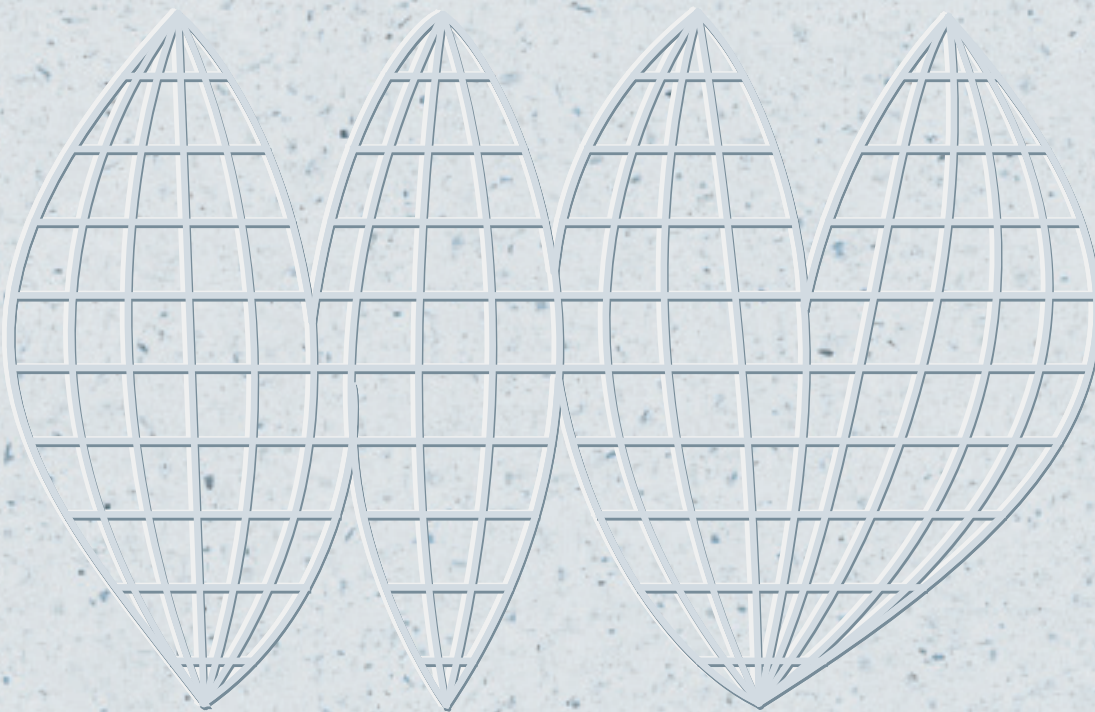


International Peer Review of the Performance Audit Practice of the United States Government Accountability Office



- Canada ■ Office of the Auditor General of Canada
- Australia ■ Australian National Audit Office
- Mexico ■ Auditoría Superior de la Federación
- The Netherlands ■ Algemene Rekenkamer
- Norway ■ Riksrevisjonen
- South Africa ■ Office of the Auditor-General, South Africa
- Sweden ■ Riksrevisionen

April 2005

To: The Comptroller General of the United States

Peer Review Opinion

- 1 In our opinion, the United States Government Accountability Office's quality assurance system was suitably designed and operating effectively, during the year ended 31 December 2004, to provide the GAO with reasonable assurance of conforming with the United States *Government Auditing Standards* in conducting its performance audit practice.

Nature of the Peer Review

- 2 An international peer review team with representatives from the supreme audit institutions of Canada, Australia, Mexico, the Netherlands, Norway, South Africa, and Sweden reviewed the quality assurance system that the GAO has established for managing its performance audit practice.
- 3 The GAO's quality assurance system encompasses its organizational structure and the policies and procedures established to provide it with reasonable assurance of complying with *Government Auditing Standards*. The GAO is responsible for the design of its quality assurance system and compliance with it, including the quality of its products. Our responsibility is to express an opinion on whether the system is suitably designed and operating effectively to meet its objective.
- 4 The criteria the peer review team used to assess the GAO's quality assurance system were drawn from GAO legislative authorities, *Government Auditing Standards*, and the GAO performance audit manual.
- 5 The peer review team conducted the review in accordance with the peer review standards in *Government Auditing Standards*, and in a manner consistent with the Code of Ethics and auditing standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). The peer review team examined the GAO's documented policies and procedures relative to applicable professional standards, reviewed documentation for a representative sample of 2004 audits, and interviewed professional and administrative staff. A description of the peer review is provided in the appendix to this report.
- 6 This report sets out our observations about the GAO's quality assurance system and its application and includes good practices and suggestions that management may wish to consider as it enhances its performance audit practice. These observations do not affect our opinion. The GAO's response to the peer review is found at the end of this report before the appendix.



