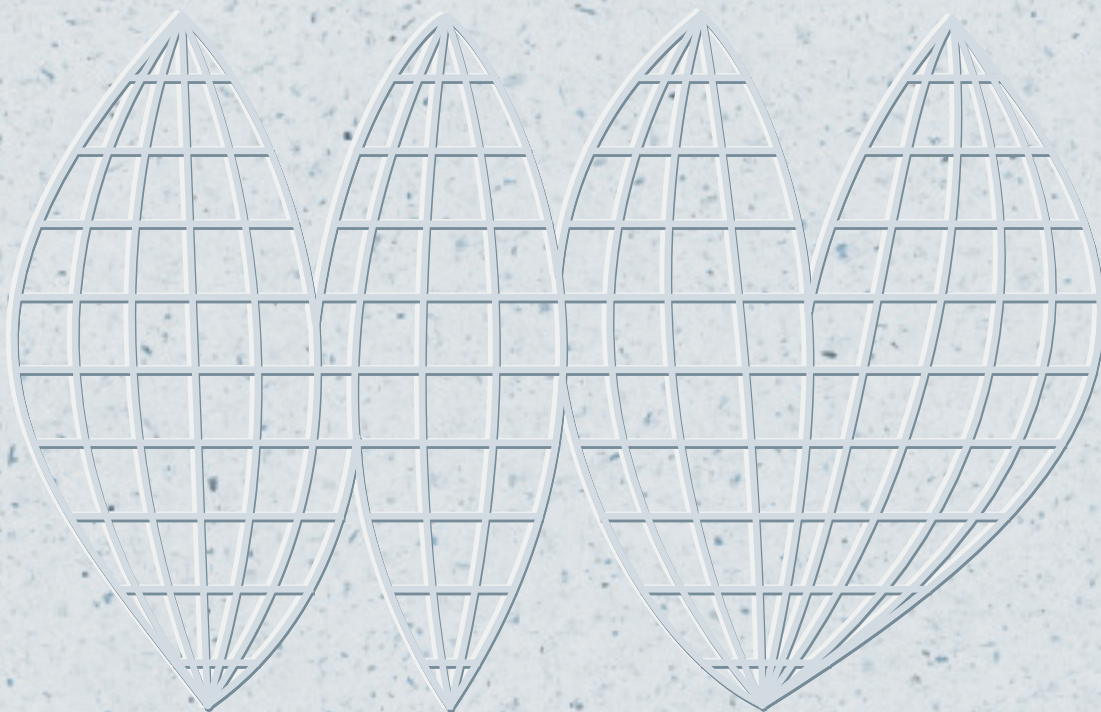


# International Peer Review of the Performance Audit Practice of the United States Government Accountability Office



Canada ■ Office of the Auditor General of Canada

Australia ■ Australian National Audit Office

The Netherlands ■ Algemene Rekenkamer

United Kingdom ■ National Audit Office

May 2008



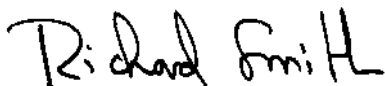
To: The Comptroller General of the United States

## Peer Review Opinion

- 1 In our opinion, the quality assurance system of the United States Government Accountability Office (GAO) was suitably designed and operating effectively, during the year ended 31 December 2007, to provide GAO with reasonable assurance that it conforms to the United States *Government Auditing Standards, 2003*, and early adopted portions of the 2007 Revision 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, the Netherlands, and the United Kingdom reviewed the quality assurance system that GAO has established for managing its performance audit practice.
- 3 GAO's quality assurance system encompasses its organizational structure and the policies and procedures established to provide it with reasonable assurance that it complies with *Government Auditing Standards*. 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 GAO's quality assurance system were drawn from GAO legislative authorities, *Government Auditing Standards, 2003*, and early adopted portions of the 2007 Revision, 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, 2003*, and early adopted portions of the 2007 Revision. The peer review team examined GAO's documented policies and procedures relative to applicable professional standards, reviewed documentation for a representative sample of 2007 audits selected from the first eight months of the year, and interviewed professional and administrative staff. The team also examined the performance of GAO's own inspection service. A description of the peer review is provided in the appendix to this report.
- 6 This report sets out our observations about 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. 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

