

I.Q.S. WORKING PARTY INVESTIGATION INTO THE AUDITOR'S ROLE IN THE EXAMINATION OF ACCOUNTS FOR CONSTRUCTION WORKS IN THE PUBLIC SECTOR

Introduction

Sometime ago the I.Q.S. became aware of disquiet within the Q.S. profession and the public sector contracting industry over what was alleged to be the duplication of roles and interference with contract procedures by auditors.

In order to test the validity of these allegations the I.Q.S. set up a working party, under the umbrella of the Professional Practice Board, to look into the problem, if indeed there was one.

The terms of reference of the working party were:—

1. The working party shall enquire of all interested parties and establish what the current practice is with regard to the work of the Government Auditors* and to establish whether there appears to be a local, district, regional or national policy adopted by the auditors*.
2. After establishing the facts in 1 above the working party shall report to the Board whether there appears to be a requirement for an in depth study to be made of the effects of any particular policy with a view to making recommendations to Institute members.

From the above it can be seen that the working party role was one of fact finding and in order to do this a questionnaire was prepared to be sent to Quantity Surveyors in local Government and Private Practice and to contractors throughout the United Kingdom.

At the time of preparation of these questionnaires the working party was joined by an observer from the Chartered Institute of Public Finance and Accountancy (CIPFA) and a little later the Society of Chief Quantity Surveyors in Local Government (SCQSLG) sent representatives to join in the work and the Institute would like to record its thanks to both these bodies for their co-operation and effort.

Two hundred and fifteen questionnaires were sent to local Government officers acting for the Employer of which one hundred and forty four were returned duly completed (70%).

One hundred and ninety questionnaires were sent to private Quantity Surveyors with a return of sixty (32%).

*Government Auditors include National District and Internal Auditors.

Comments

It is quite evident, from the general response to our questionnaire, that there is a confusion of opinions on how the Audit functions should be carried out where public money is being spent. There also appears to be about as many methods of tackling Audit as there are Auditors.

In general it would appear from the response by LA Q.S.'s that the relationship between the Q.S. and the Audit department

is one of co-operation, however, there are obviously instances where problems arise. Where the latter is the case the amplifications to the answers illustrate in some cases that perhaps the Q.S. is taking a "holier than thou" stance and that no-one should question his professional judgement whereas in other cases the Audit department appears to be taking the attitude that corruption is rife in the industry and everyone involved in the building process is guilty until they have proved themselves innocent.

A major complaint of the Q.S.'s involved appears to be questioning of accounts and measurements by people who are not qualified to do so by either knowledge or experience.

There is a general discreet involvement of auditors on a current basis which is for the most part accepted. However in less than 20% of cases there is interference by auditors in the running of contracts which LA Q.S.'s find unacceptable, so also do contractors, who in addition find it a particularly costly burden. In some cases the inclusion of an Auditor, or Treasurer, into the contract has been effected by dubious attempts to alter odd clauses in the contract documents.

From the questionnaire and from our investigations there appeared to be no national or concerted common policy as to audit procedures, however it is quite apparent that C.I.P.F.A. have influenced audit staff greatly with their various recommendations viz "A Review of the Building Construction Practices in Local Authorities" and "Financial Examinations and Audit of Capital Contracts". Perhaps some take this as encouragement to be in the driving seat during the decision making process.

Twenty-four questionnaires were sent to contractors who were advised by the N.F.B.T.E. of the working party, and twenty-four were returned (100%).

The questions put on the questionnaires were on the basis of the answers being "yes" or "no". In order that numerical comparisons could be made however, the respondents were given the opportunity of amplifying their answers and these provided a very interesting insight into various practices and illustrated quite graphically where areas of friction were occurring, as well as co-operation. We have therefore included a selection of these amplifications in Appendix 1 but of course for the sake of anonymity all references have been deleted.

The Institute would like to thank all those members and non members of the Institute who have so readily co-operated with this study.

Conclusions

From their investigations the working party have come to the following conclusions:—

1. There is no common method of approach.
2. All Local Authorities have rules and regulations regarding the audit of accounts.
3. With only a few exceptions Local Authorities do not regard it as necessary to amend the contract condition to allow for

the audit examination function.

