engagements are subject (GAS 5.47a).	
Potential Quality Risks	**The audit organization may respond by:**
The audit organization and its personnel do not understand and/or fulfill the independence, legal, or ethical requirements to which the audit organization and its engagements are subject.	Implementing *policies and procedures* for: • **Identifying, evaluating, and addressing threats to compliance with independence requirements and applicable legal and ethical requirements and appropriately responding to the causes and consequences of any breaches of these requirements** (GAS 5.48a)**.** • **Obtaining, at least annually, written affirmation of compliance with its policies and procedures on independence from all personnel required to be independent** (GAS 5.48b)**.** Providing *training and professional development* that provide personnel with knowledge and understanding of the independence, legal, and ethical requirements to which they are subject.

Next Steps

- ✓ Issue Toolkit
- ✓ Host forum(s) to overview requirements, review toolkit, and share:
  - Implementation approaches (need volunteers!)
  - Hands-on examples
  - Lessons learned
  - Address from the community questions

Thank You

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