

# American Evaluation Association

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**DATE:** November 22, 2010

**TO:** Advisory Council on Government Auditing Standards

**SUBJECT:** Comments on 2010 Exposure Draft of GAO's Government Auditing Standards

The American Evaluation Association (AEA) is pleased to submit comments on the 2010 Exposure Draft of GAO's Government Auditing Standards

AEA is a professional association of evaluators dedicated to the application and exploration of program evaluation, personnel evaluation, technology, and many other forms of evaluation. AEA has approximately 6500 members representing all 50 states and the District of Columbia as well as over 60 foreign countries.

Overall, the Standards provide important principles and much practical advice to evaluators who are involved in conducting performance audits. However, we are concerned about an unnecessary definition of performance audits and overly rigid requirements regarding the use of criteria that inappropriately constrain all performance audits within the mold of a normative methodology. We believe there would be little support in the world of program analysis and evaluation for using such a methodology to establish program or policy effectiveness, since it cannot rule out factors other than the program which might plausibly be responsible for the audit findings.

In addition, these provisions are inconsistent with many other important standards found in chapters 6 and 7 and are incompatible with some of the examples cited in the sections mentioned above. Overall, we believe it is better to emphasize the principle in paragraph 6.54 that "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions" as opposed to the narrow emphasis on a strictly normative approach.

We hope our attached comments are helpful. If we can be of assistance, or if you need more information on our comments, please do not hesitate to call on us or to contact George Grob, our senior advisor for evaluation policy ([GeorgeFGrob@cs.com](mailto:GeorgeFGrob@cs.com), 540-454-2888).

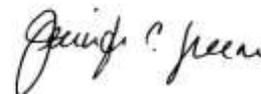
Sincerely,



Leslie Cooksy  
President



Debra J Rog  
Immediate Past President



Jennifer Greene  
President Elect

Attachment: Comments on the 2010 Exposure Draft of GAO's Government Auditing Standards

# Comments on the 2010 Exposure Draft of GAO's Government Auditing Standards

## Summary

The American Evaluation Association's comments focus on the general sections of the Auditing Standards (Chapters 1-3) and on those relating specifically to Performance Audits (Chapters 6 and 7), and relevant sections of Appendix 1.

Overall, the Standards provide important principles and much practical advice to evaluators who are involved in conducting performance audits. Among the sections that are particularly useful are the descriptions of the various types of performance audits in paragraph 2.10 and section A2.10 in Appendix 1, and the list of threats to independence in paragraph 3.15.

However, we are concerned about an unnecessary definition of performance audits and overly rigid requirements regarding the use of criteria that inappropriately constrain all performance audits within the mold of a normative methodology. Together, these provisions are inconsistent with many other important standards found in chapters 6 and 7 and are incompatible with some of the examples cited in the sections mentioned above. We believe it is better to emphasize the principle in paragraph 6.54 that "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions" as opposed to the narrow emphasis on a strictly normative approach. We therefore recommend eliminating the first sentence in paragraph 2.09 and attenuating the requirements for use of criteria in paragraph 6.37.

We also recommend including in Chapter 7, Reporting Standards for Performance Audits, an important standard on completeness now found only in Appendix 1, namely, that "Being complete . . . also means the report states evidence and findings without omission of significant relevant information related to the audit objectives."

## I. Major Comments and Recommendations of Concern to AEA

### Paragraph 1. Overemphasis on Normative Methodology

**Paragraph 2.09. Definition of Performance Audits.** The first sentence of this paragraph provides a definition of a performance audits as ". . . engagements that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria."

**Paragraph 6.37. Identification of Criteria.** This paragraph requires auditors to identify criteria as the basis of the performance audit.

Together, these two paragraphs provide a description of a typical normative methodology, that is, "sufficient" and "appropriate" findings on some "condition" are checked against some criterion

or set of criteria. However, this is neither a strong nor a typical method with which to determine program effectiveness, to measure the extent to which a program is achieving its goals and objectives, or to analyze the many other types of performance audits mentioned in paragraph 2.10 and section A2.02.

