



## There Is No Such Thing as Audit Society<sup>1</sup>: A Reading of Power, M. (1994a) 'The Audit Society'\*

Josephine Maltby

### abstract

Building on The terms 'audit explosion' and 'audit society', first coined by Michael Power, have become shorthand for a set of beliefs about the ubiquity of an audit regime which began to permeate the UK public sector in the Thatcher era and has had a detrimental effect on its conduct by permeating public culture. The present paper attempts a critique of this doctrine. In a series of papers, Power has presented audit as intrinsic to modern society – 'a constitutive principle of social organizations' and an 'institutional norm'. He derives audit from the fundamental importance of agency relationships, based on the absence of trust, within the public as well as the private sector, which require workers to become auditees and make auditability the most important component of work. The paper challenges Power's ahistorical approach to the origins of audit, suggesting that he unjustly presents it as an immobile form rather than an activity whose incidence and function continue to change, and questioning his aversion to the use of audit as a means of making 'experts' in various fields accountable to the public.

Any discussion of Power's Audit Society paper of 1994 has to start by acknowledging that it has enjoyed an extraordinary degree of success for an academic paper, let alone for an academic paper about audit. His terms *audit society* and *audit explosion* have gained very wide currency within the social sciences and on the wider stages of quality journalism and serious-minded websites. Some of this is, admittedly, due to Power's own copious output on the topic (Power 1994a, 1994b, 1997, 1999, 2000a, 2000b, 2000c, 2000d, 2002, 2003a, 2003b, 2005a, 2005b), some to exegeses of it (see for instance Bowerman et al, 2000; Humphrey and Owen, 2000; Courville, Parker, and Watchirs, 2003; English and Skærbæk, 2007 and Lindeberg, 2007) but a great deal to admirers from all sorts of disciplines.

For some of them, the admiration is rather shakily based, e.g. Quam (1998), who writes off a large swathe of accounting research, and a number of journals by concluding that

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1 Adapted from Keay, 1987.

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Power's "book is valuable precisely because of the obscurity of its subject. Very little has been written about the purpose, context, or process of auditing". There are more encomia written by those who have spent a lot of time thinking about audit, such as Dame Onora O'Neill who in a Reith lecture to an audience of hospital staff invokes the 'Herculean micro-management' under which they labour (O'Neill, 2002), or the audited academics trapped in 'cages on hamster-wheels' like Aidan Foster-Carter, Honorary Senior Research Fellow in Sociology and Modern Korea, Leeds University (1998). On the basis of such endorsement, Power's diagnosis of an audit explosion has been received as a verdict on a radically changed governance environment more generally – see for instance Caulkin's warning (2002) that "an exploding audit culture drains the public sector".

The present paper takes issue with the case that he has made, offering three arguments against it. These address the effects of Power's reluctance to define audit, the omission from his account of empirical, and particularly of historical evidence, and most importantly his aversion to the role of audit in requiring accountability from certain kinds of skilled worker. These arguments are developed in the course of a page-by-page reading of Power (1994a) and all unattributed page references are to this chapter. This is supplemented by a consideration of his 2003b paper and an evaluation of his other writings on the subject.

Power's work on the prevalence of audit now enjoys classic status for a number of reasons. One of these, as suggested above, is its wide dissemination, in various formats, in the literature of accounting, politics and public sector management. But his winning strength is his depiction of the irresistible and irreversible global rise of audit, and of its disastrous effects on society. He begins his 1994a chapter innocuously by observing that "there is little doubt that the word 'audit' is being used, in the UK at least with growing frequency" (p. 299), and proceeding to list its manifold uses:

In addition to financial audits we now hear of environmental audits, value for money audits, management audits, quality audits, forensic audits, data audits, intellectual property audits, medical audits and many others besides. (p. 299)

He has made a strong beginning – nine uses of the word 'audit(s)' in eleven lines of the original text quoted above, as well as the looming menace of the unnamed 'many other' audits besides. There is the risk, though, of the objection that activities may have significant differences despite sharing the same name. Power hurries to forestall this (and thereby help to give his paper a safe passage):

The significance of audit is not located in a "definition" of its role. Indeed it matters less what different audit practices "really" are in some operational sense than how the idea of audit is appropriated and mobilized. Audit is a particular manner of *(re)presenting* administrative problems and their solutions, one that is becoming universal. (p. 299)