30 May 2008, Ottawa



## General Observations

### Managerial context

- 7 The United States 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, the Office’s name was changed to the Government Accountability Office (GAO). Agencies are required to provide GAO with access to information about their duties, powers, activities, organization, and financial transactions.
  - 8 GAO is independent of the Federal Executive Branch and reports directly to Congress. To ensure GAO’s independence from the Executive Branch, the Comptroller General can be removed only by Congress and only for specified causes.
  - 9 GAO undertakes audits mostly in response to Congress. During the 2007 calendar year, 92 percent of its performance audits were undertaken in response to a specific congressional request or statutory mandate (76 percent and 16 percent respectively). The remaining 8 percent fell under GAO’s legislated authority to undertake self-initiated work to support Congress.
  - 10 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. Its performance audit practice employs a broad range of methodologies; involves various levels of analysis, research, or evaluation; and produces a variety of audit products including correspondence, testimonies, briefings, and audit reports that may describe the condition of events or government programs, and may include audit findings, conclusions, and recommendations.
  - 11 GAO’s performance auditors work in teams that are supported by experts in technical disciplines, such as data collection and survey methods, statistics, econometric modelling, information technology, and the law. Its staff of approximately 3,100 includes accountants, health experts, engineers, environmental specialists, economists, historians, social scientists, actuaries, and statisticians, among others.
  - 12 In 2007, GAO began work on 554 new performance audit engagements and published 1,038 performance audit products. The number of products published exceeds the number of engagements started because an engagement may result in more than one product and engagements may cross over calendar years (i.e., begin in one year with the product issued in the next year).
  - 13 Several features distinguish GAO’s working environment from that of many of its international peers:
    - It carries out a larger volume of performance audit engagements each year.
    - It generates a greater variety of products.
    - The majority of the engagements it carries out are requested by Congress and not self-initiated.
  - 14 As with all United States federal and state government audits, GAO performance audits are to be conducted in accordance with *Government Auditing Standards*. These standards allow for a broader definition of performance audit than those of many of its international peers (Figure 1).
- ### Overview of the quality assurance system
- 15 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 and executed;
- evidence is competent and reliable;
- conclusions are supported;
- products are fair and balanced; and
- recommendations are sound.

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

### Focus of the peer review

- 17 The requirement and main elements of an external peer review are set out in *Government Auditing Standards, 2003*, 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 its 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.

- 18 This is the second peer review conducted of GAO's performance audit practice. The first was completed in 2005 and concluded that GAO's internal quality control system was suitably designed and operating effectively for the year ended 31 December 2004. The 2005 review made a number of suggestions to GAO for improvement of performance audit practices.

### Figure 1: The definition of performance audit

According to the 2003 version of Government Auditing Standards, the definition of performance audit is as follows:

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.

Most of the audits in our peer review sample were based on this definition of performance audit. However, in February 2007, GAO adopted the definition in the 2007 Revision of the standards. It states the following:

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. Reporting information without following GAGAS [Generally Accepted Government Auditing Standards] is not a performance audit but a non-audit service provided by an audit organization.

