

Accounting History

Book review

A history of auditing: the changing audit process in Britain from the nineteenth century to the present day

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This book provides a thought-provoking and well-researched analysis of the development of auditing in Britain. The author has skilfully researched the topic using a variety of sources including previous published works, company annual reports, oral histories and survey questionnaires of auditors and other accounting professionals who trained as far back as the 1920s. The result is an illuminating account of the profound changes in the auditing profession over this long period.

A major contribution of this book comes in Chapter 2 where the author analyses the so-called "bookkeeping audit", which was quite widespread from the early days of propriety companies through to at least the 1950s. The author documents that many clients of auditors (even relatively large ones) were seemingly incapable of preparing full sets of duly balanced accounts during the nineteenth century and for much of the twentieth century. This was because of a paucity of well-trained accountants and clerks working within companies. The result was that auditors for much of this period would adopt the following approach where "the accountant first had to put in order and make up the books, draw up the final accounts, then finally sign them off as the auditor" (p.12).

While the reliance on the bookkeeping audit has been documented before (see for example Chandler & Edwards, 1994), the contribution of this section of

the book is to provide evidence that this approach was prevalent for much longer than is generally thought. As stated by the author "it is clear from our oral evidence that it [the bookkeeping audit] was still common even at large clients in the 1950s and 1960s" (p.21).

It is interesting to reflect on this frequent practice of the bookkeeping audit in light of recent controversies and debate concerning auditor independence. Much of the discussion of contemporary accounting scandals has focused on how auditors have allegedly lost their way by becoming too close to their clients through various consulting activities. Yet what the author has documented is that even in the so-called "good old days" of auditing the auditor was often involved in potentially dubious activities such as effectively auditing his/her own work. It seems that high levels of interdependency between the auditor and client has been a problem for most of the past 150 years.

Another interesting theme in the book is the paradox presented to auditors through the advent of the computer from the 1960s onwards. It is clear that auditors struggled to come to terms with the best way to integrate the increasingly sophisticated computer systems of their clients into audit planning and procedures. In particular, they agonized over what level of trust could be placed in these complex systems and whether to audit "around" or "through" the computer. The former meant one effectively treats the computer as a "black box" and, therefore, focuses on verifying its inputs and outputs. The latter approach requires the auditor to obtain computing expertise so that they will be able to examine for themselves the quality of the programming and processing undertaken by the machine.

The author highlights that the audit around the computer approach dominated for much of the early days of the arrival of mainframe computers but this approach was increasingly challenged by advocates of the audit through approach. The later group gained the upper hand in the late 1960s. The author documents that techniques of auditing through the computer such as running the auditor's own programmes in the client's computer system gradually became accepted. Respondents noted that audit firms debated over whether they should create stand alone computer audit sections comprising specialist staff or seek to train their entire audit staff on high-level computer programming and use. One interviewee highlighted that this debate may have become largely redundant in the last decade or so as auditors increasingly developed high-level computer skills and systems became more flexible: "We now live in their systems, auditing. Our people from locations around the world validate information and transmit it over the same network to us, using the client's system" (p.117).

Another theme of the book that is worthy of special mention is the debate over how much testing and sampling is necessary to obtain an audit opinion. The author documents a seemingly diverse and "ad hoc" approach to testing even "within the same firm and sometimes on the same job" (p.50). One interviewee described the

approach employed within his former firm indicating that “sometimes [testing was done] on a time basis, sometimes on percentage, sometimes haphazard according to assessment by the partner or senior, and completely unscientific” (p.50).

Ultimately it seems that accounting firms resolved this dilemma by a move away from substantive testing altogether:

my observation quite early on was that if you were going to apply statistical sampling to audit work, your samples had to be so big to attain the sort of probability and error margin that you needed that it was going to be uneconomic. By and large, it seemed much better and much more likely to be practicable to assess and attack risk. Subsequently, the business was all about risk assessment. (p.57)

In conclusion, this book provides a valuable account of the evolution of the audit function in Britain. It is, therefore, a worthy addition to the bookshelves of those who care not only to understand where audit has come from but also for those who contemplate the future of the profession itself.

Reference

Chandler, R. and Edwards, J.R. (eds.), (1994), *Recurring Issues in Auditing: Professional Debate 1875–1900*, New York and London: Garland.

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