This is a major tactical stroke. Power has released himself, at a very early stage in his argument, from needing to define, or indeed 'define' the audit which is creating the audit society. Quality, forensic and medical audits all boil down to the same idea. So presumably do the environmental studies project in which 10-12 year old pupils in Scotland are to "demonstrate skills by preparing and organising plans to improve or start a 'fruit' tuck shop – organising a health audit of their snacks and lunches", and so

do McCain's investigation into frying practice in chip shops. The company, "wants to combine producing healthier chips with educating caterers on how to fry chips in a more healthy way". Behind this is a new scheme called "Best Fry Practice", in which McCain works with customers to 'audit' the way chips are being fried and show them how to do it (Caterersearch, 2005).

Under the guise of difference – the masks put on as audit is purveyed by ACAs, tubby schoolchildren, or concerned food processors – Power warns us that we need to discern fundamental identity. If it is not important what audit practices 'really' are, all that is necessary is for the audit word to be invoked for all sorts of social problems (dishonesty, malnutrition, lardy chips) to be constituted in the same way. And this identity means that Power's argument gains weight and momentum as it rolls on, collecting in its course more and more evidence of the pervasiveness of the audit idea.

The paper's account of the history of audit is brief to the point of being perfunctory. Power nods towards medieval origins by pointing out that the audit was initially a hearing, but proceeds rapidly to agency theory, the "widely accepted characterization of the source of demand for audit" (p. 301). The agency theory explanation, since its enunciation by Watts and Zimmerman (1983) has enjoyed wide acceptance because it offers a satisfyingly straightforward mechanism for the introduction and popularity of financial audit. The separation of ownership and control means that investors distrust managers to the extent that they cannot monitor them personally – so it is advantageous for managers to invoke a third party to attest their reliability. For Watts and Zimmerman (1983: 614) audit has been "part of the efficient technology for organising firms" from the 14<sup>th</sup> century onwards – it has always been there, in merchant guilds, joint stock companies and limited liability companies (*ibid.*: 616-628) doing the job of "restoring credibility" (Power, 1994a: 301).

Audit is, for Power, essentially grounded in the financial audit, a way of compensating for the inherent mistrust that necessarily exists between investors and managers. The audit society "trusts auditors before operatives" (p. 301) and so audit has developed as a way of making financial markets work. Because audit has arisen from the unhappy relationship between principals and agents, the people who commission audits will always be reconstituted as principals, and those who are audited will become untrusted agents. And agents will become auditees, whose work has to be executed in an auditable form, which entails not only *ex post* inspection, but specification by the auditor of what is actually being done.

The next thing that happened in history, quite abruptly (in this case in the middle of page 302, second paragraph) is "the diffusion and generalization of the financial accountability model, particularly in the public sector". Financial audit has been exported to the public sector, via new public management. The Thatcherite revolution, (presumably hers – Power never quite says who effected the revolution) devolved public sector organizations but still required central control, so audit was invoked to reconcile the two contradictory movements, by being "the shadow of hierarchy which saves the appearance of central control" (p. 302). The metaphor has a vaguely Shakespearean resonance – or possibly it recalls Darth Vader deputising for the

Emperor Palpatine. Audit in its ominous ambivalence is a “political technology” (p. 302) that has arrived to loom over the public sector on behalf of the controlling centre.

The important effect of Power’s audit is not to make public sector organizations accountable, but to make them auditable. The latter is not a way of arriving at the former. The new technology is one that displaces previous methods of accountability such as inspection and quality control (p. 303). Power sums up the main strengths of audit that make it win out. It “has a special versatility in which submission to audit establishes legitimacy regardless of the operational substance of audit” (p. 304). Audit, in other words, is well thought of, so that organizations that are audited are well thought of as well: and it does not matter what auditors do, they will always confer a blessing.

This is the next major element of Power’s explanation. Not only does it not matter what audit practices really are – the idea is what has an impact. It does not matter what some people expect or hope for from an audit. One of the staples of textbooks about auditing is the chapter on the audit expectations gap in limited company accounts, the disparity between what auditors do and what various people who use the audited accounts would like them to do. In particular, it refers to the expectation that the audit will be a reliable method of detecting fraud and/or impending corporate collapse. This is an expectation that is often disappointed – there is a long history of audit failure, because auditors did not or chose not to notice that financial accounts were misleading (see for instance Teo and Cobbin, 2005; Sikka, 2003).

