

The Evolving Role of Auditing in Helping Meet Dynamic
National and International Challenges

by

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I want to thank Mr. Liu Jiayi, Auditor General, and the China National Audit Office (CNAO) for inviting me to speak today. It is an honor to be here at your headquarters in Beijing, and it is a pleasure to visit your beautiful, historic country. I appreciate the opportunity to share ideas on good governance and to explore issues of mutual interest.

Mr. Liu and I have had very good discussions during meetings of the International Organization of Supreme Audit Institutions, or INTOSAI. We share common perspectives on the importance of this organization and its aspirations.

I also had the pleasure of strengthening my working relationship with Mr. Liu and the CNAO during his visit with me and my colleagues last year. That was a great way to learn more about how each of our respective audit agencies carries out its responsibilities. I look forward to additional opportunities for our two offices to share experiences.

The CNAO has made significant contributions to INTOSAI through its participation in three committees; seven working groups, including the Environmental Auditing, Public Debt, and Value and Benefits of SAIs working groups; and two task forces. The CNAO has also been actively involved in the Asian region of INTOSAI. As you recall, the CNAO chaired the Asian Organization of Supreme Audit Institutions between 2006 and 2009 and hosted its 2006 Congress in Shanghai.

My agency, the U.S. Government Accountability Office, or GAO as we are often called, enjoys an evolving, bilateral working relationship with the CNAO. As I am sure many of you know, GAO and the CNAO will enter into a memorandum of understanding to encourage and promote technical cooperation. It will be my pleasure to sign that document during this visit.

In my view, the future of government auditing is more important than ever. Looking ahead, supreme audit institutions (SAI) like the CNAO and GAO have unprecedented opportunities to help their governments plan ahead and address issues on a broader scale. That is quite a change from the kind of work GAO did many years ago.

It would be helpful background to briefly outline how GAO has evolved over the years. GAO is an independent, nonpartisan agency in the legislative branch of the United States government. We are sometimes called the “congressional watchdog” because we examine how taxpayer dollars are spent by the Executive Branch, and we recommend ways to help government work better.

GAO supplies Congress with timely information that is professional, objective, fact-based, nonideological, fair, and balanced. Our commitment to good government is reflected in our core values of accountability, integrity, and reliability. We have credibility because we have no agenda, other than advocating transparency and good government principles.

GAO was created just over 90 years ago. After World War I, Congress wanted better information on, and control over, government spending. So Congress passed a law that required the president to issue an annual federal budget. That law also established an independent agency – GAO, or the General Accounting Office as we were known then – to keep any eye on how federal dollars were spent.

In its early years, GAO mainly did voucher auditing. After World War II, GAO began to do more comprehensive financial audits that examined the economy and the efficiency of government operations. In the 1960s, GAO began performance auditing and program evaluations to determine whether government programs are meeting their objectives.

GAO’s efforts today fall into three main areas: oversight, insight and foresight.

GAO’s oversight activities determine whether government entities are carrying out their assigned tasks, spending funds for intended purposes, and complying with laws and regulations.

Our insight activities determine which programs and policies work and which ones do not work well. These efforts also involve the sharing of best practices and benchmarking information horizontally across government and vertically through different levels of government.

Finally, there is our foresight work. GAO's foresight activities identify key trends and emerging challenges before they reach crisis proportions. Our foresight work has looked at the United States' long-term fiscal challenges, our aging population, changing security threats, the demands of the information age, the complexities of globalization, and evolving governance structures.

While looking ahead is a component of what we do, present-day challenges dominate our work. Our responsibilities cover the entire breadth and scope of what the federal government is doing today – from defense spending to health care to financial markets and beyond. We also render decisions when individual bidders on government contracts do not believe federal agencies have followed proper procurement practices.

Our reports touch on issues of vital importance to nearly every American citizen. Recently, for example, we have published studies on the U.S. debt limit, food safety, drug shortages, cell phone safety, postal operations, oil and gas production, cybersecurity, border security, and counterterrorism.

Even our reviews of very specialized government activities can have potentially broad implications. For example, we just issued a report looking at efforts by the Food and Drug Administration to address information security threats that could potentially interfere with the functioning of implantable medical devices, such as heart defibrillators and insulin pumps.

GAO presents its findings, conclusions, and recommendations in both official reports and testimony before Congress. Each year, we issue hundreds of reports and testimonies. For example, we issued over 650 reports last year and testified 159 times before various congressional committees.

Importantly, GAO's work leads to real results. We make it a point to regularly measure and report on the agency's performance. Last year, financial benefits from GAO's work totaled \$55.8 billion U.S. dollars. That is a \$105 return on every dollar invested in GAO. We also documented 1,440 other benefits that shaped legislation, improved services to the public, and strengthened government operations.