For example, the normative methodology proposed for general use is almost never helpful in making a statement about program effects. To do that, it is necessary to rule out plausible alternatives. In fact, this limitation is discussed in paragraph 615.g in connection with an example of outcomes for a reduction in air safety problems. The many plausible causes of such reductions would need to be ruled out to establish program effectiveness.

Another example where a purely normative approach may not be useful is a comparison of potential costs and benefits of alternative policy scenarios in a prospective evaluation. Policy makers in the Legislative or Executive branches may wish to decide for themselves what criterion or cut-off point is appropriate for choosing one option over another, and they may also wish to examine carefully the viewpoints of program beneficiaries or program administrators, or an unbiased sample of subject matter experts.

In other cases, the modeling of alternative scenarios might provide a useful, but still inconclusive, approach for understanding how effectively or efficiently a program that is about to be reauthorized, or for which a major budget change is being proposed, will play out in the future. Nevertheless, performance audits based on such modeling may be useful to government decision makers who might appropriately request that such studies be performed by independent auditors or evaluators.

The satisfaction of program beneficiaries or the experiences of benefit providers may be of crucial interest to policy makers and program administrators even if they cannot agree in advance what criteria they would use to decide whether and how a program should be improved.

Sometimes, the objects of performance audits (e.g., transportation systems, health care delivery systems, environmental impacts, early experiences in implementing major new programs of all kinds) are so complex that it is impractical to determine the causes, or even a critical cause, that can explain observed effects. Nevertheless, auditors need to use performance evaluations to systematically gather the best information that is available to inform real time decision making.

All these situations illustrate a number of approaches that might be used for performance audits which, even if they contain some normative elements, would probably not be properly designed if the model for approaching the relevant issues is categorically required to be a normative approach.

A broader view of methodology, findings, and reporting is supported throughout the remainder of the Government Auditing Standards. See for example, the following sections of the Exposure Draft (in which we have added clarifying phrases in brackets or have italicized certain phrases for emphasis).

**Paragraph 6.10** The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence *to address the audit objectives*. Audit procedures are the *specific steps and tests auditors perform to address the audit objectives*. Auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' *findings and conclusions in relation to the audit objectives* and to reduce audit risk to an acceptable level.

**Paragraph 6.15.g** Outcomes: Outcomes are accomplishments or results of a program. For example, an outcome measure for a job training program could be the percentage of trained persons obtaining a job and still in the work place after a specified period of time. An example of an outcome measure for an aviation safety inspection program could be the percentage reduction in safety problems found in subsequent inspections or the percentage of problems deemed corrected in follow-up inspections. Such outcome measures show the progress made in achieving the stated program purpose of helping unemployable citizens obtain and retain jobs, and improving the safety of aviation operations. *Outcomes may be influenced by cultural, economic, physical, or technological factors outside the program. Auditors may use approaches drawn from other disciplines, such as program evaluation, to isolate the effects of the program from these other influences.* Outcomes also include unexpected and/or unintended effects of a program, both positive and negative.

**Paragraph 6.54** Auditors must obtain *sufficient, appropriate evidence* to provide a reasonable basis for their findings and conclusions.

**Paragraph 6.71** Auditors should *plan and perform procedures to develop the elements of a finding necessary to address the audit objectives*. In addition, if auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. *The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding.* For example, an audit objective may be to determine the current status or condition of program operations or progress in implementing legislative requirements, and not the related cause or effect. *In this situation, developing the condition would address the audit objective and development of the other elements [cause, criteria, and effect] of a finding would not be necessary.*

**Paragraph 7.14** *In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives.* Clearly developed findings<sup>115</sup> assist management or oversight officials of the audited entity in understanding the need for taking corrective action. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives. *However, the extent to which the elements for a finding are developed depends on the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives.*

We wish to emphasize that there is often great analytic value in establishing criteria as a reference point for analysis, and, where possible, in examining conditions, causes, and effects. However, as noted in the sections cited above, all four elements of a classic audit finding (criteria, condition, cause and effect) need not be present in a performance audit, and often other analytic approaches, methods, and angles are needed to produce convincing or relevant findings and recommendations, depending on the audit objective. Thus, a purely normative approach may often not be the central focus of the audit, as the definition in paragraph 2.09 implies.