Richard Smith
Review Leader
Office of the Auditor General of Canada, on behalf of the review team

20 April 2005, Ottawa

General Observations

Managerial context

- 7 Congress established the General Accounting Office in 1921 with a broad mandate to investigate “all matters relating to the receipt, disbursement, and application of public funds” and to “make recommendations looking to greater economy or efficiency in public expenditures.” Subsequent Acts have clarified and expanded this mandate. In 2004, its name was changed to the Government Accountability Office (GAO). Agencies are required to provide the GAO with access to information about their duties, powers, activities, organization, and financial transactions.
- 8 The GAO is independent of the Executive Branch and reports directly to Congress. To ensure its independence from the Executive Branch, the Comptroller General can only be removed by Congress and only for specified causes.
- 9 The GAO undertakes audits in response to Congress. During the 2004 calendar year, 89 percent of its performance audits were undertaken in response to a specific congressional request or statutory mandate (71 percent and 18 percent respectively). The remaining 11 percent fell under the GAO’s legislated authority to undertake self-initiated work to support Congress.¹
- 10 The GAO provides Congress with information and analysis on a wide variety of questions and carries out a wide range of work to help Congress make oversight, policy, and funding decisions (Figure 1). Its performance audit practice employs a broad range of methodologies; involves various levels of analysis, research, or evaluation; and produces a variety of products including correspondence, testimonies, briefings, and audit reports that may present findings, conclusions, and recommendations.
- 11 The GAO’s performance auditors work in teams that are supported by experts in technical disciplines, such as data collection and survey methods, statistics, econometric modeling, information technology, and the law. Its staff of approximately 3,200 includes accountants, health experts, engineers, environmental specialists, economists, historians, social scientists, actuaries, and statisticians, among others.
- 12 In 2004, the GAO began work on 773 new performance audit engagements. However, the total number of performance audit products issued in 2004 may be more than 1,000 since some engagements can result in multiple products and some products issued in 2004 were initiated in prior years.
- 13 Several features, therefore, distinguish the GAO’s working environment from that of many of its international peers:
 - the large volume of performance audit engagements that it carries out each year;
 - the variety of products it generates; and
 - the majority of engagements it carries out are requested by Congress and not self-initiated.

Figure 1: What is a performance audit?

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision making by parties with responsibility to oversee or initiate corrective action, and improve public accountability.

—*Government Auditing Standards, paragraph 2.09*

1. The numbers are for the 2004 calendar year and represent the GAO’s initial decisions to undertake the requested work. They differ from the fiscal year numbers on performance reporting that may be found elsewhere.

