



UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

An Accountability Update From Washington

**The Honorable David M. Walker
Comptroller General of the United
States**

**AICPA Peer Review
Program Conference
Atlanta, GA
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The Need for Good Governance, Transparency, and Accountability

Good governance, transparency, and accountability are critical in:

- The private sector, to promote efficiency and effectiveness in the capital and credit markets, and overall economic growth, both domestically and internationally
- The public sector, for the effective and credible functioning of a healthy democracy, and in fulfilling the government's responsibility to citizens and taxpayers
- The independent (not-for-profit) sector, to promote the proper use of resources consistent with the organization's mission and applicable laws and to maintain the trust and confidence of contributors
- All sectors, to support a healthy economy that provides economic opportunities and benefits to citizens

Sorting out the needs—as well as the effective and appropriate governance and accountability mechanisms for different sectors and types of organizations—will be essential, both on a domestic and international scale

Accountability Risks in the Federal Government

In the U.S., government accountability professionals face many challenges:

- A number of “high-risk areas” and “major management challenges”
- Current trends and challenges that have no boundaries
- A range of fiscal and other sustainability challenges that grow over time
- The failure to link resources and authorities to results (outcomes)
- Rising expectations for demonstrable results and enhanced responsiveness
- A number of outdated federal policies, programs, structures, and activities

Our challenge is huge and growing bigger each year

GAO's High- Risk List 2007

Addressing Challenges in Broad-based Transformations

	Year Designated
• Strategic Human Capital Management ^a	2001
• Managing Federal Real Property ^a	2003
• Protecting the Federal Government's Information Systems and the Nations' Critical Infrastructures	1997
• Implementing and Transforming the Department of Homeland Security	2003
• Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
• DOD Approach to Business Transformation ^a	2005
• DOD Business Systems Modernization	1995
• DOD Personnel Security Clearance Program	2005
• DOD Support Infrastructure Management	1997
• DOD Financial Management	1995
• DOD Supply Chain Management	1990
• DOD Weapon Systems Acquisition	1990
• FAA Air Traffic Control Modernization	1995
• Financing the Nation's Transportation System ^a (New)	2007
• Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests ^a (New)	2007
• Transforming Federal Oversight of Food Safety ^a (New)	2007

Managing Federal Contracting More Effectively

• DOD Contract Management	1992
• DOE Contract Management	1990
• NASA Contract Management	1990
• Management of Interagency Contracting	2005

Assessing the Efficiency and Effectiveness of Tax Law Administration

• Enforcement of Tax Laws ^a	1990
• IRS Business Systems Modernization	1995

Modernizing and Safeguarding Insurance and Benefit Programs

• Modernizing Federal Disability Programs ^a	2003
• Pension Benefit Guaranty Corporation Single-Employer Pension Insurance Program	2003
• Medicare Program ^a	1990
• Medicaid Program ^a	2003
• National Flood Insurance Program ^a	2006

Three Suggested Areas of Congressional Oversight Going Forward

- Targets for near-term oversight (e.g., reducing the tax gap)
- Policies and programs that are in need of fundamental reform and re-engineering (e.g., reviewing U.S. and coalition efforts to stabilize and rebuild Iraq and Afghanistan)
- Governance issues that should be addressed to help ensure an economical, efficient, effective, ethical, and equitable federal government capable of responding to the various challenges and capitalizing on related opportunities in the 21st century (e.g., reviewing the effectiveness of the federal audit and accountability community, including the oversight, structure, and division of responsibility)

Congressional Oversight Areas Related to the Accountability Community

- Review the Single Audit Act and propose reforms to ensure continuing effective oversight of the more than \$400 billion in annual federal grants awarded to nonfederal entities
- Schedule a series of oversight hearings to deliberate GAO's and the IGs' roles, responsibilities, results, and proposed reforms
- Establish a government-wide accountability council to establish priorities and develop strategies to address federal accountability issues among GAO, OMB, PCIE, the ECIE, and other oversight organizations

SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

THEMES

Changing Security Threats

Sustainability Concerns

Economic Growth & Competitiveness

Global Interdependency

Societal Change

Quality of Life

Science & Technology

GOALS & OBJECTIVES

Provide Timely, Quality Service to the Congress and the Federal Government to . . .
. . . Address Current and Emerging Challenges to the Well-being and Financial Security of the American People *related to . . .*

