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The Accountant's Participation In A Nonfinancial Audit



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The author describes types of nonfinancial audits being performed and describes the accountant's role in each of them.

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Dr. Cheatham has a number of publications to her credit, among them an article on "The Attack on the Dollar Concept" in the April 1974 issue of The Woman CPA.

Anyone reading the literature in almost any field of business today is faced with a multitude of terms indicating some type of audit. For the accountant who automatically thinks of a financial audit when he or she sees the word "audit," the proliferation of audit terms can be bewildering. There are "performance audits," "operational audits," "behavioral audits," "socio-economic audits," and a host of others. The purposes of this article are to define some of the terms pertaining to these nonfinancial audits and to discuss the role of the accountant in a nonfinancial audit.

Types of Nonfinancial Audits

Before defining specific types of nonfinancial audits, perhaps it would be well to identify the entity to be audited. A useful distinction is that an organization has both a technical system and a social system.¹ Financial audits apply to the

technical system while other types of audits usually apply to the social system. "Nonfinancial" seems as good a word as any to describe the category of audits that apply to the social system.

Allen, Park and Pilnick make a similar distinction between the surface organization and what they refer to as the shadow organization. They say of the shadow organization that:

It is the social matrix that makes up the normative system of the organization. One learns about the shadow organization by observing what is really happening, not what is supposed to happen or what people want to happen.²

Most nonfinancial audits apply to the shadow organization and are accomplished largely by "observing what is really happening."

Although not an exhaustive list, some of the most frequently encountered terms

that refer to audits of the social system or the shadow organization are management audits, performance audits, functional audits, behavioral audits and social audits.

Management Audit. The object of the management audit is to determine how effectively management is performing its duties. This type of audit is an audit of the management function. A helpful distinction is that a management audit should be an audit *of* management as opposed to an audit *for* management.³

Performance Audit. The performance audit evaluates the actions or operations of an organization or an organization segment to determine whether it has performed its activities in an efficient manner. These activities may include financial activities but only as a part of the whole performance. As a practical matter, the term "performance audit" is often used interchangeably with "management audit." Phrases such as "audit of management performance" appear frequently. A term that is similar to "performance audit" is "operational audit."

Functional Audit. The functional audit assesses how effectively a certain functional area of the organization is discharging its responsibilities. The functional audit also is often thought of as being synonymous with the management audit. However, the functional audit should be of the nature of an audit *for* management rather than an audit *of* management. The responsibility for performance is assumed to be at an operating level. "Functional audit" is also frequently used interchangeably with "performance audit" or "operational audit."

Behavioral Audit. A behavioral audit is chiefly concerned with the conduct of employees in their work situation, particularly in relation to other employees. Emphasis is on morale and motivational factors. Performance audits and functional audits are generally concerned with productivity, whereas the behavioral audit is concerned with the employees' adjustment to their job situation. Productivity is assumed to follow from high morale and good job adjustment.

Social Audit. A social audit is conducted to evaluate an organization's performance in relation to society as a whole. Typical of the items considered in a social audit are training programs, programs to help minority groups, installation of safety devices on machines, and pollution control. Social audits are also called socioeconomic audits.

To distinguish among the various audit terms one can think of them on a con-

tinuum in the order listed above. The management audit is the narrowest, concentrating on the organization's management; while the social audit is the broadest, evaluating the organization's performance in relation to society. The performance audit, functional audit, and behavioral audit concentrate in varying degrees on performance by segments of the organization.

Another helpful idea is to think of management audits, performance audits and functional audits as measuring how well people have discharged their responsibilities to the organization while social audits measure how well the organization has discharged its responsibility to people. Behavioral audits fall somewhere in between, recognizing both the responsibility of the organization to provide a proper work environment and also the responsibility of employees to the organization to perform in a loyal and dependable manner.

Role of the Accountant in a Nonfinancial Audit

It is doubtful that an accountant as auditor can take over the entire performance of any type of nonfinancial audit. The accountant is an expert in financial matters; therefore, he or she can set the standards for performance in that area as well as measure the results against the standards. In any nonfinancial area, the accountant is not an expert and is generally unqualified to set standards. However, the accountant can evaluate performance once standards have been set by management or behavioral scientists and in this way render valuable assistance in the nonfinancial audit. The accountant brings certain skills into an audit that apply just as well to a nonfinancial audit as to a financial audit. These skills include: 1) an ability to assemble and quantify data, 2) an understanding of the process of disclosure, and 3) a general attitude of objectivity.

Ability to assemble and quantify data.

One of the most difficult and elusive tasks in a nonfinancial audit is the task of assembling and quantifying the data. After the standards for performance have been set, it is the auditor's function to assemble and quantify information relating to results. Accountants can put their skills to use in this particular area because their training and experience have prepared them to organize data. Quantification of data in a nonfinancial audit may take many forms — numerical scales, rating systems and cost-benefits ratios are a few of the measures used. Quantification by

the auditor makes it possible to evaluate a mass of data in a meaningful manner.

Understanding of the process of disclosure. When management personnel or behavioral scientists conduct a nonfinancial audit, they sometimes limit the scope of the audit to areas of particular interest to themselves or they fail to disclose all their findings. This failure is due to a lack of understanding of the idea of full disclosure. The accountant knows that all information that is material to statement users and that will help them make decisions should be disclosed. It is helpful when the auditor can bring this ability into a nonfinancial audit.

Attitude of objectivity. One of the best tools an accountant has is his or her general attitude of objectivity. The accountant feels the results obtained from a survey of the organization should be verifiable by others. He or she strives to remain independent of any influences which might prejudice the conclusions. This attitude of objectivity is essential if the nonfinancial audit is to be a truly professional undertaking. An audit that reflects the subjective feelings or opinions of the auditor cannot possibly help the organization or society.

Conclusions

As social awareness grows, more audits of a nonfinancial nature will need to be conducted. These audits may range from an audit of the management of an organization to an audit of the entire organization to determine how it is discharging its social obligations to society. An accountant who is accustomed to performing financial audits may bring some very special skills into a nonfinancial audit. Among the skills that an accountant can profitably apply to a nonfinancial audit are: 1) an ability to assemble and quantify data, 2) an understanding of the process of full disclosure, and 3) an attitude of objectivity.

Footnotes

¹Alton C. Bartlett, "Human Asset Accounting: The Behavioral Auditor Role," AIDS Meeting, February 1974, New Orleans.

²Robert F. Allen, Colin Park, and Saul Pilonick, "The Shadow Organization," *Management Accounting*, LV, No. 7 (January, 1974), p. 11.

³Charles H. Smith, Roy A. Lanier and Martin E. Taylor, "The Need for and Scope of the Audit of Management: A Survey of Attitudes," *Accounting Review*, XLVII, No. 2 (April, 1972), p. 270.