Knowledge Audit

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< EXECUTIVE SUMMARY >

◆ Yes, knowledge is power, but only if your people can access it exactly when they need it.

One of the critical first steps in the knowledge management area is to conduct a knowledge audit. Some people view the knowledge audit as being the business needs assessment, cultural assessment, and an examination of what knowledge is needed, available, missing, applied, and contained. In the same manner that a manufacturing company will first inventory its physical assets, an aspiring "knowledge organization" should also inventory its intellectual capital assets. This paper focuses on determining what knowledge is needed, what knowledge is available and missing, who needs this knowledge, and how will this knowledge be applied.

INTRODUCTION

Synergy between technological and behavioural issues are the need of the hour for survival in the transformed business environment. The necessity for synergy of technological and human capabilities is based on the distinction between the 'old world of business' and the 'new world of business.' Predictable environments in which focus was on prediction and optimisation based efficiencies characterized the 'old world of business'. That was the world of competence based on 'information' as the strategic asset and the emphasis was on controlling the behaviour of organizational agents towards fulfilment of pre-specified organizational goals and objectives. Information and control systems were used in that world for achieving the alignment of the organizational factors with pre-defined 'best practices'. The assumption was that such 'best practices' retained their effectiveness over time.

In contrast, high levels of uncertainty and inability to predict the future characterize the 'new world of business'. Use of the information and control systems and compliance with pre- defined goals, objectives and best practices may not necessarily achieve long-term organizational competence. This is the world of 're-everything,' which challenges the assumptions underlying the 'accepted way of doing things.' This world needs the capability to understand the problems afresh given the changing environmental conditions. The focus is not only on finding the right answers but also on finding the right questions. This world is contrasted from the 'old world' by its emphasis on 'doing the right thing' rather than 'doing things right.'

Organizations, networks and individuals are all confront with the necessity to constantly reinvent themselves to adapt to their environments. Those participating in knowledge industries or performing knowledge work do so with shorter time cycles and higher risks if they cannot muster what they know and see what they need to take the next step. Probably no personal, network or organizational set of assets is as ineffectively deployed as its

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knowledge and intellectual capital. Making improvements in the distribution and management of knowledge is probably the greatest source of untapped value and security available to any organization, network or individual. But, it must include improvements in the relations among parts as well as within them because knowledge management is a whole system issue.

WHAT IS KNOWLEDGE MANAGEMENT?

Knowledge management (KM) focuses on 'doing the right thing' instead of 'doing things right.' Knowledge management is a framework within which the organization views all its processes as knowledge processes. In this view, all business processes involve creation, dissemination, renewal, and application of knowledge toward organizational nourishment and survival. The concept of Knowledge Management embodies a transition from the recently popular concept of 'information value chain' to a 'knowledge value chain.' Whereas the information value chain considers technological systems as key components guiding the organization's business processes, while treating humans as relatively passive processors that implement 'best practices' archived in information databases. In contrast, the knowledge value chain treats human systems as key components that engage in continuous assessment of information archived in the technological systems. In this view, the human actors do not implement 'best practices' without active inquiry. Human actors engage in an active process of sense making to continuously assess the effectiveness of 'best practices.' The underlying premise is that 'best practices' of yesterday may not be taken for granted as 'best practices' of today or tomorrow. Hence, double loop learning, unlearning and relearning processes need to be designed into the organizational business processes.

WHAT IS A KNOWLEDGE AUDIT?

The knowledge audit is the all important first major phase or step of a knowledge management initiative, and is used to provide a sound investigation into the company or organisation's knowledge 'health'. The audit is a fact-finding, analysis, interpretation, and reporting activity, which includes a study of the company's information and knowledge policies, its knowledge structure and knowledge flow.

The knowledge audit serves to help the audited unit to determine if it 'knows what it knows' and 'knows what it doesn't know' about its existing knowledge state. It will also help it to unearth what it should know to better leverage knowledge for business and competitive advantage. This enlightenment sets the agenda for the knowledge management initiative, programme, and implementation.

If offers a detailed examination, review, assessment and evaluation of a company's knowledge abilities, its existing knowledge assets and resources, and of its knowledge management activities. A knowledge audit will help the audited company to determine what knowledge is being managed and how well it is being managed. The audit helps to make the knowledge in the company visible.

