

THE EVOLVING ROLE OF *Public Sector Auditors*



Amsterdam, The Netherlands
The Honorable David M. Walker
Comptroller General of the United States

May 14, 2004

Evolving Challenges for SAIs

- Public expectations of government are changing:
 - Zero tolerance for corruption
 - Desire for enhanced results and improved responsiveness
 - Selected trends and challenges that have no boundaries
 - Long-Term Fiscal Imbalances
 - National Security
 - Global Interdependence
 - Changing Economy
 - Demographics
 - Science and Technology
 - Quality of Life
 - Governance

Possible SAI Roles



Three Key Elements for Success

A faint, light blue world map is visible in the background of the slide, centered behind the text.

Incentives

Transparency

Accountability

Contributing Elements

Government Examples

Incentives

- Rule of law
- Civil Service
- Checks and balances

Transparency

- Financial disclosure
- Due process
- Free press

Accountability

- Enforcement of laws
- Oversight
- Independent judiciary

Contributing Elements

SAI Examples

Incentives

- Independence
- Resources

Transparency

- Protocols
- Public reporting

Accountability

- Enforcement of access rights
- Peer review

Accounting Profession Transformation Challenges

- The collapse of Enron, Arthur Andersen and other recent events in the private sector have served to increase the visibility of and concerns relating to a range of issues, including:
 - The effectiveness of current regulatory, oversight and enforcement activities.
 - The adequacy of the current accounting and reporting model
 - The independence and effectiveness of auditors
 - The adequacy of existing pension rules
 - The nature and reasonableness of executive compensation
 - The roles of other key players (e.g., management, boards, analysts, attorneys, investment advisors)
 - The appropriateness of current corporate governance structures
- Definitive actions are needed by a range of parties to address legitimate concerns, better protect the public interest, and restore investor confidence (e.g., Congress, stock exchanges, management, boards, CPAs)
- Government has both the need and the opportunity to lead by example in some important areas

Sarbanes-Oxley Act of 2002

- In response to numerous corporate failures in the private sector and a loss of confidence in accountability, the Sarbanes-Oxley Act was enacted in 2002.
- The Act includes significant reforms intended to strengthen auditor independence and to improve audit quality.
- Government auditors and financial professionals must get the message from the Sarbanes-Oxley Act reforms, and seize the opportunity.

Sarbanes-Oxley Act Provisions with Implications for Government

New audit standards and oversight—PCAOB

- Audit committees with defined responsibilities
- Specific communications between auditors and audit committees
- CEO and CFO certification of financial reports
- Enhanced disclosures of off-balance sheet transactions
- Code of ethics for senior financial officers
- Management attestation on the effectiveness of internal control over financial reporting
- Auditor opinion on the effectiveness of internal control over financial reporting

Excerpts From the 103rd American Assembly Report: The Future of the Accounting Profession

- Structural Challenges Facing the Accounting Profession:
 - Rules-based versus principles-based standards
 - A revised and expanded financial reporting model
 - New and enhanced audit and attestation standards
 - The number of major accounting/audit firms
 - A balanced approach to auditor liability and accountability
 - Valuing quality audits and audit personnel
 - Reinvigorating audit committees
 - Preparing for the future—the talent search

Key Concepts in the Accountability Profession

- Public vs. personal interests
- Recognizing the difference between the floor (e.g., law, accounting standards) and the ceiling (e.g., principles, values)
- Doing what is right vs. what is acceptable
- Economic substance vs. legal form
- Being concerned with both fact and appearance (e.g., independence)
- Using judgment vs. completing checklists
- Recognizing that continuing improvement in today's rapidly changing world is essential
- Trust is hard to earn, but easy to lose

Selected Government Accountability Issues

Leading by Example

- **Definition of success in financial management**
 - Clean opinion on financial statements
 - No major control weaknesses
 - No major compliance issues
 - Systems that produce timely, accurate, and useful financial and management information
- **Scope of audit**
 - Internal controls (current)
 - Compliance matters (current)
 - Performance and projection information (future)
- **Additional issues**
 - Strengthen the capacity and independence of standard setters (e.g., FASAB)
 - Accelerated financial reporting
 - Audit/financial management committees
 - Auditor independence
 - Established the audit standards coordinating forum

U.S. Auditing Standards Coordinating Forum

- Composed of PCAOB, GAO, ASB (AICPA)
- Meets several times each year, with ongoing staff coordination
- Maximizes complementary standards setting agendas
- Minimizes duplicative or competing efforts where possible
- Works toward consistency where appropriate
- Identifies any significant gaps not being addressed
- Develops strategies for modernizing the auditing profession in the U.S. and coordinating globally

Independence: The Yellow Book

The focus of the changes to the auditor independence standard is to better serve the *public interest* and to maintain a high degree of *integrity*, *objectivity*, and *independence* for audits of government entities.