Overview of the quality assurance system

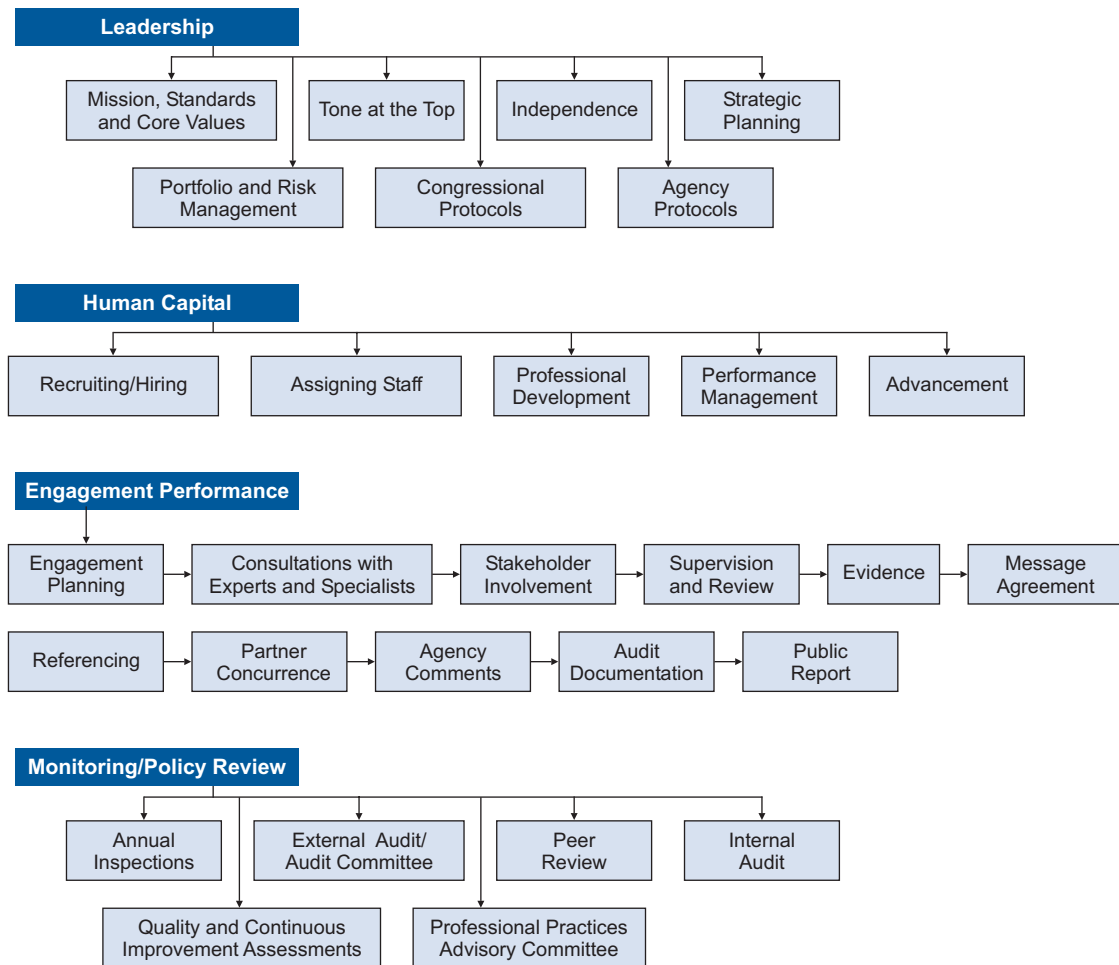
14 The GAO’s quality assurance system is intended to provide reasonable assurance that its work is conducted according to *Government Auditing Standards*. In particular, the quality assurance system is intended to provide confidence that

- work is professional, independent, and objectively designed
- evidence is competent and reliable

- conclusions are supported
- products are fair and balanced
- recommendations are sound

15 The system contains four key elements: leadership, human capital, engagement performance, and monitoring and policy review (Figure 2). The system is available to auditors on-line, including links to the policies, professional standards, and guidance for each key element.

Figure 2: Key elements of the GAO’s quality assurance system



Focus of the peer review

- 16 The requirement and main elements of an external peer review are set out in *Government Auditing Standards*, paragraphs 3.52 to 3.54:
- An external peer review should be conducted at least once every three years by reviewers independent of the audit organization being reviewed.
 - The review should determine whether the reviewed organization's internal quality control system was adequate and whether policies and procedures were being complied with to provide reasonable assurance of conforming with applicable professional standards in the conduct of its work.
 - The review team should consider the adequacy and results of the reviewed organization's monitoring efforts to efficiently plan its review procedures.
- 17 Our primary focus was on elements of the GAO's quality assurance system that deal with engagement performance and compliance monitoring. We reviewed the GAO's performance audit policies and process controls, examined a representative sample of 2004 audit engagement files and reports, and interviewed senior management and employees responsible for selected engagements. We also re-examined a representative sample of engagement files that the GAO's inspection team had examined in 2004. The appendix lists the review team members and outlines the review purpose and approach in more detail.
- 18 Because there is a strong consensus among the GAO's international peers that independence, objectivity, and reliability are hallmarks of a credible and effective performance audit practice, we paid particular attention to the controls underpinning these principles.

