

Interview with Dr. David J O'Regan, June 2024

## Introduction

David earned a doctorate in accounting and finance from the University of Liverpool, and he is a Fellow of the Institute of Chartered Accountants in England and Wales. Since 2009, he has been Auditor General to the Pan American Health Organization, in Washington D.C.

Co-authoring the Lenz-O'Regan 2024 article has been a pleasure from A to Z. Our joint article has been enjoying amazing traction: over 6,000 reads of the original article in 100 days after publication in March. There will eventually be more than 15 translations. The IIA India republishes the article in June in their quarterly magazine reaching 275,000 professional peers.

Interestingly, I have not yet met David in person. We have followed each other's' publication for years. Already in 2013, I cited him in my PhD thesis: 2001, David assessed that *“the IIA has been the driving force behind the increasing professionalization of internal auditing over the last half-century”*. He also stated, *“while External Audit is characterized by clear career paths, Internal Audit is often viewed as a stepping-stone to something else.”* We both share(d) the perspective that “Internal Audit lacks exclusivity.”

I enjoyed reading David's 2024 book titled “The Auditor's Companion: Concepts and Terms, from A to Z”. I view his book: A ‘must read’ for every audit professional. I view David O'Regan's ABC of auditing as instrumental “Lego-Bricks” overcoming the “epistemological obscurity” of the profession, eventually. A stepping-stone on his overarching mission contributing to the theory of auditing, thereby strengthening auditing practices for “nothing is so practical as a good theory. I look forward to reading his forthcoming book “The Closing of the Auditor's Mind?” (Routledge/CRC Press).

Today, I have eleven questions for you.

1. I would like to ask you first; how do you explain **“What is Audit?”** What is the service and value rendered, and to whom? You might provide alternative wordings when explaining, to say so, when (a) imagining professional peers or (b) a six-year-old.

**A:** I see auditing as a mechanism that provides impartial assurance and accountability and builds trust in the context of asymmetries of information. If one party to a transaction or a situation doesn't have access to the full range of knowledge held by others, impartial auditing helps to bridge the gap and maintain trust. Auditing is as old as society – modern financial auditing and internal auditing are just some latest manifestations of a perennial mechanism. I think that in our current times, in which trust in our institutions and in political and business leaders has been severely eroded, auditing is of heightened importance. So, when audit works properly, the services rendered are assurance and accountability, and the value rendered is enhanced social trust.

To a young child, I'd probably explain auditing by giving the example of checking that dividing a pizza into even slices among a group of kids is done fairly. In this case, a parent or older child

can supervise the pizza-slicing to reassure the kids that no-one is getting an excess share. (In my experience, kids are very, very rigorous about portion-measuring on pizza Fridays!)

2. Building on my prior question, I would like to ask you, how do you explain **“What is Internal Audit?”** What is the service and value rendered, and to whom? You might provide alternative wordings when explaining, to say so, when (a) imagining professional peers or (b) a six-year-old.

A: Internal auditing is a way of assuring those interested in the good governance of an organization that the inner workings of the organization are adequately functioning, in terms of the proper functioning of internal controls that minimize risks to organizational objectives, and in terms of the efficiency of processes and the safeguarding of assets. Here, I mean assets widely conceived – physical and intangible. Intangible assets include an organization’s reputation, intellectual property, climate of employee morale, and so on. To a young child, I’d say that internal auditing provides some checks over bad situations and over people who might be up to no good.

3. In March 2024, we have published a co-authored article about the Global Internal Audit Standards. We both draw the same conclusion, advocating truly principles-based professional standards. Although we converge in our overall conclusion, we offer alternative reasons for our views, and differing suggestions for the future. In the article, we are claiming that our perspectives are **“perhaps not entirely irreconcilable.”** I would love to hear -with your words- a summary of the two perspectives, and learn about your perspective on similarities and differences? How do you reconcile our viewpoints?

A: Interesting question. Perhaps I can start by highlighting what we both find troubling in the revised standards – their prescriptiveness; their lack of creativity; their amoral, checklist-based mindset that undermines the auditor’s moral agency; and their suppression of judgment and creativity. Your critique is based on an alternative vision of human skills. You make it clear that “internal auditors are not robots”, and you emphasize the “triangle of trust” that links authenticity, logic, and empathy. Also, you envision the auditor as a “gardener of governance” who has to react to changing circumstances by carefully nurturing positive values. In short, I see your approach as an attempt to reclaim human values from the increasingly mechanistic and clockwork flavor of the IIA’s standards.

In my case, I place emphasis on moral agency, the classical virtues, and traditional logic. All of these topics are being squeezed out by the prevailing tone of modern internal auditing, with its checklists, algorithms, and prescriptive standards. What I have in mind for logic is not the cold, calculative type of logic associated with computer programming or mathematical number-crunching. On the contrary it is traditional, Aristotelian logic that uses everyday language and lives with the ambiguities of language. My areas of emphasis therefore place greater value on humanistic values over the IIA’s current tendencies toward clockwork methods.

