

2 Main challenges to the follow-up of audit reports in Chile

This chapter presents the current follow-up process to audit reports in Chile as well as the main challenges that reduce the likelihood that auditees will address audit observations. In Chile, these challenges are mainly related to the quantity of audit observations, perceptions of unfairness, communication as well as capacity constraints. These challenges are, amongst others, leading to decision fatigue and affecting the motivation of auditees and their attitude towards audit in general.

The follow-up process to external audit reports in Chile

To understand how behavioural insights could help improving the implementation rate of audit observations in Chile, some background information is necessary. The inductive approach of applying behavioural insights implies that the proposed strategies to address identified issues, proposed in Chapter 3, need to be grounded in a thorough understanding of the given context. To provide the relevant background, this section briefly reviews the scope of external audits in Chile, the follow-up process to audit reports and the main actors involved in this process.

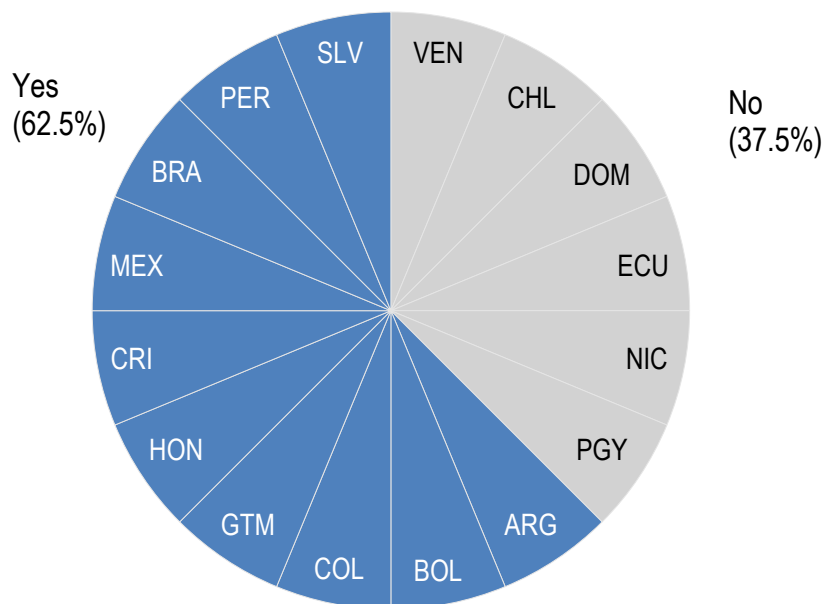
The mandate for external audit in Chile is focusing on compliance audits

In Chile, the audit reports produced by the Comptroller General of the Republic (*Contraloría General de la República*, CGR) currently focus on legal compliance. The reports contain observations (*observaciones*) with respect to non-compliance with regulations or procedures. The audited services should correct these observations to ensure compliance. CGR audit reports usually only describe the finding, not avenues for taking corrective actions. Since 2014, efforts have been made by the CGR to guide auditors in providing guidance to auditees on what actions could be taken to respond to the observations and the auditors may include suggestions for corrective actions (Service Order 30 of 2014). Due care must be taken, of course, to not co-administrate. Nonetheless, interviews with auditees indicated that they sometimes would welcome more guidance to ensure the correct follow-up.

Similar to other countries in Latin America (Figure 2.1), the CGR in Chile currently does not have a mandate to conduct performance audits in Chile (OECD, 2020^[1]). Performance audits could lead to audit recommendations, where the value added to public management is easier to see for heads of services and public managers. Indeed, SAIs are using performance audits to provide valuable insights into complex problems and risks, such as modernising outdated financial regulatory systems and protecting public safety (OECD, 2020^[1]).

There are discussions to broaden CGR's mandate to include performance audits. In fact, since 2019 the CGR has carried out 3E audits (Efficiency, effectiveness and economy), which, although based on legal compliance, have a more performance-oriented approach. In 2020, the CGR also has implemented a Financial Audit Department that has performed Financial Audits over the last years. However, these are still new developments and are not yet widely applied. In fact, traditionally, the mandate of the CGR in Chile excludes auditing the "merit" of political or administrative decisions and considers that the verification and assessment of whether policy objectives and goals have been achieved is a mandate of the public administration, not of the CGR. Nonetheless, as highlighted in the OECD Review of Chile's SAI, performance auditing does not need to question the merit of intentions and decisions; instead, it may focus on examining possible shortcomings in organisation, management and support and Chile could consider continue moving in this direction (OECD, 2014^[2]). Of course, compliance audits will continue to play an important role in the future.