And there is a corresponding history of attempts to reduce the gap, in case or statute law or regulation or the actions of pressure groups. Sometimes there are failures – e.g. the long series of counter-findings in the Caparo case in the UK in the 1980s which ended in the absolution of auditors from most kinds of responsibility – sometimes there are at least temporary frights for the profession, recently the death and dissolution of Arthur Andersen after its conspicuous failure to detect the Enron fraud. One view of the auditor’s response to the gap (Sikka, 2003) has been that the accounting profession is constantly revising its excuses: the complaining public is being unrealistic or unreasonable and needs more education; the profession will do better, but self-regulation will be more effective than state intervention – and so on. Power’s distinctive view of the expectation gap is that, rather than a threat, it is a ‘political resource’ for audit. If the public expects that an audit provides a certain kind of assurance, whereas in fact it provides much less, then such a resource can be managed for both parties as follows: auditors can help themselves to the high fees that correspond to high expectations and regulatory publics can help themselves to the appearance of high levels of assurance necessary to legitimate regulatory programmes (p. 305).

Part of this is unsurprising: auditors get paid for doing less than they claim, because they give unqualified reports to accounts that are not true and fair. But the other clause is initially difficult: the public *benefits* from getting less assurance than it expected. This is because Power has shifted from the public in general to a new entity, the ‘regulatory public’. This is not defined, but it seems to include the bodies of various kinds presiding over banking, investment, stock markets and so on. They are happy because the imposition even of ineffectual audit makes them look as if they are doing their

supervisory job. They too believe that it is more important to appropriate and mobilize the idea of audit than to do anything with it.

The public that has been forgotten between the beginning and end of the sentence, however, is the public at large – not only disappointed investors but also the employees or creditors who might have cut their losses if the auditors had warned them earlier (Swash, 2007). The possibility that an effective kind of audit would in some circumstances be welcomed – and that there is a public who would benefit if the expectations gap shrank or disappeared, and which is aware of that possibility – is not present in Power's picture. His audit continues to become even more of a super-thing: it is omnipresent, it is an ambivalent shadow, but one that confers the benediction of legitimacy, it is so versatile that it can mean anything, and it makes a success out of failure. The class of person that might appreciate less audit failure and more audit success is written out of the story.

So, in the following paragraph, is the class of person who is naïve enough to agitate for audits to be carried out. Environmental audits of various kinds and their close relatives, ethical and social audits, have been regularly demanded by charities, pressure groups and trades unions to monitor the costs imposed by corporations on resources, neighbours and employees, and equally regularly resisted by their objects (Hickman, 2007). Even environmental audit reports commissioned and paid for by companies can produce unwelcome results as when a 1997 Ernst & Young audit disclosed lethal dangers for Nike employees in Vietnam – (CNN Interactive, 1997). For Power, though, even if environmental audit results are publicised, they are meaningless: “the public perception *that* an activity is performed, while remaining in substance invisible, is an important strategy of legitimacy in the audit society” (p. 305). The public according to Power does not understand the difference between an independent audit and one that serves its own and its auditee's interests, nor is it intellectually capable of criticising audit failure: “The audit society idealizes ‘independent validation’ without public transparency” (p. 306).

This general public does dimly, fretfully, know that something is the matter – and as a result “the audit society is the *anxious* society” (p. 307, italics in original). But its only recourse is to commission more audit: “The ‘fact of audit’ reduces anxiety, or more positively, produces comfort” (p. 307). This public is trapped because its only “hope for control in the face of increasing evidence of its absence” (p. 307) is to pretend that audit will make things better. It can delude itself more easily partly because “audit success or failure is never a public fact” – nobody is quite sure whether audit has failed or succeeded (p. 307) and partly because it is not allowed to talk about audit anyway: “criteria of success are withdrawn from public discourse” (p. 308). So audit failures are obliterated by its “durability as a ‘political rationality’”; the public knows that it has to put up with audit, because it is a new and improved technology.