New Independence Standards

- **Key Principles**

- Auditors should not audit their own work or provide non-audit services if such services are material to the subject matter of the audit
- Auditors should not perform management functions or make management decisions

- **Safeguards**

- Personnel
- Audit scope
- Documentation
- Quality assurance

GAO Meets Standards for Independence

- Comptroller General appointment process
- Comptroller General removal process
- Audits Executive branch
- Reports to Legislative branch
- Staff members have personal independence
 - Staff members are civil servants
 - Annual financial disclosure forms
 - Annual independence representations
 - Engagement discussions
 - Forms for referencers, stakeholders, and second partners

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.



CORE VALUES



Source: GAO.

Selected Key Concepts for GAO

MISSION Improve performance and assure accountability, both for today and tomorrow

MEANS Oversight, insight, and foresight

METHODS Leading by example and promoting best practices

- Observing protocols
- Employing a constructive engagement approach with entities we audit and evaluate
- Partnering with fellow accountability and selected “good government” organizations

Accountability Partnerships to Address Common Challenges

- Partnerships are a key enabler of change and help to leverage available resources
- Opportunities for collaboration/cooperation
 - Standards
 - Joint engagements
 - Best practices

INTOSAI's Strategic Plan



INTOSAI STRATEGIC PLAN FRAMEWORK 2005 - 2010

MISSION

INTOSAI is an autonomous, independent, professional, and nonpolitical organization established to provide mutual support; foster the exchange of ideas, knowledge, and experiences; act as a recognized voice of supreme audit institutions (SAIs) within the international community; and promote continuous improvement among diverse member SAIs.

VISION

Promote good government by enabling SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their peoples.

STRATEGIC GOALS

■ **Goal 1: Accountability and Professional Standards**

Promote strong, independent, and multidisciplinary SAIs by (1) encouraging SAIs to lead by example and (2) contributing to the development and adoption of appropriate and effective professional standards.

■ **Goal 2: Institutional Capacity Building**

Build the capabilities and professional capacities of SAIs through training, technical assistance, and other development activities.

■ **Goal 3: Knowledge Sharing and Knowledge Services**

Encourage SAI cooperation, collaboration, and continuous improvement through knowledge sharing, including providing benchmarks, conducting best practice studies, and performing research on issues of mutual interest and concern.

■ **Goal 4: Model International Organization**

Organize and govern INTOSAI in ways which promote economical, efficient, and effective working practices, timely decision-making, and effective governance practices while maintaining due regard for regional balance and the different models and approaches of member SAIs

