



Section 45 of the Auditing Profession Act: Blowing the whistle for audit quality? ☆



Warren Maroun ^{a,*}, Jill Atkins ^b

^a School of Accountancy, University of the Witwatersrand, 1 Jan Smuts Avenue, Braamfontein, Johannesburg, South Africa

^b Henley Business School, Henley-on-Thames, Oxfordshire, United Kingdom

ARTICLE INFO

Article history:

Received 11 December 2012

Received in revised form 23 January 2014

Accepted 27 January 2014

Available online 15 March 2014

Keywords:

Arms-length regulation

Auditing

Audit quality

Reportable irregularities

Whistle-blowing

South Africa

ABSTRACT

This study responds to the calls for more practically-orientated research which does not hesitate to open the 'black box' of audit practice. Using detailed interviews, the research provides insights into how a legislated duty for South African auditors to report certain irregularities to an independent regulator may be a means of improving audit quality and widening the scope of information made available to stakeholders. The legislation is not, however, without its limitations. Where the reporting requirement is applied in a legalistic fashion, or adhered to merely for the sake of professional appearance, notions of the auditor blow the whistle in the public interest may be more symbolic than pragmatic. This is relevant, not only for academics wanting to understand the functioning of the audit practice in the largely neglected African context. The reporting requirement, as an example of the interaction between audit practice and external regulation of the profession, has implications for policy makers when examining how arms-length regulation can be used as a means of enhancing the quality of audit engagements and relevance of audit reports.

© 2014 Published by Elsevier Ltd.

1. Introduction

Crisis precipitates regulation, as highlighted by the proliferation of external regulation for improving minimum levels of audit quality in reaction to a legacy of highly publicised audit and corporate failures (Humphrey, Kausar, Loft, & Woods, 2011; Malsch & Gendron, 2011; Unerman & O'Dwyer, 2004). The enactment of the Sarbanes Oxley Act (2002) (SOX) is an excellent example. The subjugation of audit firms to independent monitoring is, however, predicated largely on the assumption that capitalistic pressures undermine and external regulation improves audit quality (Carcello, Hollingsworth, & Mastrolia, 2011; Humphrey et al., 2011). Juxtapose the frenetic promulgation of new laws and regulations, aimed directly or indirectly at the auditor, with the fact that financial crises, corporate failures and audit scandals still happen, and one quickly reaches the conclusion that the debate on external and self-regulation is far from resolved (DeFond & Francis, 2005; Humphrey et al., 2011; Malsch & Gendron, 2011).

☆ This paper is based on the first author's doctoral thesis supervised by Professor Jill Solomon and has been edited by Mrs. LelysMaddock. Special thanks must go to the anonymous reviewers, participants of the British Accounting and Finance Association, Brighton (2012), the International Corporate Governance Conference, Johannesburg (2012) and the Africa Leads Conference, Stellenbosch (2012) for their comments on earlier versions of this paper.

* Corresponding author. Tel.: +27 (0)11 717 8227.

E-mail address: warren.maroun@wits.ac.za (W. Maroun).

While there has been some research on the shortcomings of various regulatory measures in the U.S.A and Europe (examples include Bronson, Hogan, Johnson, & Ramesh, 2011; Vakkur, McAfee, & Kipperman, 2010), we know comparatively little about efforts at improving audit practice in African economies (Humphrey et al., 2011). As highlighted by Cooper and Robson (2006, p. 417), an ‘Anglo-American orientation reflects much of the research literature’ necessitating the need for context-specific accounting and auditing research ‘outside of the Anglo-American world’. Much of the prior audit quality research is also focused on testing the relationships between regulatory developments and audit quality *surrogates* (Francis, 2004; Humphrey, 2008). Although these studies have made a valuable contribution to the academic community’s understanding of the attest function, ‘we can and have to learn more from the experiences of auditors within and across different firms, contexts and nations’ (Humphrey et al., 2011, p. 433).

Accordingly, this paper examines the role of a whistle-blowing duty imposed on South African auditors in terms of s45 of the Auditing Profession Act No. 26 (2005) (APA) with the aim of improving audit quality. No effort is made to ‘measure’ changes in audit quality control variables. Instead, detailed interviews with some of the country’s leading minds in corporate governance are used to explore how the supplementary reporting requirement – in terms of which an auditor is required to report certain irregularities to an independent regulatory body – interconnects with quality control elements defined by ISQC 1 (International Auditing and Assurance Standards Board [IAASB], 2009h).