Knowledge Audit identifies the core information and knowledge needs and uses in an organization. It identifies gaps, duplications, flows, and how they contribute to business goals. It is an extension of knowledge management initiatives of various organizations and ensures whether their initiatives lead to the desired objectives of knowledge management.

The Knowledge Audit will be both an examination and inventory of the knowledge that is contained, needed, available, missing, and applied in the company. The term 'knowledge audit' is in some ways a bit of a misnomer, since the traditional concept of an audit is to check performance against a standard, as in financial auditing. A knowledge audit, however, is a more of a qualitative evaluation. It is essentially a sound investigation into an organisation's knowledge 'health'. A typical audit will look at:

- What are the organisation's knowledge needs?
- What knowledge assets or resources does it have and where are they?
- What gaps exist in its knowledge?
- How does knowledge flow around the organisation?
- What blockages are there to that flow e.g. to what extent do its people, processes and technology currently support or hamper the effective flow of knowledge?

KNOWLEDGE AUDIT - WHY AND WHEN?

A Knowledge audit is a practical way of getting to grips with "knowing what you know". It identifies owners, users, uses and key attributes of core knowledge assets. It is often carried out in conjunction with a knowledge management assessment as a baseline on which to develop a knowledge management strategy. Indicators that a knowledge inventory would be worthwhile include:

- Managers and professionals feel the symptoms of 'information overload'

- It is difficult to find quickly key information and knowledge needed to make key decisions
- Useful sources of information and knowledge are frequently stumbled across by accident
- Duplication of information gathering activities is taking place across different departments
- Questions are raised about the value of information systems or information management (library) investments.
- In organizations and industries with a strong R&D function

VIEWS ON THE KNOWLEDGE AUDIT

According to Debenham and Clark (1994), a knowledge audit is a planning document, which provides a structural overview of a designated section of an organization's knowledge as well as details of the qualitative and quantitative characteristics of the individual chunks of knowledge within that designated section. The document also identifies the knowledge repositories in which those chunks reside. They feel that the knowledge audit is a scientific measurement of the state of affairs of specified sections of corporate knowledge. A critical part of a knowledge management methodology is performing a knowledge audit (Liebowitz, 1999).

A knowledge audit may identify the following (Wiig, 1993):

- Information glut or lack of information
- Lack of awareness of information elsewhere in the organization
- Inability to keep abreast of relevant information
- Significant "reinventing the wheel"
- Common use of out-of-date information, and
- Not knowing where to go for expertise in a specific area.

A knowledge audit assesses potential stores of knowledge. It is the first part of any knowledge management strategy. By discovering what knowledge is possessed, it is then possible to find the most effective method of storage and dissemination. It can then be used as the basis for evaluating the extent to which change needs to be introduced to the organization. Part of the knowledge audit is capturing "tacit" knowledge. To do this, some organizations use communication technologies and virtual teams, including groupware, discussion databases, video conferencing, data conferencing, and team ware.

In a knowledge audit, one should try to identify the knowledge of: people who know the contents of libraries, including feedback from lead customers with product innovations and adaptations; rules of thumb; shortcuts; and cheat sheets. For the audit, look at: flows, sinks, sources, and constrictions in addition to the stores. Look for opportunities and assess the form and nature, relevance, usefulness, costs, timeliness, and the accuracy of the data collected. Pay close attention to the context, the transformations, and the assumptions along the way.

What a Knowledge Auditor Does

A Knowledge Auditor does not attempt to develop a comprehensive inventory of knowledge assets, but works on the basis of developing a prioritized list of assets. These are identified by analyses of core business processes and critical management decision areas.

- Analysis of key documents e.g. plans, process models and descriptions
- Analysis of current information systems
- Interviews with representative cross-section of staff
- Information requirements questionnaires
- Analysis of information and knowledge flows
- Development of knowledge maps
- Creation of an action plan.

OBJECTIVES OF A KNOWLEDGE AUDIT[2]

- To give a high-level view of the extent, nature, and structure of the knowledge in a specified section;
- To provide meaningful hard data input to the strategic plan for knowledge processing;
- To identify the relevant knowledge repositories within the organization;
- To provide a statement of the qualitative characteristics of the chunks of knowledge within a particular knowledge repository; and
- To provide scientific estimates for the quantitative characteristics of the chunks of knowledge within a particular knowledge repository.