At GAO, we also follow up on the status of our recommendations. At the end of fiscal year 2012, we found that 80 percent of the recommendations we had made in fiscal year 2008 had been implemented. We measure over a four-year period to allow time for proper implementation.

We meet regularly with Members of Congress and their staff. These outreach efforts ensure that GAO stays at the forefront of high-priority issues facing Congress and the nation. In addition, GAO has protocols or guidelines for how we respond to congressional requests for GAO studies. These protocols ensure that we deal consistently and transparently with all committees and members. This is especially important since we do work for all standing committees of the Congress and about 70 percent of its subcommittees. Our protocols help us to prioritize incoming requests and hold us accountable for the commitments we have made to Congress.

We have similar guidelines for dealing with the agencies we audit. These guidelines guarantee consistency and fairness in our agency interactions, from how we gather information to how we respond to agency review comments on our reports. These agency comments, along with our evaluation of the agency views, are included in our final published reports.

Obviously, strong government auditing standards are essential. GAO is responsible for issuing the standards for U.S. government audit work. We issued our latest update of those standards at the end of last year. This 2011 revision provides a framework for performing high-quality audit work with competence, integrity, objectivity, and independence. Such standards are a means for delivering the objective analyses and information needed by government decision makers.

GAO firmly believes in transparency, the idea that the American people should be as informed as possible about their government's performance and results. To that end, we publicly report what we do. If you go on the Internet, you will find that almost every GAO report and testimony is up on our web site the day it is made public.

To keep the public abreast of our work, GAO continues to expand its presence on digital and social media. We now are on Facebook, Twitter, Flickr, and YouTube. We have also integrated new technologies and techniques into our communication efforts. For example, we do audio podcasts, in which our experts are interviewed about the latest GAO studies. We also do video chats in which we take questions from the public.

GAO's independence and continuity is also enhanced by the tenure of the Comptroller General. As Comptroller General of the United States, I serve a 15-year term. Aside from judicial appointments, it is the longest tenured position in the U.S. government. I am only the eighth individual to have held this job. Steady leadership enables GAO to consider the big picture and to speak freely on controversial matters within our purview.

GAO's people are our greatest asset. Our staff is hired strictly on the basis of knowledge, skills, and ability. We have just under 3,000 employees now. In addition to financial auditors, we have economists, social scientists, public policy analysts, attorneys, computer specialists, scientists, and communication analysts. We have experts in fields ranging from farm policy to foreign policy and banking and budgeting to health care. And we need that expertise given the range of subjects we examine.

I would like to turn now to GAO's priorities in recent years to help meet the challenges facing our national economy and American society as a whole. A case in point is the recent turmoil in the U.S. financial markets. GAO has been playing an increased, continuing role in overseeing the government's response to those events. Under the Troubled Asset Relief Program, created in late 2008, the U.S. Treasury Department was authorized up to \$700 billion to help stabilize financial institutions and markets and help mitigate mortgage foreclosures.

For this program, GAO was given broad monitoring and reporting responsibilities, including submitting a report on our work at least every 60 days. Since 2008, GAO has issued 60 reports with more than 70 recommendations from performance audits. Among other things, we have reported on the status of capital provided to financial institutions, assistance provided to the insurance company AIG, and to the U.S. automotive industry, as well as federal efforts to help homeowners avoid foreclosure.

Recognizing that proper oversight and functioning of the financial markets are crucial to America's economic well-being, GAO added the need to modernize the U.S. financial regulatory system to its High Risk List in early 2009. In response to the financial crisis, Congress passed the Wall Street Reform and Consumer Protection Act in 2010 to address regulatory gaps and oversight failures in the U.S. mortgage, securities, and financial markets. The act requires significant rule making by regulatory agencies. Financial regulators are in the process of issuing hundreds of new rules to implement these reforms, but many are yet to be finalized or made effective.

Included in the act were provisions requiring GAO to conduct more than 40 studies on a broad array of financial reform and consumer protection issues. The reporting timeframes for this work varied from months to years. So far, we have issued more than two-thirds of these mandated studies, looking at everything from consumer protection to bank capital requirements.

For example, GAO has reviewed the role and performance of credit rating agencies regarding states, municipalities, and corporations. GAO also studied and identified alternative means for compensating credit rating agencies that are intended to mitigate conflicts. We have also reviewed the Securities and Exchange Commission's oversight of rating agencies and the rules issued on the quality of credit ratings, competition in the credit rating industry, and the removal of references to credit ratings.