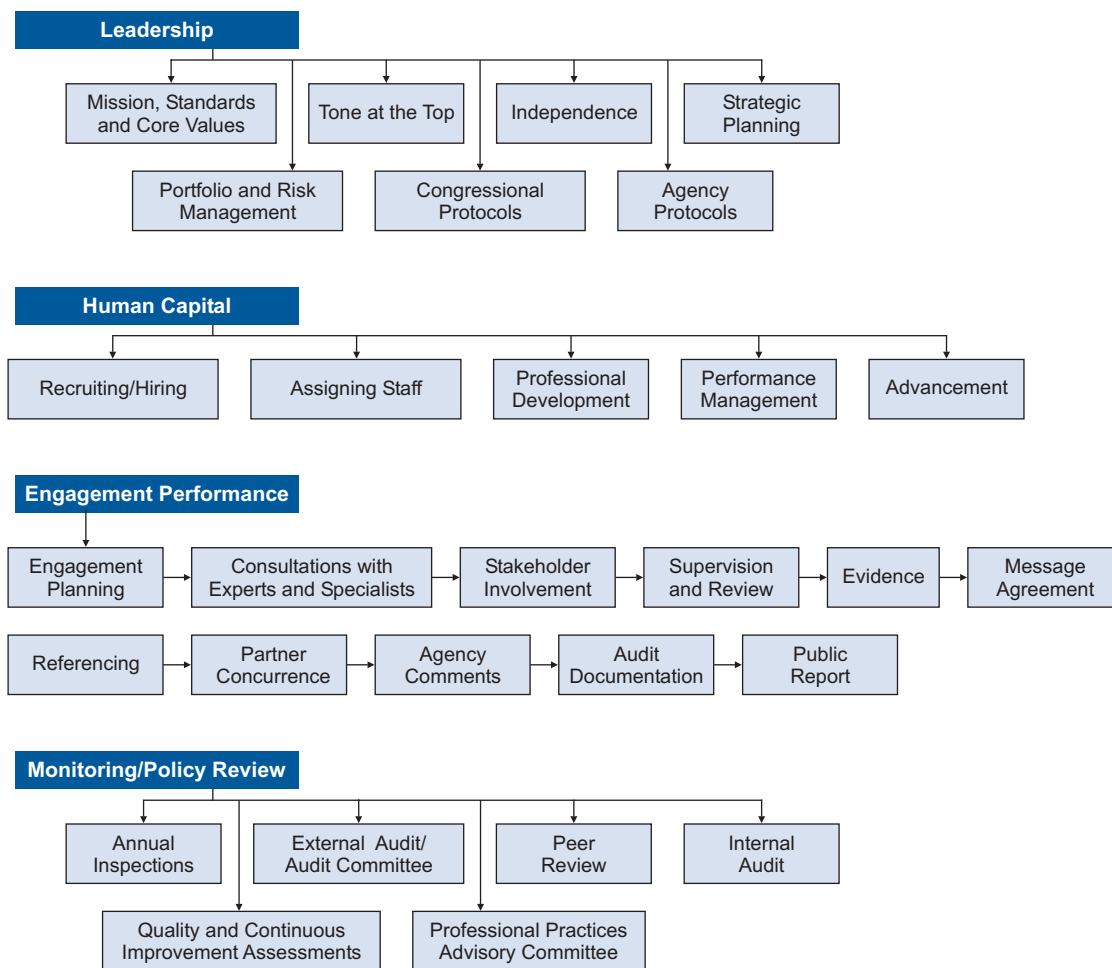
Performance audits that comply with GAGAS provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

19 As in the first peer review, our primary focus was on elements of GAO’s quality assurance system that deal with engagement performance and compliance monitoring. We reviewed GAO’s performance audit policies and process controls, examined a representative sample of 2007 audit engagement files and reports, and, where necessary, interviewed senior management and employees responsible for selected engagements. We also reviewed the design of GAO’s inspection program, as well as documentation for full reviews conducted by GAO’s inspection team in 2007.

The appendix lists the review team members and outlines the review purpose and approach in more detail.

20 Because there is a strong consensus among 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. We also focused on elements related to the competence of GAO’s performance audit staff.

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



## Observations of the Quality Assurance System

21 As we concluded in the first peer review, the Government Accountability Office (GAO) has a highly developed and dynamic quality assurance system that, in addition to providing reasonable assurance that it conforms to *Government Auditing Standards*, reinforces the independence, objectivity, reliability, and competence of the Office and its work.

### Independence

22 *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.

23 As required by the Standards, 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.

24 For example, at the personal level, GAO auditors confirm their independence by

- signing an annual statement indicating that 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 to engage in outside activities, such as seeking employment at the entity being audited.

25 In addition, team members, reviewers, and advisers are required to confirm their independence for each engagement. The peer review team believes that this engagement-specific confirmation is a good practice.

26 GAO is, however, unique among its international peers in terms of the legislature's involvement in the selection of topics for performance audits. GAO responds to requests from 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 the issues to examine.

27 In responding to congressional requests, 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 Congress and other stakeholders in establishing key themes and high-risk areas that the government needs to manage well. Its high-risk series of reports focuses attention on government programs that pose significant risks of fraud, waste, abuse, and mismanagement.
- Its engagement acceptance process focuses management's attention on the risks associated with each request, including risks to independence, and how the risks will be managed.

28 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.



29 The strategic planning process is complemented by weekly engagement acceptance meetings designed to ensure that GAO

- undertakes engagements that are within its scope of authority and competence;
- preserves its independence to do future audit work;
- manages accepted work at the appropriate level; and
- involves relevant stakeholders, experts, and specialists.

