Communication in the performance audit process

1.   Introduction

The *purpose of this paper* is to assist and guide Supreme Audit Institutions (SAIs) regarding communication in the audit process. For performance audit good communication is essential. A proper understanding of the audited entity and its context and that of the specific audit topic is important; particularly as performance auditing uses various kinds of audit approaches and data collection methods. In addition, there are always several options available on how to design an audit examination.

Auditors should seek to maintain good professional relationships with all stakeholders, promote a free and frank flow of information in so far as confidentiality requirements permit, and conduct discussions in an atmosphere of mutual respect and understanding.[1] Good external relations is important not only with the short term perspective of getting access to information and getting better understanding of the subject matter; it is equally important with the long term perspective for a SAIs to gain trust, respect and credibility with stakeholders.[2] SAIs that are known to listen to various, relevant views and arguments; recognized as making assessments based on rational and independent grounds; and which publish their findings and recommendations, will find it easier to safeguard their reliability, integrity and objectivity.

Well established communication practices based on mutual respect and professional integrity are important when dealing with the executive branch. Without good practices it is unlikely that performance audits will achieve their objectives efficiently and effectively. In the Lima Declaration (ISSAI 1) as well as in the Mexico Declaration (ISSAI 10) the importance of good communication with the responsible authorities (the auditees; if the auditees are organisations[3]) is emphasized.[4] It is stated in Principles of Transparency and Accountability (ISSAI 20), that SAIs shall communicate which standards and methodologies they use, and how they comply with them. They shall also communicate the scope of their audits, the audit objective and

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[1] ISSAI 3100 Performance Audit Guidelines – Key Principles sections 2.4.2
[2] ISSAI 3100, appendix, How to develop a sustainable performance function
[3] ISSAI 3100 Performance Audit Guidelines, appendix, section 2.1 states that the entities to be audited (the auditees) vary in performance auditing, i.e. individual organisations as well as government undertakings and programs may be audited.
[4] ISSAI 1The Lima Declaration section 11 and 17 and ISSAI 10 the Mexico Declaration principle 6

findings, and the basis for their conclusions and recommendations.[5] This should not be considered as being in conflict with SAIs independence. On the contrary, it facilitates the audit process.[6]

The main *purpose of good communication* with the responsible authorities is to enhance the understanding of the role and function of the SAI and the purpose, design and findings of the specific audit. One must keep in mind that it is the SAI that seeks access to sources, data and arguments in an audit. Without good communication it may prove difficult to create an atmosphere that will serve that interest.

This paper focuses on the communication a SAI has with the main responsible authorities concerned, since those relationships are important in most performance audits. However, good relations with the academic society and other stakeholders are also vital, where scientists and scholars may serve as discussing partners, co-readers and consultants. In having good relations with the responsible organisations, it is equally important to maintain good contacts with other stakeholders in order to avoid being too influenced by the perspectives of the auditee.

2.   Communication on the engagement level

The performance audit process covers several steps. Broadly speaking, it comprises the planning process, the execution process, and the follow-up process. Strategic planning sets the long term objectives and the annual planning aims at selecting topics to be audited. Once a topic has been selected for performance audit, a pre-study – resulting in a work plan for the main study – may be undertaken to gather information in order to be able to design an audit proposal. The pre study determines the feasibility of carrying out an audit on the selected topic.

Auditing may be seen as both an analytical and a *communicative process*. In the analytical process, data are collected, interpreted, and analyzed. The communicative process begins at the planning phase. Relevant parties e.g. authorities, organizations, experts are contacted and their knowledge, and viewpoints, etc. are gathered. As the audit progresses, different findings, arguments and perspectives are discussed. The communicative process continues until the report has been finalized and later when the results are followed up.[7]

Pre study
Audits need to be properly planned and planning requires communication

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[5] ISSAI 20 Principles of Transparency and Accountability, principle 3
[6] ISSAI 3000 Standards and guidelines for performance auditing part 4.1
[7] ISSAI 3000 Standards and guidelines for performance auditing part 4.1

The purpose of a pre study is to establish whether the conditions for an audit exist and if so, to produce an audit proposal with a work plan and a research design. A pre study helps provide answers to questions like: is this subject auditable and worth auditing? What information is needed and how should the audit be conducted? In addition, it provides background knowledge and information needed to understand the entity to be audited (program, function, service or organization).

