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## **Australians on world trip meet overseas partners and staff and study TROBAS procedures**

**E**ARLIER THIS YEAR WE WERE FORTUNATE in being able to embark on a world trip to study auditing procedures and other operations in the accounting profession in the major overseas countries of the United States of America, Canada and the United Kingdom.

In this venture, the first of its kind for both of us, we were extremely fortunate in having as our hosts the partners of our associate firms in these countries, Touche, Ross, Bailey & Smart.

We found many differences in the way people go about the task of earning a living in the accounting profession as one would expect, but TROBAS offices in all countries were alike in their friendliness and helpfulness, which exceeded all our expectations.

Possibly the most important benefit we obtained from our visits was to be found on the human level, so that long before we returned home we were more conscious than ever that we belonged to a much larger and stronger team than we had visualised and one that across the world was made up of able and friendly men. As we moved around we were also greatly impressed with the fantastic speed of



**By W. F. Joyce and P. J. Davidson**

modern transport facilities and the resulting rapid shrinking of the world which makes thought and action on an international level all the more desirable.

You will appreciate that our observations were made on a fairly rapid trip with no great amount of time spent in any one place on any one subject, and certainly no time spent on actual field work with clients. It may be, therefore, that in some instances our comments are not supported by quite the depth of study and experience necessary. This would apply particularly to Canada, where our stay was very short.

The main objects of the trip were to review overseas auditing procedures, techniques and organisation and to examine management services, with special emphasis on the methods adopted overseas to develop this particular service with existing clients. On the technical side, other items of special interest to our Australian organisation included a survey of TROBAS internal administration and accounting and staff recruitment and training. Last, but not least, it was

considered just as important to meet and get to know as many overseas TROBAS partners as possible so as to strengthen and bring closer the association between our respective firms. We would like to believe that in doing this we provided some opportunity for overseas partners and senior staff to learn more of Australia, our organisation and its ability to provide adequate professional services in Australia, particularly to overseas clients of our associate firms.

### *The “auditing for fraud” mentality*

Now to our general observations, commencing with auditing procedures. It very quickly became obvious that in the U.S.A. and Canada there is far more emphasis on the auditor's expression of an opinion on financial statements as the major or fundamental objective of an audit than in Australia and the United Kingdom. In these latter countries, the general approach to auditing has been and continues to be affected by the “auditing for fraud” mentality which appears to be quite understandable, having regard to the attitude of the world of industry and commerce to the responsibilities of the auditing profession in these countries. We assume the S.E.C. has been a force in changing the fraud approach in America. It is felt in some quarters in Australia that a campaign to educate the public in this matter should be undertaken, not excluding action on an Institute level. We believe that in the United Kingdom and Australia this aspect has greatly retarded the movement away from detailed checking to greater reliance on test checking. On the American continent the volume of checking or testing of clients' records and documents appeared to be limited to that considered adequate to maintain

*R. Moore, Melbourne partner, and his secretary, Miss Graves.*



knowledge of the clients' internal procedures, and also satisfy the auditor that the internal procedures and controls are working satisfactorily; this all with a view to giving the auditor confidence in the reliability of the accounting records to produce accurate financial statements based on standards consistently applied. In the Australian profession our tests are more expansive, in the expectation that with this wider field of examination fraud or error may be detected or prevented.

For some years, a proper understanding and evaluation of clients' internal procedures and controls have formed the basis of Australian auditing approach, but we formed the opinion that, in the three major English-speaking overseas countries, far more time and care were being devoted to this aspect of clients' affairs. We were most impressed with the U.S.A. policy, which has been substantially implemented and which calls for the incorporation in the audit programme of an outline of the accounting policy, procedures and controls, together with a summary of the major strong and weak points in the internal control. This type of audit programme is known in the U.S.A. as an integrated programme. The linking together in one document of essential facts of the history and present particulars of the client, the accounting procedures, internal controls (with weaknesses highlighted), tests of transactions and final audit programme as now in use in the United States of America seemed to us sound and admirable, and we are pleased to state that our recent Australian National Conference unanimously decided to convert to this type of programme as soon as practicable.