Observations on the Quality Assurance System

- 19 The GAO has a highly developed and dynamic quality assurance system that, in addition to providing reasonable assurance of conformance with *Government Auditing Standards*, reinforces the independence, objectivity, and reliability of the Office and its work.

Independence

- 20 *Government Auditing Standards* consider independence from three perspectives: personal, external, and organizational. Impairments in any of these areas could affect the auditor's ability, or perceived ability, to exercise objective and impartial judgment on all issues associated with conducting and reporting on the work.
- 21 The standards require that audit organizations be organizationally independent from the organizations they audit. As an agency of the legislative branch of government, the GAO is independent from the executive branch organizations it audits. Also, its quality assurance system includes policies and procedures to identify personal and external impairments to independence and to monitor and promote compliance with those policies and procedures.
- 22 For example, at the personal level, GAO professional employees confirm their independence by
- signing an annual statement saying they understand independence as defined in *Government Auditing Standards*, and they have no personal or external impairments;
 - identifying financial interests in an annual financial disclosure report that is reviewed by the executive committee and managing directors or their designees; and
 - reporting to their managing director when they are seeking employment at the entity being audited.

- 23 In addition, team members, reviewers, referencers, and advisors confirm their independence for each engagement.
- 24 The GAO is, however, unique among its international peers in terms of Congressional involvement in the selection of topics for performance audits. The GAO responds to requests from the Congress and its committees. These requests constitute the main source of performance audit work. In other countries, legislatures provide the audit office with considerably more discretion in determining which areas of government to examine.
- 25 In responding to Congressional requests, the GAO determines the scope and methodology for the work, the timing and staffing, product content, and the management structure. In addition, it has adopted a number of practices to balance its objective of being responsive to Congress while remaining non-partisan and serving the long-term interests of the American people. The following two practices are particularly notable:
- Its strategic planning process involves the Congress and other stakeholders in establishing key themes and high-risk areas that the government needs to manage well. Its high-risk series focusses attention on government programs that pose significant risks of fraud, waste, abuse, and mismanagement.
 - Its engagement acceptance process focusses management's attention on the risks associated with each request, including risks to independence and how the risks will be managed.
- 26 GAO staff work proactively with Congressional committees and members to ensure that requests for work align with key risks in the strategic plan and identified high-risk areas. The six-year strategic plan is updated periodically in consultation with Congress.
- 27 The strategic planning process is complemented by weekly engagement acceptance meetings designed to ensure that the GAO
- undertakes engagements that are within its scope of authority and competence;
 - preserves its independence to do future audit work; and
 - manages accepted work at the appropriate level and involves relevant stakeholders, experts, and specialists.
- High-, medium-, or low-risk levels are assigned to each engagement based on cost, complexity, and controversy.
- 28 The GAO's strategic planning process and proactive working relationship with Congress ensure that it focusses on the full breadth of significant, audit-worthy issues. We concluded that the GAO's quality assurance system was suitably designed and operating effectively to preserve its independence.
- Objectivity**
- 29 The GAO strives to carry out its performance audit work in a professional, objective, fact-based, non-partisan, non-ideological, fair, and balanced manner. It has established a number of quality control mechanisms and good practices to support this objective. For example, it has established protocols for interacting with audit entities and Congress to help ensure an objective and consistent approach to its work.
- 30 GAO protocols for interacting with federal departments and agencies set out the policies and practices that GAO staff will follow in their work. They identify what audit entities can expect from the GAO and what the GAO expects from them. They are intended to ensure that teams apply an objective and consistent approach when dealing with audit entities.
- 31 GAO protocols for interacting with Congress provide clearly defined and transparent policies and practices to follow. They define its authority to conduct work, its priorities for initiating work, and the factors it considers before accepting Congressional requests. They are also a means of holding the GAO to account for commitments it makes to

Congress and are intended to ensure that the GAO is consistent in its dealings with all committees and members.

