

United States Government Accountability Office (GAO)



Peer Review

ASSURING QUALITY AND ENHANCING CONFIDENCE

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Topics of Discussion

- GAO's peer review experience
- Peer review in the 21st century

GAO's Strategic Plan



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
- Long-Term Fiscal Imbalance
 - National Security
 - Global Interdependence
 - Changing Economy
 - Demographics
 - Science and Technology
 - Quality of Life
 - Governance

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 and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income 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* ...

- Emerging threats
- 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

Source: GAO.

Selected Success Measures

- Results
- Clients/customers
- People
- Partnerships

The GAO Context

- Broad mandate spanning many oversight, insight, and foresight issues
- Legal requirements, professional standards, and core values
- Complex, diverse work and many different types of products (e.g., reports, testimonies, briefings, primers, best practice guides)
- 13 teams; multiple locations
- Financial audits comprise about 10-15% of work
- More than 80 senior executives authorized to sign products
- Provide information and analysis to support legislative process
- All audits follow *Government Auditing Standards*
- Well-developed and publicized quality assurance and risk management systems, including a risk-related quality assurance system and rigorous internal inspection program

Benefits of Peer Review

- Meet *Government Auditing Standards*
- Lead by example
- Provide additional assurance to the Comptroller General and GAO management
- Provide assurance to the Congress and the American people
- Answer the question, “Who audits the auditors?”
- Continually enhance quality controls
- Learn from others and share knowledge and experience with others
- Build bridges between entities and nations
- Benefits greatly outweigh the costs

GAO's Peer Review Experience

- Financial audit peer reviews by KPMG for 1995, 1998, 2001, and 2004
- Performance audit peer review by an international team of national audit offices for 2004

Financial Audit Peer Review

- Performed by a large, international accounting firm (KPMG LLP) in accordance with AICPA peer review standards and Government Auditing Standards
- Clean opinion – fourth straight time
- Reviewers cited numerous good practices:
 - Major issues and significant consultations well documented
 - Internal inspection and peer review taken seriously
 - Comprehensive sampling plans used
 - Good use of tracking sheets and routing slips
- Reviewers also suggested clarifying policies and procedures for documenting references to prior year testing and the assessment of management's internal control evaluation process

Performance Audit Peer Review

- Report said that GAO's quality control system for performance auditing was suitably designed and operating effectively for 2004
- Peer review completed in accordance with *Government Auditing Standards*
- A team of performance auditors from Canada (lead), Australia, Mexico, the Netherlands, Norway, South Africa, and Sweden, performed the peer review

Performance Audit Peer Review

- **Clean Opinion**
- **Global Good Practices**
 - Strategic planning process
 - Audit risk assessment
 - Agency Protocols
 - Use of experts
 - E.A.G.L.E
 - Report design
- **Other Observations**
 - Distinguishing between audit and non-audit services
 - Strengthening reporting
 - Reviewing the quality assurance system for further efficiencies
 - Streamlining the documentation requirements
 - Making the inspection program more efficient
- **Report Has Been Made Public**

Peer Review Requires Extensive Preparation

- Effective first-time preparation for peer review takes several years and should be carefully managed.
- Key parts of GAO's preparation for peer review of its performance audit practice included:
 - Developing Quality Assurance Framework
 - Review and update of policies, guidance and training
 - Additional staff training — revised standards
 - Creation of a crosswalk from the standards to the policies to demonstrate that the policies are complete
 - “Help reviews” — a field test of our internal inspection program
 - Implementation of inspection program
 - Internal communication efforts

Developing a Well-Functioning Inspection Program—A Key to Success

- A key part of a quality control system
- *Government Auditing Standards* requires an internal quality control system, including monitoring
- Peer review team was able to extensively rely on GAO's inspection program (key part of GAO's monitoring)
- Took several years to develop and implement the performance audit inspection program, including:
 - Developing methodology
 - Preparing and testing the checklists and tools
 - Training and building skills in the review team and team captains

History of Peer Review

- **1960s**—firm's begin internal inspections to assure consistency across their offices
- **1970s**—first peer reviews after various failures
- **1980s**—voluntary peer reviews—AICPA develops guidance
- **1990s**—mandatory peer reviews
- **2000 and beyond**—PCAOB inspections; stronger AICPA standards

Current Status of Peer Review and PCAOB Inspections

- On road to restoring trust in the accountability profession
 - PCAOB inspections and standards
 - AICPA actions
 - 2003 Yellow Book peer review standards
- U.S. Joint Auditing Standards Coordinating Forum (i.e., PCAOB, GAO, ASB)

Current Standards for Peer Review

- PCAOB inspections—Big 4 annually; others every 3 years
- Yellow Book—every 3 years for entire audit practice (performance audits, financial audits, attestation engagements)
- AICPA—every 3 years for accounting practice (audits, attestation engagements, reviews, compilations); more often if opinion not clean
- IIA—every 5 years (unless subject to GAGAS)

Peer Review in the 21st Century Should

- Serve the public interest
- Evolve to meet changing circumstances
- Be principle based, not rule based
- Be based on value and risk considerations
- Be integrated with other quality assurance considerations
- Allow peer reviewer judgment

Things To Consider Going Forward

- Continue collaboration among AICPA, GAO, IIA, PCAOB and others
- Avoid conflicts among peer review standards (unless appropriate)
- Strengthen requirements for internal inspection programs
- Identify meaningful measures of quality
- Improve transparency of peer review results
- Require reviewers to consider organization's culture, reward structure and tone at the top
- Require frequency of peer reviews to be based on prior results and current risks

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