The emphasis on humanistic approaches to auditing is what reconciles, in my view, our two approaches. We both emphasize the humane aspects of auditing over the current trend towards checklists and box-ticking. It seems that we both feel that auditing standards are moving away

from the ebb and flow of daily experience for which the standards are supposed to support. Instead, internal auditing is disappearing down an intellectual rabbit hole of prescriptive, checklist-based box-ticking. Where perhaps we differ is that you are probably more optimistic than I am about the likelihood of reform of the IIA's mechanistic approach to internal auditing.

4. The new Global Internal Audit Standards use the word "must" 235 times. "**Agile**" or "**innovation,**" for example, get no mention. What does that tell?

A: The IIA's new standards are clearly overly prescriptive. Their tone is increasingly dogmatic, and this dogmatism is squeezing out the individual auditor's judgment and creativity. It is a deeply worrying trend. Although the revised standards have been grouped by principles, these principles serve mainly as headings, which give structure to a bloated inventory of rules and requirements. I would prefer to see a set of standards thoroughly based on principles, not merely arranged by a handful of principles. Without urgent reform, I think that, based on the evidence of the revised, catechism-like standards, the IIA's vision of internal auditing will become increasingly ossified. It might well be that the high tide mark of the IIA's creativity has already passed, though I hope it is not yet too late to reorient the IIA's interpretation of internal auditing in more creative directions.

5. **If you were** the CEO President and CEO at The Institute of Internal Auditors Inc. in the US what would be your top priorities?

A: Oh, Rainer - that's a tough question! I wouldn't like to second-guess or speculate on any actions that the current IIA President, Anthony Pugliese, might take. He brings a vast reservoir of energy and experience to reforming the IIA, especially by seeking to internationalize its character. This internationalization is very important, as Mr. Pugliese inherited an inward-looking organization with a narrow, provincial mindset that focused too much on North America. This legacy of provincialism sits uneasily with the IIA's self-declared global mission. Some-one in Mr. Pugliese's shoes faces enormous responsibilities, and he surely has to juggle various and sometimes-conflicting interests. He carries the responsibility for the future of the IIA on his shoulders. But he's a remarkable individual.

Anyway, you asked me what I'd do if I were in those shoes, so I'll respond. In my opinion I think that internationalization of the IIA's culture is an overriding concern. And the IIA faces several other urgent priorities. First, I'd say that the standards should become more principles-based, and less prescriptive, as we've discussed already. Second, the large consulting firms seem to have an undue influence on the IIA – I think their role should be reduced to helping hands, rather than guiding hands. But the elevated role for the consulting firms at the IIA might reflect a market logic or commodification of internal auditing that is specific to North America, so perhaps this is simply another symptom of the IIA's challenge of balancing its North American culture with its international aspirations. Third, I think that the IIA's educational programs and certification syllabi should make more room for qualitative analysis and big-picture thinking. At present, the emphasis appears to be increasingly on the quantitative building blocks of information rather than on bigger picture perspectives.

I could add more ideas for reform, but I'll leave it there.

6. One of your favorite reads is “The Audit Society – Rituals of Verification” (1997) from **Mike Power**? What do you value most about that book and author? How did Mike Power inspire and influence your thinking and your published work?

A: Mike Power is a professor at the London School of Economics. His writings have revolutionized my understanding of auditing. When I started my auditing career, in 1990, I thought I was engaging with a scientific, objective endeavor. Now I see auditing as a socially constructed activity. Power has made it clear that auditing is not an impartial science – on the contrary, and although it has scientific aspects, it's primarily a social tool of accountability and trust. Power made it clear, way back in the 1990s, that auditing continues to expand at unhealthy rates, at a huge socio-economic cost. He also demonstrated (at least to my satisfaction) that auditing often offers a false sense of assurance that acts like a social palliative, with which we deceive ourselves that all is well, on the basis of hollow audit opinions. Power convinced me that both auditing and risk management often (not always, but often) give a misleading impression of orderliness and the taming of risk. We collectively cover up chaos with a veneer of auditing and talk of taming risk. Look at the two major cataclysms of recent years – the 2008 financial crisis and the COVID-19 pandemic. In neither case did auditing or risk management distinguish themselves with their value to society. On the contrary, the reputations of auditing and risk management were severely tarnished.

Power's work has generated a massive commentary over the years, but I have never read any convincing refutation of his arguments. There are plenty more aspects of his work, and I shall address some of these in **The Closing of the Auditor's Mind?** , my forthcoming book.

In terms of Power's influence on my own writing, if I can achieve even a fraction of Power's originality, erudition, and elegance in my writing, I'd be happy!