4. A significant, common area where approval of the auditor was required was before the issue of the final certificate or payment. This was generally felt to be a sensible arrangement.

5. The vast majority of returns indicated that the auditor generally restricted himself to arithmetic checks but carried out spot checks on pricing, valuations and measurement.

6. A minority of audit departments in Local Authorities are becoming more active in some cases in untypical ways. In some 20% of the returns received by the working party there was at least one example in each, of the Auditor without authority in the contract between the employer and the contractor:—

- 6.1. Delaying payment of monies certified as due
- 6.2. Preventing the issue of valuations or certificates required under the contract
- 6.3. Reducing arbitrarily amount certified as due to the contractor
- 6.4. Being present at negotiations between the Quantity Surveyor and Contractor Also within the same 20% sample, auditors were with the employing authority's approval:—
- 6.5. Insisting through their superiors, that clauses within standard contracts are amended to give them authority under the contract to take certain actions.
- 6.6. Demanding detailed information of measurement, valuations, adjustments, etc.
- 6.7. Visiting sites without the prior knowledge of the Quantity Surveyor or the contractor to take measurements in order to check accounts, etc.

It is clear that in such circumstances the Quantity Surveyors working for the public authority either as a direct employee or as a consultant are objecting strongly. However, when one considers that the answers to the survey did not indicate a percentage score on turnover but an occurrence within one's experience, the number of individual instances could be very low. This area generally gives the Q.S. cause for concern.

7. *Local Authority Rules Regarding Audit* Of those questioned 81% derived their authority from standing orders and 11% from codes of practice. The fact that a small minority make amendments to forms of contracts or documents to cover their involvement indicates that the bulk of authorities find audit does not intrude on contractual relationships.

8. *The Effects of Audit on the Issue of Valuations and Variations*

It appears from the survey that it is only consultants who in practice involve internal audit before they issue a valuation or value a variation. The figures are 15% and 7% respectively.

Questioned on the same matter, some 20% of contractors say that it is their experience that audit has to be involved in both the issue of valuations and the pricing of variations. It may be that certain Q.S.'s are using internal audit as an aid to negotiating.

9. *The Effect of Audit on Final Accounts*

L.A. Con-
Q.S. sultant
Q.S.

Auditors approval required before a final account can be agreed 12% 22%

Auditors approval required before the issue of the final certificate of payment 62%* 33%

*This was the most significant "Yes" score within the questionnaire.

It is interesting that 28% of those questioned indicated that in their experience they had come across at least one example where audit had picked up a significant error prior to the issue of a final certificate or payment.

There was general approval that audit at this stage was reasonable and justified as it would have no effect on the contractual relationship of the parties if dealt with correctly.

10. *Effect of Audit on Valuations/Certificate*

L.A. sultants

Audit approval required before penultimate valuation 1% 13% (see note)

With regard to interim valuations, although a very low number of returns indicated any major concern on the part of quantity surveyors, the results were as follows:—

Valuation subject to audit 5%
Ditto measurements 7%
Ditto pricing 7%
Ditto decision to measure or value variations 9%
Auditor present at negotiations 6%

In these cases it is clear that the quantity surveyors working for public authorities or as consultants are generally objecting to being questioned by audit staff on matters which they have always regarded as their domain, believe that it has nothing to do with auditors, and that only auditors with the same level of technical knowledge as themselves should be allowed to question them on clearly defined matters.

11. *Preparation and Audit of Final Accounts*

Less than 14% of quantity surveyors were required to obtain the agreement of audit before issuing the final account. However, the majority of consultants felt they were required to and contractors equally believed that this was the general case both with Local Authority quantity surveyors and consultants.

Quantity surveyors asked by auditors to explain or justify the following were as follows:—

(1) Measurements 19%
(2) Pricing 34%
(3) Decisions to measure or value 30%

There was general acceptance of this audit role provided that they did not ride rough shod over those who are responsible under the building contract to carry out the efficient running of that contract. Less than 50% of the returns indicated that auditors had ever asked to visit offices to check records. This was not regarded as unreasonable.

Less than 9% of returns indicated any instance of auditors visiting construction sites without the knowledge of either the contractor or the quantity surveyor to take notes and measurements. There was general resistance to this by all concerned.