Figure 2.1. SAI mandate for performance audits in Latin America, 2019



Note: The original survey question is: “What type of audits (compliance, financial, or performance) has the Supreme Audit Institution (SAI) conducted and made available to the public?” The graphs above counted as “Yes” all countries scoring a 100, meaning the countries conduct all three type of audits, and as “No” countries score 67 or 33, meaning the countries conduct at least one or two of the types of audits. The value for Colombia has been corrected to “yes” reflecting that the Office of the Comptroller General of the Republic of Colombia is allowed to conduct performance audits (OECD, 2021^[3]).

Source: International Budget Partnership, Open Budget Survey 2019.

The process to follow-up on audit reports has been reviewed and has improved over the past years

The process through which the CGR follows up on audit reports to monitor and increase the uptake of the audit observations has changed and improved significantly over the last decade. Until 2012, the follow-up to previous audit reports was carried out when the CGR auditors visited the same entity for a new audit. However, given that the CGR's coverage includes close to 4 000 audited services (*servicios*) at both national and municipal level, it was very difficult for the CGR to visit an entity again in the short term. Auditors in the field then had to balance follow-up work with audit planning and audit execution. As a consequence, the follow-up processes were many times simply not carried out or not carried out in a timely manner, with the consequence that it was difficult for the CGR to keep track of and measure the uptake of the audit observations.

In 2012, the CGR created audit follow-up units (*Unidades de Seguimiento*) to ensure that auditees respond to observations and implement corrective measures (CGR Resolution 06920/2011). The audit follow-up units, which are independent from the auditing teams, started to be implemented in February 2012. The CGR's National Follow-up Co-ordination Unit (*Coordinación Nacional de Seguimiento*) leads and co-ordinates the audit follow-up units and develops manuals and technical guides to support the follow-up process. Together, the National Follow-up Co-ordination Unit and the audit follow-up units allowed to make a broader and timelier verification of the compliance with the audit observations provided by the CGR, while generating relevant information about the process and its results.

In 2014, the OECD Review of the CGR found that stakeholders still perceive the work of the CGR as focusing mainly on detecting errors and on the legality of acts. To improve its impact, the OECD Review recommended broadening the scope of the information it provides, the methods of delivering this information and the working with the recipient audience. The Review further recommended to co-operate with public institutions, including the internal audit structure in Chile, and in particular the Council of Government's General Internal Auditors (*Consejo de Auditoría Interna General de Gobierno, CAIGG*), to ensure efficiency and effectiveness of its work while maintaining its independence (OECD, 2014^[2]).

Two years later, the survey carried out for the follow-up of the OECD Review documented progress and showed that both CGR officials and external stakeholders recognised the efforts of the CGR towards better engaging its various audiences (OECD, 2016^[4]). Improvements have also been made in the system through which the CGR monitors and compiles its audit findings. In particular, as of 2014, the CGR's Integrated System for Audit Control (*Sistema Integrado para el Control de Auditorías, SICA*) began to be used. The SICA allows recording a large amount of information on monitoring results. This tool, together with the audit follow-up units, made it possible to verify more timely the compliance with the observations made by the CGR. The information also feeds the planning processes for future audits. The SICA also enables the CGR to process and synthesise audit findings to generate rankings of public sector entities and municipalities. These ranking take into account addressed observations and engaged disciplinary proceedings. This reflects a move from the act of monitoring audit reports to monitoring observations more broadly. Currently, observations remain active until corrected, regardless of their date or association to any individual audit (OECD, 2016^[4]). The SICA was updated in 2021 with the objective to make it more user-friendly.

In 2016 the CGR created the Compliance Support Programme (*Programa de Apoyo al Cumplimiento, PAC*) to support the implementation of observations through the audit follow-up units. The programme provides methodological tools to public entities to help them analyse the problems detected in the audits and define a work plan that allows to overcome these problems and to prevent repeating the same errors in the future.

