

A PLAGUE OF AUDITS

by

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THE MEANING OF AUDIT

*“If you suspect my husbandry of falsehood,
Call me before the exactest auditors
And let me on the proof.”*

William Shakespeare, Timon of Athens

Audit:

1. *“A hearing: a judicial examination or hearing of complaints.”*
2. *“An official examination of accounts with verification by reference to witnesses and vouchers.”*

Oxford Dictionary

Audit is as old as the hills. It is the sibling of distrust and temptation.

My own personal collection of audit ticks dates back to 3500BC. The records of the Mesopotamian civilisation of the time show marks at the side of the numbers of financial transactions: one scribe prepared the figures, another verified that scribe’s assertions.

Auditors observed the construction of the Great Wall of China. They counted the blocks used to build the Pyramids. They criticised the labour costs of Stonehenge. The Ancient Greeks used slaves as record-keepers since they regarded torture as a more effective audit interviewing technique than questioning a freeman under oath. Roman ‘Quaestors’ (“Enquirers”) examined the accounts of provincial governors to detect fraud, gross error and the misuse of funds.

Of course we owe the word “auditor” (“listener”) to the Romans, and the records of 12th century Norman England provide a wealth of detail of the ‘**hearing** of the accounts’ in those times.

Local sheriffs collected royal income arising within a shire (an administrative district) – rents, levies, scutage (a tax paid in lieu of military service) and debts due to the King. The sheriff’s account was rendered yearly, normally at Westminster. The sheriff sat at one end of a table marked out in squares, like a chequer board, and counters were placed on the squares to designate amounts taken into account. The Lord High Treasurer sat at the other end, whilst at the sides were observers, men of substance and integrity, who listened to the proceedings and heard and settled any disputes arising – the auditors.

(The room and the accounting system used became known, because of the table, as the Exchequer. In passing, it is worth noting the system of duplicate, double-entry government accounting using wooden tally sticks [feuilles and contre-feuilles]. These were used until 1834. Then the tallies that had accumulated over the years were fed into the furnaces which warmed the House of Lords. The flues over-heated and the Houses of Parliament were burnt down. This is as near as any accounting system has ever done to setting the Thames on fire.)



So, historically, auditors have been concerned with accounts, accounting and accountability: the audit is the day of reckoning,

“He does behave like one ... who is hasting continually to his final audit”.

James Hervey

But do auditors still count?

THE AUDIT EXPLOSION

“If someone does it, someone else is probably auditing it”

from “Besieged by Number-Crunchers”

Michael Power, Independent Newspaper, April 1994

Over the past few years, millions of people have found themselves for the first time subjected to audits. During the late 1980’s and early 1990’s, the word “audit” began to be used with growing frequency in a wide variety of contexts. In his books “The Audit Explosion” and “The Audit Society”, Power ponders on the cause of this outbreak and expresses disquiet about the possible effects of the combined weight of checks. *“As well as financial audits there are environmental audits, value for money audits, management audits, forensic audits, data audits, intellectual property audits, health and safety audits, democracy audits, audits for doctors and professors, teachers and police – and many more besides.”*

The reasons for the ‘explosion’ are many:

- high profile corporate failures and individual malpractice
- a decrease in trust and confidence for this and other reasons
- an increase in business and organisational complexity and structural changes such as greater delegation
- the concern for standards and the proliferation of standard-setters, regulations and regulators
- the emergence of a much more risk-aware society
- the acknowledgement that audits are a necessary element of the cycle of responsibility, performance and accountability: the price of an increasingly open and transparent democratic society
- the aspirations and development of professional vocations, such as internal auditing
- emerging issues and disciplines, such as social and ethical accounting, reporting and audit.

There is a direct correlation between audit and confidence. As the latter declines, because of reported failures, falling standards, organisational change or whatever, so the demands for additional assurance, protection and audit rise.

In the last few years, the growth has continued apace. The public service and regulated industries have witnessed an inexorable increase in inspections. Following Cadbury, the Combined Code and



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Turnbull, the homilies of governance can be heard echoing in board-rooms throughout the land – and beyond our shores.

Soon there will be more auditors than people doing a real job. The word ‘audit’ has entered the vocabulary of common parlance, representing any reasonably objective and thorough appraisal of an activity, representations or state of affairs.

There obviously is a cost to all this auditing. A cost (not just financial) that many believe to be excessive and disproportionate to the benefits. Others point to the disruption and argue that audits stifle initiative and induce a play-safe attitude. There certainly is a risk of over-auditing, and an over-reaction to well-publicised but exceptional scandals. The story of the factory manager who on Monday welcomed the external financial auditors, on Tuesday tolerated the internal audit team, on Wednesday fretted and quibbled over the findings of the quality auditor, on Thursday lambasted the trainee health and safety auditor, and on Friday blew his top at the environment auditor since he no longer had time to prepare for the factory inspection the following Monday, the EU delegation on Tuesday, the BSI visitation on Wednesday, the Control Self-Assessment exercise on Thursday and the completion of the post-audit questionnaires on Friday – is no longer apocryphal.

Problems of co-ordination, overlap, duplication of effort, and consistency are inevitable.

And it is confusing, apart from anything else. Especially as boundaries between audits are becoming blurred, auditors start to hunt together in packs, and disciplines seek to expand their expertise and empires. And watch out for the Risk Advisers. Their numbers are swelling and their organised movement becoming a force to reckon with.

So Elbert Hubbard, the American humourist was wrong. Population control of auditors is as difficult as that of pigeons in Trafalgar Square:

“The typical auditor is a man past middle age, spare and wrinkled, intelligent, cold, passive, non-committal, with eyes like codfish, polite in contact but at the same time unresponsive, calm and as damnable composed as a concrete post or a plaster-of-paris cast; a human petrification with a heard of feldspar, and without charm, minus bowels, passion or a sense of humour. Happily, they never reproduce, and all of them finally go to hell.”

Elbert Hubbard 1922

“The Buyer”

There are more auditors in China than there were visitors to the Millennium Dome.

A TAXONOMY OF AUDITS

“In God we trust. Everyone else we audit.”

Audit Axiom Number 1



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Classifying audits is not easy. Often there is an overlap between the different types, and firm lines of demarcation cannot be drawn. Authority, duties, rights may be derived from statute, regulation, standard or organisational discretion. Some auditors (eg internal audit) have significant powers of self-determination. Boundaries are expanding and lines shifting. (“Horizons Unlimited” is one of the maxims of the Institute of Internal Auditors.) Beneficiaries (victims?) vary.

But broadly an initial classification can be made into (i) **external audits** – ie performed by authorised independent external persons, for the benefit of outside stakeholders, and (ii) **internal audits** – conducted at the instigation of and for the benefit of the organisation. Confusingly, these may be undertaken by external consultants and may not be wholly voluntary (eg an internal environmental audit may be a requirement of a regulation or the condition of some scheme such as ISO 14000 or EMAS).

Within this broad dichotomy, the attached chart (whilst not claiming to be comprehensive) analyses the broad gamut of audits, inspections and reviews into the following categories:

External

- Statutory external audit

Internal

- Professional internal audit

External and internal

- Specialist and single-issue audits
e.g. IT, quality, health and safety, environment, security, social and ethical, contracts, payments
- Sector-specific
e.g. academic and clinical audits, bank inspections
- Inspections and reviews
by or on behalf of Head Office, regulators (FSA, OFSTED and the rest, Best Value Inspectorate for local government), standard-setters (BSI, ISO), funding bodies (including the European Union), professional institutes; and internal functions such as compliance, quality control, post-implementation reviews, project audits, and various verification checks
- Ad hoc
special investigations, eg fraud; in-depth studies including energy audits and value for money exercises
- Consultancy
not strictly ‘audits’, but many auditors offer such services and the more constructive type of appraisals sometimes advance beyond independent appraisal and fact-reporting into practical advice and assistance
- Self-regulation
including peer reviews and control self-assessment



- The rest
any other form of reasonably independent and rigorous appraisal and verification.

Often, it is extremely difficult to draw distinctions between controls (external regulation or elements of the internal control framework), inspections (which may be part of a control system but may have a degree of independence), and truly independent audits. Terminological and linguistic problems make it even harder. A glossary of types of audit is attached, if it helps.

THE PURPOSE OF AUDIT

“Without audit, no accountability. Without accountability, no control. And if there is no control, where is the seat of power?”

Professor MacKenzie in his introduction to Dr EL Normanton’s 1966 treatise “The Accountability and Audit of Governments.”

“You are expected to find a fraud from time to time.”

District Auditor to newly qualified auditor, 1951

The aims of audits and their characteristics are as diverse as their types. But, within the broad range, some common features and sense of purpose can be discerned.

At heart, audits are an **attestation** function: they aim, with varying degrees of independence, to verify claims and the state of affairs, lending **credibility** to assertions, providing **assurance** to some third party (or those audited), and **drawing attention** to misrepresentations and improper transactions, be they in the form of deliberate deceit, honest mistake, sharp practice, or neglect.

Traditionally, audits have been **historic**, examining and reporting on past deeds. Any many audits are still concerned with the ‘ex-post’ verification and certification of the completeness, accuracy, validity, legality and proper form of transactions and statements.

Some auditors had strong powers, including disallowance and punishment. The **surcharge**, for example, a personal levy once exercised directly by District Auditors against individuals deemed guilty of illegality, failure to bring sums into account, or wilful misconduct, still survives through the courts as a form of restitution of sums lost to a local authority.

The most famous recent case was that involving Dame Shirley Porter and five other councillors of Westminster City Council, who were deemed in May 1996 to be liable for a surcharge of £31.7 million for ‘gerrymandering’.

One of the councillors earlier accused by the auditor, who in his spectacles and grey suit seemed to epitomise the calculating, hard-hearted auditor, committed suicide.

In 1886/7, the local government auditors made 3500 disallowances of expenditure. Many related to “outlays for feasting and drinking by officers and members..... at public expense.” In 1881



disallowances included the gas-powered illuminations displayed in celebration of one authority's Chairman's wedding day.