- 32 *Government Auditing Standards* state that one of the most effective ways to ensure that a report is fair, complete, and objective is to obtain advance comments from responsible officials of the audited entity. The GAO has gone beyond this requirement and includes entity comments verbatim in its final reports. This policy decision reinforces the GAO's commitment to neutrality and objectivity in reporting audit findings.
- 33 We found that GAO reports were neutral in tone and audit findings were presented in a balanced, objective manner. We concluded that the GAO's quality assurance system was suitably designed and operating effectively to preserve its objectivity.

Reliability

- 34 The GAO has in place standards for performance audits to ensure their reliability. These include standards for planning an audit; supervising staff; obtaining sufficient, competent, and relevant evidence; documentation; and reporting.
- 35 The GAO also has a large number of experts and specialists that provide advice and assistance on methodology and analytical issues and on specific audit engagements. Many of the experts and specialists are part of the Applied Research Methods team and include methodologists, statisticians, economists, actuaries, and accountants.
- 36 These specialists often review job design and audit plans, provide technical advice and alternative approaches, and approve the draft or final product to ensure that technical issues are appropriately reported. Through the extensive use of experts and specialists, the GAO facilitates the use of methods and approaches intended to ensure rigorous and reliable work products.
- 37 As part of the engagement acceptance process, audit teams complete a "design matrix" that summarizes the audit plan. The matrix concisely communicates job design and sets out the objective(s), scope, and methodology for each engagement. It specifies the questions that need to be answered to address the objective(s); the information that will be needed, where it can be found, and how it can be collected; the analytical techniques that will be used; and the potential results including what the GAO can likely say as a result of the work and the limitations of the job design.
- 38 Based on our review of the standards and of documentation for a representative sample of GAO reports, we concluded that the GAO's quality assurance system was suitably designed and operating effectively to meet the reliability requirements of *Government Auditing Standards*.

Good Practices and Suggestions for the GAO to Consider

39 During our review, we drew on the broad and diverse experience of our international members to make observations on the GAO's quality assurance system and performance audit practices. We noted a number of good practices that will be of interest to other national audit offices and identified areas that the GAO may wish to consider as it continues to improve its performance audit practice.

Good practices

40 The good practices that we chose range across the audit process from planning to reporting. They illustrate the strength of the GAO's performance audit practice and are summarized in Figure 3.

Figure 3: Summary of good practices at the GAO

Strategic planning. Focuses attention on significant issues and management challenges. The high-risk series identifies government programs that pose significant risks of fraud, waste, abuse, and mismanagement.

Audit risk assessment. Establishes a risk factor to determine the level of product review and executive involvement throughout the engagement.

Agency protocols. Provide written guidance on what agencies can expect from the GAO and what the GAO expects from them during an audit.

Use of experts. Allows the GAO to apply innovative methods and approaches to the analysis of complex situations.

Electronic Assistance Guide for Leading Engagements (EAGLE). Provides practitioners with immediate access to the policy, procedural, and documentation requirements of the quality assurance system.

Report design. Addresses the needs of readers with different interests.

Strategic planning

41 The GAO has established a strategic planning process that focusses on significant, audit-worthy issues. Its high-risk series identifies government programs that pose significant risk of fraud, waste, abuse, and mismanagement. GAO staff work proactively with Congress and its committees to align requests for work with the key high-risk issues.

Audit risk assessment

42 Before an audit is started, a risk factor (low, medium, or high) is assigned to the engagement. Factors such as cost, complexity, and controversy of the work and the potential access to records are considered when determining the risk. The risk factor determines the level of product review and executive involvement throughout the engagement.

Agency protocols

43 The GAO has developed written protocols that provide clearly defined and transparent policies and practices on how it will interact with the agencies during an audit. The protocols identify what the agencies can expect from the GAO and what the GAO expects from them.

Use of experts

44 In addition to its multidisciplinary staff, the GAO has established an Applied Research and Methods team to provide its audit teams with advice and assistance on methodology and technical issues. These experts allow it to apply innovative methods and approaches to the analysis of complex situations.

