Will auditors take over the world? Program, technique and the verification of everything

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1. Introduction

As we enter the new millennium, some of us may be wondering who really will inherit the earth. Traditionally, the meek have had the inside track. But if we take Michael Power (1999) seriously, auditors may be the ones who win out in the end. In the public sector, new models of governance and the privatization of government services have created an explosive growth in the use of audit as a mechanism for control. Power (1999) documents this phenomenon in detail, primarily with examples from the UK. Foreign readers, like myself, are likely to be a little overwhelmed by the profusion of unfamiliar acronyms and institutions. And for some readers, the focus on the UK may raise questions about the generality of Power’s argument. In the United States, for example, we have just undertaken our first audit of the Internal Revenue Service (ironically, the IRS’s own internal controls were found lacking). In the private sector, quality standards, such as ISO 9000, have created a parallel need for making work processes auditable. Power argues that we are experiencing “the explosion of an idea” (p. 4) and a movement along a continuum from a society that trusts everything and audits nothing towards a society that trusts nothing and audits everything. It’s not quite a biblical prophecy, but it is a compelling argument that raises a variety of questions about the current and future status of auditing, trust and accountability in modern society.

In this essay, I have chosen to highlight a few of the questions that arise from Power’s argument. The first set of questions concerns the boundaries of auditing as a practice. Phrased narrowly, this question could be seen as merely definitional: when is an audit really an audit? But the broader and more provocative question concerns the limits of applicability of audit, both as a program of control and a set of techniques. Should everything be “made auditable” and subjected to that peculiar brand of rationalization? A related set of questions concerns the relationship between various kinds of audits. There is a family resemblance among environmental audits, educational audits, medical audits, energy audits, value for money audits, and so on, yet they diverge from the prototypical financial audit in a variety of ways. This observation opens a range of inquiry into the roots and consequences of the diverse practices now being called “auditing.” Consequences deserve careful investigation, because auditing is not just a neutral rendering of the facts. Despite the ideology of independence, “making things auditable” tends to change the underlying activity being audited. Auditing clearly has an effect, but what kind of effect, and for whom? Power raises these questions, among others, but argues that the
answers may prove elusive because of the “essential epistemological obscurity” of auditing. Audits are conducted and working papers are written, but what is really produced? This question turns out to be the best and hardest of all, so we will save it for last.

2. The boundaries of auditing

If the idea of auditing really is exploding, and taking on new forms as it disperses across the institutional landscape, how can we locate and recognize the fragments? Power suggests that we begin looking in places where there is a relation of accountability between principal and agent (Flint, 1988). In a sense, the explosion of auditing is driven by an increased desire for accountability. All kinds of stakeholders are demanding accounts — verifiable accounts — that their interests are being upheld. To the extent that Power is right, auditing can lay claim to any situation where there is a relationship of accountability. This would seem to represent a new and remarkably permeable kind of boundary on professional jurisdiction. Most professions are bounded by expertise in a particular subject matter. For example, the medical profession has an apparently natural boundary on its activities which is defined by the human body and its ailments. The legal profession’s activities are bounded, more or less, by the interests and obligations created within the legal system. But auditing can settle quite naturally in any situation where there is a relation of accountability. The classic principal-agent relationship is between corporations and their shareholders, but if doctors are accountable to their patients (or insurance companies, or government regulators), and lawyers are accountable to their clients, then the operating room and the courtroom can also be subject to audit.

This phenomenon manifests itself in a remarkable variety of contexts. For example, Llewellyn’s (1998) field study of cost accounting in the social services provides a detailed example of “value for money” auditing encroaching on social workers’ traditional role as caregivers. Demands for accountability have influenced relations between law firms and their clients, as well. Insurance companies, for example, are demanding extremely detailed accounts of attorney billing and insisting that this information be made available for audit (Wall Street Journal, January 1999). If any work process with a client is up for grabs, then the boundaries of auditing can be drawn quite broadly.

