

The Audit Society and Audit Trails

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The Audit Society and Audit Trails

- Performance and auditability
- 2 cases: the Sarbanes-Oxley effect; UK Research Impact
- The logic of audit trails
 - Referentiality, Traceability, Precision
- Mechanisms of performance representation
- Discussion

Performance and auditability



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- Performance measurement systems as historically contingent
- Phases in which performance (of nations, organizations, individuals) has been problematized e.g. waves of efficiency concerns dating back to Taylorism
- Systemic rise of 'Agency' Relationships; response to societal complexity, creates functional need to monitor
- Growth of guardians of trust (auditors, evaluators, certifiers, supervisors) at different times, places
 - emergence of *regulatory states* (1960s USA; 1980s UK...)
- Audit society = observed growth of audit/inspection activity (UK 1980s.....)
-also closely linked to ambitions for measuring performance: New Public Management; 'Reinventing government'

Performance and auditability

- Historical periods of intense reform; performance and oversight programmes linked. Today new performance ideals: good governance, best value, effective risk control systems, etc
- Audit society thesis: how these ideals are operationalised is critical e.g Rise of non-financial measures: triple bottom line, service indicators and targets, balance scorecards, risk maps etc.
- Key Driver of organization = organizations being made auditable; performance is represented in specific ways which value and enable 'auditability'.
- This does not mean performance measures are actually audited, but that their construction reflects that they might be.
- What, if anything, is wrong with this..?

Performance and auditability



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- Many ‘critical’ claims about the effects of these measures and representations;
 - ‘Motivational crowding’ (Frey); intrinsic motivation gives way to extrinsic motivation; Impacts on professional ethos, distrust and anxiety but also resistance.
 - ‘bureaucratic goal displacement’ – costly ‘gaming’ of auditable measures
 - We don’t understand enough about reactivity i.e. individuals react to measures in ways which make them more true. Example of rankings systems.
- My question: How specifically is the representation of performance actually organized, how is auditability achieved and what kind of variability can we observe?
- 2 cases; participant observation!

Sarbanes Oxley Act (SOX) as an organizational model

- SOX post Enron reform; Costs, impacts of SOX widely debated (e.g. Leuz, 2007) but diffusing as organizational model
- ‘effective internal control’ as regulatory demand for a kind of performance now visible in PUBLIC SECTOR
- Ambition for governance of organizations by imposing new kind of self-knowledge; an organization sees itself as a system of ‘internal controls.’
- S 404 requires senior officers to certify the effectiveness of internal controls over financial reporting
- NB internal control reporting a growing feature of public bodies

SOX 404

- SOX 404 rather brief, but highly charged environment
- Heightened world of inscription, new organizational empiricism
 - 1. Precise business process descriptions/documentation plus controls.
 - 2. On basis of 1. further precise inscriptions, check-boxes, as evidence of control events
- New detailed class of *control facts* brought into existence by organizations,.
- Internal controls as category of performance; new responsibility object
- NB vectors of performance always changing

Research Impact

- UK research evaluation. % of funding allocated on basis of beneficial 'impact' on society
- Not academic impact, not engagement, not prestigious lectures; must prove causal link from research to some public benefit; causally demanding
- HEFCE 2010: experimental case studies. LSE reception and guidance. Three case studies per 20 members of staff!
- Impacts must be verifiable!

Impact of research impact

- Events unfolding so evidence preliminary
- Considerable hostility; arts and humanities; metaphor of 'impact' too simple
- Academics keeping 'impact' files just in case, not certain
- Users being contacted and 'recruited' to verify/certify impact
- HEFCE not all research will have to be 'impactful', but a norm being established = reactivity
- Case studies (3-5 pages) as new forms of 'impact' accounting!
Best practice templates emerging....

The logic of the 'audit trail'

- Both cases involve creation of 'audit trails'
- = primary traces of performance get created by organizational agents as a product of new performance requirements
- Performance 'accounting' is concretely realised and operationalised
- Both cases maximise variation: Private-public; old-new; US-UK
- Both cases and contrast between them reveal elements in different ways
 - The need to create 'Reference' for performance = primary records/traces
 - Institutional demands for Traceability = audit trail quality
 - Ideals of Precision
- The dimensions suggest ways in which performance demands get organized.