12. *Effect on Payments*

The auditor unilaterally reducing valuations—less than 5% of returns indicated that this had occurred. However, if contractors were excluded it would have been a great deal lower.

Delayed payment against the Supervising Officer's certificate—findings were as follows:—7 days 19%; 8-14 days 18%; 15-21 days 10%; 22-28 days 7%; over 28 days 10%.

This is a worrying feature which appears to indicate that there have been effective breaches of contracts as a result of payments being delayed by auditors in a large number of authorities.

It is noted that in 8% of the foregoing circumstances claims have been received for delayed payments.

13. General opinions regarding the audit function:

Agreed participation
Arithmetic (57%).

Acceptable participation
Expenditure PC & Prov Sums (28%)
Computation of F/A (38%)
VOP adjustments (34%)
Contractual Claims (33%)

Unacceptable participation
Measurement and valuation of variations (9%)
Remeasure of quantities (9%)
Interim valuations (7%)
Design decisions (8%)
Instructions involving variations (11%)

14. It appears in the summary that in the less acceptable foregoing practices of auditors the contractor is the main loser. His main objections were:—

- (i) delays in payment of monies when they had been certified as due;
- (ii) unilateral reductions in the amount certified;
- (iii) delays in issuing certificates of monies due after the valuation of the final account had been agreed.

15. It would appear that the outcry against "interference" by auditors may be justified in certain authorities but it is by no means justified in the majority.

Recommendations

The working party recommended to the Professional Practice Board that the Institute should develop its association with C.I.P.F.A. and S.C.Q.S.L.G. in order to foster a better understanding of the work of Quantity Surveyors by Auditors and Financial Officers and for Quantity Surveyors to better understand the Auditors. We recommend that the feasibility of joint seminars and under graduate training be investigated to develop this aspect.

We also suggest that discussions be developed in order that the three bodies can produce joint guidelines of "Codes of Practice" for both Quantity Surveyors and Auditors.

INSTITUTE NEWS

NOMINATION OF EXECUTIVE MEMBERS OF THE COUNCIL FOR THE YEAR 1981/82

The attention of qualified members is drawn to Clauses 76 and 77 of the Articles of Association with regard to nomination of Executive Members of the Council for the year 1981/82. The Articles read as follows:

76. Any Qualified Member may be nominated in writing by at least four other Qualified Members of the Institute to stand for election as an Executive Member of the Council. Provided that such nomination be accompanied by the nominated Member's written agreement to stand for election and be received at the office of the Institute at least eight weeks prior to the date of the Annual General Meeting of the Institute, any such nominations received after such closing date to be disqualified. All Members nominating Members to be elected by an Area shall normally reside in that Area.

77. At least twelve weeks' notice prior to the Annual General Meeting shall be given to all Qualified Members of the Institute (for which purpose a notice in the Journal of the Institute may be deemed full and proper notice) of the provisions of Article 76, and stipulating a closing date for return of any nominations as provided therein, which closing date shall provide four weeks' interval after the date of the notice.

This year there will be seven vacancies, two of which must be filled by members elected by Areas. The Annual General Meeting will be held on Friday, 19th June 1981 and the closing date for the receipt of nominations will be Tuesday, 14th April, 1981. Nomination forms may be obtained from the Secretary.

EXAMINATIONS—PERMITTED DOCUMENTS

The Institute is prepared to permit candidates to take into the examinations copies of the 6th Edition of the Standard Method of Measurement where key sections or phrases are underlined or have been suitably emphasised in some other way.

ANNOUNCEMENTS

HUBBARD, REVIS & PARTNERS wish to announce that as from 1st January 1981, DAVID GREEN, FRICS, FIQS has left the partnership and will be commencing practice on his own account from 19 DeMontford Court, Stonegate Road, Leicester.

Hubbard, Revis & Partners will continue from 10 Salisbury Road and the partners will be J. E. Revis, FIQS, FFS, P. R. Arlott, ARICS, AIQS and P. J. Bargery, ARICS, AIQS.

JAMES KIRKBRIDE ASSOCIATES wish to announce that with effect from 25th December, 1980, they have moved their