A low-angle photograph of the Washington Monument against a blue sky with light clouds. Bare tree branches are visible in the upper right, and cherry blossom trees with white flowers are in the lower right. The text is overlaid on the left side of the image.

# International Peer Review of the Performance and Financial Audit Practices of the United States Government Accountability Office

September 2011



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# I. Introduction

1. The Government Accountability Office (GAO) is an independent Supreme Audit Institution under the authority of the United States (US) Congress. The role and responsibility of GAO is to provide Congress with independent and objective information on government operations and undertakings. The Comptroller General, whose responsibilities and duties are described in the Budget and Accounting Act of 1921, is the head of GAO.

2. To assist Congress in the audit and oversight function of the Executive Branch, GAO has audit and access authorities through various Acts. GAO is directed to evaluate the results of programs or activities of the US Government (the Government). With its broad mandate, GAO serves Congress on a wide variety of issues and a range of products. GAO's performance and financial audit reports include explicit recommendations on improvements and policy options for programs and agencies. GAO also follows up on how government agencies act upon its recommendations. The professional standards that GAO follows are found in the generally accepted government auditing standards (GAGAS) of the United States (GAO, 2007). These standards are also the basis of the external peer review.

3. A key aspect of GAO is its independence from the Executive Branch when

giving Congress assessments of and recommendations for government operations. GAO's enabling legislation allows it to work closely with other auditing organizations and internal auditing functions in government agencies to fulfill its mandate. GAO develops GAGAS with input and comments from an advisory council that is made up of members from the US accountability community. The standards provide a framework for conducting government audits and attestation engagements.

4. An external peer review offers feedback on the quality of reports and work processes. GAGAS requires that an external peer review be done every three years; the main purpose of this exercise is to make sure that GAO and other audit organizations comply with GAGAS (GAGAS 3.56). Peer reviews also identify good practices that may interest other audit institutions and bring to light areas that may need attention from management. This peer review covers the 2010 calendar year. It is the third international peer review of GAO and the first to examine both financial and performance audits. In previous years, private sector auditing firms conducted the financial audit reviews.

5. The Appendix outlines the purpose and sources of the peer review in more detail.

## II. Peer Review Opinion

6. The main objective of this international peer review was to render an opinion on whether the United States Government Accountability Office's (GAO) system of quality control is suitably designed and was operating effectively during the year examined, and whether the quality control system gave GAO reasonable assurance that it is conforming to generally accepted government auditing standards (GAGAS).

7. The peer review team examined key elements in GAO's system of quality control, including the GAO Policy Manual, the Financial Audit Manual, the Electronic Assistance Guide for Leading Engagements,

GAO's Agency Protocols and GAO's Congressional Protocols. The team also reviewed GAO's Inspection Program and its corporate actions to follow up on suggestions made in the 2007 peer review. Furthermore, the team reviewed a sample of performance and financial audits completed in 2010 to find out whether GAO complied with GAGAS in the conduct of its audit work. The peer review team did not examine non-audit activities or products of GAO.

8. The peer review confirms that, in its opinion, GAO's system of quality control is suitably designed and was operating



effectively during the year ending on 31 December 2010. The quality control system was therefore able to provide GAO with reasonable assurance that it is conforming to the sections of the 2007 GAGAS that apply as GAO conducts its performance and financial audit practices.

9. Based on the information collected during the peer review through interviews, focus groups and the review of performance and financial audits, this report identifies good practices and suggestions for GAO to consider. These suggestions could assist GAO in its efforts to further strengthen its auditing practices.

## III. Follow-up on Previous Peer Reviews

10. In the 2007 peer review, the team identified four areas that it thought the Government Accountability Office (GAO) should consider as it works to keep improving its performance audit practice.

**Figure 1: Summary of the 2007 Peer Review Suggestions:**

- Provide explicit criteria in its performance audit engagements.
- Mandate the use of the Data Reliability Tool for all audits that rely on evidence from computer-generated external data sources.
- Improve audit documentation organization.
- Clarify the policy on treatment of third-party comments.