This type of programme gets right away from any rigid form of standardization as to the actual audit work, tests and scope—in other

*L. Garnsworthy, Melbourne partner, with Miss Richards, a typist.*





*Partners and staff hold discussion in Board Room at Melbourne. From left, seated, E. Huggard, G. F. Cormack, W. F. Joyce, R. Moore, L. Garnsworthy. Standing, P. McGee, L. Smyth, B. A. Waters.*

words, each programme is tailor-made for the particular client.

In Canada, audit programmes are not fully integrated as in the United States of America but we gathered a general impression that they liked the idea and that their policy will rather trend towards procedures similar to the U.S.A.

In Australia we have been functioning with a standard form of specimen programme to be used as a guide to the preparation of individual tailor-made programmes for interim audit work, but most of the scope of work required at year end in connection with the verification of assets and liabilities, etc. is provided for in a printed form of Balance Sheet Questionnaire.

The United Kingdom appeared to be similar to Australia in its approach to audit programmes with some element of standardization in that standard specimen printed programmes are available, as instructions say, to be used as guides to the preparation of programmes, but we feel there is a tendency with audit staff in any practice to accept the standard in many cases without adequate alteration to suit a particular client. We have obviated this to some extent by amending or retyping the programme each year. This London standard programme actually prescribes, as a guide, suggested volume of checks and tests to be performed with, in some cases, stated maximum volumes.

The standard programme does, of course, have the advantage of ensuring over a practice as a whole, adherence to a pattern and



*In the Sydney Office Board Room, another discussion goes on, this time with a secretary to take notes. From left, partner Peter Davidson and two senior members of the Sydney Office staff.*

compliance with certain prescribed minimum performances. In Canada the interim audit programme is, for the most part, a tailored programme but when it comes to the balance sheet verification, there is an element of standardization.

United States of America was the only major country which had completely ceased to use a standard form of questionnaire for the review of internal control. These questionnaires were in different form—the Australian being a mixture of question and answer Yes/No and narrative form, whilst the London form was entirely in Question and Answer—“Yes or No.” In London the firm’s work papers contained a further detailed statement of internal controls for each client which were very good and comprehensive—this was prepared after and in addition to the printed questionnaire.

### ***Initial the programme or write a report?***

The U.S.A. audit programme is not marked or initialled to provide evidence that the items have been attended to, but the desired result is obtained by all members of the staff and partners preparing reports and memos for inclusion in the working papers on each phase of the audit for which they are responsible, right up to the final review by the partners and by the Report Review section. In Canada, the United Kingdom, and Australia, evidence of work done is, in the main, supplied by initials or ticks against each item on the programme. In each country there is some limited form of report or

memo writing in the working papers but in no case has this method been developed as fully as in the United States of America. We agree with the contention that the system of report writing is less mechanical than initialling a programme and is more positive and compelling.

Now, as to our observations on the scope and spread of audit work over an accounting year. In the U.S.A. block checking with tests performed in the main within one month per annum is the pattern, rather than random checks spread over the whole year. The pattern appeared to be similar in Canada with a volume of checking in excess of the States. In London the general pattern of interim audit work is for the work to be spread over the year so that a month for performance of at least some tests is selected in each quarter. We gained the impression that London is keen to retain this approach as it is felt it is a good deterrent against fraud which, as mentioned earlier in this article, affects United Kingdom and Australian thinking more than that in the American continent. The actual volume of checking has probably been greatest in Australia but this position is rapidly changing to accord more with overseas procedure, but only where the system of internal control is satisfactory. In the main, tests in our Australian firm cover two months in the year plus an examination of weak areas.

The U.S.A. and Canada place a tremendous amount of emphasis on the year-end audit work involving the so-called breakdown approach, working back from the financial statements and accompanied by a very intense analysis of individual accounts. There did not seem to be quite so much emphasis in this regard in London, but they laid a great deal of emphasis on the "follow-through" tests.