Overall, we believe it is better to emphasize the principle in paragraph 6.54 above as opposed to emphasizing, as paragraph 2.09 does, that the essential nature of a performance audit is a normative approach based on reference to criteria.

**Recommendation 1.** Delete the first sentence of paragraph 2.09.

**Recommendation 2.** Amend paragraph 6.37 as follows:

**6.37** Auditors should identify criteria **whenever appropriate**. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria **can often be used to** identify the required or desired state or expectation with respect to the program or operation. Criteria **often** provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.

## 2. Completeness of Reports

**Chapter 7. Reporting Standards for Performance Audits.** This chapter omits an important principle that is articulated in *Appendix 1, Report Quality Elements, section A7.02b, Complete*, namely that "Being complete . . . also means the report states evidence and findings without omission of significant relevant information related to the audit objectives." This appears to be so fundamentally important that it should not depend on being discovered in the appendix.

**Recommendation 3.** Include in chapter 7 a standard for performance audits regarding completeness, namely that reports state evidence and findings without omission of significant relevant information related to the audit objectives.

## II. Minor Editorial Suggestions

We offer the following minor editorial suggestions to improve the focus, clarity, and ease of reading.

**Paragraph 1.14. Ethical Principles.** The lettered letter items in this paragraph are not principles - they are areas in which principles might apply. the principles are then stated in the following sections. We suggest that the first sentence be amended as follows: "The ethical principles that guide the work of auditors who conduct audits in accordance with GAGAS ~~are~~ discussed in the following sections on: a. the public interest . . . "

**Paragraph 1.15. The Public Interest: Integrity, Objectivity, and Independence.** We strongly support putting the concept of the public interest early in the standards and emphasizing the need for integrity, objectivity, and independence. This is important for auditors and evaluators. However, these principles may be attainable only in the ideal. We suggest beginning the second sentence along the lines of: "*Striving for* integrity, objectivity and independence . . . "

**Paragraph 1.19. Objectivity.** The "credibility of auditing" is not based exclusively only on "auditors' objectivity" although an obvious effort at objectivity is surely one of the factors. To be credible, an audit must also be competent technically, show relevant expertise in all non-technical audit-craft areas, and be substantively knowledgeable. See also paragraph 3.01 in which it is made clear that it takes more than objectivity and good intentions to achieve credibility. We suggest the sentence be modified to read something like: "The credibility of auditing in the government sector is based *in important part* on auditors' objectivity," etc.

**Chapter 3. Organization of the Chapter.** This chapter is very informative and useful. However, it is somewhat difficult to follow because of inconsistency in the formatting of headings and their non-conformance with respect to the hints (maps) provided in the text to forecast what to expect in subsequent text. This is particularly true of the first section on independence. For example, paragraph 305 tells us to expect the following sections: conceptual framework, guidance on independence issues, independence in nonaudit services, and documentation. However, these topics do not appear. Section 308 advises that we will be reading about threats to independence, safeguards, and application of the framework. While these section headings do appear, they are interspersed with another set of unannounced underlined headings-- GAGAS conceptual Framework Approach to Independence, application of the conceptual framework, government auditors and audit organizational structures, provision of nonaudit services to entities, nonaudit services that impair audit independence, and documentation. The information was very good, but we got lost. We suggest adopting a single map for the independence section.

**Paragraphs 3.03b and 3.58. Independence in Appearance.** We were at first confused by this title. May we suggest "Perceived Independence?" The same phrasing appears in footnote 24.