



Editorial

Audit research: Some reflections

Investigar en auditoría: algunas reflexiones



“... very little is known about auditing in practical, as opposed to experimental, settings” (M. Power, *The Audit Society*. Rituals of Verification, 1997)

Introduction: problems and challenges

Society has always needed professionals who are qualified to accredit products and services which have social or individual relevance. These individuals have gained the trust of the society to whom they serve over time. This is because of their knowledge but also because they are considered to be groups of individuals who can be trusted and who can carry out the assigned task in a professional and efficient manner.

Auditors are responsible for verifying the financial statements, which represent the financial position and the activity carried out by public and private entities. In order to satisfy users' needs, the legislation contemplates an independent report prepared by auditors on managers' stewardship of certain size entities. This is to protect those who lack expertise and haven't access to transaction records and documentation. In fact, legislation and practice have determined that the auditor reports on the true and fair view given by the financial statements. This is not a report on the mere compliance with accounting standards but is raised to a higher level showing the role that reporting has in the best interests of the users.

This paper, which is intended to be a long editorial Note, aims to examine what we know and what we need to know about the auditing activity. Its objective is to point out research areas that allow us to learn something more about the auditor's function, audit techniques etc. In particular, its objective is to examine the future of the auditing activity which is likely to be subject to very significant swings and changes. Scientific activity sometimes parts from unexplained observations or from facts that contradict existing theories with the prospect of completing them or advancing scientific knowledge in some way.

There are times when contradictions or irregularities crop up in auditing which need to be explained and resolved and very often require a rational explanation from academia. Below is a sample these facts.

The first fact arises from the exercise of judgement which has to be made by audit professionals as to whether the financial statements give a true and fair view or offer a faithful representation of

the financial situation of the company. This view or representation, which is included as their opinion in the audit report, is not always achieved by strictly following the standards in vigour at the time of financial statement preparation. According to Zeff (2007) there is a growing tendency, mistakenly of course, to ignore the primacy of this principle over the rules. In simple terms, it is frequently considered that the true and fair view or fair representation is obtained by simply following the rules as demonstrated by Garvey (2012). However, there has been little research on the causes of this resignation by professionals.

Unfortunately, a more than insignificant representation of the members of the audit profession consider that their duty is limited to following certain rules and manuals. They believe that these procedures will provide them with guidance on how to do hundreds of checks, which will lead them to deriving a professional judgement without involving excessive mental effort or exercising scepticism. In any case, if the opinion to be issued is not favourable it can be discussed with the managers who have hired them, so that a comfortable balance is found by pointing out the indispensable failures but allows the audit engagement to continue in the future. DeFond, Lennox and Zhang (2018) describe cases where the credibility of the audit profession was damaged because it did not grant the primacy of the true and fair view or faithful representation over simply following the rules. They use examples which have been taken from the decisions of regulators and tribunals in real cases.

A second fact to be studied is the intrusion by the public authorities in an activity that half a century ago was exclusively private and was proud of its self-regulatory power. The professional mechanisms of self-control have not worked satisfactorily in any country, and thus have given rise to important administrative and judicial penalties which has displaced the professional institutes and put them under the microscope. From the time of the Enron scandal and the disappearance of the Andersen firm, governments and market supervisors have taken the role of policemen by closely monitoring the behaviour of auditors. This role was completely unthinkable in the past.

A separate group has been established for public interest companies because they require special supervisory control and therefore have to comply with specific audit obligations. In practice, it is necessary to perform research to discover whether this division is creating two different groups of auditors. There may be a tendency to divide auditors according to their knowledge, to

their working capacity and seniority which in itself could create an entrance barrier harmful to the audit activity. This division would be especially damaging where audit firms are categorized according to classes by the type of audits they perform.

A third fact is the concentration of the audit market in the hands of 8, 7, 6, . . . 4 large firms (Big N), which absorb most of the audit revenue in developed countries. The power and organization of these entities is at the expense of competition in price and quality because they centre their efforts on being recruited by clients regardless of the size of the company or the assignment. There doesn't seem to be a solution, at least in the short term, to this apparent oligopoly which represents a risk to the image and continuity of the professional activity. Paradoxically, empirical literature is very adamant in supporting the idea that the Big N, no matter what its size, can and do achieve a higher level of quality (DeAngelo, 1981; Defond & Zhang, 2014).

A fourth fact is the reluctant attitude by auditors to assume their responsibility to be absolutely independent of the companies being audited apart from complying with the legal requirements. The legal system and market regulators demand an attitude of mental independence by this group of professionals. However, auditors of all sizes tend to offer support to entrepreneurs and administrators in their organizational and supervisory tasks and this attitude is normally welcomed by company management. It seems that the now perhaps old-fashioned and unattractive quality of independence which has constituted the core of an auditor's skillset is being substituted by sharing their vast knowledge and expertise.

