



Encyclopedic Dictionary of Public Administration

The reference for understanding government action

AUDIT/AUDITING

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Auditing is the critical examination of an operation, a particular activity or the general situation of an entity. Auditing is generally based on standards and techniques that have been established and recommended by a professional organization and is performed through studies, controls or audits of management decisions and actions or of the compliance of such decisions and actions with the established body of laws, standards and rules. Furthermore, once auditors have completed their work, they will, as a rule, have to produce a written communication in which they express an opinion or conclusion, or put forward recommendations or measures to be implemented (Ménard, Arsenault and Joly, 2004).

The origins of auditing date to the ancient empires of Egypt, Greece and Rome, where it served to ensure that public officials performed their duties without also abusing their authority and enriching themselves at the empire's expense (Flescher, Previts and Samson, 2005). Auditing subsequently continued to develop, becoming a tool of control in modern states. Similarly, the notion of the independence of the auditor arose a long time prior to the modern era; in the view of Aristotle, auditors should be free from influence and intimidation of the authorities they are called on to audit (Gendron, Cooper and Townley, 2001). The term “audit” is historically and etymologically related to a “hearing” at which the official examination of financial statements was performed orally before an assembly (Dervaux and Coulaud, 1986).

Generally speaking, auditing can be considered an essential tool in reducing asymmetries of information between owners and managers (Pigé, 2000). Public sector accounting can take one of three main forms, which can be categorized according to three criteria: the situation of the auditor vis-à-vis the entity being audited (internal vs. external audits), the mandate of the auditor (statutory vs. non-statutory), and the objectives attaching to the mission (financial audit vs. performance or management audit).

The first form, the financial audit, concerns the auditing of financial statements and other financial data; its purpose is to provide a certain degree of assurance that this information “fairly presents” all major aspects of the issuer's financial condition (CICA, 2010). The second form, the performance or management audit (relating to the optimal use of resources), is aimed at shedding light on the means implemented by managers to economically, efficiently and effectively administer the resources entrusted to them. In the public sector, however, such auditing missions do not throw open to challenge the rationales behind policy statements or the objectives of various programs. They can, moreover, be performed either by an internal auditor or a legislative auditor, as is also the case with compliance auditing, which is conducted for the purpose of ensuring that activities

AUDIT/AUDITING

and transactions conform to established procedures and regulations. These different types of auditing are considered as being necessary in order for politicians and managers to account for their accomplishments and to explain their actions with greater creditability and transparency, in keeping with the highly political context in which they operate (Graham, 2007).

The foundation of this legitimacy is, however, lies in the competence and independence of the auditor. Competence is presumed to obtain in financial auditing as the result of barriers to entry in the profession (Flint, 1988; Abbott, 1988); it is in fact difficult to measure this nebulous notion, which only emerges in cases of corrections to errors or the discovery of fraud. Thus, whenever an audit is engulfed in a crisis of confidence, regulators tend more to focus on the notion of independence. Inevitably, this way of doing things has led to both the amplification and internalization of audits. Whereas at one time the only audits were external audits, there are now a considerable number of internal audits as well as audit committees (Humphrey, Moizer and Turley, 2006).

Criticizing the “audit explosion” to be seen across society, Power (1997b) deliberately refrained from defining “audit” because, as he writes, “the production of *official* definitions of a practice like auditing, in legislation or promotional documents, is an idealized normative projection of the hopes invested in the practice” (Power, p. 4). What is more, there is always a gap between what auditors do and what the various actors who use audited accounts would like them to do (Humphrey, Moizer and Turley, 1992).

Far from being static, the purposes and processes of auditing have adapted in response to the surrounding context. The emergence of environmental audits is just one example of how the auditor's field of action has expanded in recent times (Power, 1997a). Information technologies have also been increasingly used to automate the control functions associated with routine audit procedures (Manson, McCartney and Sherer, 2001). At the same time, “there has been a move away from systems and transactions audits to risk-based auditing, which concentrates the effort of the audit team on those parts of the client's business with the highest audit risk” (Manson, McCartney and Sherer, 2001, p. 109-110). That is why auditing is “far from being a self-evident set of techniques which require occasional improvement, but is rather a series of hopes and aspirations inscribed in its most mundane routines” (Power, 2003, p. 392). Ever increasing efforts are dedicated to maintaining, developing or renewing the relevance of auditing as part of an ongoing cycle of reforms in which the legitimacy of this practice is continually challenged by expectations both concerning and emanating from the system.

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AUDIT/AUDITING

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