The tendency for working papers to contain a variety of specially printed standard forms seemed to be confined to Australia. Whilst U.S.A. working papers observed were of an extremely high standard, the absence of detailed papers covering queries—missing documents and the like—was very noticeable. Many working papers are maintained in ink but there would seem to be much merit in the U.S.A. adoption of pencil for all working papers.

Whilst we did not see any extensive evidence of the use of sampling techniques in overseas auditing, we had to admit to ourselves that, generally speaking, there is overseas a more sensible, logical and scientific approach to the type and volume of tests to be applied in any audit. The U.S.A. appeared to be in the lead in this regard. The size of our client companies is naturally smaller in Australia compared with the United Kingdom and the U.S.A.; however, we





*A portion of the reception area in the Sydney Office.*

*A portion of the reception area in the Melbourne Office.*



saw nothing overseas which would influence us from continuing to make an inspection of special areas through each year.

Physical observations of inventories is not as universal in Australia as overseas; however, in our organization this is becoming more and more part of our audit procedures.

We were surprised to find that confirmation by circularisation of debtors, which is of old standing in Australia, has not as yet become general practice in the profession in the United Kingdom.

Australia has a lot to learn in developing further delegation of both responsibility and work to members of the staff. This was one of the most useful facets of TROBAS practice noted overseas.

All the overseas firms had a stronger and more experienced class of Supervisor than we have in Australia.

We noted that recruitment in the U.S.A. was entirely from University level, whilst Canada and London had reached the stage where approximately 50% were from Universities and 50% from school. In Australia, recruitment of staff is almost entirely from the schools, with the average age of boys approximately 17. We expect this position to change but it will be a slow process.

The pool system of allocating staff below Senior level to audits has been successfully developed in London and U.S.A. but does not function in Canada where teams of partners are served by fixed groups of staff. Australia has not utilised the staff pool method to any extent.

It seemed that only in the U.S.A. formal staff training is carried out on an intensive scale. The U.S.A. has a Director of Education to co-ordinate and assist in the training programmes and it would appear that the time and money spent on education is very effective and of great assistance in the successful administration of the practice. Formal staff training sessions did not seem to be used so much in London. In recent years this important aspect of our professional life in Australia has received much attention and it is hoped to make it more intense in the future.

Budgets for hours and control over the operations of the staff were highly developed in London, Canada and U.S.A. and in much more detail than in Australia. Our internal administration will benefit from the adoption of overseas procedures in this regard. The arranging and direction of audit staff, both at Senior and Junior levels under a

special officer, is extremely well handled in the London office where planning is quite long-range.

We were interested to hear that, like Australia, both Canada and United Kingdom considered it good business to maintain sections to cater for relatively small accountancy and other services for clients. The U.S.A. firm did not appear to consider this a worthwhile function in their type of practice.

We were also surprised at the almost complete absence of female adding machine operators overseas, which are a feature of the Australian accountancy landscape. We anticipate some modification in our scope and volume of testing of additions of clients' records.

In our earnest search for knowledge on the operations of the management services departments of overseas firms, we were tremendously helped by management services personnel in New York, Detroit, Toronto, Montreal and London. Over the years we have rendered some service to clients in this field, but it has certainly not been developed on anything like the specialised scale overseas—at least where accountants are concerned, as opposed to management consultants. We have made a decision to get busy on the introduction of management services on a national basis and there is already evidence that we can offer more valuable services to existing clients.

We gained a strong impression that our overseas associates spend a great deal of time endeavouring to seek out special problems of clients and provide solutions to them. In other words, service to clients beyond the normal statutory obligations is far more intense and successful than in Australia, and there is less tendency to wait until the client requests help.

We found the trip most stimulating and returned to Australia confirmed in our opinion that we have been fortunate in the TROBAS association. The opportunity for two more Australian partners to meet many TROBAS personnel overseas—Noel Walker has already met many—has made us feel more together—part of the “Two Worlds” emblem.

The application of the knowledge gained whilst in the various TROBAS offices will keep many of us busy in Australia for some time.

Thanks to all TROBAS offices visited for the opportunity and warm hospitality.