- Health care needs
- Lifelong learning
- Work benefits and protections
- Financial security

- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

. . . Respond to Changing Security Threats and the Challenges of Global Interdependence *involving . . .*

- Homeland security
- Military capabilities and readiness

- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing . . .*

- Roles in achieving federal objectives
- Government transformation

- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of . . .*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience

- Process improvement
- Employer of choice

CORE VALUES

Accountability

Integrity

Reliability

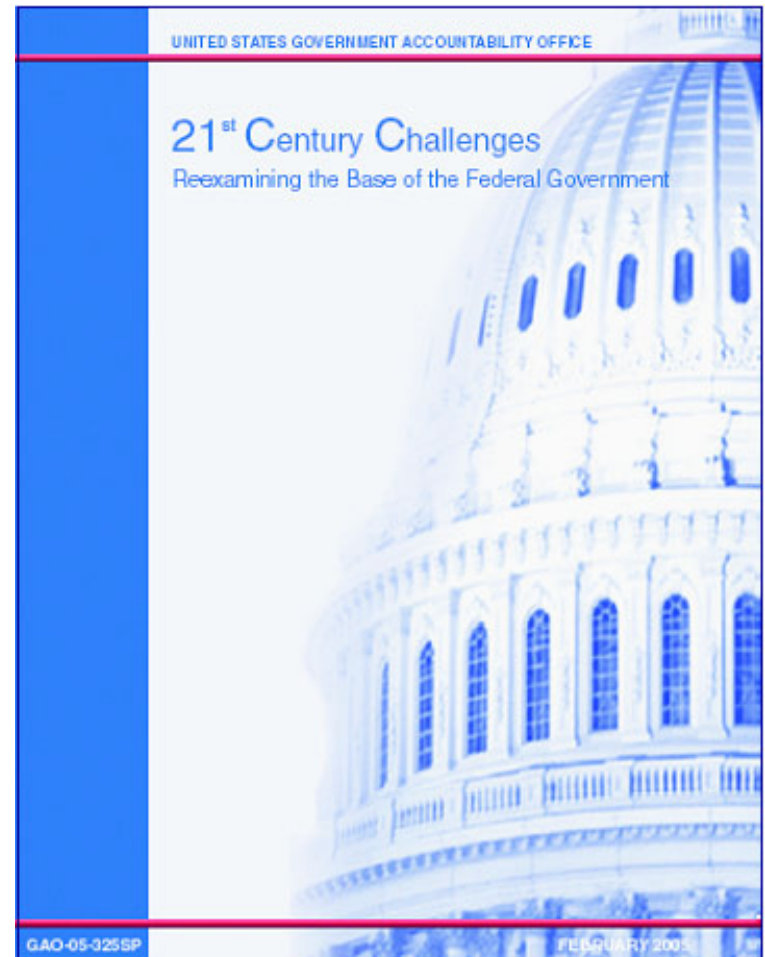
Just One of Our Seven Themes:

Selected Sustainability Challenges

- Fiscal Deficits and Debt Burdens
- Defense, Including Iraq, and Homeland Security Strategies
- Social Insurance Commitments
- Health Care Quality, Access, and Costs
- K-12 Education System
- Energy, Environment, and Resource Protection
- Tax Gaps and Policies
- Immigration Policies
- Infrastructure Needs

21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress



Source: GAO.

Twelve Reexamination Areas

MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

Generic Reexamination Criteria and Sample Questions

■ **Relevance of purpose and the federal role**

Why did the federal government initiate this program and what was the government trying to accomplish?

Have there been significant changes in the country or the world that relate to the reason for initiating it?

■ **Measuring success**

Are there outcome-based measures? If not, why?

If there are outcome-based measures, how successful is it based on these measures?

■ **Targeting benefits**

Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

■ **Affordability and cost effectiveness**

Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?

■ **Best practices**

Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

The Objective of Transformation

**To create a more positive future
by maximizing value and
mitigating risk within current
and expected resource levels**

Accountability Organization Maturity Model



Source: GAO.