What we have, in a sense, may be a new dimension of professional conflict. Traditionally, sociologists have conceptualized professional jurisdiction as an outgrowth of their control of esoteric knowledge. Abbott’s (1988) classic analysis of the boundaries of professions focuses on occupational groups who are fighting over who should perform certain kinds of work. Control over substantive knowledge is clearly important, but the traditional emphasis on content can lead us to overlook process. For example, Krause (1996) was analysing the same general trend as Power (1999) when he argued that traditional professions like law and medicine are subject to increasing bureaucratization and “the advance of capitalism”. While Krause was writing about the US context, it is an interesting testimony to the invisibility of auditors that he failed to note that a key mechanism of bureaucratic control has been the increased use of auditing. One explanation would simply be that audit has been less widely applied in the US than in the UK. But Power’s argument suggests that auditors exert control primarily over process, not content, and so they enter the professional battlefield from a new and unexpected direction. Auditors are, in a sense, neutral parties to the fight over who is allowed to write a prescription (psychologists? nurse practitioners? midwives?), and they have no legitimate basis for an opinion about what drug to prescribe. But if health care providers are to be held accountable (to whomever), then auditors have important things to say about how those prescriptions are written and what records are kept, so that the process can be made auditable. This is true whenever there is a relation of accountability. How then can we draw the boundaries on this diverse and growing set of practices?

There are several ways one might attempt to proceed. One traditional approach would be to look at the members of the profession: auditing is
something that auditors do. The problem, of course, is that it is increasingly difficult to pin down who is an auditor. As professional accountants broaden their sphere of influence, the problem of encroachment on professional jurisdiction threatens them, as well. In the realm of environmental auditing, for example, accountants must compete with scientists and engineers for the right to define and control the relevant knowledge base (Power, 1997). In this case, the conflicts appear to be over both the process and the content. Energy audits, which are even less like financial audits than environmental audits, are usually conducted by engineers and technicians. Since various kinds of auditing are being done by individuals who are not members of the accounting profession, it seems unwise to define the practice in terms of the practitioners.

Another approach might be to focus on auditing practice itself, regardless of the practitioners. Building on Rose and Miller’s (1992) distinction between program and technique, Power notes that there are at least two aspects that one might consider. At the programmatic level, auditing can be seen as a normative image of what an audit ought to be. At the technical level, auditing can be seen as a variety of specific operations, procedures and practices. Thus, a technical definition might refer to actual work practices, while a programmatic definition might refer to ideals and goals of the audit process. The distinction is important because these dimensions are loosely coupled, at best, so they can diffuse at different rates. The rhetoric of accountability and verification might spread well before (or trail behind) actual technical procedures for auditing. Clearly, if we are to understand what auditing is, and what it is becoming, we need to do some investigation.

3. Varieties of auditing

As auditing spreads, it takes on new forms that resemble the prototypical financial audit in some respects, but may diverge in others. It is worth remembering, of course, that financial audit itself is hardly monolithic. Especially when viewed over time, or internationally, financial auditing has varied considerably in terms of both program and technique (Carpenter & Dirsmith, 1993). Thus, simply identifying the kinds of audit and comparing them would be a fruitful line of research. It seems to me that ethnographic studies of auditing would be required for this undertaking. The questions at this stage would be primarily descriptive: What programs are espoused? What techniques are employed? What do auditors in various kinds of settings really do? Is there a set of work practices that can be used to categorize them that transcends the colloquial labels (tax audit, environmental audit, energy audit, financial audit, quality audit, etc.).