11. The current peer review team followed up on the progress GAO has made in putting in place improvements based on suggestions from the previous team. The current team is satisfied that GAO responded effectively to the recommendations of the 2007 peer review and that the actions taken are well evidenced and documented.

12. One of the suggestions in the 2007 peer review was for GAO to provide more explicit criteria in its audit products. While we found that steps are being taken to carry out this suggestion, the team considers that GAO may further strengthen its use of audit criteria (see paragraphs 26–28).

13. The 2007 peer review of the financial audit practice did not identify any recommendations.

## IV. Good Practices and Suggestions to Consider

14. In carrying out this peer review, the team drew on the broad and diverse experience of its members. The team noted a number of good practices that it believes will interest other national audit offices. These practices are summarized in Figure 2. The team also identified areas that the Government Accountability Office (GAO) may wish to consider as it keeps improving its performance and financial audit practices.

### Good practices

**Figure 2: Summary of Good Practices at GAO**

- GAO has a strong corporate culture with a high dedication to quality and significant expertise throughout the organization.
- GAO uses a variety of means to get the message across to a wide variety of users.

## GAO has a strong corporate culture that supports quality

15. The team found that GAO has a strong corporate culture, supporting audit quality that benefits Congress and the public alike. This dedication to quality is clearly communicated in GAO's various policy documents. The team also observed this dedication to quality in interviews and focus group discussions. As well, the team noted reports in our sample products that were of very high quality, where the strengths of GAO were paramount in providing Congress and the public with reliable information. The team recognizes that a strong corporate culture is key to a professional institution that is dedicated to quality and ongoing improvement.

16. The team found that GAO has good practices in place for forming its engagement teams. GAO keeps an inventory that lists the skills and experience of each staff member and uses staff from throughout the organization, including field offices, to assemble teams. This approach enables GAO to draw on a range of knowledge throughout the organization.

17. GAO also has mechanisms in place to support teams throughout the audit process. This practice includes using the services of specialists during the audit, when appropriate, in areas such as methodology, communication, law, and ethics. The team noted that engagement teams have access to needed expertise in a timely manner. The team also noted that GAO brings together both performance audit and financial audit expertise when needed.

## GAO gets the message across

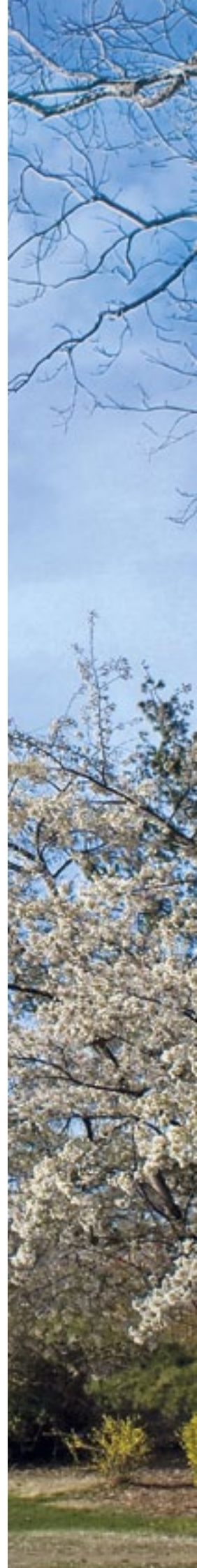
18. The aim of GAO's reports is to share information, findings, and recommendations with Congress, with the agency being audited and with the broader public. In many cases, complex issues must be presented through both text and visuals to provide information to non-experts:

19. **Clear presentation:** Most of the performance audit reports include a highlights page. On this page, GAO explains why and how it did the audit and provides background, findings, and, as appropriate, conclusions and recommendations. The team found the content of this highlights page to be concise, precise and clear for the reader. GAO's use of figures and graphics makes complex issues understandable to a wider audience.