In addition, in 2018 the responsibility for monitoring the implementation of observations of lower levels of complexity was transferred to the internal control officers of the audited services (Official Letter 14.100). Indeed, observations are being classified according to their complexity:

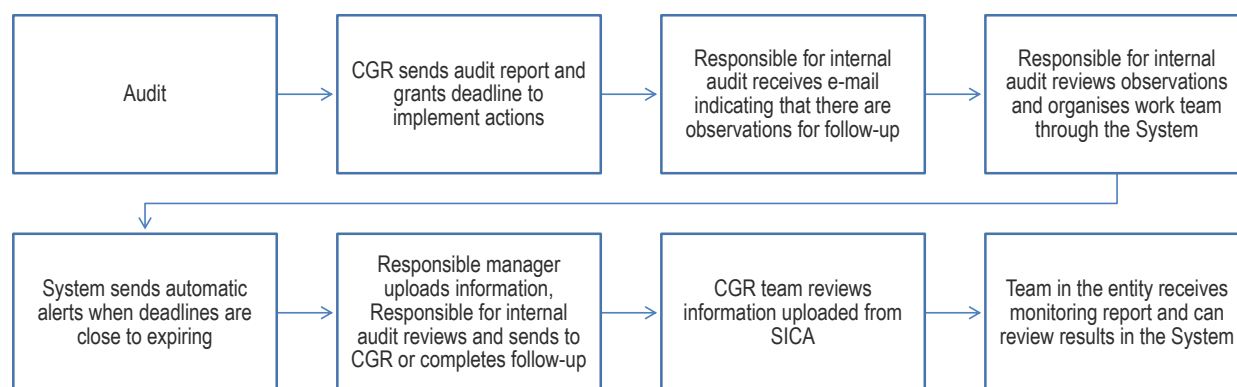
- highly complex and complex observations, that may compromise administrative, civil or criminal responsibility of the officials involved
- moderately complex and slightly complex observations, that do not entail administrative, civil or criminal responsibility of the officials involved.

These changes with respect to the monitoring responsibility allowed to reduce the workload of the CGR's audit follow-up units, thereby improving their capacity to follow-up the overall implementation process and to focus on observations of higher complexity and higher impact. In addition, by involving the internal audit units, the changes allowed a better alignment and co-operation between internal and external audit functions. In 2018, the CGR launched an online system to support public entities in monitoring the follow-up of observations by streamlining the processes and facilitating the reporting. The system also allows the CGR to follow-up the work plans elaborated together with the audited services participating in the PAC. Public entities were trained about how to use this system to ensure a successful implementation of this platform.

Figure 2.2 summarises the steps of the audit follow-up process that aims at increasing the uptake of audit reports. The CGR reports the observations that require follow-up via the audit report including deadlines to address them. The individual responsible for internal audit in the audited entity (i.e. the Internal Auditor or, in municipalities, the Director of Internal Control) receives a notification per e-mail, organises a work team of public managers in the concerned areas of the entity. Through the online system, the Internal Auditor or Director of Internal Control is able to assign tasks and to manage and follow-up the

implementation of the corrective measures. The system also generates automatically alerts when deadlines are approaching. Once public managers have implemented the corrective measures, they can upload the information into the system. The Internal Auditor or Director of Internal Control reviews this information and either reports the recommendation as addressed (for observations of lower complexity levels) or sends the information to the CGR through the SICA (for observations of higher levels of complexity). In the latter case, the CGR reviews the information provided and closes the monitoring process if the auditee took the necessary corrective measures. Otherwise, the CGR maintains the observations. In addition to reviewing the information entered into the system, if necessary, the follow-up units can also make field visits to the audited services.

Figure 2.2. The CGR's audit follow-up processes



Source: Elaborated based on information provided by the CGR Chile.

The actors involved in the audit and the audit follow-up process

The behavioural perspective looks at the process from the perspective of the involved individuals. Their behaviour needs to be understood and potentially targeted to improve the uptake of audit observations in the Chilean context.

At the level of the CGR, these individuals are:

- The auditors of the CGR in charge of conducting and supervising the audits (Audit Executive and audit teams) are in direct contact with the audited service and communicate with the Internal Auditors or Directors of Internal Control as well as, to a lesser degree, with public managers. They carry out the audit that leads to the observations issued to the service and are responsible for drafting the reports. Supervisors are in charge of several audit teams and play an important role in shaping the auditing process.
- The staff in CGR's Technical Planning Secretariat (*Secretaría Técnica de Planificación*) and in the regional units of the CGR are in charge of notifying auditees of an upcoming audit.
- The audit follow-up teams of the CGR at central and at regional level and the National Follow-up Co-ordination Unit within the CGR monitor and follow-up the audit reports. They communicate with and provide guidance and support to the services on addressing the observations.

At the level of the audited services, the key actors in Chile are:

- The responsible for internal audit (the Internal Auditor at national level or the Director of Internal Control at municipal level) plays a key role, as they are the transmission belt between the CGR, the Head of the service and the public managers of the entity.

