

Ethics and Integrity in Auditing: A Prerequisite for Good Government

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By Gene L. Dodaro
Comptroller General of the United States

It is an honor to have been chosen to deliver this year's Elliot Richardson lecture. He had a remarkable career in government, notable not only for the many prominent positions he held, but also for the ethics and integrity he brought to those positions.

Among other things, Elliot Richardson was appointed to four cabinet posts and served as our ambassador to the United Kingdom. Of course, Elliot Richardson is probably most famous today for his principled decision during Watergate to resign as Attorney General rather than fire special prosecutor Archibald Cox.

In serving our nation, Elliot Richardson firmly believed that the interests of the American people were paramount. This was someone who insisted on doing the right thing even knowing the personal price he would have to pay.

Fortunately, not every ethical decision demands such sacrifice. But the fact is ethics matter in almost everything we do in life. And they are especially important to the auditing profession and what we do at the U.S. Government Accountability Office, the auditing and investigative arm of Congress.

Today, I am going to talk about ethics and integrity from the perspective of the auditing profession. My focus will be the vital role auditing plays in helping promote good government and transparency.

My remarks will fall into four areas: First, how ethics and integrity form the foundation for auditing. Second, the importance GAO places on ethics and integrity in its own work. Third, GAO's role in speaking out and disclosing hard truths. And fourth, how GAO helps promote ethics and integrity in auditing around the world.

So first let me turn to why ethics and integrity are so important to auditing, whether we are talking about auditing in government, private industry, or the non-profit sector. They are the foundation of our profession.

As someone who has spent his career as a federal auditor, I can say this without hesitation: Sound audit work grounded in integrity and other ethical principles is indispensable to effective government oversight and holding people accountable.

GAO's work brings to light government shortcomings, encourages proper behavior on the part of public officials and contractors, and helps deter questionable conduct. Sound audit work also contributes to better public policy outcomes and improved government performance.

Today, our nation faces a range of serious domestic and international challenges. To make informed decisions, policymakers need more than opinion and spin. What is essential is unbiased, reliable information and analysis on a wide range of issues.

This is true today more than ever. Serious budgetary challenges are on the horizon for the foreseeable future and all parts of government will need to operate as efficiently and effectively as possible.

To ensure Congress and agency heads have accurate information on government activities, every year GAO issues hundreds of reports and testimonies. That work is produced under rigorous standards that ensure objectivity and independence. GAO's credibility depends on the perception – and the reality -- that our work has been carried out with integrity and ethical principles.

Importantly, GAO also issues the standards for U.S. government audit work. These generally accepted government auditing standards, known as the “Yellow Book”, apply to federal auditing across the entire federal government. Inspectors General and many state and local government organizations must abide by these standards issued by the Comptroller General. In addition, any auditor, private or public, auditing federal funds must also follow these standards. Furthermore, many state and local audit organizations and other entities, both domestically and internationally, comply with these standards in doing their work.

GAO regularly revises those standards to modernize and harmonize them with other standard setters. We came out with our latest update at the end of 2011. The 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.

At GAO, we have a Government Auditing Standards Advisory Council with about 25 experts in financial and performance auditing and reporting drawn from federal, state, and local government; the private sector; and academia. Revisions to generally accepted auditing standards go through an extensive deliberative process, including public comment.

If you go to chapter one of the standards, you will find an entire section devoted to the ethical principles underlying government audit work. There is a good discussion of what it means to serve the public interest; the role of integrity and objectivity; the proper use of government information, resources, and positions; and expectations about professional behavior.

For their work to be credible, auditors need to fulfill a range of legal, regulatory, and other obligations and steer clear of behavior that might call their work into question. Without credibility, an audit is not worth much.

GAO also issues the internal control standards for government known as the “Green Book.” Internal control refers to an organization’s process to ensure the effectiveness and efficiency of its operations, the reliability of reporting, and compliance with applicable laws and regulations. Sound internal control is crucial to safeguarding government assets, effectively and efficiency carrying out programs and activities, and uncovering mistakes and fraud.