Key Oversight Concepts

- Oversight is a key constitutional responsibility of the Congress
- Oversight is critical to providing the necessary checks and balances to maximize the government's performance, assure its accountability, and prevent the abuse of government power
- History shows that oversight decreases with one-party rule
- Oversight should be focused on improving performance and assuring accountability
- It is essential that oversight be balanced and constructive by highlighting what is working well—including best practices—as well as identifying shortcomings to prevent repetition of mistakes
- Accountability organizations should employ a “constructive engagement” approach while maintaining their independence
- Accountability organizations should also “partner for progress” in order to maximize value and mitigate risk while leveraging available resources and minimizing duplication of effort

Key Oversight Concept: *Constructive Engagement*

Constructive engagement involves both a philosophical approach to the conduct of GAO's work as well as certain types of analyses themselves

From a philosophical standpoint, GAO seeks to point out both positive performance and areas in need of improvement. We also attempt to consider our findings in a fair and balanced light, with the appropriate degree of contextual sophistication (e.g., absolute, trend, and relative performance; inter-relationships between issues)

From the standpoint of a particular study, constructive engagement typically involves GAO sharing its considerable knowledge and government-wide perspective, including related methodologies and best practices, to help agencies help themselves

Definition of Waste

Waste involves the taxpayers as a whole not receiving reasonable value for money in connection with any government funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial, or legislative branch employees, contractors, grantees, or other recipients)

Importantly, waste represents a transgression that is less than fraud and abuse and most waste does not involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, or inadequate oversight

Examples of Waste

Illustrative examples of waste in the acquisitions and contracting area could include:

- Unreasonable, unrealistic, inadequate, or frequently changing requirements
- Failure to use competitive bidding in appropriate circumstances
- Failure to engage in selected pre-contracting activities for contingent events (e.g., hurricanes, military conflicts)
- Congressional directions (e.g., earmarks), and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources

Illustrative Examples of GAO's Work to Modernize the Accountability Profession

- Leading strategic planning and coordination efforts with major accountability organizations around the world (e.g., INTOSAI, GWG) and domestically (e.g., NIAF and DWG) that include oversight, insight, and foresight dimensions
- Enhancing federal financial reporting (e.g., social insurance, restricted revenues, fiscal sustainability, generational equity, and performance) and pursuing publication of a summary annual report
- Promoting the modernization of the accounting/reporting models (e.g., IFAC, FASB, GASB, FASAB) and other assurance models (e.g., IAASB)

Illustrative Examples of GAO's Work to Modernize the Accountability Profession

- Creating the U.S Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB), which among other efforts, develops strategies for overcoming challenges and barriers to modernizing the auditing profession in the U.S.
- Monitoring implementation of the Sarbanes-Oxley Act and considering whether reform elements similar to those in Sarbanes-Oxley make sense for the federal government
- Modernizing Generally Accepted Government Auditing Standards (Yellow Book)
- Pursuing the design and adoption of key national indicators

GAO's Goals for Establishing Auditing Standards

- Develop high quality Government Auditing Standards that are well understood, highly regarded, widely used, and serve as a model for other environments such as the private sector and other governments around the world
- Provide leadership in modernizing and transforming the accountability profession in the public and private sectors, both domestically and internationally
- Encourage the development of consistent, core auditing standards for both the public and private sectors, in the U.S. and internationally, as appropriate
- Provide a foundation for an accountability profession that is effective, ethical, and prepared for the challenges of the 21st century

GAO's Role in Coordinating Auditing Standards in the United States

The Comptroller General established the U.S. Auditing Standards Coordinating Forum

- PCAOB, GAO, ASB
- Three principals meet several times a year
- Key staff coordinate regularly to implement agenda
- Rotating chair, based on who is hosting the meeting
- Still defining role for IAASB

GAO's Role in Coordinating Auditing Standards in the United States (cont.)

Purpose of U.S. Auditing Standards Coordinating Forum

- Maximize complementary standards-setting agendas
- Minimize duplicative or competing efforts
- Identify any significant gaps not being addressed
- Develop strategies for overcoming challenges and barriers to modernizing the auditing profession in the U.S.
- Assure consistency where appropriate for core auditing standards, while seeking to modernize those standards

GAO's Influence on International Auditing Standards through INTOSAI Activities

GAO is a member of INTOSAI's Professional Standards Committee (PSC) and serves on 4 PSC subcommittees:

- PSC steering committee
- Accounting and reporting subcommittee (chair)
- Financial audit guidelines
- Internal control

GAO's Influence on International Auditing Standards through INTOSAI Activities (cont.)

