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Walter H. GOLDBERG

New Requirements upon the Competence of an Old Profession

Nowe wymagania kompetencyjne w starym zawodzie

Новые требования к компетенциям в старой профессии

SHORT RETROSPECT

Accountants and auditors are certainly to be found amongst the world's oldest male professions. Accountability was one of the major reasons to develop and use symbols as forerunners of the written word, being one of the major expressions of human intelligence:

- a) religious symbols — to cope with uncertainties of nature,
- b) sexual symbols — to cope with the uncertainties of the other sex,
- c) accounting symbols — to cope with the uncertainties following from the possessions of goods.

The auditing tradition is almost as old as the accounting tradition. It has, however, developed into a direction different from that of accounting. The tradition is very old not only to audit the correctness of accounts, but also to assess the correctness of performance. In W.W. Cooper's and H. A. Simon's terminology, the evaluation of **substantive** as well as **procedural** efficiency became more and more important in auditing, both in administrative organizations and, later, in business. The assessment of substantive as well as of procedural efficiency, however, makes necessary to know the objectives of the organization, or at least have an understanding of them, which in turn means, that the auditor must be able to identify with the constituent (later the constituents) of the organization.

There is thus a long-standing tradition in the auditing profession, to remark, to criticize a performance in both respects mentioned. There is also a traditional reluctance to giving advice, still many places to be found in the auditing profession outside of the United States. The United States influence of auditors serving both as evaluators and advisors is slowly gaining acceptance outside of the United States. Still many auditors claim and will continue to claim that giving advice (in

particular on procedural matters) will radically impinge on the auditors capacity to objectively criticize procedural efficiency and conduct.

Although the tradition is old to have the audit to include more than a check into the correctness of the accounts (Gogol's play „The Auditor" would not have been written if it had not been so), there has been a tendency throughout the entire period of industrialization to put greater and higher requests on the auditor's shoulders, but also to request more integrity and competence from the auditor than before.

Again during the last twenty years one can observe a new kink in the hypothetical curve which could describe the requirements on the accounting profession. The requests on the auditing profession have grown rapidly and are still growing rapidly in our days. Some quite new requirements are discernible. The prediction that the auditing profession is a growing one both quantitatively as well as qualitatively is a prediction one can make without greater hesitation.

This paper will take up five main factors, which influence the tendency as shortly described above.

SOME BASIC PARAMETERS IN AUDITING

Schematic Overview: Parameters at Play in an Audit

Real World under Audit

— Filters in the auditors perception of the real world —

Information perception	Audit	Auditor's Report
Auditor's Frame of Reference	Descriptive and Analytical Method	Auditor's Reported Image of the Real World
Audit Theory	Law	Assumptions about Consequences of Findings
Audit Ideals —Profession Standards	Checklists — of States and Properties to be evaluated	Rules, Heuristics
"System's View" Ethical Rules, Standards and Laws	— of Relation between them	Ethical Norms and Standards
Constraints: Time and Resources	Time and Resources	Time and Resources
Perception of the Organization	Process Assumptions	Communicative Situation

The main parameters controlling the auditors **perception of the organization** under audit, the **conduct of the audit** as such, and the **communication of the findings** from the audit by the auditor are subject to a wide range of influences and thus variable in time and space. The overview below attempts, let be in a rather abstract way, to depict the main parameters at play in an auditing and evaluation process.

THE AUDITOR'S FRAME OF REFERENCE

The auditor is very selective in his audit about an organization, both when it comes to choose the aspects to be audited and in reporting the findings of the audit.

The auditor's frame of reference in exercising his profession is the main influence on his going about in an audit. A few items have been selected to characterize what makes up the auditor's frame of reference.

Audit theory is a reflection in the auditors personality of the state of the art of auditing in principle. Each individual auditor by necessity will have a different perception of what audit theory is at a certain point in time and what relevance it has to a particular auditing situation.

The audit "ideals" are greatly influenced by the standards of the auditing profession at a certain point in time and in relation to a particular organization under review. Obviously even the audit ideals will be heavily influenced by subjective factors.

The "system's view" is intended to symbolize the apprehension of the organization as such by the auditor. The system's view comprises an understanding of the constituents and their objectives in the organization (which always in several respects are in conflict with each others), an assessment of the organization's capacity now and in the future, and a wide variety of other system's properties and functions.

The **ethical rules and standards** reflect the auditor's understanding of what good organization behaviour (e. g. business conduct) is in principle. It also comprises his understanding of the ethical aspects of his own task and performance.

The auditor very likely will have a principle understanding of how much **time and resources** should be devoted to the audit of a certain type of an organization, ideally and in reality. Very likely the „time and resource parameter“ will influence the other major components of the auditor's frame of reference, e. g. the audit ideals. It may be noted that the different parameters mentioned in explaining the auditor's frame of reference in this brief manner are not independent of each other.