- The Head of the service (designated Minister, Director or similar at national level, and elected Mayor at municipal level) have the ultimate responsibility for the actions taken in their service. They respond to political incentives if appointed or electoral incentives if elected.
- The heads of units in the audited services (public managers) that have been subject to the audits by the CGR are those who, in the end, implement (or not) the recommendations issued by the CGR in their area of responsibilities.

The uptake of audit observations in Chile

Thanks to the improvements achieved by the CGR over the past years, the audit-follow up processes were able to evidence that, on average over the period 2015-2020, only 50% of the observations were being corrected. As the CGR is carrying out compliance audits, this number appears to be relatively low and have triggered the interest of the CGR in improving the uptake. The CGR shared the consolidated data on observations resulting from the audit monitoring processes since 2015 with the OECD. Two tables summarise the information.

Table 2.1 shows that between 2015 and 2020, the CGR issued 57 613 observations. The average number of observations was of 9 938 observations per year. All observations are distributed over 1 894 services that were audited during this period.

Table 2.1. Quantity of observations, 2015-2020

Year	Total observations
2015	7 950
2016	9 399
2017	10 608
2018	11 058
2019	10 679
2020	7 919
Total	57 613

Source: CGR, calculations OECD.

In turn, Table 2.2 shows that there is a large amount of data points in the dataset without information concerning the status of the follow-up to the observations. According to the CGR, most of the observations without information correspond to observations that have not been followed-up actively, either by the audited service in the case of less complex observations, or by the CGR in complex cases. Some of the observations that have been classified as "Not followed-up" include observations that did not correspond or were it was untimely to follow up on the matter. Overall, the data shows that 46 183 observations have been followed up either by the CGR or by the Internal Auditors or the Directors of Internal Control of the audited services, of which 23 124 have been corrected during this period. Therefore, according to the available data, approximately 50 % of observations that have been subject to follow-up monitoring were not corrected.

Table 2.2. Status of the observations according to their follow-up and uptake, 2015-2020

Status	Without information	Active (Maintained/Not addressed)	Corrected (Addressed)	Total general
Followed-up	1 023	22 036	23 124	46 183
Not followed-up	6 759	2 926	1 745	11 430
Total general	7 782	24 962	24 869	57 613

Source: CGR, calculations OECD.

Principal challenges explaining the uptake of audit observations in Chile

The quantitative and qualitative research conducted by the OECD evidenced underlying challenges, which create an environment that influences the behaviours, attitudes and perceptions of the auditors and auditees. Sometimes, auditees may have valid reasons to disagree with observations in the audit reports. However, as discussed in Chapter 1 and summarised in Figure 2.3, disagreement with observations or the attitude towards them is not always triggered by rational criteria only.

Figure 2.3. Potential behavioural factors undermining the uptake of audit recommendations

<i>Auditing is principally a matter of human judgement</i>	<i>Auditors are influenced by social norms</i>	<i>Auditees too are subject to behavioural barriers and biases</i>	<i>Audit reports may fail to motivate auditees</i>	<i>Auditees attention is limited</i>
<ul style="list-style-type: none"> Cognitive biases (e.g. confirmation bias) can undermine auditors' professional judgement – this can be perceived by the auditees and delegitimise the recommendations 	<ul style="list-style-type: none"> Informal norms within the SAIs may provide incentives to tailor reports following internal dynamics and not considering the auditee's needs 	<ul style="list-style-type: none"> Cognitive biases and perceptions of the auditees can undermine their acceptance of the audit reports Perceived unfairness in the auditing process may undermine the auditees' inclination to trust the auditors, to accept the findings and implement the recommendations 	<ul style="list-style-type: none"> Audit recommendations, if not presented adequately or failing to assign clear responsibilities, may fail to motivate public managers to act or allow for diffusion of responsibility Aggressive monitoring or follow-up can undermine the intrinsic motivation of auditees 	<ul style="list-style-type: none"> Overly complex or too many observations or too much information may cause decision fatigue, a negative attitude towards audit or the ability to see the relevance of the audit reports

The qualitative analysis carried out in Chile confirmed several of the potential underlying behavioural barriers and biases suggested in Chapter 1. In particular, the following three challenges contribute to explain the rate of implementation of the observations included in the audit reports in Chile and will be discussed in more detail in the following subsections:

1. The quantity of observations undermines their implementation and can trigger decision fatigue and a negative attitude towards audit in general.
2. Perception of unfairness by auditees and weaknesses in communication between auditors and auditees can undermine the willingness to address audit findings.
3. Heads of services and public management in the audited services show low levels of interest, ownership and motivation with respect to addressing the audit results.