The financial audit, be it external or internal, has traditionally been employed to root out fraud:

“The object of an audit may be said to be three-fold:

- (1) THE DETECTION OF FRAUD*
- (2) THE DETECTION OF TECHNICAL ERRORS*
- (3) THE DETECTION OF ERRORS OF PRINCIPLE”*

Dicksee's "Auditing", 1892

In truth, there has always been widespread debate about the primary purpose of the **external financial audit**. Examination of the many editions of Dicksee's classic text indicates that the detection of fraud remained a primary objective until well into the 20th century, when it became secondary to the provision of an opinion on the financial statements. However, there is plenty of evidence to suggest that financial statement verification was regarded as a principal aim much earlier in the 19th century, and the misappropriation of assets only became the main concern as a consequence of the wave of corporate collapses at the end of the century.

In the USA, the 1912 edition of Montgomery's "Auditing" stated categorically that the primary objective of auditing is to ascertain *“the financial condition and earning of an enterprise for various parties.”*

Despite legislation, case law and professional audit standards, the problem persists. This issue of confusion over the objectives of audit has been described in terms of an 'expectations gap' (see later). In this case, the gap is between what the public expects (the detection and disclosure of fraud), and what auditors claim to be delivering (an opinion on the financial statements based on suitably vague notions as 'truth' and 'fairness'). Until recently, audit practitioners (acutely conscious of their potential liability if they overlooked significant fraud) claimed that the problem lies with the misunderstanding of the public – and that the primary responsibility for fraud prevention and detection lies with management. And in practice, the cost of searching for fraud would make audits uneconomic. Lately, however, a more mature view is being expressed.

Internal auditing was similarly originally seen as a form of continuous check and a powerful deterrent against error, non-compliance and irregularity.

*“An internal audit may be defined as an organised arrangement for securing a continuous and thorough check upon the financial transactions. It should be regarded as supplementary to, and not in substitution for, an annual or independent audit..... Internal audit has been devised to enable the responsible financial officers to be assured that all **details** in connection with the accounts are in order The presence of the internal auditor acts as a moral influence on the staff and promotes efficiency by compelling the members to keep the books of account entered up-to-date.”*

Audits of Local Authorities
Bedford, 1936



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Bedford contended, without fear of contradiction, that “*internal audit is established with a view to the detection and prevention of frauds, either of money or materials, in addition to the detection of errors and omissions in accounting practice and principles.*”

However in 1947, Earle H Cunningham, General Auditor of General Motors Corporation in Detroit, displayed a broader and more progressive set of beliefs in internal auditing as a management service.

“In the early days of financial accounting when record keeping was largely a pen and pencil operation, performed by clerical help of limited ability, it was found necessary to employ someone to follow along behind the constructive accounting to ferret out the many clerical errors, common to that era of business, and to bring them to attention for corrective action.

Because the systems of internal control and internal check were not as highly developed as they are today, it was also necessary to have someone guard company values, and detect misappropriation of assets. About all that one needed in order to qualify for this type of work was a superior skill in mathematics, a magnifying glass, and a calabash pipe.

This simple activity of policing company values and the clerical routines was termed “internal auditing.....”

Today, however, when organised in accordance with modern concepts, it is an important staff agency of invaluable worth and it is not only a policing agency but an indispensable service agency.....

The ways in which the internal auditor may serve management, beyond the scope of a mere policing service, are only limited by his own ingenuity and the support received from his principal. Properly organised the internal auditing department becomes an essential factor in keeping management posted on the state of business, and in bringing to attention all material facts necessary to the successful conduct of the business, that might not otherwise receive consideration.”

from The Essentials of Internal Auditing
Earle H Cunningham, General Auditor, General Motors, Detroit

In 1947, the Institute of Internal Auditors, founded in the USA in 1941, issued its first Statement of Responsibilities for internal auditors. It took a bold step forward by showing the auditor’s concern for “*matters of an operating nature*”, yet the emphasis was still on accounting and financial matters. But as the years passed, the focus on accounting diminished and references to audits of operations and issues beyond fraud and error became more prominent.



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Although even in 1985 we find:

“Internal auditors are the first line of defence when it comes to detecting and deterring fraud.”

Representative Ron Wyden, Member of US Congressional Oversight and Investigations Sub-Committee

The latest, 1999, IIA definition describes a function that no traditional auditor would recognise.

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Institute of Internal Auditors
June 1999

This is not to deny the importance of financial systems, controls and statements. However, as the 1999 UK Turnbull Report on internal control highlighted, in the context of corporate governance, there are many challenges and things that can go wrong in an enterprise. The modern internal auditor, for example, is just as concerned with reputation risk as the possibility of malpractice, with poor decision-making, as errors in the financial records, with the security implications of e-commerce, as the accuracy of the payroll.

Internal auditors audit the things that matter. The days of auditing the petty cash are long gone.

There will always be a need for an **external audit** of the financial affairs of an organisation for stewardship purposes. The creation of public limited companies in the nineteenth century and the separation of ownership from management heralded the beginning of ‘professional’ external audit and recent events such as the Maxwell, Barings, BCCI, Wickes, Independent Insurance and other affairs serve only to highlight its continuing importance – and its imperfections.

But in the public sector in many countries, the scope of external audit also goes beyond financial, compliance and ‘regularity’ issues to encompass value for money (economy, efficiency and effectiveness), examined through ‘VFM’, ‘performance’ or ‘operational’ audits.

The US General Accounting Office (GAO) in 1972 issued *Standards for the Audit of Governmental Organizations, Programs, Activities and Functions*, and in so doing introduced the concept of “Comprehensive Auditing”, consisting of three levels:

- financial and compliance audits
- efficiency and economy reviews
- evaluation of programme results (“effectiveness audits”)



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Back in 1948 Bedford described “*a modern development of audit procedure commonly called an ‘efficiency audit’.*” However he regarded this internal function as a form of work study applied to administrative operations:

“Its object is to test public administration not from the angle of ‘value for money’ alone but also from the point of view of organisation and method of carrying out the administrative duties of any department.”

Such structural reviews and examinations of work practices might today be called ‘management services’, ‘business process re-engineering’, or occasionally, ‘functional audit’.

References to ‘management audit’, in its various guises (ie audit as a management tool), can be traced back to the 1930’s.

For obvious reasons audit has been seen as having a significant contribution to make in the public service. Lloyd Hara, Auditor of King County in the US, wrote in *The Internal Auditor* in September 1973: “*It behooves (sic) each local auditor to awaken to his true potential, prepare himself for it and take his rightful place in the scheme of things.*”

[Note: “*Auditress: a female auditor, 1667. Oxford Dictionary*”]

Hara continues:

“As he continues in these fields, the local auditor can expect to play an important role in

- *achieving greater accountability*
- *identifying cost savings to control taxes*
- *preventing potential corruption and fraud*
- *assisting in better decision-making*
- *improving government credibility.”*

The role of the traditional auditor was narrow and that of specialists and ‘single-issue’ auditors still is. But for many, because of circumstance, external influence or self-aggrandisement, the aims, scope and contribution are manifold. (“*The scope of internal audit is limited only by your own imagination.*” Keith Wade)



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Even in the relatively blinkered world of company external auditing, the additional value of the statutory audit has been recognised:

“An auditor is not to be confined to the mechanics of checking vouchers and making arithmetical computations. He is not to be written off as a professional “adder-upper and subtractor.”

Lord Denning, in 1958

It should be noted that

- it is not only auditors who perform audits, and
- auditors do not only perform audits.

Anyone, with suitable aptitude and guidance, can perform audits. And many do. I have trained vets (to review controls in the ‘Pets Passports’ scheme), company directors (who needed to pretend that they knew more about audit than their staff), hospital clinicians (in control self-assessment techniques) and many ordinary managers and officials who needed to acquire basic audit skills and techniques. And many things done by an auditor should in any case primarily be done by managers.

And as auditors get bored or power-hungry, need to justify their existence and add ‘extra value and sparkle’, seek additional fees or guard their empires and ambitions against the wiles of competitors, then scope (so long as buyers for their wares can be found or no objections made) tends to expand.

The scope of modern internal auditing for example covers the following six broad ‘control objectives’:

- Accomplishment of objectives, goals and targets for operations and projects to set standards of quality and performance
- Compliance with internal policies, plans, rules and procedures, external laws, regulations and obligations, and best (or most appropriate) practice
- Reliability, clarity, completeness, timeliness, usefulness of financial, operational and management information (and the integrity and completeness of the underlying records)
- Regularity of transactions and probity of conduct
- Economy in the acquisition and use of resources and efficiency in operations
- Safeguarding of assets, resources and interests against loss or harm.

As new forms of audit are created, no area or aspect of human activity is exempt from scrutiny.

Some modern definitions are so dissimilar to their predecessors as to depict a totally different activity. (*“Modern internal auditing is the process of negotiating with relevant stakeholders an acceptable level of risk”* – myself, again.)

So if the scope of audit ranges from accounting to any operational activity, auditors’ concerns stretch from irregularity to any risk, and their role starts with inspection but can be transformed into a plethora of services, can boundaries be placed, generalisations made and common features identified?



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If the word is to retain any intrinsic meaning, an attempt must be made. But even in 1941, the founders of The Institute of Internal Auditors were seeking to shake off the ‘nit-picking connotation’ of the term:

“You will recognise the unhappy inadequacy of the phrase ‘internal auditor’. Years ago it was probably satisfactorily descriptive of our earlier predecessors in the profession. But today, auditing in the precise meaning of the word, is only one of the functions of the internal auditor. Your organising committee gave much thought to the possibility of using some other phrase or term, and finally reached the conclusion that we must bow to historical precedent.”

John B Thurston

COMMON FEATURES

“But since many, not to say all, of these offices handle the public money, there must of necessity be another office which examines and audits them, and has no other functions. Such offices are called by various names – Scrutineers, Auditors, Accountants, Controllers.”