30 High-, medium-, or low-risk levels are assigned to each engagement based on cost, complexity, and controversy.

31 GAO's strategic planning process and proactive working relationship with Congress help ensure that it focuses on the full breadth of significant issues.

32 We found that the GAO has met all of the standards for independence.

#### Objectivity

33 GAO strives to carry out its performance audit work in an objective, non-partisan, 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.

34 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 GAO and what GAO expects from them. They are intended to ensure that teams apply an objective and consistent approach when dealing with audit entities.

35 GAO protocols for interacting with Congress provide clearly defined and transparent policies and practices. They describe 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 GAO to account for

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

36 *Government Auditing Standards* state that obtaining advance comments from responsible officials of the audited entity and others helps auditors develop a report that is fair, complete, and objective. Also, the Standards require that auditors include or summarize entity comments in their final reports. GAO's adherence to this standard supports its commitment to neutrality and objectivity in reporting audit findings.

37 We found that GAO reports were neutral in tone and audit findings were presented in a balanced, objective manner.

#### Reliability

38 *Government Auditing Standards* set out the reliability requirements for performance audits. These include standards for planning an audit; supervising staff; obtaining sufficient, competent, and relevant evidence; documentation; and reporting.

39 GAO has in place standards for performance audits to ensure its reliability. It also has a large number of experts and specialists who 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 and Methods team and include methodologists, statisticians, economists, actuaries, and accountants. The first peer review identified GAO's use of experts as a good practice, allowing GAO to apply innovative methods and approaches to the analysis of complex issues.

40 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, GAO facilitates the use of methods and approaches

intended to ensure rigorous and reliable work products.

- 41 As part of the engagement acceptance process, audit teams complete a “design matrix” that summarizes the audit plan. The matrix 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 GAO can likely say as a result of the work, as well as the limitations of the job design.

- 42 We found that GAO met the reliability standards for performance audits.

#### Competence

- 43 The first peer review was limited to an assessment of GAO’s independence, and the objectivity and reliability of its reports. This review extended the scope of the work to include human capital.
- 44 The Standards require that staff assigned to performance audits should collectively possess adequate professional competence for the tasks required. They require that the organization ensure each audit is performed by staff who collectively have the knowledge, skills, and experience necessary for that assignment. They also require that each auditor complete at least 20 hours of continuing professional education in any one year and 80 hours in a two-year period.
- 45 Most of the new hires at GAO are found through its university recruitment program. GAO has developed a strong and effective working relationship with the academic community. This relationship includes a broad network of GAO senior management who participate in on-

campus recruiting. It also includes an academic advisory panel with the deans of many of the top US academic institutions as members.

- 46 GAO has established systems to staff projects in an efficient and effective manner. The needs of each project are reviewed and managers are directly accountable for the resources they use. Staff preferences for area of assignment are taken into account.
- 47 GAO also has a rigorous professional development program. There is a well-defined professional development program for new auditors and an extensive list of courses available to experienced staff. Auditors must complete the required training hours specified in the Standards and are not allowed to work on performance audits if they have not completed this required training.
- 48 We found that GAO has met the competence standards.

#### Monitoring

- 49 *Government Auditing Standards* require that each audit organization conducting performance audits have an appropriate quality control system in place. This system should include procedures for monitoring whether the policies and procedures related to standards are suitably designed and are being effectively applied.
- 50 GAO has an inspection program that reviews a selection of performance audits completed in each calendar year. To assess whether its quality assurance system has been followed and effectively applied, the inspection program also includes related activities such as certain functional reviews to test compliance with policies and procedures, and interviews with audit staff to determine the extent to which they understand and are following *Generally Accepted Government Auditing Standards* (GAGAS) and GAO policy. The inspection program is based on *Government Auditing Standards*, GAO policies, and its quality assurance system.

- 51 GAO employs proportional-to-size sampling criteria, in which larger engagements have a greater chance of being selected, to identify the sample of projects to be inspected. GAO also carries out additional limited inspections of other audit products to ensure that it inspects at least one project a year for each audit director.
- 52 All staff assigned to inspection duties are audit managers (assistant directors) with, on average, over eight years of experience at their level. In addition, they receive special training for this role. Inspectors are selected from across GAO and are assigned to inspect audits outside of their own parts of the organization. Inspectors report their findings to team captains and senior team captains, who are also selected from outside of the audit area being inspected to help ensure their independence.
- 53 The inspection work is synthesized into an annual report that confirms whether *Government Auditing Standards* and the GAO's quality assurance system have been followed, and identifies means to improve GAO practices and procedures. This report is presented directly to the executive committee and is available to all GAO employees.
- 54 We found that the inspection program is suitably designed and operating effectively, as required by the Standards.