20. **Methodology appendix and e-supplement:** The appendix on methodology includes key methodological decisions and limitations, making them transparent, which makes it easier to understand the findings in the report. When GAO uses surveys as a data collection instrument, it publishes both the surveys and the summaries of the responses in electronic supplements. The e-supplements enable Congress, stakeholders, and third parties to use fully the information that is collected.

21. **Communicating through social media in an appropriate way:** Using social media, GAO taps into the potential for discussion and comments. Also, videos and podcasts offer fresh ways of communicating that can reach a wider audience.

22. **Follow-up on recommendations:** GAO maintains on its website a database of recommendations that have yet to be fully addressed. The aim of the database is to meet the oversight and information needs of various groups: Congress, managers in the Executive Branch and GAO staff. The team sees this database as an effective way to monitor progress and to be transparent about the response to and impact of GAO's work.



## Suggestions for GAO to consider

23. This report sets out six suggestions for GAO to consider as it continues to enhance its performance and financial audit practices. The suggestions are summarized in Figure 3.

Figure 3: Summary of Suggestions for GAO

### GAO may wish to

- Ensure oversight of significant changes to audit scope
- Better link criteria to the objectives and conclusions in the performance audit reports
- Update GAO's multi-year strategy for the audit of the consolidated financial statements
- Enhance documentation of key matters
- Develop a framework for rotating senior staff and/or audit responsibilities
- Enhance monitoring of time variances on audits

### Ensure oversight of significant changes to audit scope

24. The peer review team noted that in a few of the products we sampled, the engagement team changed the audit scope after initially agreeing to conduct a broader audit. The changes occurred after completing the Documentation of Planning and Design Phase. While recognizing that auditors may need to adjust the audit scope, the team found that in a few cases, the scope of the audit was changed without adequately documenting how and why the new scope was determined.

25. GAO may wish to reinforce the requirement that if major changes to the work or significant limitations are identified, an engagement team should discuss these at an Engagement Review Meeting (ERM) and obtain its approval to continue the work. Bringing significant issues to the ERM would allow the ERM group to reassess the potential contribution of the work and adjust resource allocations if needed.

### Better link criteria to audit objectives and conclusions in the performance audit reports

26. According to GAGAS, performance audits provide assurance or conclusions against stated criteria. Criteria offer a standard or benchmark for assessing agencies or government programs. Criteria can come from a number of sources, such as legislation, government policies, benchmarking or generally accepted principles.

27. The 2007 peer review encouraged GAO to state explicitly the criteria that are used in each of its audits. As described in paragraphs 10 to 12 of this report, GAO has made adjustments to ensure that performance audits include criteria. The peer review team noted many examples where the criteria used were identified and clearly linked to the audit issues. However, the team also noted several cases where the way the criteria were applied was less clear.

28. GAO may wish to revise its planning tools to clarify that criteria should be explicitly identified for each audit objective. Also, GAO may want to give staff more guidance on how best to describe in GAO's products the criteria used and how they were applied. Having criteria that are clearly linked to the audit objectives offers transparency on how GAO assesses agencies. Providing a better description in GAO products would also help readers understand more easily how conclusions are reached.

### Update GAO's multi-year strategy for the audit of the consolidated financial statements

29. GAO is required to audit the consolidated financial statements of the United States Government (the Government) once a year. This audit is the largest annual audit that GAO conducts. Since the first required audit in 1997, GAO has issued disclaimers of opinion on the accrual-based consolidated financial statements, due to the effects of material weaknesses in some major agencies. The weaknesses have resulted in unauditible statements and a number of limitations on the scope of the work. Although GAO issues a disclaimer of opinion on the

overall consolidated financial statement, GAO and other auditors provide opinions on the majority of the 35 federal entities that are significant to the Government's financial statements.