Aristotle (384 – 322 BC), Politeia

Despite the diversity, I’ll attempt a listing of the common characteristics of most ‘audits’:

- **Independent scrutiny**
(even internal ‘scrutineers’ should have a degree of independence, some more than others)
- **Monitoring and surveillance**
(the auditor as “watchdog”)
- **Rigorous and systematic examination**
(with tools ranging from crude check-lists and protocols to comprehensive professional standards and manuals and complex techniques)
- **The search for evidence**
(on which to base reasonable conclusions and any recommendations)
- **Due care**
(the display of appropriate standards of competence and professionalism, a sound audit process, and effective supervision and other methods of quality assurance)
- **Verification**
(the search for the truth)
- **Assurance**
(the audit opinion on the true state of affairs)



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- **Problem-spotting**
(the uncovering of deceit, error, non-compliance, irregularity, illegal acts, waste, inefficiency, poor value for money, or loss from any other cause)
- **Disclosure and reporting**
(formally communicating results, including the opinion, qualified where necessary, and significant issues arising from the audit. Often the auditor will also report on the approach to the audit, including compliance with professional audit standards)
- **Deterrence**
(the proper behaviour induced simply through the prospect of an audit).

This is where many ‘inspection-style’ audits draw the line. Others, however, of a more constructive nature, such as professional internal audits, stress a positive role: they highlight strengths and successes as well as creativeness and failures, and will go further to proffer **advice** – and even, occasionally, **assistance**. But this is where the boundaries become blurred and principles are at risk. Audit is essentially **non-executive**. It must not get too close to those responsible for the activities being audited (“*cordial but not cosy*” in the words of one Canadian Auditor General), should certainly **not** assume operating duties, and should ensure that independence and objectivity are not compromised. Involvement in systems re-design, problem-solving and the implementation of new procedures, whilst laudable and no doubt beneficial, could significantly prejudice impartiality and, with it, credibility. Thus there are many of us who are uncomfortable with the IIA’s 1999 definition of internal auditing as an ‘assuring and **consulting** activity’.

For many years external auditors and their clients and regulators have struggled (not always successfully) with the challenge of segregating audit from consultancy services, conceptually and structurally, and handling the apparent conflicts of interest that could arise if the two are entwined.

Mautz and Sharaf, in “The Philosophy of Auditing” (American Accounting Association, 1961) suggested that auditing had by then reached a state of maturity whereby it was capable of developing its own set of universal beliefs. Indeed they argued that a profession that lacked principle lacked integrity.

(External financial) auditing is described as:

“A critique seeking to attest the accountability and financial probity of other people, involving three fundamental procedures:

1. *Obtaining **evidence** from accounting and associated statements and records*
2. *Forming **judgements** and opinions based on the evidence gained, and*
3. ***Reporting** that opinion to interested parties.”*

(In passing, note that the commentators such as myself tend to try to depersonalise audits: we are making judgements about processes, not people; seeking to identify responsibilities, not allocate blame. Is this simply naïve?)



REACTIONS TO AUDIT

“ Vouchers, time-sheets, purchase orders, airline receipts and other minutiae of our advanced civilisation – such are the playthings of the modern replacement for the Devil – the Auditor.”

D Z Robinson

“The Dilemma of Accountability in Modern Government”, 1971

Emotions tend to run high when the ‘A’ word is used or visits are announced. Normal reactions include irritation, fear, distrust, loathing, confusion, anxiety, petulance and panic. It depends, of course, on what there is to find (a “gotcha” is the technical term for an audit finding), the purpose of the audit, the auditor’s behaviour, the attitude of the auditee, and expectations. Let’s face it, auditors do have a bad name.

Some auditors, of course, revel in this. Others desperately want to be loved. Many have to seek professional treatment to deal with their recurring identity crises and perceived role conflicts. Modern internal auditors, as we have seen, emphasise the role of audit as a valuable service to management and the organisation as a whole.

Those who suffer audits, on the other hand, may resent what they regard to be irksome and unnecessary meddling in their affairs:

The minutes of the Birmingham Board of Guardians reflect the great apprehension felt by many in 1844 about the proposal by the government to appoint independent auditors to audit the Poor Law accounts:

“On 23 April 1844 your deputation together with the deputations from Brighton, Bristol, Coventry, Hull, Plymouth and Southampton accompanied by Mr Dugdale and Mr Newdigate, Warwickshire MPs, Messrs Scholefield and Muntz, MPs for Birmingham, Lord Clive, Lord Harvey, Sir Walter James, Sir John Mannar (and numerous other listed MPs) proceeded to the Home Office and were received by Sir James Graham the Home Secretary. The attention of Sir James Graham was drawn to the proposed appointment of auditors with such extraordinary powers calculated to cripple the efforts of the Guardians, to deprive the representatives of their rights and give opportunity for improper interference in the government of the poor.”

Auditors inspired fear as well as loathing:



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A Mr Barraclough, a retired civil servant, recalled the days when a District Auditor, once appointed:

“was independent and answerable to no one This independence resulted in a tendency to autocracy; the district auditor was a little king. He sat on a raised dais and handed down decisions. The ‘quasi-judicial’ function of audit was much emphasised. This attitude lingered on a long time. I remember in the late 1920s when industrial depression was resulting in large and growing rate arrears, the DAs from Lancashire asked the old school DA for North Wales, Mr Easterby, what line he was taking in his district about rate arrears. “I have given instructions that there are to be no rate arrears”, he replied. There wouldn’t be! Many rate collectors in his district would pay the few arrears themselves, hoping to recoup them later rather than face the wrath of the auditor.”

A letter from a superannuated former clerk to an authority complains of physical and mental distress. He was of some longevity, and in replying to a request for a ‘life certificate’ he wrote complaining that he was feeling his years and unable to sleep:

“Much of my disability stems from the crazy antics of Auditors more than 50 years ago when, and for many years, all officials met with the most abusive, profane, brutal and inhuman treatment at their hands. The language of some would have won a prize at Billingsgate. Their usual attitude was that of a VERY bad tempered schoolmaster. One such Auditor was so horrible that the Council threatened to have the subject discussed in the House of Commons. The Clerk to the Council resigned because of it and said he would never again speak to a L G Auditor. In the end that Auditor was called to book for mutilating my General Ledger with livid green ink, saying the A/Cs were all wrongly built up and the Ministry saying I was right. He was dismissed. I received a personal apology from the Minister but that is poor consolation when so much damage had been done and recorded for ever”

Another inhuman beast narrowly escaped death at the hands of a tormented official who, a little drunk, threatened the Auditor but we saw the butt of the revolver sticking out of his pocket and relieved him of it in the nick of time.....“

You don’t have to be mad, a sadist and a masochist to be an auditor, but it helps.

Most auditors would regard themselves as beneficial catalysts for change. Traditionalists stress the deterrent effect – provoking proper conduct through fear. Others point to the lessons to be learnt from the discovery of past mistakes and the benefits of adopting audit’s ideas and recommendations. The modernists use various motivational techniques to encourage improvement and innovation.



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Commentators such as Power highlight the negative impact of audits – resistance, concealment, the games “auditees” may be tempted to play – or even just the effort of getting ready for a visit. Power points out the complexities and paradoxes: auditors are guardians of trust; their recent growth is in part due to the institutionalised distrust in the capacity of workers to behave properly and self-regulate the integrity and quality of their work:

“Assumptions of distrust sustaining audit processes may be self-fulfilling as auditees adapt their behaviour strategically in response to the audit process, thereby becoming less trustworthy”

This logic implies an ever-increasing spiral and ritualisation of audit, and the deification of auditors as the only people we can trust.

(Incidentally, the God of Auditing is Janus: he is two-faced, the deity of chaos, confusion and beginnings; he opens doors and personifies audit frustration as the minder of the Vestal Virgins.)

Another logic argues that the long-term aim of audits is to abolish the need for audit. Audit, so the quality gurus tell us, is a cost of failure. The worse things are (as Barings, Maxwell etc show) the greater the demand for audit. But as matters improve, in part the result of audit effort, so must the need reduce.

The philosophy of audit, and its impact on both auditors’ and auditees’ behaviour, is complex and beyond the scope of this paper. But for students of the inner dimensions of auditing, it is worth reading Power’s book. However it will make auditors even more depressed.

PRINCIPLES, PRONOUNCEMENTS, PRACTICES AND PERCEPTIONS

“Who says auditors are human?”
 Arthur Hailey
 The Money Changers, 1975

“ Out with the auditors, in with the innovators.”
 Sir Peter Kemp
 Accountancy Age, October 1997

“I’m just a soul whose intentions are good. Oh Lord – please don’t let me be misunderstood.”
 The Animals
 February 1965

Kemp argued that we are in danger of moving to an ‘audit society’ where risk in business is downgraded and those who ‘check’ receive better rewards and higher esteem than those who offer creativity and innovative ideas. Audit is an overhead, estimated to cost the public sector £1 billion in 1997. The money could be better spent. And should the best brains in the country be wasted in checking what others do – others who might have to use their own brains to out-wit the checkers, who themselves are becoming evermore ingenious in checking for deceptions and tricks? According to



Kemp, with reference to Power's book, audit "*sucks creativeness and action out of society*" – audits create a "*nervous, looking-over-my-shoulder, risk-averse*" attitude. So innovation suffers.

Yet most auditors would deny this. The concern, they would argue, is with demonstrably effective risk management – the rational identification, assessment and handling of risk, which includes seizing opportunities as well as avoiding problems. It is the **perception** of Kemp and others like him that is wrong.

There is no doubt that there are still huge perception and expectation gaps – the differences between what auditors used to do, what they do now, what people think auditors do, and what people would like auditors to do. ("*What can I do to help you?*" "*Go away!*") The proliferation of different types of audit, the transmogrification of earlier forms of audit, and the adoption of various, sometimes conflicting roles, doesn't help. And most auditors have been poor at marketing their wares.

It is worth explaining the gaps:

- **Principles**
These are the universal axioms, as far as they can be defined and accepted as generally valid and applicable.
- **Pronouncements**
The embodiment of the principles in standards, codes, authoritative commentaries, manuals, etc. They should reflect both current best practice and aspirations for the future.
- **Practices**
What auditors do. Practices may lag behind, or in some cases, be ahead of published pronouncements and professional or regulatory expectations. Practices vary – sometimes legitimately, within a framework of accepted principles, in order to meet particular needs, local circumstances and valid differences in interpretation and application. Specific practices will reflect the current state of development: some audit functions will be more mature and advanced than others. (Note my own classification of the four phases of internal audit development: Traditional, Conventional, Leading Edge and Off-the Edge.)