But that is enough about the anxious, deluded public. “It is to (the) role of audit as a technology of representation that we now turn” (p. 308). Audit's next trick is to design the rules which auditees have to observe. It does not monitor or check compliance with standards set elsewhere: audit, in whatever form, creates the requirements which it will impose. The provisions of Companies Acts, the BSI and the Research Assessment

Exercise all have more in common than might appear – “the ‘performance’ of the auditee is reduced to the possibility of being audited” (p. 310). There are other seeming uses for at least some of the rules – for instance that BSI standards help to discriminate between electrical products that do and not electrocute, or that the Companies Act 1985 creates sixty-nine indictable offences of which directors may be convicted. But that is to miss the point. They are, Power contends, theatres in which audits can take place.

Audit has itself altered so that it can more effectively monitor compliance with the rules it is creating – it has evolved away from inspection, towards systems audit, “whereby it is the auditee’s own system for self-monitoring that is subject to inspection, rather than the real time practices of the auditee” (p. 310). This is initially puzzling if dwelt on, as Power has earlier claimed that audit has done away with self-monitoring systems such as inspection (p. 303), but audit thrives on challenge and contradiction (*passim*) so we can move smoothly on to take the next hurdle – Power’s treatment of financial audit in relation to systems. We have already seen that financial audit is the origin of and template for all other types of audit via “the diffusion and generalization of the financial accountability model” (p. 302). This makes it odd that systems audit, whose paradigm is the compliance checklist, is alien to financial auditors “for whom checklists impose too much structure on the audit process and thereby inhibit professional judgement” (p. 311). Again, this is difficult. Power has recently explained (p. 310) that “financial auditors promote the ‘systems audit’” – and here they are on page 311 finding it inhibiting. If all the manifold new varieties of audit are inspired by financial audit, how can they have developed a strategy – the checklist – that undermines financial auditors’ professional feelings?

It is not massively important, though, because audit is only pretending to do systems, just as it is only pretending – and here once again we change topics in mid-paragraph – to do statistical sampling (p. 311). And, moreover, (p. 312) it is pretending to do risk analysis. Risk in all its forms is a new phenomenon (p. 311), created by a new group of experts. Once they have fabricated it, they can audit for it, and here environmental audit reappears. Earlier (p. 305) it was a trick played by companies on the gullible public to whom they presented their reports: now it is a trick played by environmental consultants on corporate clients “in an emerging market for managerial advice” (p. 312). But the treatment of artificial risks is not confined to the new environmental profession.

And here we end with the last role of audit. It is, Power concludes, a process, “in which newly perceived difficulties and dangers can be ritually purified and reconciled to existing managerial and economic practice” (p. 313). Purification and reconciliation are constituents of religious ceremonies: the auditor is acting as a priest, carrying out a ritual that makes managers feel comfortable with newly-discovered dangers. This is the last and most impressive of the tricks that audit can perform. Thanks to its aura of authority, its versatility, its effortless surmounting of failure, audit has been able to capture hearts and minds. We have been conquered:

In the audit society a reduction in audit intensity, and the possibility of leaving groups and individuals to themselves, is literally unthinkable. (p. 314)

We are all auditees now. It is a splendid final paragraph, as rhetorically effective as the opening. Instead of the customary throat-clearing academic Conclusion, calling for

additional case studies and possibly some international comparisons, Power simply announces that we do indeed love Big Brother and leaves us to carry the weight of our own audit anxiety and audit dependence.

The difficulty with disagreeing with his argument is plainly that the dissenter is open to the charges of gullibility and addiction: gullibility in believing that audit really is necessary for organizations to be accountable and addiction in being so dependent on audit as to wish to absolve it from the various accusations of trickery and failure that permeate Power's characterisation of it. There is, though, a further, implicit criticism in Power's chapter, which recurs but is not spelled out. Power accuses auditability of making itself a substitute for accountability. But he does not really like accountability either. The supporter of audit may invoke in its defence its potential usefulness in producing credible statements from organizations about their performance, financial or otherwise. But, according to Power, this is the point where the people who want such statements (shareholders, taxpayers and so on) admit to their own inner mistrust. And from there on they are doomed to the downward spiral of anxiety that grows the more they try to allay it.