STEPS IN KNOWLEDGE AUDIT

To achieve the above objectives, a step by step approach may be adopted while undertaking the knowledge audit, details of which are as under:

1. Identify what knowledge currently exists in the targeted area

[2] *Debenham and Clark (1994)*

- Determine existing and potential sinks, sources, flows, and constraints in the targeted area, including environmental factors that could influence the targeted area
- Identify and locate explicit and tacit knowledge in the targeted area
- Build a knowledge map of the taxonomy and flow of knowledge in the organization in the targeted area. The knowledge map relates topics, people, documents, ideas, and links to external resources, in respective densities, in ways that allow individuals to find the knowledge they need quickly

2. Identify what knowledge is missing in the targeted area
   - Perform a gap analysis to determine what knowledge is missing to achieve business goals
   - Determine who needs the missing knowledge

3 Provide recommendations from the knowledge audit to management regarding the status quo and possible improvements to the knowledge management activities in the targeted area.

The knowledge auditor has to use appropriate audit instruments, primarily consisting of two sets of questions while undertaking the knowledge audit. The first set seeks to find answers for step 1 of the knowledge audit and the second set seeks to find answers for step 2 of the knowledge audit. Step 3 of the audit would then follow from the findings in steps 1 and 2.

According to Shah et al. (1998), some questions for a knowledge audit include:

1. Business Concept
   - How do you conceptualize the business?
   - What is the mission or objectives of your team or unit?
2. Enterprise Know-How
   - How dependent are you on knowledge and expertise?
   - How do you generate knowledge?
   - Please describe various methods in which you codify knowledge e.g., knowledge maps of who knows what, printed sources (rule books), experience databases (repository of customer problems and actions)
   - Do you codify knowledge related to both successful and failure experiences?
   - What mechanisms exist to transfer knowledge from expert people/teams to other people/teams (e.g., training, informal talks, etc.)?
3. Knowledge Workers
   - Are they focused on what they are best at?
   - What kind of partnership exists between management and knowledge workers?
   - How do you use training and team processes to enhance knowledge/skills?
   - How is compensation linked with knowledge/skill levels?
4. Knowledge Mediated through IT
   - Is IT used just to process data or also to manage knowledge?
   - How do you implement your IS projects related to knowledge management?
5. Organizational Design
   - Does the flow of information in your unit foster or hinder innovation?

Deliverables in a Knowledge Audit

Deliverables are tailored to client's requirements but typically include the following:

- A Core Process / Knowledge Chart
- Supplier / User Matrix
- A knowledge map or tree
- An initial set of information standards
- A sample set of inventory records
- A detailed report, including charts, diagrams and tables of knowledge assets.

   - How close are you to being a modern networked, flat, and adaptable organization?

Certainly, a "knowledge map" showing the taxonomy and flow of knowledge is a critical part of the knowledge audit. Some people (e.g., Snowden, 1999) believe that the best representations for knowledge maps are stories--they convey the context, the values, and the message. The most productive audit activities may be: identification of knowledge opportunities for connecting to customers, capturing the corporate memory (helping learning and preventing repeated errors), and compiling a directory of true experts and their interests.

According to Dataware (1998), one of the leaders in the knowledge management field, a productive knowledge audits need only concentrate on answering the following question: "In order to solve the targeted problem, what knowledge do I have, what knowledge is missing, who needs

this knowledge and how will they use the knowledge?"

The audit begins by breaking that information into two categories: what knowledge currently exists and what knowledge is missing. Once the location or source of the missing information is identified, they can begin to structure the relevant information so that it can be easily found. At the conclusion of the knowledge audit, the knowledge management team has the information necessary to design its knowledge management system on paper.

Organisations like Dataware believe strongly in the need to capture the tacit knowledge. That is why we focus on identifying tacit knowledge in the knowledge audit. One way is to make tacit knowledge more accessible by capturing it as metadata (data about an explicit knowledge asset). One can ask subject-matter experts what kinds of questions they most often ask others in the process of doing their jobs. One can also create skills databases, online communities of practice, and searchable repositories of resumes or skills profiles.

Consider using a qualitative organization of knowledge assets--being able to search by topic versus location. One can use a process-oriented approach to have a generalized model of how a business functions--from understanding customers and markets to managing people, processes, and resources--and mapping it to the knowledge contained in the organization.

Conceptual models are often the most useful method of classification, but harder to construct and maintain. Conceptual models organize information around topics, such as proposals, customers, or employees. Taxonomies map people, documents, opinions, ideas, and links to external resources in ways that allow individuals to find the knowledge they need quickly--knowledge maps.

