Chapter 6

Strengthening and Enriching Audit Practice:
The Socio–Technical Relevance of "Decision Leaders"

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ABSTRACT

The audit profession has been facing reassessment and repositioning for the past decade. Enquiry has been an integral part of an audit; however, its reliability as a source of audit evidence is questioned. To legitimize enquiry in the face of audit complexity and ensure sufficiency, relevance, and reliability, the introduction of Stafford Beer's Viable System Model (VSM) into theory and practice has been recommended by a number of authors. In this paper, a variant on previous VSM-based audit work is introduced to perfect auditing assessment of accountability and compliance. This variant is termed the "VSM/NVA variant" and is applicable when the VSM model is in use for an audit. This variant is based on application of Network Visualization Analysis (NVA) to a VSM-modeled organization. Using NVA, "decision leaders" can be identified and their socio-technical relevance to VSM systems explored. This paper shows how the concepts of decision leaders and their networks can enrich and clarify practical applications of audit theory and practice. The approach provides an enhanced real-world understanding of how various VSM systems and network layers of an organization coalesce, and how they relate to the aims of the VSM model at micro and macro levels.

1. INTRODUCTION

The audit profession has been facing continuing reassessment and repositioning for the last decade (Comunale et al., 2003; Eugénio et al., 2010; Fogarty & Rigsby, 2010; Fraser & Pong, 2009; Hatherly, 2009; Khalifa et al., 2007; McKee, 2006; Sikka et al., 2009). There are many reasons for this soul searching, including the flurry of self examination that followed revelations of fraud in US giants Enron and WorldCom, and their subsequent collapse. Organizations themselves have become more complex and encompass multiple stakeholders with different perspectives; users of audit information are more demanding, especially with regard to the timeliness of information; technology has changed the way information is recorded and this is reflected in many aspects of the audit; intangible assets and soft information about organizational knowledge, management intent, cultural attitudes toward control and risk assessment, and projections of future results, all have become more and more important.

The growing interest in social and environmental accounting (Eugénio et al., 2010) has added to this pressure for re-examination of the conceptual basis upon which the current auditing standards are based (Hatherly, 2009). In addition there has grown understanding that the choice of accounting policies that are made by a company has implications for the market's understanding of corporate performance and influences share value (Brown & Whittington, 2008).

All these disparate aspects have significantly heightened scrutiny of auditing methods, whether the assignment is an audit of financial statements or an assurance engagement. The pressure for independent assessments of accountability and compliance has never been greater (Fraser & Pong, 2009).

Enquiry has always been an integral part of an audit (CICA, 2000); however, it has typically been regarded as subjective, and its reliability as a source of audit evidence has been questioned. To legitimize enquiry in the face of the growing complexity of assertions in both financial statements, and in assessments of their sufficiency, relevance, and reliability, the introduction of Stafford Beer's Viable System Model (VSM) (Beer, 1972, 1979) into the theory and practice of audit has been recommended by a number of authors (Bell et al., 1997; Bradshaw & Leonard, 1991; Leonard, 1995; O'Grady et al., 2010). Bradshaw and Leonard (1991) speculated that audit theory and practice would be supplemented even further by new theories and methods which had been developed in other fields.

In this paper, as Bradshaw and Leonard (1991) foresaw, a variant on their VSM-based work is introduced in order to further perfect auditing assessment of accountability and compliance. The variant is termed in this paper the "VSM/NVA variant", and it is applicable when the VSM model is in use for an audit; this paper does not provide details of application of the VSM model to an organization.

This VSM/NVA variant is based on application of Network Visualization Analysis (NVA) (Smith, 2010) to a VSM-modeled organization. Using NVA, influential organizational players, here termed decision leaders, may be identified (Smith, 2005a, 2005b), and their socio-technical relevance to VSM systems explored. The paper describes how the concepts of decision leaders and their networks may be used to enrich and clarify practical applications of audit theory and practice by providing an enhanced real-world understanding of how the various VSM systems and network layers of an organization coalesce, and how they relate to the aims of the VSM model at micro and macro levels.

In a remedial sense, the approach described here also makes available, in response to an audit, the opportunity to leverage or redress as necessary,

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