The quantity of observations undermines their implementation and can trigger decision fatigue and a negative attitude towards audit in general

A major and consistent finding evidenced by the interviews with different stakeholders relates to the quantity of the audit observations. Too many observations are causing attention bias. In part, the legalistic nature of the compliance audits carried out by the CGR inherently may tend to lead to a higher number of observations, as it is difficult to leave out even minor legal issues and because there is a challenge to assess the relevance of observations related to non-compliance with regulations or procedures. However, the quantity of detailed observations makes it difficult for auditees to see the bigger picture. While the characterisation of observations according to their complexity helps to classify the observations and therefore could contribute to make the list of observations more “digestible” to auditees, a recurrent reason for the backlog in addressing observations mentioned by stakeholders still was related to the quantity of observations, which is exacerbated by capacity constraints.

A high concentration of observations in certain services may affect the uptake of audit reports

The data provided by the CGR indicates a relatively high level of saturation of some audited services when it comes to observations. The average number of observations per audit report that were included in the follow-up process during the period between 2015 and 2020 was of approximately 5, with a standard deviation of 7.30, which shows that there are significant differences between audit reports. Likewise, the average number of total observations included in the follow-up process per audited service in the period analysed was 28. In the available dataset, the entity with the most observations had 371 observations, while many had only one observation. On average, approximately 25% of the audited services received more than 30 observations, accumulating 69% of the total observations. This shows a relatively high level of concentration of observations on a small group of audited services. As one official mentioned in the interview: “*Mentally, a high number of observations is difficult to digest... it is better to have fewer than too many observations.*”

This concentration creates significant work to the internal audit areas of these services in addition to the work defined in their annual internal audit plan. Despite the fact that the 592 services, which concentrate most of the observations, are responsible for 74.4% of the recommendations corrected, they are at the same time responsible for 79% of those which have not been corrected. Significantly, 78.6% of the observations that have not been addressed, have been issued to the entities already showing the highest concentration of observations. Therefore, the higher the number of audits, the lower the percentage of uptake of observations. This seems again to indicate a relatively high burden of work related to the follow-up and implementation of the audit observations and could contribute, amongst other factors, to explain the low levels of implementation. Table 2.3 evidences the fact that the 20 municipal services and the 20 non-municipal services exhibiting the highest numbers of observations are respectively responsible for 9.9% and 8.3% of the number of unaddressed observations. In other words, around 2% of the services (40 out of 1931) are alone accounting for 18.2% of the unaddressed observations.

Table 2.3. Share of unaddressed observations by the most congested services

Share of the 20 most congested municipal services	
No. of unaddressed observations	Share
2 189	9.9%
Share of the 20 most congested non-municipal services	
No. of unaddressed observations	Share
1 817	8.3%

Source: CGR, calculations OECD.

According to the CGR, two factors could explain the concentration of observations in a reduced number of services. First, some services could be more involved in interacting directly with citizens and may therefore be more prone to complaints and reports by the users of these services. However, the available data does not allow verifying this. Second, and more importantly, according to the CGR, services with a higher level of risk are more likely to be audited because audit plans are informed by risk analysis. In turn, the higher the number of audits, the higher the number of observations. As such, there could be a vicious cycle leading to a “concentration trap” of audit observations in certain services. Indeed, given that the CGR uses the non-implementation of the required corrective actions as an indicator to rank the services and to inform the audit plans, the saturation of observations could generate a low implementation rate, which in turn makes the services even more susceptible to new audits, leading to even more observations.

Capacity constraints and weaknesses at the level of services could exacerbate this vicious cycle. Services with weak capacities may also be particularly vulnerable to errors, mismanagement and imply higher risks of fraud and corruption. Therefore, these entities may be subject to more audits and thus more observations, stretching the capacity constraints even further. In particular, weaknesses in the internal control system may lead to more observations. In one interview, an internal auditor mentioned that “quite a few observations could have been prevented through a better internal control system.” In turn, it was reported that entities that are well staffed tend to have higher compliance rates with observations within the stipulated deadlines and are also the entities that most likely are to contest the criteria used and observations issued in the reports.

Interviews indicate that these findings may be particularly relevant for some municipalities. In fact, data shows that municipalities have the lowest degree of uptake of observations. During the interviews, it was mentioned that small municipalities often have not yet adapted to new challenges to public management and that they suffer from high staff rotation and low technical capacities. These capacity constraints can lead to errors in processes and management and later to audit observations and a higher probability of being audited again. In turn, a high probability of being audited or having been audited several times causes a greater negative predisposition towards external control. This may unconsciously influence the priority public managers give to take corrective actions.