The practices vary. Some SAIs prefer to give the responsible authorities – especially senior management – detailed information on the pre study, since their early involvement can contribute to reassuring the ministries and the government institutions concerned by a potential audit. Other SAIs do not provide detailed information at this stage and prefer to provide such information after the audit proposal has been approved. Even without providing detailed information, it is generally good practice to provide the authorities concerned with information on the assumptions and reasons behind the decision to carry out a pre study. This allows auditors to manage the responsible authorities' first impressions of what a possible audit could be about and why it may be undertaken. It may also provide an opportunity for SAIs to appoint contact persons or establish a suitable liaison arrangement already in the pre study phase. Nevertheless, preliminary discussions with the responsible authorities are vital to inform about the plans and the pre study and to clarify if it has been decided to carry out an audit involving them.

The pre study is to a large extent a learning process. To enhance the possibility of designing a good audit it is essential for the SAI to get a good understanding of the audit area, and to discuss the different parts of the design and how they relate to the parties involved.[8] Communication in this phase needs to focus on learning and creating good conditions for the work.

Discussions with managers and staff at the responsible authorities are important to gain basic knowledge of the audit area and its functions and conditions. It is also important to seek knowledge from other stakeholders, e.g. clients, researchers, evaluators, scientists, and other experts; but it is wise to inform the authorities involved about this. In addition (but to some extent depending on the subject matter), it's important to have discussion with the internal auditors and take part of their experiences.

It is good practice to communicate with vital stakeholders to build up knowledge and to ensure that various perspectives are considered. There are SAIs who find it valuable interviewing recently retired senior officials in order to avail of their experiences. Some SAIs prepare a communication plan in the pre study phase, in which all external stakeholders and experts to be contacted during the audit are listed.

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[8] ISSAI 3000 Standards and guidelines for performance auditing part 3.1 and 3.3

When the audit team has reached sufficient subject matter knowledge to design the audit, it is advisable to hold discussions with senior management of the responsible authorities concerned by the audit. Issues like study design, potential audit criteria and other practical aspects of relevance for the audit should be addressed. Since it is sometimes advisable to avoid setting precise and detailed criteria in the design phase, a SAI must decide case by case, the extent of these discussions with the responsible organizations concerned or other external stakeholders.[9]

Examples of topics to be discussed during the pre study are the following:

- o whether the audit is requested by others, e.g. the parliament's audit committee/PAC, or is at the initiative of the SAI itself
- o whether the audit is addressing a general risk, involves a strategic assessment or whether it relates to economy, efficiency or effectiveness issues, and if so on what grounds
- o the purpose and the objectives of the pre study
- o the kind of information the SAI may need to get from the authorities concerned at this stage in order to build up knowledge, test potential designs, etc.

Main study

A proper introduction is vital

The SAI needs to inform the authorities concerned (head of the entities/senior officials) of the aim, purpose, and scope of the audit as soon as possible after the decision to start an audit. This will facilitate the process and help avoiding misunderstandings. SAIs may also find it important to discuss the audit criteria.

It is important that senior officials at ministries and senior management in organisations concerned are familiar with the scope and purpose of the audit. Depending on what has been communicated during the pre study it is at this stage that it is important to provide a clear picture of what the audit is about, why it is undertaken, what the result might be, and how the audit will affect them (time, documentation, resources, etc). If a contact or liaison person has not already been appointed during the pre study phase, then this is the time to do so.