In addition, GAO audited the Federal Reserve Board's emergency programs to financially assist individual institutions and the financial sector to help stabilize the financial markets. GAO also reviewed the governance of the Reserve Banks. Moreover, the Wall Street reform act gave GAO the authority to review any future special credit facilities and certain open market and discount window lending transactions.

Other aspects of the financial markets have yet to be reformed. Since 2008, two major government-sponsored enterprises involved in the mortgage markets -- Fannie Mae and Freddie Mac -- have been in conservatorship. GAO has analyzed options to restructure Fannie Mae and Freddie Mac, from turning them into government agencies to privatizing or terminating them. We have also done work looking at their role in supporting financing for multi-family housing. Congress and the Executive Branch have yet to determine the future of the two enterprises. In the meantime, they continue to play a significant role in the U.S. housing finance system.

GAO has also been helping oversee our government's response to the U.S. economic circumstances. In particular, we have been on the front lines monitoring spending under the American Recovery and Reinvestment Act of 2009, commonly known as the stimulus legislation. We conduct bimonthly reviews on the use of Recovery Act funds by selected states and localities and comment on the estimates of jobs created or retained, as reported by fund recipients.

Our work on the use of Recovery Act funds has involved real-time auditing. That is, we have been determining how funds have been spent while the programs are still underway and before grant recipients have spent all the money. We have also closely coordinated with entities within and across the accountability community, including state and local auditors, the Recovery Accountability and Transparency Board, and the Inspectors General at various federal agencies.

A wide range of program areas have received Recovery Act money. These areas include health care financing and delivery, education, housing, highways, high-speed rail, clean and safe drinking water, energy efficiency and weatherization assistance, and broadband programs. So we have used experts from across GAO to assist with our Recovery Act work.

Since 2009, GAO has issued 17 bimonthly review reports and one more is underway. And we have issued more than 100 other reports and testimonies on Recovery Act funding. These proactive efforts continue to yield very positive results. GAO's Recovery Act efforts have helped ensure accountability, counter fraud, and promote transparency over where the money went and the results it achieved.

GAO has also been advising U.S. officials on ways to make our government run more efficiently and effectively. In a time of serious budgetary constraints, it is essential that every tax dollar is put to good use. Pinpointing overlap, duplication, and fragmentation in government programs is a good start.

Early next year, GAO will issue its third annual report on overlap, duplication, and fragmentation across the federal government. At that point we will have covered virtually every federal agency and program. The first two reports provided a comprehensive look at 132 issue areas and more than 300 recommendations for possible improvements, cost savings, and revenue enhancements.

Eliminating waste, fraud, abuse and mismanagement is also essential. At the start of each new Congress, every two years GAO issues an update of its High-Risk List. In fact, we are set to issue a new one early next year. The High-Risk List focuses on areas throughout government susceptible to waste, fraud, abuse and mismanagement, or in need of broad-based transformation. Sometimes it is a program at a particular department or agency. Other times its government-wide practices that are in need of improvement. Our current High-Risk List presents 30 areas for reform—from the government's management of oil and gas revenues to controls over Department of Defense business practices and health care spending.

Over the years, we have brought attention to a range of issues impacting American society, such as the need to strengthen the federal system that oversees food safety. Since we started the list 20 years ago, more than a third of the areas have improved enough to be dropped from the list. We regularly meet with representatives of the Executive Office of the President and federal agency leaders to discuss progress made on these high-risk areas and actions necessary to have them removed from the list.

Looking ahead, strategic thinking will continue to be central to GAO's efforts to remain at the forefront of national issues. Every few years, GAO issues a new strategic plan as our roadmap for the future. Our current strategic plan covers the period 2010-2015. We are in the process of updating that plan right now for 2014 to 2019.

The strategic plan presents the major themes that will guide GAO's efforts in the coming five-year period. The strategic plan helps us prioritize our work and allocate resources over a multi-year period.

The Strategic Plan also sets forth our goals. Our first goal is to help address current and emerging challenges to the well-being and financial security of the American people. Our second goal is to respond to changing security threats and the challenges of global interdependence. Our third goal is to help transform the federal government to address national challenges. Our fourth is to maximize the value of GAO by enabling quality, timely service to Congress and by being a leading practices federal agency.

GAO has identified eight trends that set the stage for our current plan. Those eight trends are: (1) evolving security threats; (2) urgent fiscal sustainability and debt challenges; (3) economic recovery and restored job growth; (4) the changing dynamics of global interdependence and shifts in power; (5) advances in science, technology, engineering, and mathematics; (6) the increasing impact of networks and virtualization; (7) shifting roles in government and governance; and, finally, (8) demographic and social changes confronting the young and the old.

