



Independent Audits

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Independence is an important issue in statistics. So, I found the article, "Ethics, Auditing and Enron", by Arter and Russell, in the October 2003 issue of Quality Progress (QP) quite interesting. In the second section of the article the QP editor asks, "Must auditors be independent?" to which Mr. Arter responded, No. The QP editor followed up on the negative response by asking for specifics. The author then explained that in the financial field the auditor is a CPA and works for the auditing company. He goes on to say that outside auditing firms are hired by the client company and they are paid for their services when the client accepts the audit report and at that point the relationship stops. Then he puts in the little disclaimer that the relationship apparently did not stop at Arthur Andersen (the now infamous auditors for Enron).

I do not believe that the relationship stops when the audit report is accepted and I think the evidence is contained in the author's own words, "the company hires the auditing firm". So, in essence, the auditing firm is an employee of the company it is auditing. Do you think that the "employee" is going to bite the hand that feeds it? If the auditing firm wanted to continue to be employed by the client they will tend to see things the same way the client does. For this reason, I think that auditors MUST be independent. Oh, and by the way, this same argument holds for ISO auditors also.

How can this be achieved? A simple and inexpensive approach would be to have the auditing firm selected at random and assigned to the client company. In the case of business audits the American Institute of Certified Public Accountants or some other professional organization could perform this task.



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Then each year a company would probably have a different auditing firm. This approach breaks the employer-employee financial link. Unfortunately the Sarbanes-Oxley bill does a poor job of addressing this issue. Their solution is to have the governments over-site auditors audit the auditors. This creates another layer of government bureaucracy (which we taxpayers fund) and it still leaves the good-old-boy financial auditing program firmly in place (you just have to be a little more careful or wait until they cut funding to the government auditors).

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