A fifth and final fact we will deal with here is the paradox that some accounting professional service companies have become real businesses where the desire for profit and growth is prevalent over any other consideration, or at least it seems to be so. This change has occurred in just a few decades in a service where quality and the public interest of the service provided should be the maximum priority. This desire to grow and earn profits together with the seasonality of the audit activity has led professionals to offer other services with the audit engagement. In this way they not only obtain more income from these companies but it creates a bond between them. As a result, professional firms are transformed into lucrative businesses, and their leaders acquire a consultants' mentality, whose main objective is to obtain profits (Zeff, 2003:280). Meanwhile, a more conscientious part of accounting professionals, as well as some professional organizations and regulators argue with great conviction that the auditor always works in the public interest.¹ In fact, the Big N in the UK are planning on dividing their audit and consultancy services after receiving pressure to take action from the regulatory body which is concerned about transparency and audit quality (The Guardian, 2018).

In recent decades, attempts have been made to systematize research problems in auditing, for example, . Lesage and Wechtler (2012) analyzed and classified several thousands of articles which were published in the 25 most prestigious accounting journals in the English-speaking world between 1926 and 2005. In the 1940s and 1950s, research focused mainly on the characteristics of the profession, in the following two decades the concern was focused on auditor education and training. In the 1980s and 90s technical problems were analyzed, such as forming a judgmental opinion, audit procedures, applying contractual theory to auditing and customer relations. Around the turn of the century, concerns shifted towards international regulation, corporate governance, the entity as a going concern, as well as the risk of fraud and its non-detection.

In the present decade, we could add to the previous list, the concern about obtaining audit evidence by using information technology, the relevance of internal control or the Audit Committee's role in the work of the auditor and the effects of inspections and supervisor scrutiny on the work of the auditor.

Research approaches

There are several ways to address the research task of the facts previously described. We examine three current proposals in order to systematize the approaches, which are not exclusive nor excluding of each other.

The first two are drawn from two recent calls for papers from academic journals, both of which correspond to two very different conceptions of academic research.

The first call² comes from the *European Accounting Review*, (Special issue on "New directions in auditing research"). The journal belonging to the *European Accounting Association* (EAA) has taken a predominantly positive empirical tendency focusing on the global academic impact and the drawbacks of research done in Europe. It has succeeded in its mission, although sometimes this success has been at the cost of sacrificing more in-depth reasoning by giving priority to the formal perfection of statistical models and tests which conform to the theories prevalent on the other side of the Atlantic. We will call this the positive approach.

The second call³ is the counterpoint offered by the journal titled *Critical Perspectives on Accounting*. In this case, the call comes with a better indication of the objective to be achieved (Special issue on "Critical auditing Studies: Adopting a Critical Lens toward Contemporary Audit Discourse, Practice and Regulation"), which seems to require a deep and philosophical analysis to explain the attitudes and behaviours of auditors according to their origins and their consequences in both the short and the long term, without losing sight of what they call "the bigger picture" of this activity. For many social scientists, if science is not critical, it is not really science at all.

Critical Perspectives on Accounting, was born with the intention of challenging existing theories and academic practices. The journal fostered a nonconformist style which has evolved to a less radical position but not in any way less critical. It is published by a prestigious editorial (Elsevier) and is subject to scientific evaluations which their promoters didn't especially believe in when they founded it in 1990. Critical research is related to the human, political and social complexities that play a role in accounting (and auditing) institutions, and where political interests have a major role in the outcome and evolution of the reality that is trying to be explained. We will call this methodology the institutional approach because of its link with scientific philosophy. This methodology can also be found in other prestigious journals such as *Accounting, Organizations and Society* or in the *Journal of Accounting and Public Policy*.

The list of topics suggested by the previous calls for papers will change when the subjects are received by the authors in due course. Both calls suggest interesting fields of research, but neither have a vocation to be an exhaustive list of areas to be attended to.

The third approach to be addressed is taxonomic: it is not the produce of an epistemology, but a descriptive grouping of audit research areas. The American Accounting Association (AAA) has developed a systematic classification of audit studies which is available to those interested on its website. This taxonomy

¹ Some of the reviewers noted the high degree of criticism in the text when examining commercialism. The authors want to highlight that the criticism refers to the profession in general and some (not all) of the social organizations created to operate this service activity. It in one way refers to any individual auditor or audit firm.

² <http://explore.tandfonline.com/cfp/bes/rear-si-auditing> (accessed on the 1 of April 2018).

³ <https://www.journals.elsevier.com/critical-perspectives-on-accounting/call-for-papers/special-issue-critical-auditing-studies-adopting-a-critical> (accessed on the 1 April 2018).

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