THE FUTURE of AUDITING RESEARCH

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• Author of *The Future of Auditing*, Routledge 2019

Overview

• The bright future of auditing
• Unless . . .
• The bright future of auditing research
• Unless . . .
Life expectancy at birth in 2010 and 2030

Women

Top countries
90.82 South Korea
84.23
88.07 Spain
84.83
87.52 Portugal
83.14
87.42 Slovenia
82.68
87.70 Switzerland
84.59

Bottom countries
Hungary 81.74
78.42
Bulgaria 78.87
77.33
Macedonia 77.83
76.47
Mexico 82.96
78.91
Serbia 78.27

Men

Top countries
83.95 Switzerland
80.01
83.69 Netherlands
78.91
84.07 South Korea
77.11
84.00 Australia
80.10
82.53 Denmark
77.22

Bottom countries
76.15 Mexico
73.15
74.65 Macedonia
72.29
74.21 Romania
70.12
74.07 Bulgaria
70.21
73.37 Serbia
Figure 2.1 Percentage of PPP-Based and Exchange Rate-Based GDP and Population by Income Group, ICP 2011 and ICP 2005

Changing world around auditing

• World Bank support for auditing
• “Countries without audit are keen to invest in it” (ACCA 2016)
TECHNOLOGICAL CHANGES

VERSUS BARRIERS TO CHANGE

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Accounting (and auditing) in the future . . .
“FRONLINE AUDIT STAFF NO LONGER NEED TO SPEND BALANCE DATES IN DRAUGHTY WAREHOUSES . . .”
Key points about the changing world of auditing

• Longevity – savings – need for assurance?
• More countries becoming middle income
• Technological pluses (and minuses)
• Scope for auditing to be more important and more influential
On the other hand . . .

- Contrary trends
- Auditors under pressure
Criticisms of auditors

- *The Times* (UK), 2018: “‘Audits appear to be a colossal waste of time and money, fit only to provide false assurance’ (said Rachel Reeves, MP)

- Medcraft (Australia), 2017: “The quality of Australian corporate auditors is appalling and getting worse”

- *Biznews* (South Africa), 2019: “The reason the profession is currently facing criticism is because auditors have expressed opinions on financial statements saying they fairly present, when they did not and can’t be relied upon”
The state of auditing

• Auditors under pressure
• Except in the USA (Simnett 2019)
• SOX?
• And audit firms are less and less audit-focused
Use of technology

• “auditors should use advanced technology more extensively”: 70% of users, 76% of audit committees, 84% of preparers
  
  (Deloitte, 2016)

• “nearly 80% of respondents say auditors should use bigger samples and more sophisticated technologies for data gathering and analysis”

  (KPMG, 2017)
Auditing standards

• “. . . Although International Standards on Auditing do not prohibit the use of modern data analytics techniques in auditing, they do not encourage them either”

IAASB Data Analytics Working Group (DAWG), 2016
“high performing machines will outperform the best human experts”
What auditors say:

“As powerful as these tools are, or are expected to become, they nonetheless are not substitutes for the auditor’s knowledge, judgment and exercise of professional skepticism.”

Harris, PCAOB, 2017
Big 4 dominance

• “None of the Big Four has yet tried to disrupt the others by undertaking audit in radically new ways. Perhaps there has been no obvious incentive for these incumbents to rush in and replace the status quo”

  Susskind and Susskind, 2015
Global versus national auditing

• Independent regulation
• Variations among countries and cultures
• Variations in quality
• The limits of national regulation
Wild card . . .
Key points about auditing and technology

• There is potential
• Auditors are moving to take advantage of it
• But there are barriers
  - Big 4 dominance
  - Auditing standards
  - Global versus national
  - Partners and staff from earlier periods
  - Risk of auditing becoming obsolete
How researchers can react to the auditing profession as it responds to the changing world

- Research advances versus barriers to change
- Opportunities where is not enough research
Evidence based standard setting

- PCAOB: “The PCAOB is committed to evidence-based oversight and policymaking”
- IAASB
- NZAuASB, AUASB
In Australia

• Evidence-informed standard setting strategy
• “Research (broadly defined) is an essential part of the process . . .”
Accounting as a learned profession

• “Accounting in 2036: A Learned Profession” (Barth 2018)
• More research on what information users need
• More interaction with users
Research opportunities

• The rise of evidence-informed standard setting
• Research stage in IAASB programme
• Opportunities
• Make it clear why research is relevant
Recent projects

• IESBA ethical issues related to audit fees
• NZ OAG value of auditing
• AFAANZ/CPA Australia governance and accounting
Enhanced audit reports

• The IAASB and AICPA “commenced a joint initiative to commission academic research to identify, and provide information and insights on user perceptions regarding the financial statement audit and the auditor's report”

• Example of research-based standard setting

  (Mock, Turner, Gray, & Coram, 2009)
Limitations of research

• Accumulating evidence
• Reaching consistent conclusions
• Publication bias
“A task too taxing for the human mind”

• Accumulating a variety of mixed research results in differing settings and research designs
  Hunter and Schmidt (1990)

• The “ambiguity problem”

• Substantial issue in making use of research in policy setting
For example: Corporate governance literature reviews

• Research 1: audit committee existence and expertise make a difference but frequency of meetings and size of audit committee do not

• Research 2: size of audit committee and frequency of meetings are significant

• Research 3: there is a risk of research in this area reaching the stage of declining marginal utility, as the research has established clearly that good governance has good outcomes
WHEN “NO RESULTS” IS INTERESTING

[Image of a snowy road with a sign saying "NO OUTLET"]
Research on regulation itself

• Sarbanes-Oxley as a ‘rushed’ attempt by Congress and President Bush to avoid being held responsible for the audit failures of the early twenty-first century and the “playbook”
  • Ball

• SOX: “non-intervention was not an option . . . The good news is that [SOX] does not seem to have been a disaster”
  • Hart

• Accounting rule-making: “rules that benefit one or more special interest groups (e.g., industrial corporations, financial firms, and audit firms) at the potential expense of the general interest”
  • Ramanna

• Versus “a neoliberal victory in that it legitimated shareholder primacy and continued use of a failed corporate governance model’
  • Merino
Public sector auditing

• Audit as legitimization
Research that can contribute

- Synthesize, accumulate
- Meta-analysis
- Practical implications
- Critical perspectives
Summing up: the future of auditing research

• More influential
• Establish bridges between researchers and standard setters
• Research about the standard setters
• Expanding into wider areas
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