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Who Audits the Auditors?

The title question is, quite legitimately, often posed by those subject to the eyes and ears of auditors. Agencies spend about \$1 billion every year to conduct internal audits of agency management and external audits of grantees and contractors. So that this spending may result in improved program operations, audit organizations need periodic evaluation to ensure the quality of their audits.

Periodic evaluation is important, not only to maintain audit quality, but to maintain confidence in that quality among program managers, legislators, and other audit groups. Auditors need each other's confidence to avoid unnecessary repetitive audits of the same agency, contractor, or grantee—as called for by Office of Management and Budget Circular A-102. They need legislators' confidence to avoid the budget cutter's scissors. Most of all, they need the confidence of program managers, who must act on their audit findings. Equally essential is their credibility in the eyes of the taxpayers, whose faith in government depends partly on them.

An Answer

In May 1978, members of the Midwestern Intergovernmental Audit Forum met to discuss the question of who should audit the auditors. Its conclusion? Other auditors.

The forum set out to devise a peer assessment system. First, we drafted an evaluation guide consistent with audit standards of the Comptroller General and the American Institute of Certified Public Accountants. The guide included various evaluation standards for the auditing organization to meet, accompanied by "aids," or criteria, to help a review team assess compliance. This guide was then sent to forum members for comment. Affirming their support for the project, 10 agency directors offered their organizations as guinea pigs and nearly 50 audit supervisors and

managers volunteered for test review teams.

Testing the Answer

The forum established a committee to fashion questionnaires, design a scoring system, and manage the reviews. The committee chose one agency at each level—Federal, State, and local—and choose five-member teams for each review. Team members represented three Federal Inspector General Offices, the General Accounting Office, and three State and two local government audit agencies.

During a forum meeting following the tests, panels of team leaders and organization directors candidly described their review experiences. We learned that the tests fostered a fuller understanding of the system among forum members, the committee, review teams, and agency officials. Also significant was the bonus to the agencies—professional interchange and advice on how policies, procedures, and audit work could be improved.

For our part, the improvements needed were

- a clear distinction between evaluation standards and aids,
- a clear reporting format and coherence among the various instruments, and
- a clear way to decide on compliance with evaluation standards.

Revising the Answer

To make the improvements, the forum's Executive Administrator and the committee chairperson subjected each standard, aid, and questionnaire statement, line by line, to a seemingly endless list of suggestions and critiques from committee members, team members, and agency directors. While the process took several months and was sometimes discouraging, we made progress and our concern turned again to enthusiastic optimism.

Still the task of revision was not yet finished. The draft went to the committee, where a great deal of thought went into polishing the evaluation standards and instruments. The committee presented the results to the forum. After considerable discussion and some changes to the review instruments, the forum adopted the peer quality assessment system.

Publicizing the Answer

While refining the system, we spread the word that an answer was on the way. The committee chairperson spoke at meetings and conferences of the Municipal Finance Officers Association, the Association of Government Accountants, and the National Intergovernmental Audit Forum. He participated in a seminar sponsored by the Joint Conference of the National Forum, and is expected to participate in meetings of other professional organizations in the next several months.

In December 1979, the forum published *A System for Peer Quality Assessments of Government Audit Agencies*. We distributed copies to the National Forum executives and chairpersons, State and local governments, professional organizations, and national and international special interest groups. To date, over 900 copies have been distributed.

The System in Brief

In its present form the system includes

- an overview of the project,
- a guide containing 52 evaluation standards and 129 aids,
- bylaws for a managing committee,
- a scoring and compliance scheme,
- a report format,
- a typical engagement letter contracting for the assessment,
- a review team applicant questionnaire, and
- questionnaire and related

transmittal letters for audit staff, report users, and auditees.

The guide has 10 major descriptive chapters: organizational planning and controls, independence, qualifications, supervision, workpapers, legal and regulatory requirements, internal control, financial audit reports, reporting procedures, and external auditors. Each chapter includes a broad concept statement followed by evaluation standards and aids.

Evaluation standards are geared toward assessing compliance with policies and procedures that ought to be present in agency's operations and toward assessing the agency's financial and compliance work. Standards help the team determine whether policies and procedures are comprehensive and suitably delineated, documented, and communicated. The review team determines compliance by reviewing documents, interviewing management and staff, analyzing questionnaires, and observing practices.

Costs and Benefits

Test reviews show that a typical onsite peer quality assessment takes about 2 weeks. Staff orientation and preparation, onsite audit review, report preparation, and overall team leader responsibilities represent an investment of roughly 100 staff days by the audit community for the professional betterment of one of its members. Organizations contributing resources can expect reciprocal assessment services.

The Future

Our work is just beginning. The Committee on Peer Quality Assessment met in February, 1980, and agreed on a timetable and strategy for assessing other forum members' audit organizations. At that time, seven agencies at various levels of government asked for an assessment review. Supervisory staff from our member organizations, all with their directors' recommendations, volunteered for review teams.

We have furnished draft guidelines and related system material to the National Intergovernmental Au-

dit Forum's Committee on Quality Review. That committee's chairperson and project director have organized a mechanism to form a national quality assessment system. We intend to cooperate in that endeavor. In the meantime, we expect to learn a great deal more in applying the system and will revise it, and the companion publication, as appropriate.

The Essential Ingredient

Members of the audit community at all levels cooperated to an unprecedented degree in the peer assessment project. The cooperation led to improved intergovernmental understanding. Such cooperation and understanding are as essential to the system's continued success as they were to its development.

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How the Peer Quality Assessment System Works

A committee, review teams, and assessment instruments are not enough to make the system operational. A unified system needs a method and a timetable for planning and doing reviews.

The following chronology traces the Midwestern Forum's timetable from the engagement agreement to the issued report.

Description	Elapsed Calendar Timeframe in Weeks
Committee sends engagement agreement to audit agency for director's approval and signature.	Concurrent
Committee sends inquiry to audit agency to elicit representations on policies, procedures, and operations.	Concurrent
Committee receives signed engagement agreement from agency.	1
From a pool of volunteers, committee selects a five-person team of Federal, State, and local auditors with managerial/supervisory experience to conduct the onsite review.	Concurrent
Audit agency supplies committee with representations on policies, procedures, and operations.	1
Committee sends questionnaires to agency staff, report users, and auditees to obtain their views on policies, procedures, and operations.	1
Committee reviews responses to questionnaires and sends followup request letters as needed.	3
Committee completes questionnaire summaries and provides review team with results of questionnaires.	2
Committee representatives and review team meet to plan audit work. Agency spokesperson is present to discuss agency representations.	Concurrent
Review team conducts review.	2
Review team holds exit conference with audit agency director, presenting review results.	Concurrent
Review team meets to agree on, complete, and send report, including agency comments, to committee.	2-3
Committee meets to consider team report.	1
Committee recommends appropriate certification.	Concurrent
Committee issues report to audit agency.	1-2