The interviews conducted confirm that a large number of observations in some services both at national and municipal level generates saturation especially in the internal control area. This accumulation and the impression of being trapped in a high level of observations could trigger or reinforce adverse reactions to the auditing process and the reports in the audited services. In some services, staff of the internal audit areas are reportedly dedicated full time to answering to the observations issued by the CGR and to following up internally that these observations are being addressed by public managers. Interviews emphasised that the staff and resources dedicated to reacting to the observations are missing to carry out internal audit work that could lead to preventing future observations and achieve other improvements.

Amongst internal audit areas, there is a feeling of having to neglect “own” work to carry out work created by the CGR, while at the same time feeling that the CGR does not recognise enough the efforts they undertake. Of course, services with many observations have to dedicate significant efforts and resources to follow them up and to take corrective actions. Despite dedicating staff and resources exclusively to following-up and responding to the CGR observations, auditees indicated that in many cases, it is not possible for them to deal with all observations on time (see also below). Overall, some internal audit areas expressed during the interviews that they sometimes feel left alone with the burden imposed by the audit reports. They stated to welcome more continuous support and guidance by the CGR; also outside the Compliance Support Programme (PAC).

Misunderstandings and communication failures can lead to include observations in audit reports that could have been avoided

Communication can affect the quantity of observations. Interviews reported that poor communication by auditors during the audit or the lack of clarity in what the auditor expects from the public managers sometimes leads to misunderstandings. For example, the public manager may provide information or responses that are not the ones expected by the auditor. This, in turn may lead to observations that could have been avoided by a better communication on the spot.

Moreover, this lack of communication and feedback perceived by auditees during or right after the auditing process can bring along additional undesired effects. For instance, when receiving the pre-report, where the auditees “discover” the audit findings for the first time, public managers have expressed to feel frustrated when reading observations that, according to them, could have been addressed easily during the audit if the communication with the auditors would have been more open and fluid. Similarly, confirming the concern expressed by public managers, the Directors of Internal Control and Internal Auditors reported that unnecessary stress is caused because some observations are based on issues that could have been resolved before they were issued, if they would have been consulted.

This situation creates frustration, exacerbated by the fact that the interaction between internal audit areas and the CGR takes place mainly after the CGR issued the audit report. This creates a sense of powerlessness. Auditees spend time and effort on addressing observations that could have been avoided or on which there is a disagreement that could have been raised and clarified earlier. Overall, interviews indicate that internal audit areas are not sufficiently and proactively involved and consulted during the audit process.

Informal norms within the CGR drive the behaviour of auditors towards including more observations and being strict about maintaining them

Auditors in Chile, as elsewhere, are guided by relevant laws and regulations as well as by professional standards and values. However, as human beings, their behaviour is also influenced by social norms that are not always aligned with the formal rules. The interviews conducted with both auditees and the CGR indeed found that there is to some degree an internal culture in the CGR that pressures auditors to include a large number of findings in the reports. Reportedly, a “good” auditor is an auditor able to detect many issues and thus observations.

This, in turn, not only contributes to the quantity of observations but also affects potentially their quality, as not all the observations may be relevant. In addition, at times, the auditors are reportedly also reluctant to “drop” observations in the face of new information presented by the auditees, since that could be considered as “soft” or not objective. Overall, this can cause discomfort in the auditees and make it difficult for them to focus on what really matters and is urgent.

The phenomenon seems to be related entirely to social norms that are shaping the organisational culture. It is important to emphasise that there is indeed no formal requirement in the CGR that sets incentives for such a behaviour by the auditors. One interview partner mentioned that there could be a generational aspect to the issue, as auditors that are more senior are more likely to have been exposed to a more “severe” approach to auditing. Younger auditors entering the CGR may be aware of a more modern, client-oriented approach to auditing, but are likely to adapt to the behaviour that is expected by them by more senior auditors and what they observe amongst colleagues.

Perception of unfairness by auditees and weaknesses in communication between auditors and auditees can undermine the willingness to address audit findings

Audit criteria are perceived to be unequally applied across the public administration, which can generate a sense of unfair treatment

Perceived unfairness in applying audit criteria can generate defiant reactions of auditees towards the audit reports as well as undermine their acceptance of audit findings and thus their willingness to take corrective actions. Interviews in Chile showed that public officials that have worked in different services and therefore have a certain comparative perspective, perceive or believe to have experienced that audit criteria are not the same everywhere and that audit processes are not sufficiently standardised. While the CGR has made important efforts to standardise audit criteria, it is also true that the context varies and that each audit process is different, which in turn may lead to the perception of unequal treatment.