Some audit practices will be bad – or questionable.

"When the final [internal audit] report came out, I realised I'd got off scot-free.

They predictably criticised my position as head of both the trading floor and the back office: 'The audit found that while the individual controls over BFS's systems and operations are satisfactory, there is significant risk that the controls could be overridden by the General Manager ...'

Despite coming so close to the truth, they then backed down.

An indication of how lightly I'd escaped was contained in the introductory statement, which I read with my heart soaring: 'The main sources of evidence were enquiries made of key managers, primarily the General Manager. Key reports and records were reviewed but no detailed testing of these records was undertaken'."

Nick Leeson, "Rogue Trader"



- **Perceptions**

What people think of auditors:

“Parish auditor was ‘nit-picking’

The district auditor was a nit-picker say parish clerks in the wake of Shoreham Parish Council’s decision to suspend its officer for alleged irregularities.

After hearing of the fate of their colleague and a number of anomalies found in normally exemplary accounts, most said their work had been scrutinised beyond belief.

Dorothy Evans, town clerk for Westerham, said ‘It was a blooming cheek. The auditor caused chaos with the things she went after.’

Even practices Mrs Evans had been advised to adopt by the Inland Revenue and the VAT office were questioned.

At West Kingsdown, Pat Bosley’s feathers were also ruffled. ‘The things she picked up were very pernickety. I felt she was trying to justify her existence.’

Anne Cremer, chairman of Eynsford Parish Council, said criticism of their clerk had turned out to be unjustified.

At Farningham chairman Ron Denney said: ‘It was nit-picking from somebody always looking for trouble.’

A spokesman for the district audit office said it was the job of staff to probe accounts. It was not fastidious but the best way of safeguarding the public purse.”
“Sevenoaks Chronicle”, January 1995

Despite protestations, the images linger of the auditor as finger-wagging, page-ticking, nit-picking, fault-finding, bean-counting, penny-pinching, pen-pushing, rule-enforcing, number-crunching, stone-turning, self-justifying sadist.



A PLAGUE OF AUDITS

The following is an extract from an episode of “The Squirrels” – an office comedy transmitted by Thames TV in the 1970’s:

Chief Clerk	<i>“Who are you?”</i>
Stranger	<i>My name is Hawk, Internal Audit – from Head Office. I want to see the petty cash.”</i>
Second Clerk to third	<i>“I’ve heard of him. He’s well-named – hovers ominously above (aside your head – when he sees his prey, he drops like a stone for the clerk) kill. After a visit to our Manchester branch he left behind him two nervous breakdowns, one premature birth, and one poor chap paralysed down his left side.”</i>
Hawk	<i>“I repeat; show me the petty cash.”</i>
Chief Clerk	<i>“It’s my tea-break.”</i>
Hawk	<i>“I insist – Financial Regulation 59 sub-section 2.1 states quite clearly”</i>
Chief Clerk	<i>“You’re inhuman – you don’t believe in people – but business is about people, with feelings, with emotions – people are not computers. But what do you care?”</i>
	(breaks down)
	(NB It transpired that £50 was missing from the petty cash)

But surely, no matter what the retrospective justification, such an ogre is as dead as the dodo?

In some cultures, auditors receive the respect they deserve. Audit ale was brewed in English universities in celebration of their coming and reward for their industry (rather than to cloud their judgement).

The enlightened recognise their contribution. The pitiless and mischievous want their powers increased. Andrew Marr, writing in “The Independent” in 1995, urged that it was “*time to unleash the watch-dogs of waste.*” Referring to the recoveries made by the UK National Audit Office, he advocated an even more forceful function – free and fearless, unshackled and hungry, pursuing instances of waste and opportunities for savings with unfettered fervour. “*It would make them pariahs in Whitehall – which is exactly as it should be.*”

Samuel Pepys, when a member of the Navy Board, praised as ‘*men of understanding*’ the NAO’s predecessors, appointed by Charles II to examine ‘*defaults, frauds, negligences and abuses*’ in the management of the Royal Navy. He noted with admiration but some apprehension “*I find these gentlemen to sit all day and only eat a bit of bread at noon and a glass of wine, and they have resolved to go through their business with great severity and method.*” He later reports with increasing alarm that they were “*very strict and not easily put off.*”



With reference to Pepys' experience, Marr contends that *"There are great temptations and there is a decline in standards of public service. These are circumstance in which we need thin, bread-nibbling ladies and gentlemen, who cannot be put off and are terribly, terribly strict."*

ATTRIBUTES OF AN AUDITOR

"Life After Redundancy – Bundled into a Pigeon-Hole

My recent experience of job-hunting after redundancy has prompted me to question the trend of recruitment staff to "pigeon-hole" job applicants. The first question is invariably a definition of your profession or last job title. After that no matter how many proven skills or the extent of your work experience, your label has been applied and future prospects appear to rely on finding a vacancy with a matching label.

This restriction is particularly frustrating in professions such as my own – internal auditing. The words have hardly left my lips before the classification system has me placed under "accountancy". Protestations about the error in this classification are listened to half-heartedly.

My profession, like others, requires me to learn special skills with regard to internal control mechanisms and all the attendant jargon. Accountancy skills form part of these. In addition, my experience has taught me to be analytical, objective, questioning, creative, assertive, broad-minded, to manage resources, evaluate problems and to apply my specialist skills to a whole range of situations and business subjects.....

There must be many job-seekers like myself who are hampered by misconceptions about their particular profession. If we pigeon-hole individuals without real analysis of their potential contribution and development, we are in danger of wasting invaluable talent and experience."

Caroline Greenwood, The Times, 1994

Caroline was right to be proud of her profession, to complain of being tarred with the accountant's brush, and to point out the use in other fields of skills acquired as an auditor.

I am on record as saying that the last person I would want as an auditor is an accountant. There are other skills and qualities that take precedence. Of course it depends on the job, but when asked in 'Internal Auditing' in July 1993 to specify the perfect employable internal auditor, I conjured up a combination of Grace and Indiana Jones, with seven key attributes:

- analytical
- adaptable
- adventurous
- professional
- pragmatic
- talented
- determined.



A PLAGUE OF AUDITS

Not all would agree. In this era of litigation, auditors may be tempted to be risk-averse. And as auditors emerge from behind their books, dazzled by the bright lights of the real world, and attempt to engage with real people, then inter-personal and communication skills come to the fore.

The modern auditor no longer ticks, turns and terrifies in a torrent of transactions testing, and the systems approach encourages a strategic perspective (“helicopter vision”). Yet, if you can imagine it, the auditors’ feet must remain firmly on the ground, and attention to detail is still important.

To quote Professor WJM MacKenzie once more:

“Great issues often come to light only because of scrupulous verification of details.”

The ancients had many words of wisdom to say on the subject. So Arthur Collins, in *Municipal Internal Audits*, first published in 1904:

“Of the personality of the auditor, much has been and may be said. An auditor cannot be a typification of all the known virtues, as some would have him, but the possession of some of them at any rate is essential.

The auditor himself should be possessed of patience, perception, and tact. The details will need his patience; the chance of the presence of fraud will necessitate the use of his powers of perception; his relationship with the accounting officers will require his tact. He is often in a position where he must do his duty at the risk of incurring the displeasure of the chief of a department who has a far greater standing than he, yet it is superfluous to say that the auditor must, if he conceive his duty to be such that it cannot be carried out without the risk of such an occurrence, go on with it; his first duty is to his office; his favour with the chief of the department whose receipts are under audit is of secondary importance. He will find his own chief ever ready to support him in all things necessary for the proper fulfilment of his duties.

At the same time, he should be careful that his conception of the importance of his duties is not an exaggerated one; he should not be overbearing, but should make his requests in a firm and respectful manner, and if he points out that he considers the subject of his request to be simply a part of his duty, he will not often find it necessary to report to his chief that any unpleasantness has arisen.

A man who has always to be reporting his auditing troubles to his chief is not the possessor of a personality suitable for the post of a municipal internal audit clerk.”



A PLAGUE OF AUDITS

Old Dicksee devoted 16 pages to *The Attitude of the Auditor*, and, with a weather-eye on the risk of litigation, saw fit to rant against Amateur Auditors and the harm they could bring.

“AMATEUR AUDITORS are a class to whom the author has no great desire to express either affection or respect. He has seen too much of their shortcomings, and of the inexpressible misery and distress that has been caused by their scandalous incompetency, to feel any desire to deal gently with their failings. Auditing is much too serious a matter to be trifled with; the evil that can be wrought by an incompetent Auditor is hardly less vital – and is infinitely more extensive – than that which may be exercised by an unqualified medical practitioner. The latter, if he be the possessor of an extensive practice, may poison a hundred or so patients in the course of his career; but the former can, while merely confining his attention to the affairs of one undertaking, readily accomplish the ruin of tens of thousands in a much shorter period.”

Dicksee’s “Auditing” 1903

(So Dicksee predicted Dr Harold Shipman’s infamous misdeeds.)

In questioning whether the public and investors are being properly served by such dilettantes, Dicksee turns to Mr (Joseph) Slocombe, FCA, for confirmation of their ineptitude:

“Speaking of amateur Auditors, Mr Slocombe says:-

‘Their number is thinning down year by year, and some of you may probably live to see the day when the amateur Auditor will be almost as extinct as the dodo. The non-professional Auditor is generally a man of business – frequently retired – whose friends think he has an aptitude for figures and investigation. Sometimes – indeed often – the friends are right, and it has been my lot to meet with non-professional gentlemen in the capacity of Auditors whose painstaking capacity and skill could be creditable to any trained accountant: but I could tell humorous stories of another section of this class – gentlemen whose capacity for auditing the condition of the sherry (which in their case generally accompanied the audit) was doubtless excellent, but whose ability to audit any set of accounts did not exist outside the imagination of their friends who had been instrumental in their appointment.

***The experience of later years has shown that unprofessional audits are generally incomplete and frequently worthless.** Worthless in cases such as I have just referred to, and incomplete – except in small matters – because the gentlemen appointed have not either the time, the inclination, or, so to speak, the machinery for that thorough examination which we know to be essential if an audit is to be effectual and reliable.’*

All professional auditors would like to share Mr Slocombe’s pious hope for the ultimate extinction of the amateur Auditor; but some will doubt whether that consummation is appreciably nearer than it was when the words quoted were spoken....”