### Conclusions

- 55 Based on our review of standards, available documentation, inspection reports, and interviews with staff, we concluded that GAO's quality assurance system was suitably designed and operating effectively to meet the independence, objectivity, reliability, and competence requirements of *Government Auditing Standards, 2003*, and the early adopted portions of the 2007 Revision.

## Follow-up on 2005 Suggestions to GAO from the Peer Review Team

- 56 In our 2005 review, the peer review team identified five areas that it believed the Government Accountability Office (GAO) should consider in its efforts to continue to improve its performance audit practice. These suggestions related to increasing the transparency and efficiency of its quality management system and policies (Figure 3).
- 57 This year, we followed up on the progress GAO had made in implementing improvements based on our suggestions. We found that GAO had taken action to implement each of these suggestions.

**Figure 3: Summary of 2005 suggestions**

<p><b>Distinguishing between audit and non-audit services.</b> Provide further guidance to staff on the distinction between audit and non-audit services, the evidentiary standards appropriate for each form of product, and the process for reconsidering a determination.</p> <p><b>Strengthening reporting.</b> Provide additional details on the sources of critical information and the implications of scope and methodological choices.</p> <p><b>Reviewing the quality assurance system for further efficiencies.</b> Review all the requirements to identify those that may not contribute significantly to audit quality.</p> <p><b>Streamlining documentation requirements.</b> Expand the use of the streamlined documentation regime.</p> <p><b>Making the inspection program more efficient.</b> Focus the inspection program on the management of key risks facing the performance audit practice.</p>
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### Distinguishing between audit and non-audit services

- 58 The Comptroller General's Advisory Council on Generally Accepted Government Auditing Standards revised the independence standard, recognizing that the existing standard focused on private sector consulting services and the

potential impact of performing those services on audit independence. The revised standard requires audit organizations to make a clearer distinction between audit and non-audit services and provides guidance on how to make that distinction. Our follow-up confirmed that GAO had implemented the new standard. GAO adopted the new *2007 Government Auditing Standards* for non-audit services in February of that year, 11 months before the new standards came into effect. As a result of the change in the independence standard, GAO now categorizes a significant volume of its work in support of congressional budget deliberations as non-audit work. However, given the wide range of work GAO is asked to perform, continued vigilance is needed to ensure that engagements are properly categorized.

#### Strengthening reporting

- 59 GAO provided additional guidance to staff on how to document sources and methodological approaches. It improved the tools and training available to staff, including providing examples of situations where more detail on these issues would be appropriate. In addition, we noted that some teams now use an optional tool that guides them through their assessment of data reliability. This makes it easier to determine what should be included in the report to explain the limitations of the data.

#### Reviewing the quality assurance system for further efficiencies

- 60 GAO reviewed the quality assurance system requirements and determined that all but one were required. The Statement of Intent letter may no longer be needed since GAO's acceptance letter confirms the intent to conduct an engagement. In addition, the GAO study identified several ways in which its quality assurance system can be implemented more efficiently. Overall, GAO has met the intent of our 2005 suggestion for improvement.

#### Streamlining documentation requirements

- 61 In 2006, GAO conducted a pilot test of a shortened audit documentation set<sup>1</sup> based on risk, and in 2007 continued to explore ways to streamline requirements. Since 1 January 2008, GAO has implemented a re-engineered engagement management process and streamlined its audit documentation set to more closely match the way staff actually work, rather than requiring additional steps for documentation. For example, the shortened audit documentation set piloted in 2006 is used when a limited investment of resources is needed, such as for small projects, low-risk projects, and projects that update previous work. Over time, GAO intends to replace its existing information systems, which require the same data to be entered several times, with an integrated approach in which staff will record data only once and the system will then automatically fill in every required report and form.

#### Making the inspection program more efficient

- 62 Since the first peer review, GAO has streamlined the inspection process by rotating the functional areas reviewed each year and combining, where practical, financial and performance audit inspections, among other efficiencies.