30. In addition to the disclaimer of the opinion for 2010, GAO's report included information about key matters, such as the unsustainability of current fiscal policies and the related long-term fiscal challenges, as well as material uncertainties around the ultimate cost of the Government's actions to stabilize financial markets. GAO's report also contained information about the material weaknesses related to internal controls, and highlighted areas where improvements are needed. At the same time, GAO cited significant improvements that have been made in financial management in the Government since the audit requirement came into force. The GAO also noted recent progress in some of the agencies that had the main weaknesses that resulted in the disclaimer of opinion.

31. To provide useful consolidated financial statements, both the Government and GAO see the need to resolve the material weaknesses that led to the disclaimer. The Government has said that several actions will be taken to resolve these matters. Congress has also passed legislation requiring the Department of Defense to produce auditable financial statements by 2017. While it is the Government's responsibility to resolve this issue, GAO continues to take a proactive role in trying to move the Government along in addressing this matter.

32. In light of the recent developments and improvements, the peer review team believes that GAO should put in place an updated multi-year strategy for its audit of the consolidated financial statements. This strategy should cover both the short term and the medium term; a suggested span is five years. The strategy should consider the scope, approach and resources needed for future annual audits – as the Government resolves outstanding matters that have caused a disclaimer of an opinion – to a time when financial statements are auditable and for which an opinion can be provided.

33. An updated multi-year strategy may help ensure that GAO is poised to dedicate sufficient resources to new areas where agencies assert improvements or audit readiness in areas that were not audited before.


### **Enhance documentation of key matters**

34. The peer review team found that in most cases, there is much documentation supporting the planning, execution, and reporting of the annual financial statement audits. The team also found evidence that senior management is involved in the financial statement audit engagements, most notably in the planning and reporting phases of the audit. There is little documentation, however, on the nature and extent of senior management's involvement throughout the financial audit, such as discussions among senior managers on key matters related to audit judgments. This issue was not identified in performance audits.

35. Although US auditing standards do not require it, GAO may wish to enhance the documentation of the involvement of senior management on key matters throughout the audit cycle, while maintaining a balance to ensure that documentation does not become too cumbersome or costly. Such documentation will offer more assurance that management is involved in judgments that affect the audit opinions. This practice could also assist management in future years, when new managers take responsibility for an audit file.

36. Regarding GAO's Inspection Program, the team noted that there was limited documentation on some of the key judgments and decisions made about the conduct and reporting of the Inspection Program; the team found that there was not always a clear management trail. Such a trail would describe how overall inspection results were determined – including for key decisions. The team suggests that GAO consider documenting the basis for its overall conclusions and the key factors that led to this determination. This practice may ensure transparency and consistency in pursuing the improvements suggested by the Inspection Program.





## **Develop a framework for rotating senior staff and/or audit responsibilities**

37. GAO performance and financial audits are done by fairly small teams. These teams often consist of three to seven auditors, with directors and assistant directors providing oversight and direction. GAO's policy is for new audit trainees to move to various parts of the organization during the first two years of their careers. In many cases, staff members then spend several years developing expertise in one area. They often conduct audits focused on the same agency or agencies.

38. The peer review team observed that many of the senior staff conducting GAO audits in our sample worked in the same issue area for many years – sometimes for over a decade. The peer review team recognizes that there are benefits to having staff with a lot of depth and background knowledge of the agencies being audited. Such expertise allows staff to respond quickly to client requests and reduces the learning curve in understanding complex programs. At the same time, the peer review team believes that there are risks when staff does not rotate. Other national audit offices have policies that limit the number of years that senior audit managers may work on the same file (that is, audit the same agency).

39. GAO may wish to consider developing a framework for rotating senior staff and/or audit responsibilities. The peer review team believes that rotating staff and audit responsibilities more often leads to a broader professional development of staff. This practice also ensures that any shortcomings within agencies are viewed with fresh eyes on a regular basis. Also, for financial statement audits, international practice specifies that rotation safeguards independence and helps to encourage new and different ways of doing things. Therefore, while GAGAS or other US standards do not require internal rotation, GAO may wish to consider developing a framework to guide rotation, while ensuring that enough expertise remains within engagement teams to continue to provide the context and depth that enable GAO to fulfill its mission.