A PLAGUE OF AUDITS

The old master's views on The Auditor's Qualifications are worth repeating:

“FIRST, it is very generally conceded that an exhaustive knowledge of every department of bookkeeping is the very A B C of the Auditor's art”

SECOND in importance lies a thorough acquaintance with various statutes regulating the different undertakings in which the Auditor may be concerned.

THIRDLY, although this point has been bitterly contested by some, a sufficient knowledge, not only of business generally, but of the especial ways in which particular businesses are conducted..... No un-prejudiced person would deny the advantage of such a knowledge as is here advocated; the only question being whether a standard is not being set so high as to be virtually unattainable, and, consequently, impracticable. The reply to this is that, in accountancy, as elsewhere, it is only he who aims at absolute perfection who can expect to attain even to a decent mediocrity.

*LASTLY, but not least, may be placed those desirable qualifications of the Auditor which are not acquired by careful study, but, rather, by **living**. Tact, caution, firmness, fairness, good temper, courage, integrity, discretion, industry, judgement, patience, clear-headedness, and reliability. In short, all those qualities that go to make a good man contribute to the making of a good Accountant; while that judicious and liberal education which is involved in the single word 'culture' is most essential for all who would excel. Accountancy is a profession calling for a width and variety of knowledge to which no man has yet set the limit: the foremost Accountants are not ashamed to say that, like Epaminondas, they 'learn something in addition every day'; let us, therefore, see no shame in following their example.”*

Collins warned *“the greatest danger against which an auditor has to guard himself is that of falling into a groove, and becoming more and more like an automaton.”* Collins rightly urged auditors to *“look beyond the books themselves, otherwise he is liable to be a mere ticking machine.”*

(Incidentally, I have omitted one type of audit: the non-human, automated audit. This may take the form of 'audit trails' and other routines embedded into computer software, programmed to be vigilant to suspicious transactions. Such a trail helped to provide evidence used in the conviction of the mass-murderer, Dr Shipman.)

In 1882, in evidence to a House of Commons committee, a representative of the District Auditors complained that, for the demanding nature of the work, and the qualifications required, the salary was *“a great deal too low”*:

“You see he must be a lawyer, he must be competent to judge, he must know how to take evidence, he must know how to judge upon that evidence, he must know how to construe Acts of Parliament; he must have, or ought to have, a great deal of discretion and patience, and then he must be an accountant, to understand the books and accounts, and be able to check them.”



A PLAGUE OF AUDITS

Nevertheless he admitted that the office was eagerly sought for, and occupied by “*upright and intelligent men*” – who despite low rewards were “*zealous and anxious in the performance of their duty.*”

Finally, we return to the prescient Earle H Cunningham, and the use of audit as a dumping and training ground:

“I know of cases where the auditing department is looked upon as a spot to pension off old, faithful employees who have served their usefulness to constructive accounting. And on the other hand, it is the policy of some companies to place young apprentices in the auditing department until they have learned something about the business and then transfer them to constructive accounting. You can hardly expect high-grade, effective auditing from an aggregation of old men and young boys. To accomplish the real worth-while objectives of internal auditing requires ability of the highest order; men broadly trained and with analytical minds.”

SUCCESSSES AND FAILURES

“Can you name more famous auditors than famous Belgians?”

Keith Wade
Audit Christmas Teasers, 2000

“On 9 December 1998, in my position as assistant-auditor in the Commission’s Financial Control Directorate, I blew the whistle on the Commission’s poor management of the fight against internal irregularities and fraud. I forwarded an incriminating 34 page letter, including almost 600 pages of reference material, to a Member of the European Parliament. This was the acceleration of an ongoing series of events that finally led to the resignation of the entire Commission little more than three months later

As a result of this, I was suspended for 4 months on half pay. I was reinstated in April, but banned from further auditing tasks and was finally disciplined with a reprimand that was severe in its wording. I have considered leaving the Commission’s services.....”

Paul van Buitenen, ex-internal auditor, European Commission
“Blowing the Whistle”, 2000

The Dutchman (Accountancy Age’s Accountant of the Year and the Readers’ Digest European of the Year in 2000) is probably the most well-known auditor within and outside the profession. Although well-intentioned, his naivety was surprising. Whistle-blowers – auditors or otherwise – disclosing information without due authority, out of personal belief, no matter how honourable the cause, must anticipate and accept the consequences.



A PLAGUE OF AUDITS

Auditors do tend to be a grey-suited, anonymous bunch. Our own studies during training courses show that three-quarters are still introvert by inclination, even though today's demands frequently require a more outward-looking attitude and personality.

The results of external audits and inspections (normally only when there are yet more examples of wrong-doing, mismanagement, corporate failure or gross inefficiency to report) are regularly in the news. Internal auditors have a more retiring nature.

Nevertheless the front page of the Beckenham and Penge Record on 15 July 1982 proudly announced that "*Council Watchdogs Save £130,000*" as a result of Bromley Borough's Value for Money Drive, which involved internal auditors searching for savings on behalf of the Scrutiny Sub-Committee. Unfortunately the photograph alongside of the jubilant but apparently ageing bounty-hunters should correctly have been attached to the feature on the Derby & Joan Club.

Not that advanced years should be a bar on practising. Joseph Mason, an ex-milk roundsman before he joined the CWS Audit Department, continued in his efforts to examine the accounts of the ill-fated Grays Building Society until he was 87. His previous experience as a Co-op dairyman did not enable him to spot Harold Jaggard, the Society's Chairman and Secretary, milking the books to the tune of possibly £7 million – a lot of money in 1978. His audit 'junior', Mr Bass, was even older: eager but infirm. "*Mr Mason used to take Mr Bass everywhere, he was very old in his ways.*"

The report of the inspectors appointed by the Registry of Friendly Societies to investigate the fraud is the only audit report of which I am aware to start off with a suicide note, left by Jaggard for his wife:

*"Do not go to the bathroom alone. For forty years I have tried to put somebody else's misdeeds right and I can take no more. Chapman no blame at all. Be good to my relations.
Love H"*

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

"Mrs Connie Saunders of the auditors' staff had been working in the boardroom at the Grays on the Friday in question with Mr Arthur Nudd, the audit partner.

'I said "There's something gone wrong here." Mt Jaggard was sitting at the end of the boardroom table; Mr Nudd was sitting directly opposite me; and Mr Jaggard was up by my right side straight away before Mr Nudd even had a chance.

Mr Davison: "What did he say?"

A: He said "Carry on and I'll attend to that later".'

Jenny Fox, the chief cashier, continues the account:

'He must have been upstairs with the auditors. He came downstairs. We heard him come down. He had a distinctive walk. He came out on to the front counter, the part where the clients stand, to go out of the door. He said "It looks like rain. I'll have to go and get my coat." He did not have his mack with him or hat. We let him back in because the door is controlled by electric working. He came in, put his hat and coat on and said "I won't be long. I'll be about 20 minutes." That was about 20 past 12, and he never came back.'



A PLAGUE OF AUDITS

Audit's can be bad for people's health. And auditors' own. We have already seen that unpopularity, even scorn, is one audit risk:

"It's not easy being an auditor. When I come around, people tend to stop talking and freeze up."

(Cartoon character speaking to a stranger at a bar)

"Isn't that a shame?" (Silence)

"I said: 'ISN'T THAT A SHAME.'" (Stranger slopes off)

Become an auditor: learn how to lose friends and fail to influence people.

But the risks can be even greater. A colleague of mind, whilst auditing in the Far East for an American corporation, was shot at twice. And this is not uncommon in some countries. An examiner once set as a question in a logic paper: *"All auditors should be shot on sight. Discuss."* The story of a young American bank inspector who was murdered when taken hostage by terrorists when they saw the letters 'CIA' after his name on his business card (Certified Internal Auditor) is probably apocryphal. If true, he was probably shot on suspicion of being an auditor, rather than as a member of the US Central Intelligence Agency.

Auditors acquire vicarious fame because of the misdeeds of others: the Robert Maxwells and Nick Leesons of this world. In July 1995, Accountancy Age drew attention to unsung heroes:

"The Board of Banking Supervision's report on the Barings collapse is one of a number of factors that are making internal auditors the unaccustomed centre of attention."

But such iniquities are a double-edged sword. Frailties as well as potential are exposed. The internal audit and regulatory failures at Barings have already been referred to. Their external auditors, and those of the Maxwell empire, BCCI and others, are being sued for alleged negligence for hundreds of millions of pounds.

Inevitably the cry goes up (in the following form only by the cognoscenti) *"Quis custodiet ipsos custodienses?"* (*"Who audits the auditors?"*). Auditors, like fleas, attract other auditors. (No jokes, please, on the lines of 'Who else would they attract?') They have their own codes and regulators – themselves not exempt from criticism.

And it is common for one set of auditors to rely on the work of others. But first they must audit them..... No wonder it is a growth industry.

Occasionally internal auditors find themselves in the limelight involuntarily, as when confidential reports by branch auditors of the National Irish Bank were leaked to the Irish media in March 1998. One report, quoted verbatim by the newspapers, revealed details of deliberate over-charging of customers by branches. One of the more illuminating aspects was the attitude of branch managers



who were reported by audit in one case as only over-charging customers “*who were very demanding*” – and when they thought they would get away with it!

