

The systems and methods of auditing

Edited by: Árpád Kovács

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I recommend this book, written by a group of serious writers and edited by *Árpád Kovács*, to anyone who thinks that he knows some of the ropes of auditing, or he is in a position in which he must actually perform audits, and he does so accordingly.

The reader is probably compelled to reconsider his former convictions already on the basis of the size and weight of the book, and the belief of being wrong gets stronger after he reads through the Table of Contents. “Well, so far I have been concentrating only on a tiny slice of audits,” summarises the lessons of our conceited imaginary hero, “and my eyes have just opened to see how much else audits are about.”

The title, i.e. “The system and methods of auditing” is sufficiently general to cover the numerous cross-sections of this category in this book, from public finances to enterprises, from the practice of the 19th century to almost the latest legal regulations, from the institu-

tional system to the requirements set for the individual auditors, from process organisation to info-communication.

The book can almost be regarded as an audit manual, which is trying to cover the broadest correlations, and strives for completeness instead of giving a detailed description of a sub-field. A well-structured index may further facilitate orientation in the next edition.

In the introductory “Recommendation” the editor emphasises that the book is very much like a textbook. “The aim of the book – designed to be acquirable and learnable in terms of volume – is to present practical, professional procedural and technical information, and to discuss the most important historical and theoretical considerations of audits, including especially financial audits, as well as the functional and organisational position thereof in the private economy and the public sector” (page 9). The book fully meets the

objectives, with the possible exception of easy learnability. The book is about weighty issues and a complicated subject that the reader must wade through if he wants to use the acquired knowledge at an exam, or in practice.

This is all right, or rather, it would be all right if all people who have come in any contact with audits were required to meet the requirement according to which they should be equally knowledgeable in all fields of audits, i.e. they should be able to know their way about in the related tasks of the management of a private company, and in the regular screening of state funds by the State Audit Office of Hungary (SAO). It goes without saying that it is impossible, or even unnecessary to set such a requirement. However, it is necessary that the reader should be able to find the relevant materials, and obtain complete, usable knowledge of the field of concern without thoroughly studying all chapters of the book.

Let there be no mistake about the above written. The reviewer does not wish to discourage anybody from reading the 320 pages, since the whole volume is useful reading matter. However, he certainly wants to draw attention to the fact that it is an excellent work in terms of structure and content, since the individual chapters or groups of chapters confine strictly to distinct topics, of which they provide complete information. For instance, if someone is interested in proprietary and internal audits, he will find the most important elements thereof on more than 40 pages in Chapter 9, and will feel “satisfied” without going through the audit obligations of the National Bank of Hungary.

■ At this point it is worth devoting a few sentences to the structure of the book. In a manner “befitting to a textbook”, the first part, i.e. the first 50 pages can be regarded as a theoretical, or rather general introduction. It is theoretical, since it clarifies definitions, sets the typography. On the other hand, it is general in

that it stipulates principles and requirements that apply to all types of audits. Therefore, the four chapters in the first part form useful reading matter even for those who prefer the use of the volume as a reference book, since its elements – although they occasionally reappear later on, or are discussed in more detail in connection with a minor field – appear in a unified structure only in this part.

■ The second part is titled “The audit system of Hungary”, and consists of seven chapters. Following a brief historical review, the chapters focus on the state, public finances and public administration from the audit perspective, and present the most important organisations, their roles and tasks (Chapter 6 “The role of government organisations in controlling lawfulness”). Chapter 7 contains a reasonably detailed description on the system of external and internal financial audits pertaining to the operation of public finances and the allocated assets.

On one hand, it is in this chapter that typography, internal and external audits – including their organisations and technologies – mentioned in the general introduction are illustrated in the most pronounced manner, while on the other hand, it is in this chapter that the roles and tasks of the external “auditor” of the operation of public finances, i.e. the State Audit Office of Hungary, are discussed in detail. This package includes – as the targets of external audits – the so called nonprofit organisations of the local governments.

The discussion of the topics mentioned so far and the topics to be mentioned later is admirably up-to-date. However, the parts on state assets were obsolete already at the time of the publication of the book, since the National Assembly adopted the Property Act, set up the National Property Council, and the National Holding Company by merging the three asset management companies, which started to function on 1 January 2008.

The detailed description of the operation of the SAO is followed by the presentation of the less well-known audit activities of known organisations (Tax and Financial Control Administration, Customs and Finance Guard, National Bank of Hungary, the Hungarian Financial Supervisory Authority) (Chapter 8). It must be noted separately that the organisational charts of the organisations discussed here or elsewhere are very informative, they provide novel information by themselves. Naturally, an important field of audits is that of enterprises, in which the owners want to receive continuous information about the operation of the capital they have invested, and on the other hand, the authorities and the partner organisations (customers, suppliers) want to be sure that operation is carried out in compliance with the law, and the company is financially reliable. What's more, the management itself needs a reliably functioning internal audit organisation that supports the work of the management. How this is realised can be learnt from the chapter titled "Proprietary and internal audits of enterprises", which describes in detail the role of the governing bodies of the company, the chartered accountant – as the independent external auditor –, and then we find detailed, good guidance on internal audits with the functional areas of the enterprise in focus.

Due to the importance of audits carried out by chartered accountants, they are also discussed in a separate chapter. In the second part

of the book the audit tasks arising from Hungary's EU membership are presented from a novel, extremely important, yet less known perspective (Chapter 11), including the presentation of the institutional system of audits, including, inter alia, the institutions involved in the processing of applications for EU funds, too.

■ Similarly to the first part, the last, third part of the book contains more general information partly on the audit techniques and methodologies, and partly on the organisation of the audit process. The information technology – the indispensable part of today's life – is successfully integrated in this part, as the system of tools supporting audits.

Following this brief presentation of content it is worth drawing attention to the other merits of the book.

The definitions and control questions at the end of the chapters can be used in line with the book's textbook-like nature, and also in lieu of the index mentioned above. The list of legal regulations related to the topic also provides great help for those who directly use this book.

The book was written by a group of 20 authors. Occasionally even the subchapters were produced by several authors. Despite this fact, and thanks to the thorough and careful work of the editor, the book has an almost fully homogeneous style, and the entire volume can be regarded as a uniform entirety.

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