An open and constructive dialogue is the ideal

While an open and constructive dialogue is the ideal, an audit may provoke negative reactions. The auditor may face varying situations, from openness and willingness to cooperate, to evasiveness and secrecy. It is

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[9] ISSAI 3000 Standards and guidelines for performance auditing, part 3.3

therefore important that the auditors inform the responsible authorities about the audit's objectives and methods. This does not mean that the auditee should dictate conditions or in any way control the audit process, but rather involves establishing a constructive process of interaction. As a rule, the assistance of individuals from the organizations concerned is essential to an effective audit. An active dialogue during the audit with the responsible authorities, experts and others makes it easier; for instance, to continuous verify the auditor's understanding and preliminary audit findings.[10]

Evidence, findings and conclusions must be properly communicated externally
As the audit proceeds it is necessary to ensure that the factual basis of descriptions is accurate and fair and that the analyses are comprehensive and address the cause of identified problems. Various arguments need to be represented and findings put in perspective. Recommendations must be well founded and add value. All of these issues need to be communicated to the responsible authorities concerned by the audit.

A good practice besides having meetings with senior managers or other government officials is to carry out focus group meetings, in which various stakeholders and experts are invited to discuss preliminary findings, conclusions and recommendations. Being able to discuss various issues when all vital stakeholders are present will add value to the audit process. Before publishing the report the authorities concerned should always be given the opportunity to comment on the audit findings, conclusions and recommendations; and all comments need to be carefully considered. The content should be known in advance. In addition, it is not advisable to just state in the report that there are shortcomings or deviations from criteria. The audit report should convince the responsible authorities (and readers of the report) why certain observations or findings are seen as shortcomings or problems by the auditors and what this mean in a wider context and for the performance. At the end of the process it is advisable to keep the responsible authorities informed on the procedures and timetable for the publication of the final report.

Finally, one must not forget the importance of feedback from the organizations concerned on how well the communication process functioned during the audit and if there is room for improvement. It is also important to follow up on whether they find the report to be fair, balanced and useful. Having such procedures is an indication of good practice in audit communication.

Examples of topics to be discussed during the main study are the following:
- o   the purpose, scope, methodology, audit criteria and the expected audit process
- o   functions and persons of importance for the data-collection and who the SAI should liaise with

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[10] ISSAI 3000 Standards and guidelines for performance auditing part 4.1

- o the expected types and extent of documents that would or could be requested by the SAI
- o how to keep management informed about findings and the progress of the audit
- o the ability to carry out the audit as planned (resources, time schedule, scope etc)
- o the opinion of the audited entities on the draft report; are the facts presented correctly, are the conclusions understandable, do the recommendations add value.
- o the procedures and timetable for the publication of the final report

3. Elements to support the communication process

To support the communication process several elements can be used:

- To ensure the proper presentation of the audit to the top management at the authorities concerned, *a letter* can be sent directly to the head of the entities. A template for this letter can be made, to ensure that this information is presented in the same way, at the same time and with the same amount of information.

- To facilitate *the understanding of what performance audit is all about* and what the audit process will include, a small leaflet presenting an outline of the audit process can be made. The leaflet can be customized to suit each audit, and be presented to the authorities concerned, whenever changes in the process occur. It can also be placed on the SAIs website for a general introduction to performance audit.

- To ensure the most open and constructive communication, *suitable liaison arrangements* need be established on all hierarchical levels between the SAI and the authorities concerned. It may be inefficient if all contact is required to go through top management on both sides; contact at a number of levels is important, if the audit process is to run smoothly. Nevertheless, it is important to keep top management on both sides informed on important matters.

- Also, to facilitate this process, *regular meetings and discussions* need to be held. Furthermore, it is a good practice to have agreements with the authorities concerned on *how and when* the involvement of and dialogue with senior management should take place to ensure a continuous progress in the audit.

- Agreements on what basic *documentation* the audited entity is required to deliver – and when. Such agreements may often have to be reviewed several times during an audit.

- It is the responsibility of the SAI to try to foster a proper dialogue and communication. However, if a disagreement occurs, it is important to handle it in a *professional and fair manner (listen carefully, focus on facts, be objective and keep ones integrity). Problems of attitude must be addressed. A good practice is having various views and arguments reflected in the report.)*