AUDIT REPORT TRANSPARENCY

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Introduction

Compliance reporting is becoming significantly more visible, as the Environmental Protection Agency (EPA) and states aggressively move to electronic reporting across all media, according to Doug Parker and Stacey Mitchell. Parker and Mitchell are former employees of the EPA and Department of Justice and provided insight into understanding and navigating emerging environmental risk at the 2018 IIA General Audit Management Conference™. They warned internal auditors that an organization’s or an agency’s critics can now easily pull data together and better see anomalies in reporting. Third-party groups are utilizing this newly transparent data to advocate and litigate, these experts say.

How can environmental, health and safety (EHS) auditors be prepared for this growing trend toward transparency? Public sector internal auditors deal with this issue all the time. This knowledge brief explains how public sector auditors handle issues involving transparency and offers a few steps all internal auditors can take to position themselves for this challenge.

Does public disclosure make a difference?

Public sector internal auditors face unique challenges and considerations. Does internal audit take a more conservative approach knowing the report will be available to any and every interested party? More specifically, does the potential for public scrutiny affect transparency in what is written or just the transparency as it relates to what is distributed and where?

Transparency is defined generally as openness through availability and accessibility. Transparency also involves differing levels of openness, from making documents available to only those managers responsible for addressing specific issues to full disclosure to everyone through publication on the internet. Depending on the organization and the activity, the degree of transparency is modified to suit the situation. For public sector entities, for example, the degree of transparency may differ due to legal mandates to release specific information or business decisions.
Transparency is expected

The principle of transparency relates to the degree of openness of a public sector entity to its constituents. Good governance includes appropriate disclosure of key information to stakeholders, so that they have the relevant facts about the public sector entity’s performance and operations that are necessary to clearly understand motives and reach correct conclusions about the impacts of its actions.

Accordingly, the public sector’s decisions, actions, and transactions must be conducted in the open. Many public sector entities are required by law to make public documents available upon request. Additionally, many public sector entities are required by law to publish meeting notices including specific agenda items. Although the public’s interest is sometimes served by protecting information from disclosure — such as instances where national security, criminal investigations, or the proprietary information of a private company would be compromised — the transparency of public sector actions and information plays a significant role in public oversight.

Auditors can provide a direct link between transparency and the credibility of the public sector entity. Many public sector audit departments publish audit plans and reports on the internet. Lawmakers and the public look to internal audit to provide assurance that public sector actions are ethical and legal, and that financial and performance reporting accurately reflect the true measure of operations.

Integrity engenders trust

The principle of integrity calls for public officials to act consistently with the ethical principles and the values, expectations, policies, and outcomes of the public sector entity. The erosion of public trust if public information and actions are not credible and reliable undermines the public sector’s legitimacy and ability to govern. The political, social, economic, and environmental costs to society can be extensive. The principle of integrity also applies when information is disseminated to lending authorities or other principals who have an interest other than an ownership share. The consequences of violating the expectation of the highest integrity can be swift and shattering when the people’s trust in the public sector, its institutions, and leadership is undermined (see Supplemental Guidance: The Role of Auditing in Public Sector Governance).

Practice varies

The IIA gathered global feedback several years ago through an informal survey of 160 respondents from 14 countries to better understand practices regarding the transparency of internal audit reporting. While the majority (85 percent) said their organizations aim to be transparent, the actual action steps taken toward transparency varied widely. Sixty percent of respondents said they must follow a legal mandate to make information available for public inquiries, and public entities that had a public information law were more likely to publish the report.

Only 10 percent reported making their reports available to the media. Just 25 percent indicated that their organization embraced making internal audit reports available on the organization’s intranet, while only 14 percent publish the internal audit report on the internet.

While the survey data is not new, the issues are still relevant. More than anything this informal survey paints a broad picture of the variety of factors affecting transparency and internal audit reports.
Ethical conundrum not easily solved

It is important that internal audit not hold back simply because the public will see its report. Airing dirty laundry is often a quick route to a cleanup. The tendency to be more conservative in reporting sensitive issues is a natural response, and perhaps these findings can be handled conversationally. Regular meetings with auditees to discuss issues is good practice in both private and public sector auditing, and can especially pay dividends in keeping “bad news” under wraps. The point of any audit report isn’t to call people out or issues out, but rather to find solutions and make organizations successful.

It is important to not be overly conservative because otherwise the right people might not be held accountable in the end. The reporting of issues when first noticed can help later following a crisis when the question is inevitably asked: Where was internal audit? Internal audit was there reporting the problems, albeit privately. No sensitive IT concerns would ever be released publically by internal audit and expose a vulnerability. They have no choice. However, internal audit does have the choice to take the next step by following up with urgent issues, those by nature that aren’t made public because of their sensitivity, and wave the flag when problems aren’t fixed. If nothing is done, internal audit must take it up a level.

Take action now

Internal auditors make tough decisions regarding transparency by asking themselves: Can something in this audit report hurt my business if it is published? If the answer is yes, then feel justified in getting the information to the right people, and following up in a timely manner. In addition, CAEs are encouraged to monitor transparency developments in their own jurisdictions and position themselves for the challenge that may be just over the horizon. Some steps to take now include:

- Understand the information transparency laws for your jurisdiction and monitor any changes.
- Establish appropriate transparency policies and arrangements for internal audit reports for your organization.
- Train staff to write clearly and comprehensibly to be understood by any potential reader.

EHS auditors face challenges when they are transparent in their reporting. EHS auditing can bring federal/state/local scrutiny, including fines, shut downs, and public relations issues. If their agency comes under scrutiny, the auditors need to stand tall to the internal and external pressures faced. Just like in the public sector, as issues are identified the auditors must work with agency management to mitigate the risk and eliminate many of the issues before external eyes get engaged.

Audit Focus

IIA Standard 2440: Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation

The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.
ABOUT THE ENVIRONMENTAL, HEALTH & SAFETY AUDIT CENTER
The Environmental, Health & Safety Audit Center (EHSAC) is a specialty offering of The IIA for environmental, health and safety (EHS) auditing. EHSAC was established to provide auditors with targeted high-quality professional development; networking opportunities for knowledge sharing among EHS stakeholders; and ongoing, timely, and relevant reporting on trends, benchmarking, and thought leadership in the audit profession. For more information, visit www.theiia.org/EHSAC.

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