Particular economic rationales of audit represent a social world in which action can no longer be coordinated by trust alone. (p. 301)

'No longer' is an intriguing phrase. Is Power suggesting that there was a lost Eden in which social structures operated on the basis of trust and there was no need for accounts to be rendered? If so, his reference (p. 300) to the medieval audit process tacitly acknowledges that it vanished a long time ago. Or does he mean that there was a world in which the demand for accountability did not imply an absence of trust, and that the 'economic rationales', presumably shorthand for variants of agency theory, have subverted the possibility of such a type of accountability?

However the phrase is interpreted, it is a reminder that Power's very brief history of audit allies him with the academic writing that in Napier's words, treats accounting phenomena "with little or no suggestion that these might have been different at some earlier time (and therefore by implication might be different again in the future)" (Napier, 2006: 449). This is easy to do if audit, as with Power, exists in a foreshortened past in which everything has happened at once. Financial audit has emerged from the separation of ownership and control (p. 301), rewritten company law and British Standards (p. 309) and colonised the public sector (passim). There is no more detailed sequence than this, and no causality, other than the fell hand of audit, which changes everything around it but is not itself altered.

There are two ways in which a longer history of audit presents a challenge to Power. One is the recognition of the possibility that much of the history of public sector audit preceded, or at least ran concurrently with, that of limited companies. This involves challenges to Power's notion that financial audit is necessarily the model for all audit activity. Jones and Pendlebury (2000: 233) claim that government audit is "the oldest aspect of the auditing profession" and Hoskin and Macve (1986: 114) that accounting and auditing change took place in "the administrative arena before... the merchant world". Medieval Exchequer audit was a powerful practice, recorded in the Exchequer Dialogues (*Dialogus de Scaccario*) of the late 1170s. Jones emphasises not only its role

as a model for that of other institutions, but also the existence in the Exchequer of other forms of internal control that were transported into manorial systems (and subsequently into trade) – seals, personal supervision, sampling and division of duties (2006: 11, 14, 15).

The 19<sup>th</sup> century history of public sector audit is equally problematic for Power's thesis of colonisation by the profession. Coombs and Edwards (1990 and 2004) find that three groups – the elected ratepayer auditors, government-appointed district auditors, and professional accountants – competed for work. There was a “strenuously contested power struggle between vested interests” that began with the upsurge in new municipal corporations after the Industrial Revolution, and in which the three groups all had their own cases to make about the importance to the audit process of democracy, efficiency and expertise (Coombs and Edwards, 2004: 80). By 1974 when the municipal corporations disappeared, one-third had district or elected auditors versus two-thirds professionals (*ibid.*: 82). It was a victory for the professional firms, but it was neither rapid nor overwhelming.

There is another challenge, within financial audit itself, to Power's view of audit as a thing in and for itself, immutable and inflexible. The significance of audit has varied according to the different players in corporate governance – large and small investors and directors. For the ‘generality’ of 17<sup>th</sup> century investors in the East India Company, their appointment of auditors was not necessarily a breakdown of trust: Bryer (2000: 328) argues that they had thereby “abolished (their) feudal directorate and replaced them with modern managers accountable to a feudal capital”. Similarly, Toms (2002:81) suggests that the socialised capital (one shareholder, one vote, very widely generalized shareholdings) of the Oldham Limiteds of the mid-19<sup>th</sup> century used amateur shareholder auditors to give accurate accounting information. They placed heavy reliance on audited accounts which were published in the local newspapers. By the end of the century, the small local shareholders had been bought out by blockholders (who changed the company articles to one share, one vote) and who preferred financial controls, and insider knowledge to audit as a means of control.

Napier (1998: 117) finds two successive models of the limited company in the 19<sup>th</sup> century: “a collectivity model of the interests of shareholders, with directors and auditors being elected from the mass of shareholders” and a “business company” where “the auditor ‘intermediates’ between shareholders and directors *whose interests are not necessarily aligned with those of the shareholders*” (emphasis added). Like Toms and Bryer, Napier finds that auditors were initially seen as allies of the shareholders (the 19<sup>th</sup> century auditor often was a shareholder): the late 19<sup>th</sup> century saw the movement to the auditor as ‘guide, philosopher and friend’ to the manager. The late-19<sup>th</sup> century profession was not promoting itself to shareholders to reduce their anxiety: it was promoting itself to company directors with the mission of protecting them against what it portrayed as demanding and unrealistic investors (Maltby, 1999).