THE AUDIT PROCESS

It is not appropriate here to discuss the technical aspects of performing audits, and this paper is long enough as it is. However some observations about audit methods and diligence might be useful:

<p><i>“I audit through the grapevine.”</i></p>	<p>Marvyn Gaye, 1969</p>
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<p><i>“It should never be forgotten that the internal auditor is necessarily an audit of detail. It is not, speaking generally, within his province to see that the thousands of pounds of income are expended in accordance with legal and other provisions but on him does his chief officer rely to see that the pence of income which go to make up those pounds are brought into account.”</i></p> <p><i>“The system of collection of the moneys received at Public Conveniences is one calling for great care, as the possibility of peculation occurring in these revenues is far from remote The auditor, on his visits, should watch for any signs of tampering with the springs or other devices which ensure the closing of the doors of the WC’s Surprise visits should be paid as often as possible without arousing too much suspicion.....</i></p> <p><i>Where lavatories are in use, a good plan is to wrap each towel in an adhesive and numbered label, which must be broken for the towel to be used, and a Towels Record Book kept showing the towels received and used, and the moneys received therefore. The stock in hand must be checked at each visit</i></p> <p><i>If the auditor’s suspicions be aroused, careful watch must be set and tests made without delay. Occasionally the auditor may insert, say, a florin in a WC slot, and await the Collector’s report</i></p> <p><i>Flushed with success</i>”</p> <p>Extracts from Municipal Internal Audits by Arthur Collins, 1931 edition</p>
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Although commending the late Mr Goddard’s meticulous Instructions for the Audit of the Accounts of Newcastle-on-Tyne Corporation (as revised at 10 March 1887), including the assertion that “*I have found it absolutely necessary to check every penny of receipts and payments before I sign the accounts*”, nevertheless even in 1892 the dependable Dicksee (quoting again the sage Slocombe) allowed for the provision “*wherein the accuracy of the accounts may be verified by tests which render the checking of every posting unnecessary.*”

A PLAGUE OF AUDITS

The guru of his day – and many much later ones – endorsed the systems approach, whereby some reliance may be placed, with care, on the organisation’s own arrangements, checks and controls.

*“Having thoroughly made himself master of the system, the Auditor should look for its weakest points. ‘Where is fraud most likely to creep in?’ he should ask himself; and, if he can find a loop-hole, let him be doubly vigilant there; but never let him for a moment suppose that, because he sees no opportunity for fraud, none can exist. To the intelligent Auditor who has grasped his system thoroughly, it is generally practicable to dispense with **some** portion of the mechanical means of checking; how much this can be done with safety must always largely remain a question for each Auditor’s own intelligence and experience to answer.”*

Modern pontificates such as Power question the wisdom and validity of the systems approach, which, he claims, relies more on perusal of form than the detailed verification of substance. Failure to probe beneath the surface and reliance on internal systems of control mean that audits are at least one stage removed from reality. Reliance on other audits and appraisals only increases the distance and is a very denial of the true purpose of audit: to get to the truth.

In 1931, however, Collins warned that *“It must not be thought that it is the bound duty of an auditor always to be predisposed to distrust the official whose books and accounts come under his examination.”* In support, he quotes Lord Justice Lopez in the famous 1896 Kinston Cotton Mills case:

“It is the duty of an auditor to bring to bear on the work he has to perform that skill, care, and caution which a reasonably competent, careful, and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case. An auditor is not bound to be a detective, or, as was said, to approach his work with suspicion, or with the foregone conclusions that there is something wrong. He is a watch-dog, but not a bloodhound He is entitled to assume that they (the officials) are honest, and to rely upon their representations, provided he takes reasonable care.”

What **is** reasonable care is almost impossible to define. Published professional standards of ‘due care’ appear to have been written by lawyers with the aim of giving auditors maximum protection though vague sentiment and meaningless circumlocutions.

Most audits in practice are a combination of systems reviews, compliance checks and transactions tests. The emphasis and techniques will vary, according to the form and objectives of the audit, and the policy of the audit function.

There are three broad categories of approach:

- transactions-based and compliance oriented
- the systems approach, including risk-based audits
- investigative and results-oriented audits.



The detailed verification of masses of individual transactions against supporting vouchers as the primary objective of the audit and means of forming the opinion, went out with the Ark.

Investigative techniques and in-depth examinations will be required in special circumstances, such as suspected fraud, value for money studies, etc.

But, despite the reservations of some, the systems approach dominates, involving the definition and analysis of business processes, determination of high risk areas, evaluation of key controls, and selective testing of transactions. For some, the opinion on the control system is a primary product of the audit. For others, eg external auditors who aim to provide an opinion on the truth and fairness of the published financial statements, it is a cost-effective means to a further end, with valuable by-products.

Technology has, of course, transformed the audit process. (Ironically, IT makes 100% testing feasible in many cases.) However

THE MORE THINGS CHANGE – THE MORE THEY STAY THE SAME

“Audit is truly a sexy profession.”

Richard Gossage, 1999

When President of the IIA UK & Ireland

“If we made it any more exciting, we wouldn’t be able to call it auditing.”

Tesco advertisement for a Corporate Auditor

“It’s audit, Jim, but not as we know it.”

Boots advert for techy Trekkers:

“Work in Computer Audit with Boots and you’ll boldly go where you’ve never been before, in a role that’s wider than you ever thought possible.”

“Business analyst Visionary Diplomat Entrepreneur An International Challenge.....”

Agency advert for a ‘young, dynamic, Practical, finance-oriented auditor’

“Nothing stays the same If you have the determination and vision to make a difference, to constantly transform your approach, and create ideas with a fresh outlook, then this remit has been tailor-made for you. With support and training, you will:

- *evaluate risk, assessing and driving the scope and design of the audit*
- *actively explore the effectiveness and efficiency of all systems, processes and controls*
- *be notable in your contribution to operational strategies*
- *positively influence the reputation of Marks and Spencer audit*

You must be a recently qualified accountant

Job advertisement, Autumn 2000

“Operational Auditors – Field-Based



*Undertaking **unannounced audits** at pubs and restaurants within your area calls for a diplomatic, thoroughly professional approach, lateral thinking and excellent interpersonal skills*

Advertisement by Scottish and Newcastle Retail

“Director of Internal Oversight

Oversight encompasses the examination and evaluation of the adequacy of the organisation’s systems of internal control and the quality of performance. It provides the full range of internal audit, including management audit, evaluation and investigation, quality and value-for-money assurance and management advice.

Required: advanced university degree in accountancy and/or hold membership of an internationally recognised accountancy body. Minimum of 15 years experience, with progressively increasing responsibility, in all aspects of oversight and audit work including Information Systems reviews and value-for-money assurance. Highly developed analytical, communications and diplomatic skills and the ability to quickly grasp complex issues are key competencies. Excellent knowledge of English, working knowledge of another OSCO official language and excellent report writing skills.

Competitive salary and excellent benefit package.”

The Organisation for Security and Co-operation in Europe, Vienna
January 2001

The European Commission’s bureaucrats are masters in the arts of obfuscation and unthinking unbridled inconsistency. Their power and the impact of their diktats are frightening. Sometimes it is unbelievable how wrong, confusing and out of touch they can be:

“Internal audit is the total sphere of activities of ex-post verification by an organisation of whether management and control systems comply with budget specifications, objectives, rules and standards and more generally to the principles of sound financial management. These internal audits include compliance and substantive tests, systems audits, performance audits, information technology audits and any other kind of ex-post verification that the independent internal organisation deems fit to ensure the compliance of management with financial rules and regulations.”

Robert de Koning, DG Audit, in Public Management Forum
November/December

1999

(Note that auditors must be able to talk in ‘Auditspeak’ – the arcane jargon unintelligible to anyone who is not a qualified auditor with 15 years’ experience.

One interesting example is “teeming and lading”, a simple form of peculation involving the manipulation of the accounts of monies received to conceal cash that has been temporarily ‘borrowed’. The term means ‘emptying and filling’, and comes, it is said, from the steel industry where it refers to the pouring of molten steel from one vessel into another. The word ‘teem’ means both to fill and to empty. Similarly, ‘lade’ can mean either to load or to remove.)



Finally, a warning.

According to the editorial comment in *The Times* on 19 February 1855, “*The charge of the light brigade was the least of Britain’s misfortunes in the Crimea. The red tape described by the correspondent together with inefficiency, lack of supplies and an ageing commander-in-chief all contributed to a disastrous, if victorious, campaign.*”

We now, of course, know how much of a disaster was the Crimean War and the needless loss of life at Balaclava on 25 October 1854. From that date to April 1855, no more major actions occurred. Yet in this period the Allies suffered 18000 casualties, not from Russian bullets or sabres, but from starvation, cholera and the cold. Although 9000 greatcoats were in storage at Balaclava, they were never issued. As specified in Queen’s Rules, a soldier was only allowed one greatcoat every three years. And thus they died. During this period, the improbably named Logie Elphinstone wrote as follows to the editor of the *Times*:

“*Sir*

In your correspondent’s letter from Balaklava published in The Times of Monday an incident is mentioned respecting the conduct of an official there, who declined to issue stores on the requisition of an assistant-surgeon. At first sight this appears to be a harsh and unfeeling act, and probably was really so, as means might have been devised for obtaining a proper order. But the fact is valuable, as it is a case in point, and, if it is investigated, will lead to the real cause of the dead-lock which has existed to such an extent, and has been attended with such calamitous consequences.

I have always hoped that some one now or formerly connected with the War-office would step forward and put their finger on the cause of obstruction that has paralysed the issue of our stores, and I hoped that in some of the late discussions on the wretched state of the camp before Sebastopol the real cause would be alluded to.

That cause I believe to be the system of accounts, by which an officer is liable for any stores committed to his care unless he can obtain and file a receipt, not from the party for whom the goods are intended, but from the head of a department, from whom alone he can receive a document which will protect him when his accounts are made up at the end of the year.

*Thus the whole clothing of the regiment arrives, and the public supposes that all that is required is that the men should be marched to the vessel, and having divested themselves of their worn-out apparel, should return to their duty in comfort and efficiency. In this, however, we are very much mistaken. The commanding officer cannot give a valid receipt for the clothing: the functionary who can probably has no place to stow it away in: he may be absent, sick, or 50 other causes may prevent him from attending to it. The ragged battalion is no doubt there, and the much-wanted raiment ready for its use, but the mesmeric influence of red tape interposes an obstacle, as insuperable as an interval of 1,000 leagues. Blunders have no doubt occurred, and always will occur in warfare. The want of a road from Balaklava has been the ruin of very great misery, delay and disaster, **but the real difficulty has lain throughout in the wretched system which has sacrificed our gallant army to enable auditors and accountants to balance their books when the war is over.....***

The plain remedy for such a state of things is, simply, to treat our commanding officers as honest men. If a regiment requires clothing, food, or fuel, let it be forthcoming on receipt of an



A PLAGUE OF AUDITS

order from the commanding officer, countersigned, where is practicable, by the Brigadier. The same with hospitals – a requisition from the youngest assistant-surgeon in the service, if he is in charge of an hospital, ought to place within his reach every medicine and comfort in store. Better far that a few thousand pounds worth of stores should be unaccounted for at the end of the war than that one British soldier should lose his life for the want of comforts that are within his reach.