7. In your 2024 book, *The auditor's companion: Concepts and terms from A to Z*, you offer 311 pages full of insights and inspiration. If you had to pick your top **1, 2 or 3 concepts and terms**, which would you choose, and why?

A: As we mentioned earlier, I think that it's difficult to overstate the importance of traditional logic in auditing. Auditing is founded on the inferences we make when trying to make sense of evidence to reach our conclusions and opinions. So “logic in auditing” in my favorite entry in the **Companion**. My other two favorite entries are the “audit society” (Mike Power's concept!) and the “postulates of auditing”. The latter are a collection of eight principles and assumptions that try to define the conceptual basis of auditing. Mautz and Sharaf elaborated the postulates in 1961: they're a little dated now, but they've stood the test of time remarkably well.

8. Please provide a teaser of your forthcoming book, **The Closing of the Auditor's Mind**? For whom is that book? Why should people read it? What are key ideas you are exploring in the book? What is utterly new?

A: I think of this book as a “philosophical audit” of the current condition of internal auditing. But I’ve gathered all the philosophical jargon into an Appendix, and the main text does not assume any knowledge of philosophy and philosophical terms. I try to assess internal auditing from various approaches – I refer to the classical virtues, numerology, neuroscience, anthropology, and the sociology of the professions. This eclectic approach is, I like to think, a little like assessing the aesthetic worth of a statue by looking at it from different angles. In the book I identify two challenges facing internal auditing today – an external challenge and an internal challenge. The external challenge concerns adaptation to shifting patterns in accountability and social trust, and the internal challenge of one of fundamental reform. On the latter challenge, we’ve already touched on the need to reform internal auditing by reorienting it away from mechanistic checklists towards humanistic judgment. I think that the challenge of adaptability is unlikely to be met without prior success in internal reform. I also have a chapter in which I try to apply Mike Power’s “audit society” to modern internal auditing, and in which I suggest some new paths for understanding the “audit society”. And I set out what I think is needed to put internal auditing on a healthier track.

I hope the book will appeal not only to internal auditors but to all those interested in governance, accountability, and social trust.

9. You have been publishing an amazing series of articles and books. If you had to choose **ONE key message** for the (internal) audit profession, what would that be, and why?

A: At the danger of sounding a little repetitive, I’d say that the purpose of my writing is to encourage a reorientation of internal auditing - away from prescriptive rules that fossilize audit practices and discourage judgment, toward a more creative, innovative, and humanistic approach. Without this kind of reform, I fear that internal audit will become increasingly marginalized and unimportant, and will be ripe for takeover by machine processing, effectively eliminating human judgment altogether.

10. In your 2024 book, already published, your reference humor seventeen times. I like that. Why do you regard **humor** as important?

A: I think humor is a good test of the presence of humanistic values. A joke is the antithesis of the algorithm and the checklist and the prescriptive professional standard. A profession or organization whose members cannot see the funny side of what they do is missing something essential. That’s why, in the book’s preface, I wrote something along the lines of “We should take

seriously any profession that can laugh at itself". Too often, internal auditors take themselves too seriously, which may be an indication of insecurity.

11. So true, ego can be our biggest enemy. Not taking oneself too seriously and being able to laugh at oneself is a good thing. Now, with question No. 11, we are coming to the end of our discussion. With this last question on the day I like to invite you to share your **favorite joke/s** about auditors. If you had one favorite for external and another one for internal auditors, you might wish to share two favorites. Humor is a great companion for (internal) auditors, and in life.

A: Let me take two jokes I heard many years ago, one in relation to external auditing and the other to internal auditing. Number 1: How can you identify an extroverted external auditor? He or she looks at *your* shoes while talking to you. Number 2: Why do internal auditors refuse to gaze aimlessly out of the window in the morning? Because that would give them little to do in the afternoon.

## Appendices

1. David's homepage: <https://davidoregan.com/>
2. Lenz, R. and O'Regan, D. J. (2024), The Global Internal Audit Standards – Old Wine in New Bottles? EDPACS, 69:3, 1-28 <https://doi.org/10.1080/07366981.2024.2322835>
3. Lenz, R. and O'Regan, D. J. (2024), The New Internal Audit Standards – Insights and Introspection, The institute of Internal Auditors, India, Internal Audit Today, Issue 23 (June), <https://lnkd.in/eqYpqSaV> (republication)
4. O'Regan, D. J. (2024), The Closing of the Auditor's Mind? Routledge/CRC Press (forthcoming)
5. O'Regan, D. J. (2024), The auditor's companion: Concepts and terms from A to Z. Georgetown University Press
6. O'Regan, D. J. (2001). Genesis of a profession: Towards professional status for internal auditing. Managerial Auditing Journal, 16(4), 215–226 <https://doi.org/10.1108/02686900110389160>