

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.