## **Enhance monitoring of variances between the planned and actual staff days used**

40. GAO conducts over 600 performance and financial audits of federal agencies each year, as well as many non-audit products. These products can take from a few weeks to many months to complete, depending on scope, breadth, and complexity of the product.

41. The team observed that, overall, variances between the number of staff days planned and the actual number of days used to complete the audits are not closely monitored. The team found that these planning estimates were often much higher or lower than the actual days used; over half of the engagements in our sample had more than a 15 percent variance between the planned and actual staff days used. Although GAO has a formal process for approving the estimated number of staff days on engagements, the team observed that GAO does not have a comparable process for approval of additional staff days beyond those initially approved.

42. GAO may wish to consider requiring the Engagement Review Meeting approval of additional staff days above a certain threshold to improve the monitoring of its audits.





**G A O**

Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

Comptroller General  
of the United States

September 30, 2011

Ms. Kristin Amundsen  
Deputy Director General  
Office of the Auditor General of Norway

Dear Ms. Amundsen:

We have read the peer review report dated September 30, 2011 and are pleased that you reached the opinion that GAO's quality control system was suitably designed and operating effectively. We are also pleased that you identified a number of good practices in GAO's operations. Additionally, we appreciate the team's constructive suggestions and will assess them as we continue working to improve our overall engagement management system.

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

Sincerely yours,

Gene L. Dodaro  
Comptroller General  
of the United States

## V. Appendix: About the Peer Review

The main purpose of the peer review was to give an opinion on whether the United States Government Accountability Office's (GAO) system of quality control is suitably designed and was operating effectively during the year 2010. The peer review team's aim was to provide GAO with an opinion on whether it was complying with the applicable sections of the 2007 Government Auditing Standards in conducting its performance and financial audit.

Other objectives of the peer review were to identify good practices and offer suggestions that management may wish to consider as it enhances GAO's performance and financial audit practices.

The peer review focused on both performance and financial audits and practices. The team developed three review programs to guide its review of 41 performance and financial audits and its assessment of audit design and audit implementation.

The team randomly selected a sample of 38 performance and 3 financial audit engagements from GAO products issued in the calendar year 2010. Because some engagements contained classified information, the team randomly selected other products as substitutes. The team interviewed GAO management staff and conducted focus groups. These interviews provided input into the team's assessment of audit practices and of the quality assurance system. The team also reviewed GAO's legal provisions, its system of quality control, reports on the follow-up of the 2007 peer review, and the Inspection Program for 2010. As well, the team did a crosscutting review of the sampled reports, including working papers and underlying evidence for some key findings. The team also interviewed engagement teams and GAO management staff, observed central decision-making meetings, and reviewed course material and e-learning related to a few relevant subjects.

The lead reviewer and the peer review team would like to convey thanks to GAO management and staff for all the information, assistance, and time provided throughout the peer review. The continuous access to relevant information and sources was essential to the team's ability to offer an overall opinion and identify good practices and suggestions for management to consider.

### Peer review team

The peer review of the Government Accountability Office's performance and financial audit practices was carried out by an international team of senior representatives from five supreme audit institutions.

Norway – The Office of the Auditor General of Norway  
- Kristin Amundsen (Review Leader)  
- Anne Heyerdahl  
- Therese Johnsen

Canada – The Office of the Auditor General of Canada  
- Frank Barrett  
- Michael Pickup

The Netherlands – Algemene Rekenkamer  
- Dr. Peter van der Knaap  
- Marcoen Roelofs  
- Marius Winters

Sweden – The Swedish National Audit Office  
- Tony Angleryd  
- Staffan Nyström

United Kingdom – The National Audit Office  
- Sian Jones