While this would be an ambitious project, it has had some precedent. In response to the explosion of diverse occupations that shared the label “technician”, Barley (1996) undertook a series of ethnographic studies to discover what commonalities they had, if any. Barley used data on technicians’ work practices to generalize beyond the traditional occupational titles, such as lab technician, computer technician, emergency medical technician, radiological technician, automobile technicians, and so on. Barley asked two very simple questions: what do technicians do and what do they know? He worked inductively, from ethnographic data, to create an ideal-typical “technician” that transcended the traditional job descriptions. In a sense, current thinking about auditing is rooted in a similar set of labels, but we are so heavily influenced by the familiar archetypal financial audit that we may be blind to the growing variety. If so, then a similar undertaking may be desirable for the broad and growing category of activities we loosely refer to as “auditing”. The point is to cast our net widely and look at all the examples of people engaged in verification — what are the commonalities and the differences? What do they do? What do they know? And given the programmatic aspect of auditing, we might also ask: What ideals do they espouse?

Barley’s (1996) analysis of technical work is suggestive of the kinds of thing we might find if we pursued this line of inquiry. He derived two main categories of technician: “buffers” and “brokers”. When technicians act as buffers, they mediate between the material world (e.g. cells growing in a
Petri dish) and the symbolic world (e.g. an interpretation of what those cells mean). When technicians act as brokers, they facilitate access to some aspect of the material world (e.g., connecting your personal computer to a network). To the extent that auditors are technicians, they seem to act more as buffers than brokers. They provide an interpretation of accounting data, so that others do not need to bother with the details. Some kinds of auditors, such as environmental auditors, may be closer to Barley's (1996) ideal-typical technician-as-buffer: they interpret some aspect of the material world. But most auditors mediate between two symbolic worlds: a set of accounts and an interpretation of those accounts. This may contribute to what Power (1999, p. 28) refers to as the “deep epistemological obscurity” of auditing, a point we will return to in a moment.

4. Effects of auditing

As the idea of auditing explodes, it is not just that there is more auditing going on. The logic of auditing can change the way we do things, because an activity must be “made auditable” before an audit can be conducted. Power (1997) argues that as the use of auditing intensifies, there are two broad kinds of effects that one might predict: colonization and decoupling. Colonization occurs when an organization internalizes the values of the audit process: “when the values and practices that make auditing possible penetrate deep into the core of organizational operations” (p.97). The work becomes truly auditable, but the result may be “effective in unintended ways” (p. 13). At the other extreme, decoupling occurs when an audit process is disconnected from what is really going on. In this situation, audits are rendered ineffective because they are reduced to “rationalized rituals of inspection” (p. 96). The paradoxical result is that more auditing may lead to less verification. In my research on tax auditing, for example, there was a fear that audits could turn good taxpayers into bad ones, and that more intensive auditing might simply push taxpayers to be more secretive (Pentland & Carlile, 1996). It seems likely that whenever the relationship between the principal and agent has an adversarial aspect, auditing could become self-defeating.

To further analyze the dynamic effects of auditing, it may be useful to adopt an organizational learning perspective. Superficially, auditing and learning would seem to be complementary, since they share an emphasis on gathering facts and providing feedback. But if auditing can lead to colonization or decoupling, the story is not quite so simple. Furthermore, as the preceding discussion suggests, it is important to consider differences between subsystems, each of which may have different goals and roles in the audit process (principal, agent and auditor). Extreme decoupling obviously inhibits learning for the system as a whole because information is hidden. Extreme colonization may be just as dysfunctional, and harder to diagnose and correct. As organizational members strive to conform to the requirements of auditability, they may tend to narrow their perspective. In the worst case, they may become more concerned with generating the right indicators than with actually doing a good job. To return to the medical example, an auditable process does not necessarily result in a more accurate diagnosis or a better prescription. The distinction between process and content is often blurry, but to the extent that auditing can affect one without affecting the other, attempts at increased control and accountability may or may not provide straightforward “improvements”. As a result, it is difficult to say whether more extensive auditing will be good or bad, and for whom.