### Good Practices and Suggestions for GAO to Consider

- 63 During our review, we drew on the broad and diverse experience of our international members to make observations on the Government Accountability Office'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 (Figure 4) and identified areas that GAO may wish to consider as it continues to improve its performance audit practice (Figure 5).

1. The audit documentation set is designed to provide the structure of a GAO engagement (road map). It documents the engagement's approval, design, plan, implementation, and review, as well as any key decisions.

## Good practices

Figure 4: Summary of good practices at GAO

**Applying accumulated knowledge beyond audits.** GAO developed a model to determine when it was prudent to move from planning large defense projects to designing and acquiring them.

**A structured approach to collecting qualitative data.** In some audits, GAO uses a structured approach to collect and synthesize interview data.

**Statements of independence affirmation.** GAO staff affirm their independence for each engagement.

**University recruitment program.** GAO has taken measures to foster closer links with the academic community and improve its university recruitment program.

**Senior staff-led training.** GAO has taken measures to give its experienced staff the opportunity to provide training to the GAO audit community and others, and to recognize their efforts.

### Applying accumulated knowledge beyond audits

- 64 Through the course of completing performance audits, auditors accumulate significant knowledge about the entities audited and often gain insights beyond what is needed to reach sound audit conclusions. GAO uses its accumulated knowledge in innovative ways. One particularly noteworthy example of this relates to a model developed by GAO that informs decisions related to moving from planning to designing and acquiring defense-related capital projects.
- 65 The US Department of Defense spends billions of dollars each year to buy weapon systems for the armed services (about US\$184 billion in 2007). During the 1990s, it became apparent that the Department was plagued by cost overruns and shortfalls in its ability to acquire systems that met original performance targets. In 1998, Congress asked GAO whether commercial practices offered ways to improve the Department of Defense's processes for developing and acquiring weapons.

66 GAO found that commercial practices were superior to those of Defense. It noted that private firms carefully defined the performance characteristics and then made few changes, whereas Defense would only specify general performance targets of weapons under development and might modify them significantly throughout the life of a project. Moreover, private firms would commit to production only when technology was mature and when engineering design had been completed. Defense, on the other hand, would begin production while technology was still under development and use incomplete designs. Using this information, GAO developed a model based on "knowledge points" of when it was prudent to move from planning to design and finally to production.

67 We found that GAO uses its model to provide Congress with a risk assessment of every major Defense capital project. Congress could use these assessments to determine which projects were the most likely to suffer cost overruns or performance shortfalls and to focus its own efforts.

68 GAO's use of its acquired knowledge to develop a formal risk model and the use of this model to forecast future problem areas are good practices.

### A structured approach to collecting qualitative data

69 As do other national audit offices, GAO collects evidence from interviews as a key part of its performance audits. We found cases where GAO's documentation of interview evidence was excellent, with clear and detailed records of structured interviews. In some audits, interview evidence was synthesized into a single document that set out the common points raised, the frequency with which they were raised, and references to the original interview records. The synthesis process and its documentation help to ensure that all key messages from interview programs are collected and provide an effective

audit trail from the report back to the original evidence.

#### Statements of independence affirmation

- 70 We have already noted above that, in our opinion, GAO meets the required standard for independence. While most national audit offices require annual affirmations of independence from their auditors, GAO goes beyond this to require individual attestations for each audit assignment.

#### University recruitment program

- 71 GAO has taken several measures to foster closer links with the academic community. It has established a broad-based recruitment program, assigning a senior GAO executive to each participating university. Accompanied by newer recruits (from these institutions, where possible), the senior practitioners participate in on-campus recruiting days. GAO has also developed various recruiting aids such as videos as a means of increasing GAO's visibility at these events. GAO credits the closer links with significantly increased interest in GAO as a potential career option for graduates.
- 72 GAO has also established an Educators' Advisory Panel. The panel is composed of 30 deans from major US universities, representing such disciplines as accounting, public policy, and business. With respect to recruiting, the panel advises GAO on education and student trends. It also provides academic institutions with feedback on how well their graduates are prepared for careers at GAO and what changes the universities should consider in their programming. This practice provides GAO with important insights to shape its priorities and the senior academic community with an awareness of GAO as a potential employer for graduates.

#### Senior staff-led training

- 73 GAO recruits senior practitioners from across the organization to lead audit training. All potential trainers must be recommended by senior management and, before they can lead training, are trained in how to teach adult professionals.