They support each other on one side, they influence but also inhibit each other or are in conflict with each other on the other side.

The auditor's frame of reference will at large organize and influence the perception of the organization under audit, which in turn will influence the process assumption for the audit to be undertaken.

DESCRIPTIVE AND ANALYTICAL METHODS IN AUDIT

The procedural aspects of the audit are influenced at large by the auditor's access to descriptive and analytical methods in performing audits. Again the subjective understanding of the auditor is very much influencing the choice of audit procedure.

Amongst the major parameters (being subject to change over time and in space) are the **legal aspects** regulating the organization's behaviour (e.g. "civil law" as a major frame of reference for business behaviour (e. g. „civil law" as auditing requirements and standards.

Each auditor has developed a number of **descriptive and analytical tools** in order to audit organizations of different types. Those methods here in summary are referred to as „check lists". One can at least distinguish between two different types of check lists, one describing situations, states, properties and processes in the organization to be evaluated, the other putting parameters and variables, developed by employing the first type of check list, in relation to each other, to create ratios or other types of **synthetical** information, indicators and similar analytical information relating the organization's performance to its own goals on one side and to average performance, e. g. in the industry, on the other side.

Again **time and resources** available will have an influence on the choice of process variables, thus inducing greater or smaller deviations from an ideal' audit of the organization in question.

AUDITOR'S REPORTED IMAGE OF THE REAL WORLD

Both the auditor's perception of the organization as well as his process assumptions will have an influence on the communication of the findings from the audit by the auditor to his peers.

The auditor's report is very much influenced by subjective expectations from the auditor's side as to the **consequences of findings** to be reported or not to be reported. The contents of the report, however, also are controlled by perhaps less subjective **rules and heuristics** reflecting

the state of the auditing art but also by **ethical norms** and standards adopted by the individual auditor.

The aim of depicting in a schematic way the parameters at play in an audit is twofold.

a) Obviously an audit is subject to many subjective and individual influences, which alter or at least influence the reliability of each audit performed.

b) The factors at play (of which the exhibit only gives a select and not absolutely representative sample) are subject to influences over time and space, which allows for adaptability of the audit to local or even new influences.

SOME MAJOR NEW SOURCES OF WIDENING ACCOUNTABILITY REQUESTS

A number of changes in the internal and external environment of organizations, business or public sector agencies are discernible. The following exhibit concentrates on changes which have an impact on private (or similar) business organizations. Some of these influences affect public sector agencies as well. Nevertheless, the treatment concentrates upon business organizations operating in a market economy.

COMPUTER AND INFORMATION SYSTEMS

The advent of the computer and its ever growing utilization in organizations has quite drastically changed the accountability requirements, in particular when auditing activities are concerned. The procedures for establishing the reliability of accounting systems using manual or mechanical methods for entry, accumulation, calculation and output — report generation had been developed fairly well over the years of their utilization. Computerized electronic accounting and information systems brought a dramatic change in so far as many operations now are contained in programs, models, files etc. which are not easily visible, tangible, traceable. There are already many examples of computer experts having been able to manipulate the systems fraudulent ways. In order to develop a thorough understanding of a computer system's characteristics as well of its possible and even intended mal-functions, the auditor will have to employ a new type of expertise, which well matches the expertise available in the organization. The traditional way of cross-checking and taking of samples, to establish a validity of the accounting reports,

is no longer applicable. An audit which does not take this change into consideration is not a proper audit. The skills required for auditing computerized information systems are not constrained to **operating skills** when it comes to understand what the computer is doing. It is as well necessary to understand the **data management** (i. e. how to register, store, manipulate and extinguish data, how the different data banks communicate with each other, what is contained in different data banks etc.) but also knowledge in the structure, functions and properties of **models** employed in the system for the generation of synthetic data, and of decision information etc.

GROWING COMPLEXITY AND MULTIPLE INTERDEPENDENCIES

One tendency prevailing throughout the entire industrialization period has grown in quantitative and qualitative importance, in particular during the post World War II period. It means that business enterprises are gradually becoming more and more dependent on their business environment in the first place, through specialization, through linkages, which tie together producers not only with their suppliers and subsuppliers of assemblies and sub-assemblies, but also with their channels of distribution, their service nets etc.

A second important development, which has grown in intensity in particular during the seventies are the interdependencies between the private sector enterprise and the surrounding public sector. Those interdependencies are of multiple character, ranging from the interplay between the enterprise and the public sector when it comes to export activities, the access to communication links of different types (roads, tele-communications etc.), cooperation on vocational training arrangements and to participation in employment programs, regional development programs etc.