I remain, Sir, your most obedient servant,

*J H ELPHINSTONE
Feb. 14 1855”*

Come on – let’s all get a sense of proportion.

***Keith W Wade
July 2001***



APPENDIX 1

TYPES OF AUDIT, INSPECTION AND REVIEW

EXTERNAL	FEATURES/COMMENT	INTERNAL	FEATURES/COMMENT
<p>Statutory External Audit</p> <p>Financial:</p> <ul style="list-style-type: none"> • certification • regularity/probity <p>Value for money (public sector):</p> <ul style="list-style-type: none"> • economy • efficiency • effectiveness <p>(= “Performance Audit”)</p>	<p>Historic and periodic Functions, powers determined by statute</p> <p>Basic role to express opinion on truth and fairness of financial statements</p> <p>Duties much broader in public sector</p> <p>Professional standards and regulation</p>	<p>‘Professional’ Internal Audit</p> <p>‘Financial’</p> <p>‘Operational’ (‘Management’, ‘Performance’, ‘VFM’)</p> <p>Other tasks</p> <p>(Modern names include: Business Audit, Business Risk Analysts, Operational Review, Audit & Assurance, Audit and Consultancy Services, even Dept. of Corporate Oversight)</p>	<p>Full-time dedicated team</p> <p>May be provided by external supplier</p> <p>Typically provides generic assurance and consulting services in control, risk management and governance</p> <p>Scope covers all activities and issues</p> <p>Multi-disciplinary staff</p> <p>Independent of line operations, reporting to the board</p> <p>Professional standards</p> <p>Future-oriented</p>
<p>Specialist/Single Issue Audits</p> <p>IT</p> <p>Quality</p> <p>Environment</p> <p>Health and safety</p> <p>Security</p> <p>Social and ethical</p> <p>Contracts</p> <p>Financial transactions and payments</p>	<p>May be mandatory inspection, requirement of a scheme, or voluntary</p> <p>By external audit or consultants; note TickIT & BS7799 audits</p> <p>eg ISO 9000 audits</p> <p>eg ISO 14000 and EMAS</p> <p>Inspection or requirement of certification or other scheme</p> <p>Including IT and data protection</p> <p>eg AccountAbility 1000</p> <p>Capital project audits by EA in public sector: suppliers audits</p> <p>Includes ex ante, continuous and ex post verifications</p>	<p>IT</p> <p>Quality</p> <p>Environment</p> <p>Health and safety</p> <p>Security</p> <p>Social and ethical</p> <p>Contracts</p> <p>Financial transactions and payments</p>	<p>May be requirement of a scheme, or based on business need</p> <p>By internal audit</p> <p>Periodic, to meet ISO 9000</p> <p>Voluntary, or under ISO/EMAS</p> <p>Note full-time HSE sections in oil and chemical industries</p> <p>By internal audit or security division</p> <p>Rare, but may be done by IA or specially assigned staff</p> <p>Common by IA</p> <p>May reflect out-dated transactions audits (eg “pre-audits”) by IA or separate verification checks</p>
<p>Sector-Specific</p> <p>eg Academic audit</p> <p>Circulation audits</p>	<p>Of colleges, universities by central body</p> <p>Verification of publication figures</p>	<p>Sector-Specific</p> <p>eg Clinical audit</p> <p>Bank ‘inspections’</p>	<p>Health sector: independent or peer review</p> <p>Nowadays re-styled into modern internal audit</p>

EXTERNAL	FEATURES/COMMENT	INTERNAL	FEATURES/COMMENT
<p>Inspections & Reviews (often sector-specific), by:</p> <ul style="list-style-type: none"> • owner • regulator • standard-setter • other stake-holder • self-regulation 	<p>May be fact-finding rather than advice-giving, eg Head Office, Group, Corporate audit DTI, FSA, OFSTED, Best Value BSI, ISO; compliance audits EU, funding bodies; tax audits; due diligence audits By professional bodies</p>	<p>Inspections and Reviews</p> <p>Staff inspection Compliance functions Verification checks Controls reviews & other assurance activities Quality control & assurance Post-implementation/completion reviews</p>	<p>A form of manpower 'audit' in government Business need or statutory function (eg financial services) Independent or as part of the control function eg in response to Turnbull; may be performed by internal audit Constructive as well as critical eg programme evaluation</p>
<p>Ad Hoc</p> <p>Special investigations, eg fraud, forensic audits Other concerns and needs, eg energy audit</p>	<p>Imposed or requested by the organisation Need for experts Often done by consultants</p>	<p>Ad Hoc</p> <p>Special investigations and studies Other concerns and needs, eg training, marketing, inventory, expenditure scrutinies</p>	<p>As the occasion demands in any area, eg suspected irregularity May be problem-solving or opportunity-exploiting Sometimes performed by internal audit</p>
<p>Consultancy</p> <p>Management consultancy Specialist, eg IT, Business Process Engineering ("Functional Audit") Risk management</p>	<p>Open-ended At the request of management May provide assistance as well as advice Not necessarily independent</p>	<p>Consultancy</p> <p>Management services Specialist support, eg VFM Unit Risk advisers</p>	<p>Includes a range of staff and advisory functions May be linked to internal audit Overlap with internal audit</p>

EXTERNAL	FEATURES/COMMENT	INTERNAL	FEATURES/COMMENT
Self-Regulation Inspections by central or parent body Peer review	Routine or special assignments Done by separate unit, specially formed team, or consultant	Self-Regulation Control self-assessment Other forms of self-monitoring and review	Normally facilitated by internal audit As part of the control framework
Any form of reasonably independent and rigorous appraisal and verification eg Stress audit, web-site audits	‘Open-ended’ use of the term ‘audit’ – performed in various areas in various ways	Any form of reasonably independent and rigorous appraisal and verification eg Arts audit Time audit Marriage audit Colour audit	There are many more examples I could provide, some more serious than others!

Footnotes

- 1 *Note that these categorisations are artificial: there is considerable overlap between them and clear distinguishing lines cannot be drawn.*
- 2 *The features of audits, inspections and reviews may include some or all of the following: independent scrutiny, rigorous and systematic examination, monitoring and surveillance, verification, assurance (the audit opinion), problem-spotting, disclosure and formal reporting, advice, and, exceptionally, assistance.*
- 3 *Audits may be voluntary or imposed; continuous, periodic or ad hoc.*
- 4 *‘External’ audits are ‘on’ or ‘of’ the organisation by outside parties, primarily for the benefit of outside stakeholders (public, shareholders, regulators, etc), for protection or to demonstrate that standards are being met. However some may be requested by the organisation, to demonstrate accountability and transparency, or under pressure. Others may be a requirement as part of an accreditation scheme. Consultancy exercises, however, are obviously for the benefit of the organisation.*
- 5 *‘Internal’ audits are ‘for’ the organisation to meet its own needs, but may be performed by employees or outside contractors. ‘Internal auditing’ is a specialist professional discipline. Although the principal beneficiary is the organisation, internal audits may be a requirement – of statute, regulation or accreditation scheme.*

APPENDIX 2

GLOSSARY OF TYPES OF AUDIT

AUDIT

A term increasingly used to describe any form of broadly independent and normally systematic review or verification process - continuous or ad hoc, internal or external, self-initiated or imposed (eg safety audit).

In broad terms, audits may be substantive (ie performance-based, examining end-results), systems-based (examining and reporting on processes and controls, with limited testing of results), or a combination of the two.

BRANCH AUDITORS

(Also known as 'Field Auditors'.) Auditors who perform examinations of local establishments (offices, out-stations, schools, etc). Work often tends to be compliance/transactions-based, and may be more akin to an inspection function examining whether procedures have been followed, cash properly accounted for, etc. As such, it may represent (a) out-moded audit practices or (b) a management control activity which should not be the responsibility of internal audit.

Generally contrasted with 'Head Office Audit' which examines corporate affairs and central systems. Since this often involves auditing higher level and more sophisticated systems, a two-tier, elitist audit function may result.

BUSINESS AUDITING

Modern internal auditing. It aims to add value by focusing on business objectives, processes, risks, environment, controls and results. May be systems or performance-based, and increasingly includes "added value" consultancy-style services over and above the assurance role.

CLINICAL AUDIT

"A generic term which embraces the audit activities undertaken by all health-care professionals including doctors, nurses, and professions allied to medicine (such as therapists), whether in their own professional groups or as a clinical team.

Specifically it is a process in which such health-care professionals systematically review, and where necessary make changes to, the care and treatment they provide to patients. Its primary objective is to improve the quality and outcome of patient care." See 'Medical Audit'.

National Audit Office

Note: All definitions by K W Wade except where stated

COMPLIANCE

Independent examinations and attestations in which the **AUDITING** emphasis is on verifying:

- i) compliance with internal policies, plans, practices, procedures, expectations and requirements; and/or external laws, regulations, standards or other obligations; *or*
- ii) the adequacy of the systems of control established by management to ensure compliance with such internal or external requirements.