Knowledge analysis methods that could be used in the knowledge audit[3]

Sl.No.	Knowledge analysis methods	Usage in Knowledge Audit
1.	Questionnaire-based knowledge surveys:	To obtain broad overviews of an operation's knowledge status
2.	Middle management target group sessions	To identify knowledge-related conditions that warrant management attention
3.	Task environment analysis	To understand, often in great detail, which knowledge is present and its role
4.	Verbal protocol analysis	To identify knowledge elements, fragments, and atom
5.	Basic knowledge analysis	To identify aggregated or more detailed knowledge
6.	Knowledge mapping	To develop concept maps as hierar chies or nets
7.	Critical knowledge function analysis	To locate knowledge-sensitive areas
8.	Knowledge use and requirements analysis:	To identify how knowledge is used for business purposes and determine how situations can be improved
9.	Knowledge scripting and profiling	To identify details of knowledge intensive work and which role knowledge plays to deliver quality products
10.	Knowledge flow analysis	To gain overview of knowledge exchanges, losses, or inputs of the task business processes or the whole enterprise

[3] *Based on Wing (1993)*

APPROACHES TO CONDUCTING A KNOWLEDGE AUDIT

There are a wide variety of approaches to conducting a knowledge audit, with varying levels of coverage and detail. As a general rule, most knowledge audits will involve some or all of the following:

Identifying knowledge needs

The first step in most knowledge audits involves getting clear about precisely what knowledge the organisation and the people and teams within it need in order to meet their goals and objectives. A knowledge audit provides a systematic way of finding this out to some level of detail. Common approaches taken to collating this information include questionnaire-based surveys, interviews and facilitated group discussions, or a combination of these. In asking people about knowledge needs, it is important to provide a point of focus, as 'knowledge' can be seen as being quite conceptual and therefore difficult

Contents of a Knowledge Audit Report*

The knowledge audit report may contain:

- An executive summary highlighting the major findings of the knowledge audit
- A clear statement of the reason for conducting the knowledge audit.
- A description of the knowledge audit process
- An analysis of the accuracy and sensitivity of the findings
- The conclusions, which should summarize the detailed findings of the knowledge audit in an easily digestible form, and should relate these findings to the reasons why the audit was conducted.
- A "block map"--a diagram displaying the various knowledge blocks audited, their relationships to one another and the knowledge repositories in which they reside
- A section containing "block proformas"--the means used to record information about the qualitative characteristics of a block, as well as to record the values for the quantitative characteristics of a block--in a knowledge audit report, there is usually one proforma per page and one proforma per block
- An index providing the page numbers of the various blocks and corresponding repositories.

** Suggestive - Based on Debenham and Clark, 1994*

to articulate. To get around this, and to ensure that you are concentrating on vital knowledge, invite people to think about their goals and objectives, and the core processes, activities and decisions that they perform in the course of their day-to-day work. You might ask them to also consider their main problems and challenges, and how might faster access to better knowledge help them in that regard.

It is always beneficial to begin a knowledge auditing process with identifying knowledge needs. This enables you to then use your understanding of these needs to guide the rest of the auditing process, and therefore be sure that you are focusing on the knowledge that is important to the organisation.

Drawing up a knowledge inventory

A knowledge inventory is a kind of stock-take to identify and locate knowledge assets or resources throughout the organisation. It involves counting and categorising the organisation's explicit and tacit knowledge. In the case of explicit knowledge, this will include things like:

- What knowledge we have - numbers, types and categories of documents, databases, libraries, intranet websites, links and subscriptions to external resources etc?
- Where the knowledge is - locations in the organisation, and in its various systems?
- Organisation and access - how are knowledge resources organised, how easy is it for people to find and access them?
- Purpose, relevance and 'quality' - why do these resources exist, how relevant and appropriate are they for that purpose, are they of good 'quality' e.g. up-to-date, reliable, evidence-based etc?
- Usage - are they actually being used, by whom, how often, what for?

In the case of tacit knowledge, the inventory will focus on people and look at things like:

- Who we have - numbers and categories of people
- Where they are - locations in departments, teams and buildings
- What they do - job levels and types
- What they know -academic and professional qualifications, core knowledge and experience
- What they are learning - on the job training, learning and development.

The knowledge inventory gives you a snapshot of your knowledge assets or resources. By comparing your inventory with your earlier analysis of knowledge needs, you can begin to identify gaps in your organisation's knowledge as well as areas of unnecessary duplication. This is also explored in greater detail in the next step.