Part of the fundamental weakness of Power's treatment of audit lies in its aversion to empirics. The history of auditing – in the public or in the private sector- might provide some evidence of the behaviour of auditors and auditees, as would an examination of audit in practice, in an individual organization or comparatively over a variety of

locations. Power (2003b: 190) puts it rather differently: “The empirical challenge of the audit explosion idea is to focus research and data-gathering effort on the evidence of negative consequences”. Some negative consequences have, fortunately, risen to the challenge and Power lists them (*ibid.*) but they are slim pickings: although the evidence “exists and is increasing”, he has to admit it “is by no means inclusive” (Power, 2003: 191). Hood (2005), commenting on a study of public sector management in eight countries, comes to the disappointing conclusion that the role of audit there has not increased dramatically – has indeed declined. He suggests that “the audit explosion thesis seems to be “a textbook case of selection on the dependent variable”.

Studying audit with the expectation that it may mean different things in different contexts offers a variety of interesting projects – but Power’s 2003b study moves hastily on from the danger that audit, if looked at, may not always be found pursuing a relentless project of colonisation. In particular, Power avoids the distinction between audits that are aimed at financial control and those which require accountability towards a variety of users. This is an unattractive distinction for him because it admits the possibility that audit may serve social needs, and that the people who use services may want to make managers say what they have done. These users of audit are a drab lot. Power is more interested in its victims, the auditees.

So his 2003b paper, *Evaluating the Audit Explosion*, devotes only slightly more space to a survey of the empirics than it does to what is presumably included in the ‘most interesting’ part of the hypothesis, in his argument that “the hypothesis is most interesting at precisely the point where systematic evidence may be most limited and problematic” (Power, 2003b: 186). The area that deserves attention, he explains in his Conclusion, is “the social construction of a new subject, the ‘auditee’” (*ibid.*: 199). This Conclusion, like that of the 1994 paper, is a splendid piece of work, but in a radically different genre. Where the earlier piece was brief, bleak and unsparing, this is a rich slice of humanity, and it deserves to be quoted in full:

The auditee is undoubtedly a complex being: simultaneously devious and depressed; she is skilled at games of compliance but exhausted and cynical about them too; she is nervous about the empty certificates of comfort that get produced but she also colludes in amplifying audit mandates in local settings; she fears the mediocrity of the auditors at the same time as she regrets their powerlessness to discipline the really “bad guys”; she loathes the time wasted in rituals of inspection but accepts that this is probably what “we deserve”; she sees the competent and the excellent suffer as they attempt to deal with the demands of quality assurance at the same time as the incompetent and idle manage to escape its worst excesses; she hears the rhetoric of excellence in policy documents but lives a reality of decline; she takes notes after meetings with colleagues “just in case” and has more filing cabinets now than she did a few years ago; she knows the past was far from being a golden age but despairs of the iron cage of auditing; she knows public accountability and stakeholder dialogue are good things but wonders why, after all her years of training, she is not trusted as an expert anymore. (Power, 2003b: 199-200)

A brief analysis cannot do justice to this. It is, obviously, the outline of a tragedy of disappointed idealism that needs an Ian McEwan or any of the other modern English writers who appear in long extracts in the Guardian Review. But what is really important about it is that it encapsulates a key theme of the audit society thesis. The nameless auditee is a fairly senior person, important enough to amplify audit mandates and requisition her own supply of filing cabinets and take notes at meetings out of

precaution, not because she is going to have to type them up and circulate them. She is, in fact, an expert, with 'years of training'. And the grim reality of decline is the same for her as for Dame Onora O'Neil and the Honorary Senior Research Fellow in Sociology and Modern Korea. *She is not trusted as an expert any more*. Public accountability and stakeholder dialogue are good things, it is implied – but these people, the patients and students and so on, the public, ought to trust the educated middle classes to get on with being expert. *The Audit Society* and its progeny, Power's own papers and the wails of unhappy academics and doctors and civil servants, are ultimately not a protest about the creation of an iron cage round society. They are a stifled chorus of fury at being made accountable.

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**the author**

Josephine Maltby is Professor of Accounting and Finance at the York Management School, University of York. She has research interests in corporate governance, accounting history and business history.  
E-mail: [jm564@york.ac.uk](mailto:jm564@york.ac.uk)