For instance, according to the interviews conducted by the OECD, transversal audits of the same services across regions have reportedly led to different conclusions and therefore observations, which could indeed lead to the perception of an unequal use of audit criteria. In addition, reportedly, in some cases auditors write observations concerning an issue that has not been raised elsewhere in an otherwise identical process. Such a perception of “unfair” audits can contribute to creating a general sense of an unequal treatment by the CGR and trigger counterproductive reactions by the auditees, providing justifications to dismiss actually well founded observations.

Uncertainty with respect to the publication of the audit report and perceived tight and inflexible deadlines imposed by the CGR create stress and frustration

Auditees mentioned tight and inflexible deadlines several times during the interviews. The remarks concerned both deadlines for requests during the auditing and deadlines related to addressing the observations issued in the reports. First, public managers and internal auditors flagged that short deadlines for responding to requests from CGR auditors during the on-site audit activities may sometimes lead to unsatisfactory responses because of time pressure. Again, similar to – and in addition to – the lack of communication and feedback already mentioned above, public managers reported that the time pressure sometimes lead to observations that could have been avoided. Managers and internal audit staff reported that discovering this when receiving the pre-report was creating some level of frustration.

Second, auditees expressed that deadlines can be too short to respond with due care to some observations or that it may even be impossible to comply with some deadlines. It is relevant to note that the deadlines for taking corrective actions never exceed 60 working days, which may be more than enough time to address many observations, but indeed not enough to deal with others. Especially public managers perceive the deadlines for addressing the observations as not realistic or not adapted to the reality of the public administration. They reported that the deadlines do not take into account the nature of the activity related to the observations or the available capacities to address them. For example, they mentioned that some processes related to construction contracts or disciplinary proceedings may de facto take longer than the deadlines imposed by the CGR. In addition, responding to the audit observations sometimes may require a significant amount of internal co-ordination and/or internal requests for advisory or concepts from the legal department. Both internal co-ordination and internal legal requests can take time. In addition, interviews with public managers flagged that many management processes are dynamic and change over the course of the follow-up process so that deadlines are not achievable or require a large investment of time and resources.

These deadlines that are applied uniformly and are not flexible to adapt to the specific cases and circumstances, together with the time pressure coming along with deadlines that cannot be met, negatively affect the quality of the follow-up by auditees. This, in turn, may lead to new requests by the CGR, creating more pressure. As mentioned previously, public managers and internal audit areas face situations of attention bias and decision fatigue because of the amount of work and the responsibilities that comes along with the process of following up on audit observations. Coupled with the deadlines, the work can create stress, especially if meeting the deadline is impossible and may lead to leaving “normal” work undone, as significant part of resources have to be dedicated to responding to the CGR.

The frustration related to the deadlines for taking corrective actions are exacerbated by the fact that the time span between the on-site audit activities and the reception of the audit report can be long (often more than a year) and may vary significantly, making it virtually impossible to predict when the report will arrive. In addition, auditees perceive that the CGR does not announce with sufficient anticipation the audit report (or the pre-report, for that matter). Indeed, this uncertainty was emphasised by public managers and internal audit staff as it creates difficulties to plan follow-up and generates stress. Public managers reported that this uncertainty does not allow them to plan their time accordingly, with the result that the audit report sometimes coincides – and conflicts – with already planned activities.

The way audit reports are drafted and the relationship between auditor and auditee may nurture a negative attitude of the auditees towards the CGR and the observations

Misunderstandings and failures in communication may not only contribute to the quantity of the observations, as mentioned above, but also and in particular to their acceptance. Interviews indicated that especially heads of audited services and public managers sometimes lack an understanding of the standards and criteria used in the audits or are not able to correctly understand and assess the relevance of the observations. The technical and legal language of the audit reports, reinforced by the current social norm in the CGR described previously, may exacerbate this, making it at times difficult to understand for non-auditors or non-lawyers. In addition, the nature of the compliance reports may imply that the CGR does not dedicate sufficient space to give credit to auditees for progress and positive actions taken. In fact, more often than not, such a positive perspective is lacking entirely.

From a behavioural perspective, both aspects could generate fatigue and a negative attitude towards the audit reports. If the first impression of a report is negative, it is likely that everything that is associated with it will be perceived negatively as well. In particular, it may negatively frame the attitude towards the observations contained in the audit report making it less likely that auditees will handle them with due care.