Analysing knowledge flows

While an inventory of knowledge assets shows what knowledge resources your organisation has, an analysis of knowledge flows looks at how that knowledge moves around the organisation - from where it is to where it is needed. In other words, how do people find the knowledge they need, and how do they share the knowledge they have? Again, the knowledge flow analysis looks at both explicit and tacit knowledge, and at people, processes and systems:

- The relative focus in this stage is on people: their attitudes towards, habits and behaviours concerning, and skills in, knowledge sharing and use. This will usually require a combination of questionnaire-based

surveys followed up with individual interviews and facilitated group discussions.

- In terms of processes, you will need to look at how people go about their daily work activities and how knowledge seeking, sharing and use are (or are not) part of those activities. In most organisations, there will be pockets of good knowledge management practice (though they may not be called knowledge management). You will also need to look at what policies and practices currently affect the flows and usage of information and knowledge, for example are there existing policies on things like information handling, records management, web publishing? Are their other wider policies and practices that, while not directly related to knowledge management, act as enablers or barriers to good knowledge practice?
- On the systems side, some assessment is needed of key capabilities that will be used in any recommended actions or solutions. This includes the technical infrastructure: information technology systems, content management, accessibility and ease of use, and current actual levels of use. In short, to what extent do your systems effectively facilitate knowledge flows, and help to connect people with the information and other people they need.

An analysis of knowledge flows will allow you to further identify gaps in your organisation's knowledge and areas of duplication; it will also highlight examples of good practice that can be built on, as well as blockages and barriers to knowledge flows and effective use. It will show where you need to focus attention in your knowledge management initiatives in order to get knowledge moving from where it is to where it is needed.

Creating a knowledge map

A knowledge map is a visual representation of an organisation's knowledge. There are two common approaches to knowledge mapping:

- The first simply maps knowledge resources and assets, showing what knowledge exists in the organisation and where it can be found
- The second also includes knowledge flows, showing how that knowledge moves around the organisation from where it is to where it is needed.

Clearly the second approach provides the most complete picture for the knowledge auditor. However, the first is also useful, and in some organisations is made available to all staff to help people locate the knowledge they need.

What are the benefits of conducting Knowledge Audit? Among the key benefits of knowledge audit are:

- It helps in identification of core knowledge assets and flows - who creates, who uses
- It enables organisations in identification of gaps in information and knowledge needed to manage the business effectively
- It helps to identify areas of information policy and ownership that need improving
- It provides opportunities to reduce information handling costs
- It offers opportunities to improve coordination and access to commonly needed information
- It presents organisations to have a clearer understanding of the contribution of knowledge to business results.
- It helps the organisation clearly identify what knowledge is needed to support overall organisational goals and individual and team activities.
- It gives tangible evidence of the extent to which knowledge is being effectively managed and indicates where improvements are needed.
- It provides an evidence-based account of the knowledge that exists in an organisation, and how that knowledge moves around in, and is used by, that organisation.
- It provides a map of what knowledge exists in the organisation and where it exists, revealing both gaps and duplication.
- It reveals pockets of knowledge that are not currently being used to good advantage and therefore offer untapped potential.
- It provides a map of knowledge and communication flows and networks, revealing both examples of good practice and blockages and barriers to good practice.
- It provides an inventory of knowledge assets, allowing them to become more visible and therefore more measurable and accountable, and giving a clearer understanding of the contribution of knowledge to organisational performance.
- It provides vital information for the development of effective knowledge management programmes and initiatives that are directly relevant to the organisation's specific knowledge needs and current situation.

Some examples of situations in which a knowledge audit can be beneficial include:

- You are about to embark on creating a knowledge management strategy and so need to establish exactly

'where you are now'

- People are having difficulty in finding the information and knowledge they need to make key decisions
- Useful sources of information and knowledge are frequently stumbled across by accident
- There is duplication of information and knowledge gathering activities across different departments or teams, and hence duplication of costs
- Questions are being raised about the value of knowledge management systems, initiatives or investments
- When findings from research and development are not making their way into practice quickly enough.

WHAT ARE POINTS SHOULD A KNOWLEDGE AUDITOR BE AWARE OF?