5. Epistemological obscurity of auditing

The preceding discussion begins to hint at a more fundamental issue that Power (1999) calls the “deep epistemological obscurity” of auditing (p. 28): “What is the nature of assurance given by audits? Can it be observed?” This question is sufficiently subtle and provocative that it may never really be answered, but I think there some good reasons why it needs to be asked.

Like many occupations, auditors adopt the rhetoric and, to some extent, the routines of science. For example, auditors take “samples” and
perform “tests” to reach “objective” conclusions. This would be a pretty good description of a technician in a biological research lab, as well. As Carpenter and Dirsmith (1993) argue, the rhetoric of science (e.g., “statistical sampling”) and the analogy to scientific practice is a powerful legitimating device for practitioners. It seems to permeate much of the academic research on auditing, as well. Put simply, the analogy suggests that while scientists illuminate natural truths, auditors illuminate financial truths. And if Power is right, auditors may soon be illuminating nearly every other kind of truth, as well.

The analogy between auditors and lab technicians breaks down quite rapidly, however. In an audit, the samples, tests, and interpretations are all highly contextualized (conditioned strongly on last year’s numbers, among other things). If the date and client name were removed from a typical audit working paper or accounting report, for example, it would be transformed from a working paper into scrap paper (and vice versa) (Pentland, 1993). And unlike a laboratory, there is never a control group. Each audit is a kind of uncontrolled experiment, and there is no way to know what would have happened if an audit were not performed. No wonder that audits are epistemologically obscure — auditors have adopted the rhetoric of scientific methodology without really being able to adopt much of the substance.

A more profound difficulty is that, unlike lab technicians, auditors generally do not mediate between the material world and the symbolic world. Rather, with some exceptions, auditors act as buffers between two symbolic worlds. They interpret accounting systems, which are themselves interpretative products, and they do so by following a variety of rules which are also open to interpretation. While Power attributes the “expectations gap” to the loose coupling between the programmatic idealization of auditing and the actual technical procedures, the analogy to technical work reveals a potentially much larger gap. The rhetoric and procedures of auditing imply an analogy to scientific practice, but the actual practice has only superficial similarities. We are led to expect empirical science, when the best we can hope for is hermeneutics.

If so, then it may be equally illuminating to compare auditors to movie or television critics. They also act as buffers between a lay public and a symbolic world. They also use evidence to create opinions and issue reports so that we, the viewing public, can allocate our viewing time wisely. This comparison may strike some readers as flippant, but it is not. In the US, for example, recent dramatic episodes of violence by teenagers have led to increased concern about the portrayal of violence in the media. There is a growing movement to hold television and movie producers accountable to the viewing public and society at large. Is that not exactly the kind of situation where we should expect auditing to thrive? Film criticism might never be called “auditing,” but the analogy is certainly provocative.

6. Some possible directions

Given the enormous breadth of possibilities suggested by Power’s (1999) book, it seems reasonable to suggest some directions one might take in empirical research. These questions deserve attention because, as Power points out, auditing occupies a much more significant role in modern society than has previously been recognized. First, as I have suggested already, there is a need for description and comparison. What kinds of practices are emerging under the general category of “audit” and who is performing this work? I believe that inductive, field-based studies of audit practice are likely to reveal some interesting commonalities and differences. And from a historical perspective, if Power is right about the trend, it would be valuable to document the state of affairs now, so that future scholars might have a baseline for comparison. Second, there is a need to assess the effects of these diverse practices. For example, one might investigate the conditions under which colonization or decoupling are most likely. The key point here, is that we ought to investigate effects, understood broadly, not just “effectiveness”. Finally, because Power’s work focuses on the UK, it suggests a fruitful opportunity for comparative research. Given the diversity of audit practices that seem to emerging, it would be an enormous challenge to develop valid and reliable
quantitative indicators of audit activity that could be used across national borders. Alternatively, one might approach the problem as a set of case studies. Regardless of the specific direction one chooses to take, the kinds of research suggested by Power’s book should provide a great deal of insight into a set of practices that have generally been taken for granted.

References