This allows the research to make an important contribution by providing detailed case-specific evidence of how external regulation interacts with professional auditing standards and notions of audit quality (Humphrey, 2008; Humphrey et al., 2011; Power, 2003). The study is also one of the first to explore the relationship between a whistle-blowing duty and the perceptions of audit quality and to examine the relevance of s45 of the APA for South African audit, despite the reporting provisions being in place for several years. Finally, given the growing interest in the scope and quality of traditional audit reports (European Commission, 2010; IAASB, 2012; Solomon, 2009), exploring *how* this additional reporting requirement impacts audit practice is relevant for practitioners, academics and regulators concerned with audit reporting and audit quality in general.

Before proceeding, the authors wish to clarify that the aim of this paper is not to provide a comprehensive review of the audit quality literature. Prior research is referred to simply to develop a framework for analysing data collected during the interviews. To this end, rather than rely on extensive theoretical development and analysis, themes, principles or concepts in prior literature on audit quality are used by analogy to explore the functioning of s45 of the APA. This approach is not in keeping with the traditional structure of comparable studies. It does, however, ensure that focus is retained on the findings while making the research more accessible to a broader audience¹ (adapted from Llewelyn, 2003; Tremblay & Gendron, 2011).

The remainder of the paper is organised as follows: Section 2 provides a summary of audit quality literature. Section 3 provides a brief explanation of the operation of s45 of the APA. Section 4 discusses the method. Section 5 highlights the requirements of ISQC 1 and presents findings. Section 6 concludes.²

2. Prior literature and theoretical framework

Auditing is not just a technical phenomenon (Power, 1994). It is a highly discursive practice that is both influenced by and reflects institutional, normative, cultural, competitive and regulatory changes (Cooper & Robson, 2006; Khalifa, Sharma, Humphrey, & Robson, 2007). This is highlighted by the growing body of interpretive auditing research where, for example, developments in audit methodology are described in terms of an interaction between the interests of clients, market forces, and the balance between professional judgement and pseudo-scientific audit techniques (Humphrey & Moizer, 1990; Khalifa et al., 2007; MacLulich, 2003). Similarly, Power (1994; 1996) explores how the codification of audit practice has contributed to the proliferation of assurance services, resulting in the evolution of audit discourse to expand the profession’s jurisdictional claims (O’Dwyer, Owen, & Unerman, 2011). Concurrently, changes to codified audit practice are not only the result of changing economic circumstances. The development of audit standards is a complex result of the interaction between political interests and power of governments, large audit firms, and important stakeholders (Cooper & Robson, 2006; Fogarty, Helan, & Knutson, 1991; Sikka, Filling, & Liew, 2009; Sikka, Puxty, Willmott, & Cooper, 1998). The result is that ‘specific audit discourses gain momentum at particular points in time, reflecting and privileging the current aims of the audit profession and dominant conceptions of key problematics in the wider-organisational field of auditing’ (Khalifa et al., 2007, p. 845). Of particular interest for the purpose of this research is the discourse on regulation of the audit profession and the relevance of audit quality.

The social construction of the profession means that its technical function is not the only reason for audit’s long-standing credibility (see Watts & Zimmerman, 1983). The legitimacy of audit is, perhaps, better understood by considering how the service is a product of revered technical expertise (Edwards, 2001), rituals of verification (Pentland, 1993) and the good faith assumption that the attest function serves the public interest (Power, 1994). The profession’s self-regulatory franchise has been critical in developing and maintaining this state of cognitive legitimacy. Controlling entry to the profession; recruiting only cosmopolitan workers; complex systems of peer review; codified audit practice; and the use of professional judgement

¹ We appreciate the assistance of one of the anonymous reviewers in this regard.

² Special thanks go to the participants at the following conferences for their invaluable commentary on earlier versions of this paper: the British Accounting and Finance Association, Brighton (2011), the International Corporate Governance Conference, Johannesburg (2012) and the Africa Leads Conference, Stellenbosch (2012).

Download English Version:

<https://daneshyari.com/en/article/1003958>

Download Persian Version:

<https://daneshyari.com/article/1003958>

[Daneshyari.com](https://daneshyari.com)