Electronic Assistance Guide for Leading Engagements (EAGLE)

45 EAGLE is an electronic tool that guides staff through the GAO engagement management process. It links to key parts of *Government Auditing Standards* and to GAO policies, guidance, and audit documentation requirements. It is updated frequently to provide current policy and guidance. Staff use EAGLE extensively to help them apply professional standards and GAO policies and guidance to each phase of an engagement.

Report design

- 46 GAO reports are designed to be accessible to readers with different interests. The Highlights section is one page and summarizes the key points for busy readers; it helps them decide whether to read further. The “letter to the requester” section serves as an executive summary: it includes the context, approach, and results. The remainder of the report provides further details on the audit, its conclusions, and its recommendations. Agency comments are presented verbatim. Appendices present the objectives, scope, and methodology and other supporting information. A glossary is used when needed.

Suggestions for the GAO to consider

- 47 Based on our review, we identified areas that the GAO may wish to consider as it continues to improve its performance audit practice. These suggestions relate to enhancing the transparency and efficiency of its quality assurance system and policies, and are summarized in Figure 4.

Figure 4: Summary of suggestions

Distinguishing between audit and non-audit services. Provide further guidance to staff on the distinction between audit and non-audit services, the evidentiary standards appropriate for each form of product, and on the process for reconsidering a determination.

Strengthening reporting. Provide additional details on the sources of critical information and the implications of scope and methodological choices.

Reviewing the quality assurance system for further efficiencies. Review all the requirements to identify those that may not contribute significantly to audit quality.

Streamlining the documentation requirements. Expand the use of the streamlined documentation regime.

Making the inspection program more efficient. Focus the inspection program on the management of key risks facing the performance audit practice.

Distinguishing between audit and non-audit services

- 48 When a request for work is received, the the GAO decides whether to conduct the work as an audit, under *Government Auditing Standards*, or as a non-audit service.
- Audits involve an objective and systematic examination of evidence, generally leading to conclusions, recommendations, or opinions.
 - Non-audit services provide information or data to a requester or agency management that is not verified, analysed, or evaluated. This service usually does not provide a basis for conclusions, recommendations, or opinions on the information or data.
- 49 It is important that the difference between audits and non-audit services is clear both for GAO staff members and for Congress and others who may rely on these services for decision making. Although GAO work typically falls into the audit category, there can be a fine line between the two particularly when only limited work is possible due to constraints of time, resources, or information availability.
- 50 We suggest that the GAO further communicate to staff the distinction between audits and non-audit services, the evidentiary standards appropriate for each form of product, and the respective policy and guidance for revisiting the initial determination when circumstances change during an engagement.
- ### Strengthening reporting
- 51 GAO reports meet *Government Auditing Standards* and are well-structured with results presented in a neutral, objective manner. We felt, however, that some reports could have been enhanced by providing more details on the sources of critical information and on the implications of scope or methodological choices.

Reviewing the quality assurance system for further efficiencies

- 52 The GAO has a highly advanced quality assurance system, and its Electronic Assistance Guide for Leading Engagements (EAGLE) is a particularly useful tool for staff. Although EAGLE permits easy updating of policy, process, and documentation requirements, the GAO should review all the requirements to identify those that may not contribute significantly to audit quality. We understand that the GAO plans to review its quality assurance system for further efficiency, and currently has a task force looking at how to make the best use of technology to implement quality controls.

Streamlining the documentation requirements

- 53 The GAO assigns a risk factor to each engagement it accepts. The risk factor determines the level of product review and executive involvement throughout the engagement. This approach could be extended to some of the documentation requirements. At present, the documentation requirements for engagements that require limited resources to complete are more streamlined than those for more costly

engagements. We suggest that the GAO consider using the streamlined documentation regime more broadly.

Making the inspection program more efficient

- 54 The GAO has a comprehensive inspection program intended to provide reasonable assurance that performance audits are carried out in conformance with *Government Auditing Standards*. We found that the inspection program was effective and we were able to rely on it in determining the scope of our work.
- 55 When we reviewed the inspection program, we observed that its scope and depth may be greater than required to provide the necessary assurance. There may be opportunities for efficiencies through greater analysis of risk.
- 56 For example, other audit offices focus their inspection programs on those elements of their practices where experience and past inspections have revealed weaknesses that are likely to be more systemic, or on emerging issues facing the practice such as the implementation of new policy or changing methodology.