COMPUTER AUDIT	Auditing, internal or external, of an organisation's use of information technology and services; the focus is on the evaluation of controls within existing or planned computerised systems and computer installations. May be a specialist function, although all auditors need a degree of expertise in this area.
COMPREHENSIVE AUDITING	The performance of 'Full Scope' audits, considering all relevant business issues and activities within the area under review.
CONTRACT AUDIT	<p>An independent appraisal of the systems of control over and within capital or revenue contracts.</p> <p>Normally the scope of capital contract audit is broadened to include all aspects of the management of capital expenditure and projects, not just the contractual elements.</p> <p>May also be seen as a specialist audit examining and commenting on the contracts themselves and other technical aspects of project management and capital schemes.</p>
CONTROL SELF ASSESSMENT	<p>A formalised, documented and committed approach to the regular, fundamental and open review by managers and staff of the strength of control systems designed and operated to achieve business objectives and guard against critical risks within their sphere of influence.</p> <p>Self-audit by management.</p>
CORPORATE AUDIT	<p>A centrally located audit function, for example at head office in a group of companies. Usually has overall responsibility for the audit service, which may also include decentralised audit units.</p> <p>Activities may include quality assurance over internal audit, reviewing corporate/central/HQ/across-the-board systems, and performing local audits where there are resource problems or for other reasons.</p> <p>Sometimes contrasted with 'Branch' or 'Field' Audit.</p>
EFFECTIVENESS AUDIT	<p>An independent examination of:</p> <ul style="list-style-type: none"> i) the systems of control established by management within operations and projects to ensure and monitor the achievement of objectives and the accomplishment of desired standards of performance; <i>and/or</i> ii) the extent to which actual results match with desired results and planned levels of performance; <i>and/or</i> iii) opportunities for improving the effectiveness, impact and overall value of operations, levels of performance, and the quality of work.
EFFICIENCY AUDIT	<p>An independent examination of:</p> <ul style="list-style-type: none"> i) the systems of control established by management to promote the efficient (and economic) use of resources and operations of activities; <i>and/or</i>

- ii) the level of efficiency of an activity (often in comparison with standards, norms and the performance of others); *and/or*
- iii) opportunities for improving (economy and) efficiency.

ENVIRONMENTAL AUDITING

An independent appraisal to assure management of the adequacy, application and effectiveness of the systems of control established throughout the organisation to minimise pollution and environmental damage through its activities, promote the conservation of resources, enhance the natural environment, and ensure compliance with applicable policies, plans, procedures, regulations and legal requirements.

Environmental audits can be grouped into three classes: systems (as above), attestation (compliance and verification) and technical (assessing environmental performance).

"A management tool comprising a systematic, documented, periodic and objective evaluation of the performance of the organisation, management systems and processes designed to protect the environment with the aim of:

- i) facilitating management control of practices which may have an impact on the environment;
- ii) assessing compliance with company environmental policies."
EMAS

"A systematic evaluation to determine whether or not the environmental management system and the environmental performance it achieves conform to planned arrangements, and whether or not the system is implemented effectively, and is suitable to fulfil the organisation's environmental policy and objectives."
BS7750

"The systematic documented verification process of objectively obtaining and evaluating evidence to determine whether specified environmental activities, events, conditions, management systems, or information about these matters conform with audit criteria, and communicating the results of this process to the client."
ISO 14010

"The systematic examination of the interaction between our business operations and the surrounding environment. This includes all emissions to air, land and water; legal constraints; the effect on the neighbouring community, landscape and ecology; and the public's perception of the operation of the company in the local area."
CBI

"A systematic, documented, periodic and objective evaluation of how well environmental organisation, management and equipment are performing with the aim of helping to safeguard the environment by:

- facilitating control of environmental practices;

- assessing compliance with company policies which would include regulatory requirements."

ICC

[This shows how difficult it is to reach agreement on defining 'audit'!]

EXTERNAL AUDIT

- (i) A systematic, independent examination by a qualified outside body or person of an organisation's affairs, often statutory, with the aim of publicly expressing an opinion on the truth and fairness of the published financial statements and the extent of compliance with accounting, legal, regulatory and related requirements.

The scope may be widened at the request of management or in accordance with statute. For example the scope of the external audit of many UK public sector bodies includes the examination of controls, value for money and related issues and the provision of advice on control, management and performance improvement.

- [(ii) Any form of 'audit' conducted by persons external to the organisation subject to that audit. (Used loosely: eg an external quality audit)]

FINANCIAL AUDIT

A narrow or specialist approach to audit, focusing primarily on financial systems, practices, controls or information.

It may therefore be an independent examination of some or all of the following:

- the truth, fairness and proper presentation of published of financial accounts and transactions;
- the reliability, completeness and usefulness of other forms of accounts and financial records, including management and cost accounts;
- the adequacy and effectiveness of financial systems, controls and management;
- compliance with internal and/or external financial and accounting requirements, including relevant professional, statutory and regulatory demands;
- the suitability of financial practices;
- the adequacy of financial performance.

The objectives of an external financial audit for example are normally to form an opinion on whether the published financial statements are free from material mis-statement, and whether best practice has been followed and relevant statutory and professional requirements met in compiling the accounts.

HEALTH & SAFETY AUDIT

"A systematic and independent examination to determine whether activities and related results conform to planned arrangements and whether these arrangements are implemented effectively and are suitable to achieve the organisation's objectives."
BSI

"The structured process of collecting independent information on the efficiency, effectiveness and reliability of the total safety management system and drawing plans for corrective action.

It aims to provide an independent assessment of the validity and reliability of the management planning and control systems. Auditing supports monitoring by providing managers with information on the implementation and effectiveness of plans and performance standards. It also provides a check on the reliability, efficiency and effectiveness of the arrangements for policy making, organising, planning, implementing, measuring and reviewing performance."

Health & Safety Executive

**INTEGRATED
AUDITING**

- (i) Harnessing the combined knowledge, skills, expertise and efforts of an organisation's audit, review and investigative capabilities in a multi-disciplinary force providing comprehensive independent assurance on the whole range of business activities, issues and controls.
- (ii) A co-ordinated, planned and systematic approach to the scheduling, performance and follow-up of the various forms of review, appraisal and audit within (or upon) an organisation.

INTERNAL AUDIT

- (i) The independent appraisal of the adequacy, application and effectiveness of management's systems of internal control.

The aim is to help strengthen the framework of control within operations and the organisation as a whole by whatever means are appropriate.

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

IIA June 1999

- (ii) Any form of 'audit' conducted by persons within the organisation subject to that audit.]

MANAGEMENT AUDIT

If anything, means an evaluation of management processes and performance going beyond an appraisal of management control; but forget it. Too many confusing definitions render the term meaningless and not worth using.

MEDICAL AUDIT

"A systematic, critical analysis of the quality of medical care, including the procedures used for diagnosis and treatment, the use of resources, and the resulting outcome and quality of life for the patients."

"A specific type of clinical audit whereby doctors have the care and treatment they provide to patients reviewed by colleagues from the same profession."

National Audit Office

**OPERATIONAL
AUDIT**

Modern internal auditing, recognising that it is a control-focused, risk-based, corporate resource, and a future-oriented professional activity and management service, and that its scope covers all business objectives, risks, processes, operations, projects and concerns at all levels within the organisation.

Sometimes contrasted with Financial Auditing, although this is simply a sub-set of 'Operational Auditing'.

**PERFORMANCE
AUDITING**

A direct examination of the operational results of a process, programme or project to verify whether specified standards have been met and determine whether levels of performance can be improved.

Sometimes equated with "Value for Money" auditing, and in that sense may be partly or wholly systems-based, but sometimes seen as a substantive, "technical" audit, or a form of performance appraisal.

PROBITY AUDIT

An audit where the pre-occupation is with issues of propriety and 'regularity', and the risk of fraud, misconduct and other forms of malpractice. Tends to be associated with 'traditional' transactions-based approaches, surprise pounces, cyclic visits to establishments, and in this sense is an out-dated term, used with decreasing frequency.

See "Propriety" and "Regularity" Audits below.

PROPRIETY AUDIT

In essence, a synonym for 'Probity Audit'. Used in a specific sense by public sector external audit bodies to describe independent examinations which go beyond regularity audits in seeking to determine the extent to which transactions and behaviour conform with expected standards of conduct and governance, including not only legality, but also equity and integrity.

QUALITY AUDIT

Another term which is used in a number of ways:

Internal or external audits where the sole focus is on

- (i) the quality of performance; *and/or*
- (ii) the adequacy of controls designed to ensure that appropriate quality standards are met; *and/or*
- (iii) compliance with internal or external quality management systems and procedures.

"A systematic and independent examination to determine whether quality activities and related results comply with planned arrangements and whether these arrangements are implemented effectively and are suitable to achieve objectives."

BS EN ISO 9000

REGULARITY AUDIT

An independent examination, as part of a financial audit or as a separate exercise, as to the extent to which financial and other transactions conform to appropriate authorities (eg Parliamentary and Treasury in central government), and are in accordance with relevant legislation, regulations and intentions.

SPECIALIST AUDITS

Audits where the focus is on a particular business issue (eg health and safety), business area (eg staffing) or organisational/sector activity (eg clinical audit in hospitals, academic audits in educational establishments). Any audit requiring specialist knowledge, experience and expertise. Similar to Technical Auditing.

STATE AUDIT

The external audit of central government bodies by an institution independent of government (“Supreme Audit Office” – eg the UK National Audit Office, headed by the Comptroller and Auditor General or a “Court of Auditors”, as in some other countries.)

SYSTEMS AUDITING

Modern internal audit.

The independent appraisal of controls within management, operational, financial and other systems. Sometimes called "Business Process Auditing". Is not limited to the audit of information (ie computer) systems. Not a type of auditing.

“The structured analysis and evaluation of the internal control of an organisation’s business in relation to the objectives of the organisation..... The prime objective should be to evaluate the extent to which the controls in the system may be relied upon to ensure the objectives of the system are met.”

UK Government Internal Audit Manual

TECHNICAL AUDITING

The specialist appraisal of controls, operations, or performance of selected business activities or concerns normally requiring particular experience and expertise (technical, legal, financial or other skills and knowledge as appropriate); eg an Energy Audit.

May involve checking compliance with internal and external specifications and standards.

This may be an extension of internal audit's scope beyond traditional financial, managerial and operational areas; or performance or verification-based audits of particular areas, usually by specialists in the relevant activities and issues or by multi-disciplinary teams.

VALUE FOR MONEY AUDITING

The independent evaluation of the adequacy, application and effectiveness of management's arrangements for securing and promoting economy and efficiency in the use of resources and effectiveness in achieving objectives to appropriate standards of performance; or

An in-depth examination of the achievement of economy, efficiency and effectiveness in operations, and the opportunities for and means of improvement in performance.

"An independent appraisal of the performance of management in seeking to achieve economy, efficiency and effectiveness in the use of resources at its disposal."

CCAB Auditing Practices Board