- Be clear about your purpose. The knowledge audit is not a quick or simple process, and so the time and effort required needs to be justified by a clear purpose and a set of actions that will be taken as a result of what the audit reveals.
- When conducting a knowledge audit, bear in mind the widely-accepted statistic that around 80% of an organisation's knowledge is tacit, hence beware of focusing too much time and energy on explicit knowledge and not enough on tacit knowledge.
- The ease or difficulty that you have in gathering and collating the information you need as part of the audit process is itself a good indicator of the status of your current knowledge management capabilities.
- If you decide to commission a knowledge audit from external consultants, be aware that the quality and depth of work that comes under the general banner of 'knowledge auditing' varies quite. Many vendors use the term 'knowledge audit' to describe what is in fact an information audit - which will only look at explicit knowledge. Auditing tacit knowledge is probably where the greater challenge lies, and is hence the area in which expert help is likely to be most valuable.

SKILL SETS TO BECOME A KNOWLEDGE AUDITOR

Though the experience of conducting knowledge audits can make one an efficient and effective Knowledge Auditor, those who would like to take up the knowledge audit assignments are advised to acquire certain basic skill sets that are required to perform the knowledge audit to narrow down the expectations gap of the stakeholders of such knowledge audit.

An indicative list of skills required is given below for the benefit of the readers of this article:

- A thorough comprehension about the Knowledge Management with the ability to link the same to the profile of the organisation for which knowledge audit is being / proposed to be undertaken.
- Command over strategic management and its interrelationship with knowledge management.
- Ability to determine what information qualifies as intellectual and knowledge-based assets.
- Complete knowledge about tacit knowledge - ability to recognise it, how to generate it in the organisation including managing and dissimilating the same in the organisation.
- Constituents of the internal environment, wherein the employees, possessing the explicit and tacit knowledge are motivated to come forward to share such knowledge among their own colleagues for the overall benefit of the organisation.
- Complete knowledge about the technologies that can support Knowledge Management covering
  - Collaboration tools designed specifically to support community building and identity
  - Tools relating to knowledge repositories,
  - Expertise access tools, e-learning applications,
  - Discussion and chat technologies,
  - Synchronous interaction tools,
  - Search and data mining tools and
  - Communication technologies
- Ability to identify the human sensors in the organisation and how to utilise them to build world-class organisation.
- Thorough wisdom about the challenges of the Knowledge Management, from the client's perspective and how it can overcome those challenges.
- Investigative, analytical, interviewing and fact finding skills to identify an organisation's information and knowledge polices, its knowledge structure and knowledge flow.
- Comprehensive knowledge about:
  - Questionnaire-based knowledge surveys
  - Task environment analysis
  - Verbal protocol analysis
  - Critical knowledge function analysis
  - Knowledge use and requirements analysis
  - Knowledge scripting and profiling

CONCLUSION

A complete knowledge audit will evaluate the company's knowledge environment, its knowledge ecology, its

knowledge use and sharing: in essence the knowledge enhancing social and behavioural culture of the people within the company. Most importantly, the knowledge audit investigates the perceptions of knowledge management effectiveness by the knowledge people.

The knowledge audit provides an evidence-based assessment of where the organisation needs to focus its knowledge management efforts. It can reveal the organisation's knowledge management needs, strengths, weaknesses, opportunities, threats and risks. Most businesses are faced with the constant challenge of bringing together disparate information sources with complex, time-sensitive processes to build competitive advantage. An algorythmic approach, in the form of a Knowledge Audit, to business solutions will add clarity and help organisations turn data into information, and information into knowledge, so people can make the decisions that drive their businesses. A Knowledge Auditor will analyse the organisation's data resources, information flow, and business processes with an eye for improvement to help them manage their knowledge as efficiently as possible.

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Professional Opportunities for Members

As per the existing regulatory requirement, active stock members of stock exchanges are required to get their accounts audited by qualified Chartered Accountants within six months of the date of the closing of books of accounts. SEBI desirous of extending the scope of these audits has decided to include a verification of the standards of compliance by these stock brokers with various regulatory requirements and reporting of non-compliance in their audit report in the form of an Annexure.

The Annual audits would also examine the role of the compliance officer, whom stock brokers are required to appoint under SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001. The focus would be on competence and experience of compliance officer, organization structure and pattern of information flow, scrutiny carried out by compliance officer regarding conformity to rules and regulations, periodicity and quality of reports of compliance officer to management SRO/ regulator, adequacy of follow up action on these reports by the management compliance officer etc. This would help SROs regulator to assess the level of regulatory compliance by the brokers on a regular basis and to take.