Under this heading in particular the business to business industry to industry interdependence is under scrutiny, but also the dependence of firms on their environment and on various types of movements which question or support certain activities in the economic sector.

It is not only the multitude, that is the quantitative character of the growing complexity and interdependencies, which is of interest but also the qualitative aspects of it.

When an auditor is assessing an enterprise today on its efficiency, subjective as well as procedural one, the auditor is forced to go beyond the surface and to investigate the different types of interplay, their character, their impact on the firm and in particular the firm's depend-

ence or not on such interdependencies. Only by knowing the auditor will be in a position to estimate, to judge the vital or non-vital importance of the links and their consequences to the capacity of the enterprise to pursue its objectives effectively and efficiently.

PUBLIC SECTOR INTERACTION WITH BUSINESS

Beyond the interdependencies mentioned under 2. there is a strong tendency to closer links between the public and the private sector. This is perhaps in particular a European phenomenon, although its presence in the United States is also well established. It goes far beyond taxation and takes many forms and appearances like governmental support to firms or regions or industries (a famous British expression is "to put public money into private pockets", for example in order to salvage jobs or to maintain national champions which otherwise would fail but without which a country would not want to exist).

Two particular types of public and private sector interaction deserve to be mentioned here. One is the participation of enterprises in programs of public sector type. The reason for such participation is that although the public sector would be in a position to implement and conduct programs of a certain type, i. e. youth employment programs, job creations programs etc., the interaction between the public sector and private firms brings savings or improvements in efficiency of such programs and certainly in many cases advantages to both contracting partners plus, hopefully, even the specific constituency or category served.

A second important type is public co-ownership, for various reasons. First to mind perhaps come cases of faltering industries or enterprises where government enters into business activities in order to maintain the industry or enterprise in question for reasons not to be explored here. A second type of public co-ownership, however, is strictly of the business venture type. In many European countries in particular during the last ten or fifteen years government has been entering into blooming and prospering industries in order to participate in the profits of the industry and in order to even develop industries which are thought to be of vital importance for the future economic growth in the country. For various reasons a number of European countries even maintain a rather large publicly owned competitive enterprise sector, which in many cases has been very successfully managed, competing on equal terms within an international, competitive environment.

With the appearance of public money in private pockets follows accountability. With accountability follows the need for auditing such ven-

tures. So, both the politician, the public administrator and in the last end also the tax payer is being kept informed about the whereabouts of the tax money, how well or how badly it has been used, if the program has rendered the desired results, if the venture should continue or not etc.

Certainly this is a new type of tasks for auditors. Likewise it is in many cases a new experience for an auditor to serve a new constituency. It perhaps does not require great differences in auditing procedures. However, certainly a new type of frame of reference from the auditor's side in many cases will be needed. Further the communication patterns and conditions with the new constituency may be very different from the ones to which the auditor is used.

SOCIAL ACCOUNTING

"Social accounting and reporting" is not only longer to be regarded to be a new short-lived fashion. In many cases the new requirements, official as well as unofficial ones must be met whenever the behaviour and conduct of business is being questioned by pressure groups, movements etc.

It is to be foreseen, that social accounting and reporting is to grow and to gain importance over the years to come. Certainly it is known that many auditors dislike "social accounting", for several reasons, one being the "soft" character of the criteria, data, and models used.

In order to become adopted with credibility, social accounting and reporting will have to be subjected to auditing procedures similar to those in effect which have been used for many years in auditing accounts and annual reports.

This means that the auditing profession will have to adapt itself to the new requirements by learning, developing auditing theory, establishing auditing standards and norms as well as to develop analytical methods to assess the consequences of observations made and conclusions drawn during the social auditing process.

SPECIAL INTEREST GROUPS

When special interest groups are mentioned in connection with auditing one immediately comes to think of minority auditors looking after the interests of a certain group of shareholders. However, there are new developments under way, not only in Europe, which bring new special

interest groups into the range of grouping of constituents for which auditors normally are doing their duties. The so-called co-determination or participation movement in Europe in several countries means that the employed in a firm not only are given new rights to participate in decisions at various levels, from the operative level to the company board of directors. In certain countries legislation rules are given which, beyond board representation, provide for employees consultants and **employees auditors** as well. This means that the employed work force in the firm is entitled to hire, at company expense, consultants, in order to get certain things in the firm investigated, illuminated or explained. In a similar way the employee auditor gives the employee participants an instrument not only to disclose the accounts of the firm in a competent and traditionally reliable way but also to lay open the consequences of the findings to the employed, in a way which is comprehensible to the employee representation. It may be mentioned that many CPA-level auditors today in Europe are serving as employee auditors in a way which is respected by both sides, i. e. the employees and the capital holders.