The first standard for internal control is a positive control environment and the example set by top officials when it comes to ethics and integrity. Internal control standards make it clear that agency management should take the lead in “setting and maintaining the organization’s ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate.”¹

These standards have real-life applications on GAO’s work and our workforce. And that brings me to the next point—the importance GAO places on ethics and integrity in its own work.

Simply put, GAO places a premium on ethics and integrity. In fact, integrity is one of GAO’s three core values. The others are accountability and reliability. These core values are proudly featured over the front doors of the GAO Building in Washington.

As an audit agency that holds other agencies accountable, it is essential that our people maintain the highest ethical standards in their work and their conduct. Our hard-earned reputation for independence is critical to our credibility and impact. That is why GAO is so vigilant in ensuring that our work and our staff are objective and avoid conflicts of interest. Like Elliot Richardson, GAO seats the public interest at the head of the table.

GAO has a robust Ethics Office that provides guidance to our employees and managers on ethics, conflicts of interest, and threats to independence. All of our auditors file financial disclosure reports, which are thoroughly reviewed, not just for conflicts of interest but for any interest that could lead a third party to question our employees’ integrity, objectivity, or professional skepticism.

¹United States General Accounting Office, “Standards for Internal Control in the Federal Government,” GAO/AIMD-00-21.3.1, November 1999, page 8.

Moreover, each of our engagement teams considers the independence of anyone substantively involved in an ongoing assignment. And every two weeks, employees must attest to their independence, agreeing to notify a senior manager promptly if a threat to their independence should arise.

In fact, integrity is so central to what GAO does that we have an award that honors individual employees and teams who have “made an extraordinary commitment to GAO’s core value of integrity in carrying out an assignment of major impact.”²

Let me give you a few examples. In 2011, we gave an integrity award to the head of GAO’s procurement law unit within our Office of General Counsel. Every year, this important but less-well-known function at GAO resolves thousands of protests of federal contract awards. In this instance, the manager’s principled approach to a demanding job ensured that GAO’s bid protest decisions were of the highest quality. This award underscored how one individual’s professional integrity can make a difference.

Another example would be our team that reviewed the Postal Service’s pension obligations, helping to resolve the question of whether tens of billions of retirement benefits should be shifted from the Postal Service to the federal government. Another award-winning team uncovered serious shortcomings with a Medicare demonstration project, which led GAO to recommend that the expensive program be cancelled.

Our recommendations are widely accepted, not only because they are sound but because policymakers and the public know that they were produced with integrity.

² U.S. Government Accountability Office, Order 2451.1, October 2012, page 6.

Integrity also means having the courage of your convictions. And that really is at the heart of my third topic today—GAO’s efforts to speak out and disclose hard truths. That is not always easy, especially when it comes to complicated, contentious issues.

But the facts are the facts, and we at GAO feel an obligation to speak up. We are committed to providing the information public officials need to make difficult decisions.

One area where we have been very vocal is our government’s fiscal outlook. We are strong believers in fiscal stewardship—the responsible planning and management of the federal government’s resources. A key component of this is ensuring that future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

For more than 20 years, GAO has sought to alert elected officials and the American people to the fact that the federal government is on an unsustainable long term fiscal path. On the spending side of the budget, this is driven by demographics and rising health care spending. GAO issued its first report on this subject back in 1992. We warned then that, without significant changes, our government’s financial problems would eventually erode the American standard of living and reduce our flexibility to address emerging issues.

One obstacle to getting a handle on this issue was that federal budgeting lacked a long-term focus.

GAO was so concerned that we began to regularly publish long-term budget simulations that illustrated federal deficits and debt under various scenarios. In fact, we were the first to do so. Those long-term simulations bring home the future financial costs associated with demographic and other trends. Long-term simulations can also reveal the magnitude of the structural, or built-in gap, between current revenue projections and our government's future commitments, or what the consequences might be of putting off policy decisions.