Training must be completed before the trainer enters the classroom. Afterwards, trainers receive regular feedback and their participation is recognized in their annual assessments.

- 74 GAO gives membership in its training program only to high-calibre staff and has raised the program's visibility throughout the organization. We commend GAO for the emphasis it gives to training its trainers and for providing incentives to make training a prestigious assignment.

### Suggestions for GAO to consider

- 75 Based on our review, we identified areas that GAO may wish to consider as it continues to improve its performance audit practice. These suggestions relate to criteria, data validity, audit documentation, and treatment of third parties named in reports (Figure 5).

**Figure 5: Summary of suggestions**

**Provide explicit criteria.** We suggest that GAO provide more explicit criteria in audits and associated products.

**Mandate use of the data reliability tool.** We suggest that GAO mandate its Record of Data Reliability Assessment template for all audits relying on evidence from computer-generated external data sources.

**Improve audit documentation organization.** We suggest that GAO reinforce the importance of audit documentation organization and accessibility.

**Clarify policy on treatment of third-party comments.** We suggest that GAO enhance its policy for obtaining and disclosing third-party comments on its audits.

#### Provide explicit criteria

- 76 *Generally Accepted Government Auditing Standards (GAGAS), 2007*, state the following:

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific

requirements, measures, or defined business practices . . . Reporting information without following GAGAS is not a performance audit but a non-audit service provided by an audit organization.

Performance audits that comply with GAGAS provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

- 77 The statement that GAO uses in its engagement products to reflect compliance with GAGAS recognizes that evidence was obtained to provide a reasonable basis for the audit findings and conclusions, based on the audit objectives.
- 78 We noted instances in our sample where the criteria used to assert audit findings were not stated as explicitly as they could have been or where stated criteria were missing from the engagement product.
- 79 **Suggestion for improvement.** Moving forward, we suggest that GAO focus attention on ensuring that criteria are explicitly stated in its performance audit engagements and that GAO ensure that its activities are properly classified as either performance audits or non-audit services.

#### Mandate use of the data reliability tool

- 80 Many of GAO's performance audits use auditee management data. According to the 2003 Standards, "Evidence should be sufficient, competent, and relevant to support a sound basis for audit findings, conclusions, and recommendations." The Standards also state that auditors should obtain evidence that computer-processed data are valid and reliable when these data are significant to the auditor's findings.
- 81 In some instances we noted that teams used a *Record of Data Reliability*

*Assessment* template to document their data reliability decisions. This template documents the audit team's assessment of data reliability used to support the audit conclusions, and includes sign-offs from specialists and team management. In one instance where data reliability was critical to the research objectives, the data reliability steps taken and the conclusions reached were not summarized and clearly documented.

- 82 **Suggestion for improvement.** We suggest GAO mandate the use of its *Record of Data Reliability Assessment* template for all audits that rely significantly on external data sources.
- 83 **Suggestion for improvement.** Special care should be taken in instances where data are reported that have not been validated. We suggest that GAO reports refrain from drawing conclusions based on unvalidated data and explicitly state when data have not been validated. We suggest GAO discuss, at its engagement review meetings, questions that arise on the need to conduct a formal data reliability assessment.

#### Improve audit documentation organization

- 84 *Government Auditing Standards* outline the documentation standards that an auditor is required to meet when planning, conducting, and reporting an audit. Documentation must be sufficient to allow an experienced auditor with no previous connection to the audit to understand the methodology employed and the evidence that supports the findings and conclusions.
- 85 For a number of the audits in our sample, the review team observed that
- although there was sufficient and appropriate evidence, documentation did not always clearly connect the audit evidence to the findings and conclusions; and
  - the documentation was not always readily available and easily accessible.
- 86 **Suggestion for improvement.** We suggest that GAO reinforce with staff, through training and guidance, the importance of

organizing audit documentation in an appropriate manner, thus helping to ensure its ready availability and accessibility.