CORE VALUES

INDEPENDENCE	INTEGRITY	PROFESSIONALISM	CREDIBILITY
INCLUSIVENESS	COOPERATION	INNOVATION	

Four Key Success Elements

- Results
- Clients
- People
- Partnerships

Annual Performance Measures

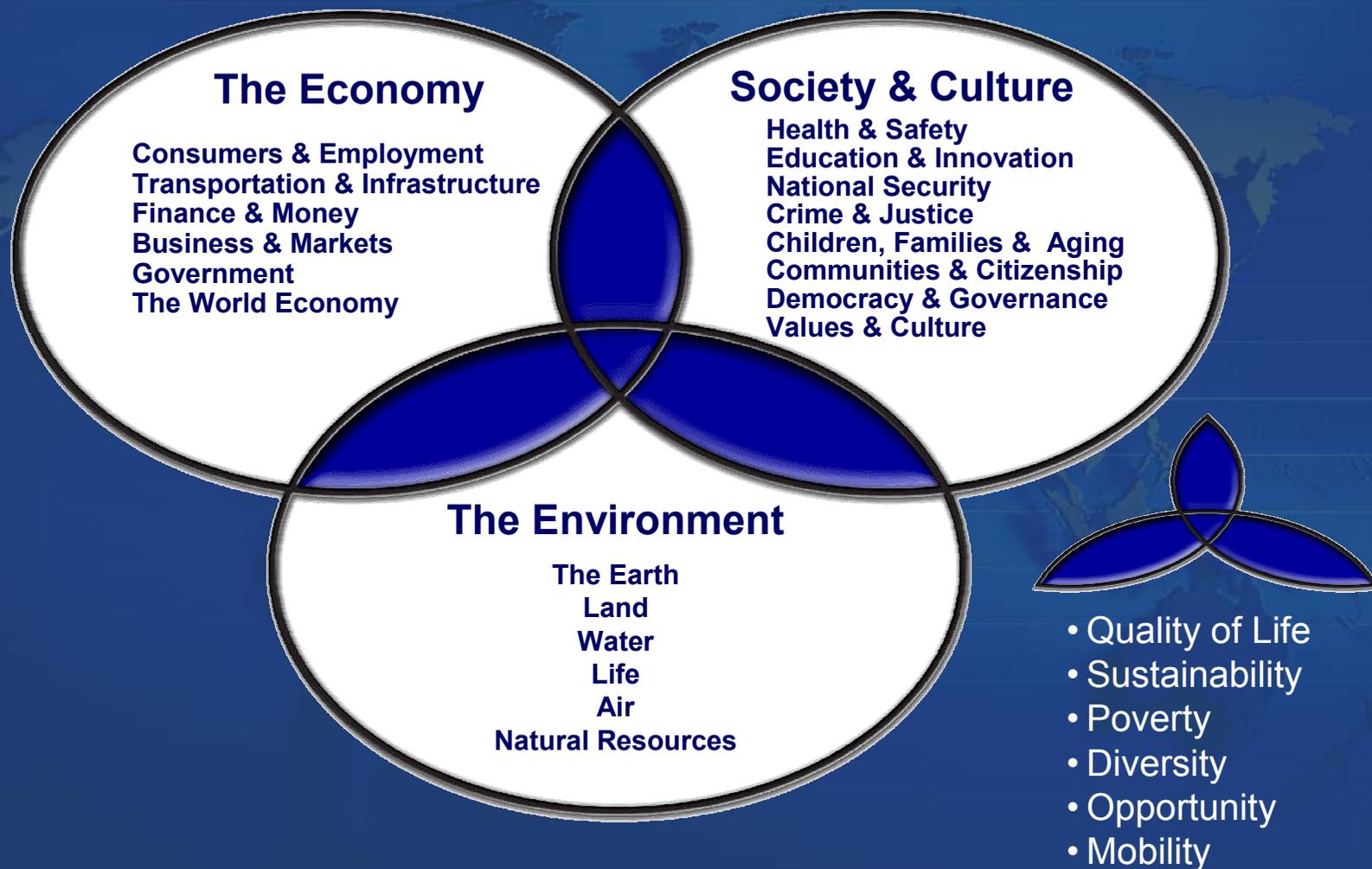
(1998 and 2003)

Performance measure	Actual	
	FY 1998	FY 2003
Financial benefits (billions)	\$19.7	\$35.4
Other benefits	537	1043
Past recommendations implemented	69%	82%
Return on investment (ROI)	58:1	78:1
Financial benefits per employee (millions)	\$6.1	\$10.8
Timeliness	93%	97%

Developing a More Comprehensive National Indicator System is Important

- The nation confronts profound challenges in an era of diminishing resources.
- Public policy makers and citizens require better knowledge about how we are doing as a nation in areas important to the American public.
- The U.S. could benefit from objective, accurate and accessible information to inform fact-based dialogue, assess the overall position and progress of our nation, frame strategic issues, support public choices and enhance accountability.

Framework for a Comprehensive National Indicator System



Guiding Principles for a U.S. National Indicator System

- Be grounded in an open, inclusive, flexible and action-oriented process that is supported and funded through public and private collaboration.
- Build upon and not supplant existing data, specialized and comprehensive efforts and approaches.
- Be appropriately focused and independent, have a definable audience, be accessible/user-friendly, and pay attention to quality.
- Support research on the interactions among indicators to enhance our understanding on improving our quality of life as a basis for more informed decisions.

Three Key Ingredients Needed for These Challenging and Changing Times

- *Leadership*
- *Integrity*
- *Innovation*

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