GAO also took the lead in urging that the U.S. government's annual financial report do a better job accounting for our government's long-term fiscal commitments. As a result, today's financial reports go beyond laying out the government's current financial condition, the cost of its operations, and its revenue sources. You will also find information on future federal obligations and commitments. There is now more comprehensive reporting on both social insurance program commitments and overall fiscal sustainability

GAO issues the audit that accompanies the financial report, and we have included a discussion in there of the federal government's long-term fiscal imbalance. GAO work has helped lead to the publication of a citizen's guide to the financial report to help the public grasp the federal government's financial realities – both now and in the future.

I should also point out that we have also issued a number of traditional GAO reports on the government's long-term fiscal condition. We also have sponsored and participated in public forums to help increase public awareness. And I have made it a point to raise this issue in testimony before Congress and in presentations to various groups. If you go to GAO's web site, you will see an entire page devoted to this issue with links to relevant GAO work.

I am pleased to say our efforts have made important contributions. Today's debate has moved from whether we have a problem to how best to address it. Also, our work has sparked renewed interest in reinstating budgetary controls and has brought about a more transparent accounting of the federal government's current operations and future commitments.

Another area where GAO has brought its expertise to bear is our government's response to the turmoil in the U.S. financial markets. Under the Troubled Asset Relief 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 made more than 70 recommendations to improve the transparency and accountability for this significant undertaking involving hundreds of billions of dollars. 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.

In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act to address regulatory gaps and oversight failures in the U.S. mortgage, securities, and financial markets. 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.

The act also required 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. Proper oversight and functioning of the financial markets are crucial to America's economic well-being. But it is also clear that we need to build more integrity into the financial regulatory system. That is why the need to modernize the U.S. financial regulatory system was added to GAO's High Risk List in early 2009.

At the start of each new Congress, every two years GAO issues its updated government-wide High Risk List. In fact, we issued our latest list in February. The High Risk List focuses on areas across government susceptible to waste, fraud, abuse and mismanagement, or needing broad-based transformation.

Sometimes it is a program at a particular department or agency. Other times, it is government-wide practices that need 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 to limiting the government's financial exposure by better managing climate risks.

Over the years, GAO has brought attention to a range of issues impacting American society, such as the need to strengthen the federal systems that oversee medical products and food safety. Since we started the list more than 20 years ago, more than a third of the areas have improved enough to be dropped from the list. We regularly discuss progress made on these high-risk areas with Congress, the Office of Management and Budget and federal agencies, as well as actions necessary to have them removed from the list.

In an era of constrained resources, the public sector is under considerable pressure to do more with less. And GAO is there to advise Congress and agency heads on ways to put every tax dollar to the highest possible use. Pinpointing overlap, duplication, and fragmentation in government programs is another important step in that direction.

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

We at GAO do not make policy decisions. That is up to Congress. But we believe that with sound information, public officials are more likely to make informed decisions and do the right thing. Such reliable, objective information is urgently needed given the many fiscal, social, and security challenges facing our nation.

GAO is also committed to keeping the public abreast of its work. We firmly believe in transparency, the idea that the American people should be as informed as possible about government performance and results. In my view, public understanding and support will be vital in addressing difficult policy issues that lie ahead. To that end, GAO publicly reports what it does. If you go on the Internet, you will find that almost every GAO report and testimony is on our web site the day it is made public.

Recognizing GAO's reputation for independence, objectivity, and accountability, over the years Congress has asked us to take on additional responsibilities. I would like to highlight two of these areas today. The first is GAO's procurement law function. I referred to this earlier in the context of GAO's integrity awards. The second area is appointing individuals to serve on health care advisory bodies.

GAO's bid protest process is a quasi-judicial forum for resolving contractor complaints about the award or proposed award of federal contracts. In 2012 alone, GAO attorneys resolved more than 2,400 protests of federal contract awards. In some of these cases, billions of dollars in government contracts were at stake. I am proud to say that GAO's decisions are widely respected, both for the quality of their legal reasoning and for their impartiality. This is another instance where perceptions of integrity and ethical principles are essential.