United States Government Accountability Office
Washington, DC 20548

Comptroller General
of the United States

April 20, 2005

Mr. Richard D. Smith
Assistant Auditor General
Office of the Auditor General of Canada

Dear Mr. Smith:

We have read the peer review report dated April 20, 2005. We are pleased that you reached a "clean opinion" on GAO's quality control system for performance auditing. We also are pleased that you identified a number of global "better practices" in GAO's operations. We appreciate your constructive comments and have formed a team to follow-up on them.

On behalf of all GAO personnel, I thank the international peer review team led by the Office of the Auditor General of Canada for its competence, professionalism, and constructive approach to this important engagement.

Sincerely yours,

David M. Walker
Comptroller General
of the United States

Appendix—About the Peer Review

Peer review team members

The peer review of the GAO's performance audit practice was carried out by an international team consisting of senior representatives from seven supreme audit institutions.

Australia—Australian National Audit Office

- Barbara Cass
- Steven Lack

Canada—Office of the Auditor General of Canada

- Andrew Ferguson
- Peter Kasurak
- Richard Smith (Review Leader)

Mexico—Auditoría Superior de la Federación

- Ma. Esther Hernández y Chávez

The Netherlands—Algemene Rekenkamer

- Frank van den Broek
- Paul Pestman

Norway—Riksrevisjonen

- Kristin Amundsen
- Elise Fidjestøl

South Africa—Office of the Auditor-General, South Africa

- George Lourens
- Corrie Pretorius

Sweden - Riksrevisionen

- Tony Angleryd
- Bo Sandberg

Purpose

The peer review was intended to provide reasonable assurance that, for the period under review, the quality assurance system governing the GAO's performance audit practice was suitably designed and operating effectively to provide reasonable assurance of conformance with *Government Auditing Standards*.

Approach

The peer review of the GAO's performance audit practice was carried out in accordance with *Government Auditing Standards* and in a manner consistent with the Code of Ethics and auditing standards issued by the International Organization of Supreme Audit Institutions.

The examination phase of the peer review involved three main tasks:

- **A design assessment.** The purpose of this part of the peer review was to determine whether, if operated as designed, the quality assurance system would provide reasonable assurance of conformance with *Government Auditing Standards*.

To assess design, the peer review team examined the documented quality assurance system, including the policy manual and the automated quality management system, to determine whether the guidance available to GAO auditors adequately reflected the requirements for performance audits as set forth in *Government Auditing Standards*.

- **An inspection system assessment.** The purpose of this part of the peer review was to determine the level of reliance that can be placed on the inspection system that the GAO has established to monitor its performance audit practice.

To validate the reliability of the GAO's inspection system, the peer review team re-examined approximately 25 inspections carried out by GAO staff including relevant audit documentation, staff interviews, and tests of functional areas.

- **An implementation assessment.** The purpose of this part of the peer review was to determine whether in practice the quality management framework was operating effectively to provide reasonable assurance of conformance with *Government Auditing Standards*.

To assess the operation of the framework, the peer review team selected and reviewed a sample of the engagements completed by the GAO in 2004. The peer review team reviewed the reports and associated working papers for conformance with the quality assurance system including in particular the documentation supporting the GAO's independence, objectivity, and key conclusions. The team also interviewed a broad cross-section of GAO senior management and staff to assess their knowledge and understanding of the quality assurance system and its key elements.

Sources of evidence

The main sources of evidence used during the peer review were

- cross-walk between the GAO's performance audit policy manual and *Government Auditing Standards*
- the GAO's policy manual, automated quality assurance framework, and *Government Auditing Standards*
- working paper sets from a representative sample of performance audit engagements
- working papers from 25 of 75 inspections carried out by the GAO in 2004
- interviews with audit staff, functional area managers, and senior executives
- focus groups with audit practitioners