GAO is assisting in drafting practice notes to 3 ISAs that will provide additional guidance for public sector auditors

- Audit Documentation, ISA 230
- Communication with Those Charged with Governance, ISA 260
- Audit Risk, ISAs 300, 315, 320, and 320 (GAO provided preliminary assistance)

GAO's 2007 Yellow Book Update *Effective for Audits Beginning on or After January 1, 2008*

Major areas of revisions:

- Bringing performance audits under a professional assurance framework using concepts of audit risk, significance, and sufficient, appropriate evidence
- Emphasizing the critical role of government audits in achieving credibility and accountability in government
- Outlining overarching ethical framework in government audits
- Modernizing GAGAS and updating for major developments in the accountability and audit environment
- Strengthening quality assurance and peer review requirements

Peer Review Decisions

- Added a requirement that external audit organizations make their most recent peer review report publicly available (that requirement does not include letter of comment)
 - Can be done by posting the peer review report on an external Web site or to a publicly available file designed for public transparency of peer review results
- Internal audit organizations are required to provide a copy of the external peer review report to those charged with governance
- Government audit organizations should also communicate the overall results and the availability of their external peer review reports to appropriate oversight bodies

Peer Review Decisions (cont'd)

- Clarified that an audit organization's noncompliance with the peer review requirement results in a modified GAGAS statement
 - Of note, noncompliance with the requirements for a system of quality control does not impact the GAGAS statement but is monitored through peer review
- Requirements for system of quality control are consistent with the AICPA proposed statement on Quality Control Standards except that the GAGAS requirements state that reviews of the work and the report that are normally part of supervision in connection with a particular engagement are not adequate to meet the monitoring controls requirement when used alone

Peer Review Decisions (cont'd)

- Those audit organizations seeking to enter into a contract to perform a GAGAS audit or attestation engagement should provide the following to the party contracting for such services
 - The audit organization's most recent peer review report and any letter of comment
 - Any subsequent peer review reports and letters of comment received during the period of the contract
- Auditors who are using another audit organization's work should request
 - The audit organization's latest peer review report
 - Any letter of comment

The Future Accounting/Reporting and Audit Reporting Model

We need to review and revise the existing accounting/reporting model to reflect several dimensions:

- Generic provisions
- Industry information
- Entity-specific information (i.e., value and risk)

We need to recognize the difference between certain types of financial and other information:

- Historical cost
- Readily marketable assets
- Non-readily marketable assets
- Projection information
- Performance information

The Future Accounting/Reporting and Audit Reporting Model

We need to review and revise the existing audit reporting model to accomplish at least four objectives:

- Recognize that the opinion should address whether the financial statements are fairly presented in all material respects and prepared in accordance with authoritative accounting principles (e.g., promulgated by FASB, GASB, FASAB, IFAC)
- Expand the auditor's report to include key value and risk-based performance and projection information over time and as appropriate
- Update the audit reporting model to link it with the new financial reporting model, and provide appropriate degrees of assurance for each type of information to improve value and reduce risk
- We need to move beyond “going concern opinions” to provide more timely and meaningful information to the users of financial statements in appropriate circumstances (e.g. US government)

We need to ultimately go global in connection with all major accounting and audit matters

We need to coordinate domestic efforts in the interim (e.g., U.S. Auditing Standards Coordinating forum)

Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston).
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
 - Serving as a framework for related strategic planning efforts
 - Enhancing performance and accountability reporting
 - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
 - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally.

Key National Indicators: *Where the United States Ranks*

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

16 OUT OF 28

OECD Categories for Key Indicators
(2006 OECD Factbook)

• Population/Migration	• Energy	• Environment	• Quality of Life
• Macroeconomic Trends	• Labor Market	• Education	• Economic Globalization
• Prices	• Science & Tech.	• Public Finance	

Source: 2006 OECD Factbook.

Key Responsibilities for the Accountability Community

- *Ferreting Out Fraud, Waste, and Abuse*
- *Seeking More Efficient, Effective, Ethical, and Equitable Government*
- *Providing Perspective*
- *Leading By Example*
- *Building Partnerships*
- *Modernizing the Profession*

Key Leadership Attributes Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Stewardship***
- ***Partnership***



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Web site: www.gao.gov/cghome.htm

Contact

Susan Becker, Acting Manager, Public Affairs
Beckers@gao.gov (202) 512-4800
U.S. Government Accountability Office
441 G Street NW, Room 7149
Washington, D.C. 20548

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