On a more diffuse level, it was reported that the CGR often still generates fear amongst public managers and, consequently, sometimes aversion against auditing processes. While most interviewed auditees agreed that the CGR has improved and that efforts are being noted to come across less distant and severe, the CGR still seems to struggle in being perceived as a partner or as supporting management. Again, the social norms described above could undermine efforts by the CGR to improve the relation between auditors and auditees. While auditors of course have to maintain their independence and stay at arms-length from the auditees, the de facto severe attitude reportedly contributes to negative associations with audits and, as a consequence, with the audit reports and the observations.

Heads of services and public management in the audited services show low levels of interest, ownership and motivation with respect to addressing the audit results

Some interviews pointed out that heads of services and public managers of the audited areas often are not exhibiting strong levels of commitment, ownership and motivation in relation to the audit process and its results.

In part, this certainly could be explained by the fact that non-compliance with audit observations seldom leads to sanctions in Chile. In most cases, the CGR follow-up units simply assign a new deadline to the auditee to address the concerned observations. Only when audit observations are of high public visibility, when senior managers are involved or when there was a harm to public patrimony, failure to comply could lead to disciplinary procedures. However, in Chile, such sanctions are reportedly rather exceptional and even if applied, public officials perceive them as rather weak. On the one hand, the process usually takes a long time. On the other hand, the CGR can only propose the sanction, which needs to be ratified and applied by the public entity, where the sanction is often either lowered or completely dismissed. Consequently, interviews indicated that non-compliance comes along with little consequences and as such low risks for the responsible public managers.

However, beyond a lack of perceived pressure, interviews revealed other aspects that contribute to explain the low level of interest, ownership or motivation of auditees with respect to audit reports.

On the one hand, at the highest level, heads of service have to set priorities and cannot be involved in all operational details of management. While the heads of services are formally responsible for the corrective actions, many observations are arguably too technical to be interesting for them or are perceived as not relevant from a strategic perspective. Interviews emphasised that heads of services typically become interested in audit reports if these are politically relevant or if they seem to indicate corrupt practices in their entity that could affect their reputation, the reputation of the entity or could lead to potential sanctions. Nonetheless, even if it is reasonable that their interest focuses on strategic or high-level issues, the lack of leadership with respect to audit reports could signal within the entity that they are of low priority. Interviews also indicated that where there is a fluent and trust-based relationship between heads of services and internal auditors, the follow-up process of CGR audit report becomes easier. Then, public managers in the entity see that audit, whether internal or external, is taken seriously at the highest level.

On the other hand, at the level of public managers who are directly involved in or have the direct responsibility over the audited processes, similar aspects were highlighted during the interviews. First, public managers also perceive many observations as too legalistic or too technical. In addition, they may lack awareness concerning the benefits – for them – resulting from taking corrective actions.

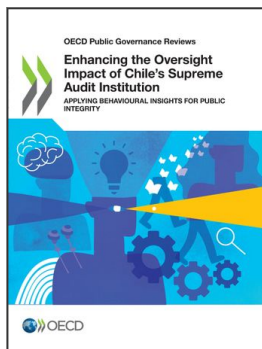
Second, interviews emphasised that high levels of staff rotation may affect the follow-up of audit reports by public managers. While more acute at municipal level, this can also be observed at the central level and is exacerbated by the fact that many public employees are contracted for a year, with possible extension (“*contrata*” regime), or contracting for specific services that in theory should not be maintained over time (“*honorarios*” regime) (Dirección de Presupuestos, 2020^[5]). In one interview, it was mentioned that these changes in personnel imply many times that the public manager who receives the audit observations is not the same manager who was audited. The often large time gap between the audit and the issuing of the audit report already mentioned above exacerbates this issue.

This comes along with two challenges. On the one hand, the new managers may not feel concerned and feel no ownership of the observations in the report. They feel that the observation is addressed to the previous responsible official and thus provides a room to rationalise non-action by saying that this was not under their responsibility. On the other hand, more practically, this situation sometimes creates issues in the ability to address efficiently the observations, as the institutional memory has been lost with the manager that left the position and that it may be difficult and time consuming to obtain the information that may date back several years. Beyond staff rotation, this issue is also related to weaknesses of internal information management and the archives of the services.

Third, as mentioned above, the interaction of public managers with the audit teams from the CGR is usually quite limited. Internal audit staff as well reflected during interviews that they may not engage public managers enough and in a pro-active way. As such, CGR audits may simply not be salient for public managers and compete with other priorities and challenges in their day-to-day work.

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