[Clarify policy on treatment of third-party comments](#)

- 87 Performance audit reports sometimes include facts or evaluative statements relating to non-audited or “third-party” organizations. Such comments or statements can affect the reputation of third parties. *Government Auditing Standards, 2003*, state that providing a draft report with findings for review and comment by responsible officials of the audited entity and others, and including their views, helps the auditors develop a report that is fair, complete, and objective; however, the Standards do not make this mandatory. GAO’s policy requires its auditors to provide responsible agency officials and other directly affected parties with an opportunity to review and provide comments on a draft of
- the product before it is issued. Responsible parties include agency officials and other directly affected parties that have responsibilities for the program under review.
- 88 To ensure fairness, the national audit offices represented on the peer review team also have policies requiring the disclosure of relevant sections of draft reports to third parties and for documenting their responses. However, we found an instance in our sample where it was not clear that third-party comments were obtained and addressed in the report.
- 89 **Suggestion for improvement.** We suggest that GAO clarify its current third-party comment policy and communicate to its audit staff the requirement to obtain and document third-party comments, where an audit report includes substantive information about the third party or its work.





United States Government Accountability Office  
Washington, DC 20548

Office of the Comptroller General  
of the United States

May 30, 2008

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 May 30, 2008. We are pleased that you reached a "clean opinion" on GAO's quality control system for performance auditing. We are also pleased that you identified a number of "good practices" in GAO's operations. We seek to continually enhance our quality assurance steps and will form teams to follow up on your constructive suggestions.

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

Sincerely yours,

Gene L. Dodaro  
Acting Comptroller General  
of the United States



## Appendix—About the Peer Review

### Peer review team members

The peer review of the Government Accountability Office’s performance audit practice was carried out by an international team consisting of senior representatives from four supreme audit institutions.

#### Australia—Australian National Audit Office

- Barbara Cass
- Deborah Jackson

#### Canada—Office of the Auditor General of Canada

- Frank Barrett
- Doreen Deveen
- Peter Kasurak
- Pierre Parent
- Rick Smith (Review Leader)

#### The Netherlands—Algemene Rekenkamer

- Niels Donker
- Erik Israël

#### United Kingdom—National Audit Office

- Michael Whitehouse
- Paul Wright-Anderson

### Purpose

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

### Approach

The peer review of GAO’s performance audit practice was carried out in accordance with *Government Auditing Standards* requirements and with the code of ethics and auditing standards issued by the International Organization of Supreme Audit Institutions. The review was based primarily on the 2003 Standards. Limited use was made of the 2007 Standards since only a small portion of the

document was in effect during the period covered by our review.

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

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

To assess design, the peer review team began with a GAO management letter providing assurances regarding the stability of GAO’s quality assurance system and related policies since the 2004 peer review. We focused our review on items that had been changed.

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

To assess the operation of the system, the peer review team selected and reviewed a sample of 40 audit engagements completed by GAO from January through August 2007. For security reasons, a number of reports were not available for peer reviewers to sample. In our opinion, the engagements reviewed fairly represent the functioning of the quality assurance system for the entire year.

The peer review team reviewed the reports and associated working papers for conformance with the quality assurance system, including the documentation supporting GAO’s independence, objectivity, and the reliability of information used to draw 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.

The peer review team also conducted a high-level review of the human resource management systems necessary to ensure that competency standards for performance audits were met. We reviewed

documentation, interviewed managers and staff, and assessed selected systems. In particular, we assessed the processes GAO uses for recruitment, assignment of staff to individual audits, and professional development.

- **An inspection system assessment.**  
The purpose of this part of the peer review was to determine whether GAO has an appropriately designed and effectively applied inspection program established to monitor its performance audit practice.

To assess design, we reviewed the organizational structure, quality assurance policies and procedures, and the inspection sampling methodology.

To validate whether the inspection program was effectively applied, we reviewed the competence and independence of the inspection staff and observed a training course provided to inspectors, as well as inspection meetings. In addition, we reviewed the inspection documentation that was completed for the 57 full inspections carried out by GAO in 2007. We did not review the source evidence on which inspections' conclusions are based.

- **Follow-up on the first peer review.**  
The peer review team followed up on suggestions for improvement made by the first peer review. We began with a letter from GAO management asserting their response to the 2005 suggestions. We then reviewed documentation and interviewed staff to validate management's statements. Finally, we assessed the progress made against the intent of the original suggestions.

#### Sources of evidence

The main sources of evidence used during the peer review were

- GAO's policy manual, automated quality assurance system, and the *Government Auditing Standards*;
- working paper sets from a representative sample of performance audit engagements;
- inspection documentation from the 57 full inspections carried out by GAO in 2007; and
- interviews with audit staff, functional area managers, and senior executives.