I would highlight today GAO's work in one of those eight areas: science and technology. Scientific advances can potentially improve quality of life, but they can also pose serious challenges.

Nanotechnology is a good example. This developing field centers on engineering materials at an incredibly small scale. Materials at the nanoscale can have unusual properties with many uses, from treating cancer to manufacturing various household goods. However, the environmental, health, and safety impacts of nanomaterials are just starting to be understood.

GAO's work on nanotechnology has looked at federal initiatives and the need for a coordinated performance and risk management framework for environmental, health, and safety issues. In fact, I plan to host a forum of public and private sector experts next year on the topic of nanomanufacturing.

Consistent with our evolving role in government, GAO also has started issuing technology assessments. These reports try to make complex science and technology issues more accessible to lawmakers, typically analyzing the values and trade-offs of various technologies and related policies. We issued two of these reports last year, one on proposed technological approaches to favorably engineer the global climate system. Another report addressed the technical challenge of innovating advanced neutron detectors that do not rely on a globally diminishing supply of a special isotope of helium. We are also developing a technology readiness assessment guide to help agencies do a better job of incorporating new technology into large investments such as weapon systems.

Clearly, SAIs can play a key role in providing public officials with vital information and analyses needed to address country-specific challenges. But it is also true that many of the problems we face today are global in nature and will require international cooperation and international solutions.

INTOSAI has played an important role, for example, in developing international auditing standards, and in helping nations around the world implement those standards. The last INTOSAI Congress adopted a comprehensive set of international standards for supreme audit institutions.

Those standards cover the core audit disciplines of financial, compliance, and performance audits. They provide an institutionalized framework for transferring knowledge, improving government auditing worldwide and enhancing the professional capabilities and influence of SAIs in their respective countries.

Support for a global implementation program for those international standards was a priority of the 2011 INTOSAI Donor Cooperation Action Plan and is being funded by the World Bank. This year, INTOSAI's International Development Initiative, or IDI, launched a global capacity development program to help implement international standards for SAIs.

The Global Financial Crisis Task Force is another great example of SAIs from different countries coming together to deal with worldwide challenges. I want to recognize the CNAO's efforts here. In the first phase of the Task Force, China led subgroup three, which addressed the varying authorities of the SAIs; audit tools and techniques; human resource implications; links to international organizations such as the World Bank, International Monetary Fund, and Organization for Economic Cooperation and Development; and relations with INTOSAI's Public Debt Working Group and Key National Indicators Working Group.

Going forward, we will propose to the INTOSAI Governing Board next week that the Global Financial Crisis Task Force be converted into a permanent working group on financial modernization focusing on regulatory reform of financial markets and institutions. The Working Group will seek to strengthen SAI efforts to share knowledge about the adequacy of financial regulatory reforms. It will also seek to improve information access and sharing to help SAIs respond to current or future financial crises. Key goals include: first, monitoring the status and implementation of international, supranational, and national reform efforts; second, identifying opportunities for strategic partnerships for evaluating reforms; and third, monitoring financial regulatory and other efforts to develop an early warning system to better enable countries to identify future problems.

Another good example of international cooperation is the INTOSAI Donor Cooperation Initiative, which is designed to augment and strengthen support to the SAI community in developing countries. More and more donors have joined this important effort, most recently the Asian Development Bank, which signed on this past summer, and Australia Aid, which signed on in September. Last month, the Global Alliance for Vaccines and Immunizations (GAVI) became the 19th Donor signatory.

INTOSAI has been a particularly important venue for SAIs to work together and share experiences, whether it is stories about past successes or strategies for avoiding future mistakes. GAO's many INTOSAI experiences, including our involvement in developing INTOSAI's first two strategic plans, have made clear that organization's strengths in consultation, consensus, and communication.

We look forward to the CNAO hosting the 21st INTOSAI Congress in Beijing in 2013. Following the Congress, Mr. Liu will become INTOSAI's chairman for the next three years.

In closing, I would like to acknowledge the CNAO's efforts, both in preparing for the next INTOSAI Congress and in assuming governing board leadership. The CNAO is playing an active role in helping commemorate INTOSAI's achievements as INTOSAI prepares to celebrate its 60th anniversary in 2013. The planned Beijing Declaration will most certainly help frame INTOSAI's way forward.

Supreme audit institutions today are positioned as never before to make a difference, not just for their own countries but for the world as a whole. Domestically, SAIs can help improve public services and help their leaders plan ahead. Internationally, working with their fellow SAIs, they can help solve problems that confront us all.

I want to express my best wishes to the CNAO and Mr. Liu as you continue your efforts on behalf of good government. I look forward to a continuing relationship between our two offices. I want to thank all of you for spending this time with me to consider the future of our shared profession.