Referentiality

- Significance of ‘primary traces’ of practices: day books, incident logs, invoices, spreadsheets, timesheets, questionnaires, risk assessments
 - ‘Infrastructures of referentiality’ (Lezaun, 2006) ⇒ material traces/inscriptions processes of organizational micro-fact production about “performance categories”
- SOX: old practice but intensification of traces in the form of check-boxes as a new material trace of control performance – the micro-structure of corporate governance.
- Research Impact: uncertainty about traces; case study narrative as the trace; but verifiable traces of impact. Non-standardised and institutionalised. User confirmation letters?
- Not all traces equally significant; cases where such traces formalize performance for the first time such as research impact, may create new body of micro-facts for agents and organizations..new forms of reactivity set in motion

Traceability

- ‘Audit trail’ ideal visible in both cases but three meanings:
 - Capacity for bureaucratic and legal replication of decision process
 - Capacity to trace origins of aggregate to components
 - Primary traces cannot be transient, must be stored, memorized
- Traceability as *potential*; actuality not necessary. Traces produced *as if* they will be revisited (Auditing as *revision*)
- = Audit trail as material but also expresses institutional and regulatory value of traceability in the present
- SOX – aggregation; Research Impact: ‘n’ case studies, no basis for aggregation?
- Production of traceability more important to tenor of performance regime than any actual audit

Precision

- Precision as surface feature audit trails of performance
 - Quantitative calibration allows precision of numbers
 - Qualitative/legalistic as precision of rules
- Precision as symbolic: visual feature of record keeping of performance facts, not necessarily functional.
- Precision as value; way in which performance representation is legitimate:
- SOX audit trails precision; Research Impact cases precise narrative; Shows seriousness, virtue? Why:
 - Adversarialism: SOX product of adversarial environment; Research impact – academics under attack?
 - Technology: SOX 404 technology driven, new forms of precise representation become possible; Impact less precise narratives, but can imagine machine?

The logic of the audit trail



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- SOX 404 and Research Impact as instructive; but likely to see three elements of audit logic wherever reform initiatives create need for new ‘facts’ of performance.
- Audit as a growing and durable ‘institutional logic’ in public and private organizations which shapes the way performance is coded and represented; this is the real face of the audit society which organizational agents experience....
-not a world of auditors but a world of traces and trails created by agents in anticipation of audit

Form of of performance representation

	Precision of primary performance Representation (virtue of objectivity)		
Demands for Traceability of Performance		High	Low
	High	SOX 404 Audit trail 'logic'	Readability: written narrative: 'the file'
	Low	IMPACT Peer Evaluation	Orality; judgement

Discussion

- The reach of audit trails and a ‘logic of auditability’ is yet to be fully demonstrated but the cases are suggestive.
- Can hypothesise that demand for new representations of performance sets in motion a dynamic around audit trails - existing performance milieus are disturbed.
- Much broader than accounting!! Audit trails here as a pure case?
- Audit trail as particular way of making performance visible; audit trail analysis (ATA) as a new form of organizational enquiry? Payoffs?
- Applicability to Financial crisis? logic of auditability driving proliferation of detailed compliance practices; distraction of organizational and regulatory foresight capacity? ‘Mock performance’ of security?

Discussion

- Audit trail analysis directs attention to manner in which regulatory and public bodies demand performance traceability e.g. UK registration systems for doctor competence following Shipman.
- ‘Traceability’ is more concrete and material than academic literature on formalization and legalization (Sitkin and Bies, 1994),
- Audit trail analysis contributes to an understanding of the variable structure of bureaucracy
- Consistent with record destruction and editing?
- Policy issue: pay more attention to audit trail end of initiatives and likely consequences? How to stop agents from amplifying?

Discussion

- Audit Trail Analysis particularly applicable to the governance explosion of the 90s and 2000s.' Across public and private sector.
- Organizational governance norms:
 - Require new forms of 'exteriority' for practices in organizations.
 - Risk oversight demands risk management traces
 - Board effectiveness requires new traces
 - Are public organizations likely to be hyper compliant?
- But there is also variation; why? Audit trail analysis suggests many hypotheses to explain variation

Discussion

- Possible hypotheses
- More adversarial (regulated) environments, more precision in traceability
- Legitimacy of precision may explain persistence of ‘box-checking’ practices in areas of organizational life, amplified by rise of spreadsheet technology
- Organizational history; organizations will expand what they already do to new performance requirements; audit trail model naturally expands
- Crowding effects; more precise and complete audit trails ‘crowd’ other performance values
- More trust in environment: more limited ‘audit trails’

Conclusion

- Reach and uniqueness of ‘audit trail’ effects must not be overstated. One ‘institutional logic’ with a contingent institutional history which will vary across jurisdictions and fields. Perhaps most applicable in regulated settings.
- Audit trail analysis helps us to understand how performance facts are constructed at the organizational level. Gets us beyond vague statements of ‘audit society’ etc
- Values of traceability and precision are not functional necessities: audit trail analysis allows us to challenge their obviousness.
- Audit trail analysis suggests how ‘performance’ is inherently a ‘regulatory’ concept
- Suggests that public organizations made up of multiple, intertwined audit trails!