The impact on the auditing profession is again not so much in the auditing process area but rather in the auditors frame of reference, vis-à-vis a new category of constituents and, in particular with respect to the communicative situation vis-à-vis a clientele, which lacks both education and experience in matter of the economics of a firm.

SOME CONSEQUENCES TO THE AUDITING PROFESSION FROM THE NEW DEVELOPMENT

In the course of the above exposé a number of consequences to the auditing profession have been indicated, in some cases with reference to the exhibit "schematic overview: Parameters at play in an audit". In the cases 1. and 2. above, the main consequences may be observed in the area of descriptive and analytical methods but also in audit theory and in assumptions about the consequences of the findings. Regarding examples 3., 4. and 5. above, the major changes to take place were traced to the frame of reference of the auditor as well as to the communicative situation, which is very likely to be different from the one the traditional auditor would have been used to. A few concluding remarks, however, still are to be made.

The new requirements in a few cases mean that the auditor will have to rely upon experts (e. g. in computing, or on management models of computer based type). Even in cases where the auditor is seeking the

advice of an expert he will have to develop a new theoretical frame of reference, which enables him to ask the right questions when talking to an expert and to assess the reply the expert will be giving him. Similar conclusions may be drawn on several other new trends and their consequences for the auditing process as well as for the auditing profession. It means of course also that the institutes of universities involved in preparatory or continued professional training of auditing recruits for experienced auditors will have to adapt their programs to the new conditions.

An interesting question to go into would be a both qualitative and quantitative assessment of the recruitment needs but also the proficiency development needs for the accounting profession.

A very important final question can only be touched upon here and that is the question on who appoints the auditor and by whom and on what grounds an auditor may be dismissed. Obviously new constituents are coming up in the immediate environment of the business enterprise or within itself which either claim or already had been given a right to appoint auditors. With this development certainly will follow consequences for the working conditions of, but also for the cooperation between auditors appointed by different constituents in the company or its environment.

Throughout this paper an approach has been chosen which refers new developments in accountability to the auditing profession. The particular reason why this approach has been chosen beyond a merely speculative approach is that it seems to be appropriate to let the speculations, of which there are many, not to be replaced but rather be supported by some more material, down to earth considerations on how a particular profession, which is thinking very much in terms of its own development along with growing requests, may be induced to enter into the discussion and to communicate on this matter not only with the constituents, new and old ones, but also with the universities and with the authorities granting certificates.

STRESZCZENIE

Przedmiotem analizy w opracowaniu są źródła i problemy prowadzące do zwiększonych wymagań wobec współczesnej sprawozdawczości i kontroli działalności gospodarczej. Wzrastanie tych wymagań można obserwować w świecie w okresie ostatnich dwudziestu lat. Na tendencję tę wpływają takie czynniki stosowane w sprawozdawczości i kontroli organizacji gospodarczych, jak główne parametry, rodzaje i układ czynników odniesienia, opisowe i analityczne metody, wyobrażenie i percepcja rzeczywistości. Są one kolejno omawiane z posłużeniem się

metodą prezentacji graficznej. Do tych czynników należy dołączyć zmiany dokonujące się ostatnio w otoczeniu wewnętrznym i zewnętrznym organizacji, zwiększające jeszcze bardziej wymagania wobec ich sprawozdawczości i kontroli. Zmiany te dotyczą komputeryzacji systemów informacyjnych, zwiększającej się złożoności i różnorodności wzajemnych zależności, interakcji gospodarki prywatnej i publicznej, kontroli społecznej, specjalnych grup nacisku. Opracowanie kończy się wskazaniem konsekwencji wszystkich tych czynników i zmian dla zawodowej sprawozdawczości i kontroli organizacji gospodarczych.

РЕЗЮМЕ

Предметом анализа в статье являются источники и проблемы, ведущие к увеличению требований по отношению к современной отчетности и контролю хозяйственной деятельности. Усиление этих требований наблюдаем в мире в течение последних 20 лет. На это влияют такие применяемые в отчетности и контроле хозяйственных организации факторы, как: главные параметры, виды и факторы отнесения, описательные и аналитические методы, воображение и восприятие действительности. Они поочередно анализируются автором, причем применяется также метод графического представления. К этим факторам следует добавить те изменения, которые происходят в последнее время во внутреннем и внешнем окружении организаций, ещё более усиливающие требования по отношению к их отчетности и контролю. Эти изменения заключаются в компьютеризации систем информации, росте сложности и разнородности взаимозависимостей, взаимодействии частного и государственного секторов экономики, общественном контроле, действии специальных „групп давления”. В заключении автор указывает последствия этих всех факторов и изменения для профессиональных отчетности и контроля хозяйственных организаций.