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Exploring Local Government Auditor Management Letter Practices: Linking Transparency and Accountability

ABSTRACT

In the public sector, a fundamental question persists: Does transparency lead to accountability? An agency theoretical perspective would suggest that the reduction of information asymmetry through disclosures by the agent (the government) to the public (the principal) leads to accountability, i.e., governments performing in the best interests of the citizenry. In this study, we explore the variation in U.S. states' requirements for disclosure of communications between the auditor and their local government clients, information which, following U.S. generally accepted auditing standards (GAAS) would otherwise be confidential and therefore unavailable to citizens. We apply both the transparency dimensions of: (1) opaque, (2) passive, and (3) active, and the accountability dimensions of: (1) inward (2) upward/vertical, and (3) outward/horizontal accountability, and find that States vary significantly in their requirements for the disclosure of this information. Through qualitative methods, including interviews with stakeholders in the audit process, our study draws attention to this unique setting and more broadly the potential risks associated with reducing information asymmetry through required disclosures as a means of achieving accountability. Although the disclosure of this communication beyond its intended audience may have some merits (i.e., the public's right to know), failure to consider the plurality of citizens, their ability to consume this information, and the potential misuse of this information threaten the intended gains in accountability.

Keywords: accountability dimensions, transparency dimensions, disclosure, private auditor-client communications, management letters, local governments audits