Congress has also given us responsibility for making numerous appointments to various health care commissions and advisory boards. As Comptroller General, I choose individuals to serve on six of these entities, which advise policymakers and the public on a range of health care issues, from Medicare and Medicaid to health information technology to comparative effectiveness research.

In making these appointments, we use selection criteria based on what is spelled out in statute as well as additional considerations, such as providing diversity and balance in geographic representation. And that process has worked well in ensuring that individuals with a wide range of experiences and expertise are able to bring their perspectives to these groups.

While GAO is probably better known for its efforts to ensure accountability here at home, we also actively promote ethics and integrity in auditing around the world. So now I will turn to my fourth and final subject—GAO’s international efforts to help promote ethics and integrity.

Among other things, GAO continues to play an important role in developing international auditing and internal control standards, and in helping countries’ audit organizations implement these standards. One of the ways we do this is by actively participating in the International Organization of Supreme Audit Institutions, commonly known as INTOSAI. INTOSAI is an independent professional, nonpolitical organization that brings together the “GAOs of the world.” Its members include national audit offices from more than 190 countries.

INTOSAI provides an opportunity for these offices to work together and share experiences, whether it is about past successes or future strategies. The idea is to better position national audit institutions to improve government performance, ensure the sound use of public resources, combat corruption, and boost public confidence.

INTOSAI has adopted a comprehensive set of international standards that cover the core disciplines of financial, compliance, and performance audits. The goal of these standards is to help government auditors around the world produce work that improves public services and yields greater accountability, effectiveness, and transparency in government administration.

The implementation of international auditing standards may be challenging, particularly for developing countries. Through its international development initiative, or IDI, INTOSAI has launched a global capacity development program to help implement these international standards. To that end, the program is developing audit tools, training, and a web-based knowledge sharing forum. This initiative is expected to strengthen the global public sector auditing profession and secure greater uniformity in the way public sector audits are conducted. One of the major financing partners for the program is the World Bank.

Another effort that is helping to promote integrity and ethical principles internationally is INTOSAI's Donor Cooperation Initiative, which seeks to augment and strengthen support to national audit offices in developing countries. The objective is to bolster the capacity of these national audit offices to ensure accountability and transparency, promote good government principles, and fight corruption. The fact is that robust audit institutions help foster social and fiscal stability.

Initially, 15 nations and international organizations signed the Donor Initiative memorandum of understanding with INTOSAI back in 2009. Since then, another five donors have signed on and more are contemplating joining. A steering committee is providing strategic guidance and oversight on key efforts. Among other things, the steering committee has focused on matching the needs of developing national audit institutions with appropriate donor support. In addition, the steering committee is developing performance measures to help audit institutions assess themselves in areas like auditor integrity and ethical conduct. The implementation of international standards I mentioned earlier has also been coordinated through this INTOSAI-Donor Initiative.

Internationally, there is growing awareness of the need for strong, independent government auditors. At the end of 2011, the U.N. General Assembly adopted a landmark resolution recognizing the positive impact national audit institutions have on national and international development by promoting “the efficiency, accountability, effectiveness and transparency of public administration.”³ The resolution also stressed the need for auditor independence, including shielding auditors from external pressures.

So GAO is trying to improve the impact the auditing profession is having in helping promote good government through auditing based on integrity and sound ethical principles, not just here in the United States but around the world.. For more than 90 years, GAO has provided guidance to government agencies and officials—domestic and foreign.

Ethics and integrity have always been GAO’s calling. Like Elliot Richardson, GAO is committed to serving the American people, and we will continue to advocate for their interests. Speaking on behalf of GAO’s outstanding workforce, I can assure you that we would not have it any other way.

It has been a pleasure speaking to all of you today, and I would be happy to answer any questions.

³ U.N. General Assembly, Resolution A/66/209 —“Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions,” December 22, 2011.