

THE FUTURE of AUDITING RESEARCH

DAVID HAY





David Hay

- Professor of Auditing, University of Auckland; and Visiting Professor, Aalto University, Finland
- Co-author of Hay, Knechel and Wong, *CAR 2006*
- Editor-in-chief of *International Journal of Auditing*
- Board member New Zealand Auditing and Assurance Standards Board
- Author of *The Future of Auditing*, Routledge 2019

<https://www.routledge.com/The-Future-of-Auditing/Hay/p/book/9781138477087>



Overview

- The bright future of auditing
- Unless . . .
- The bright future of auditing research
- Unless . . .





CHANGING WORLD



Life expectancy at birth in 2010 and 2030

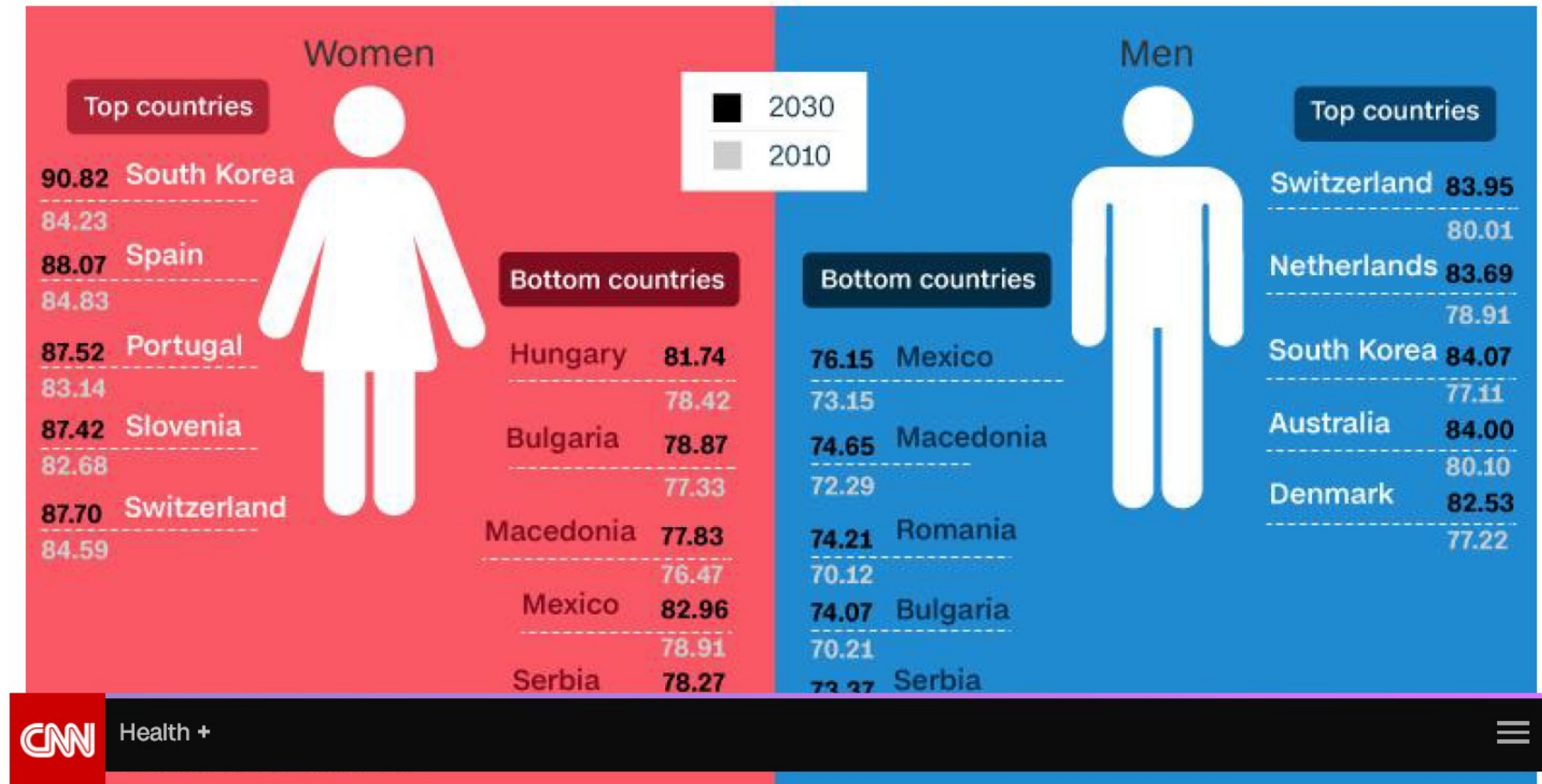
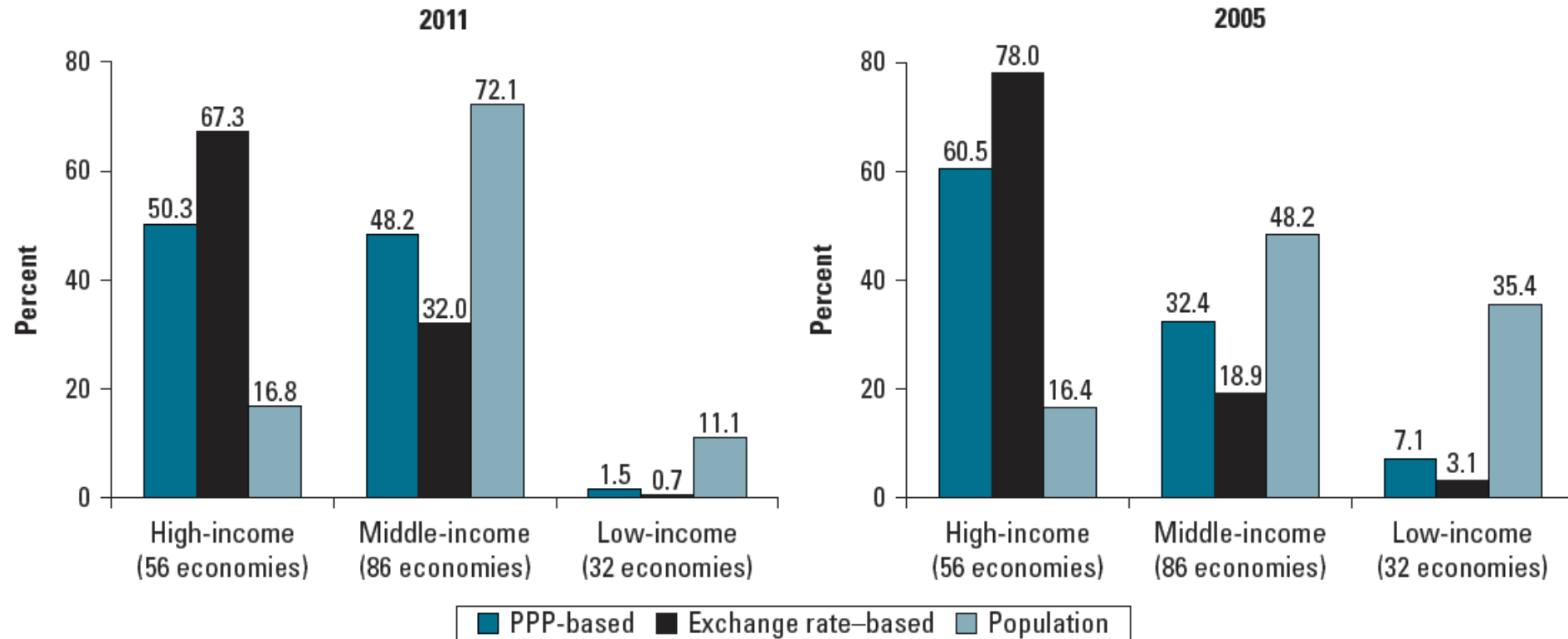


Figure 2.1 Percentage of PPP-Based and Exchange Rate–Based GDP and Population by Income Group, ICP 2011 and ICP 2005



Source: ICP, <http://icp.worldbank.org/>.

Changing world around auditing

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



MORE INFORMATION

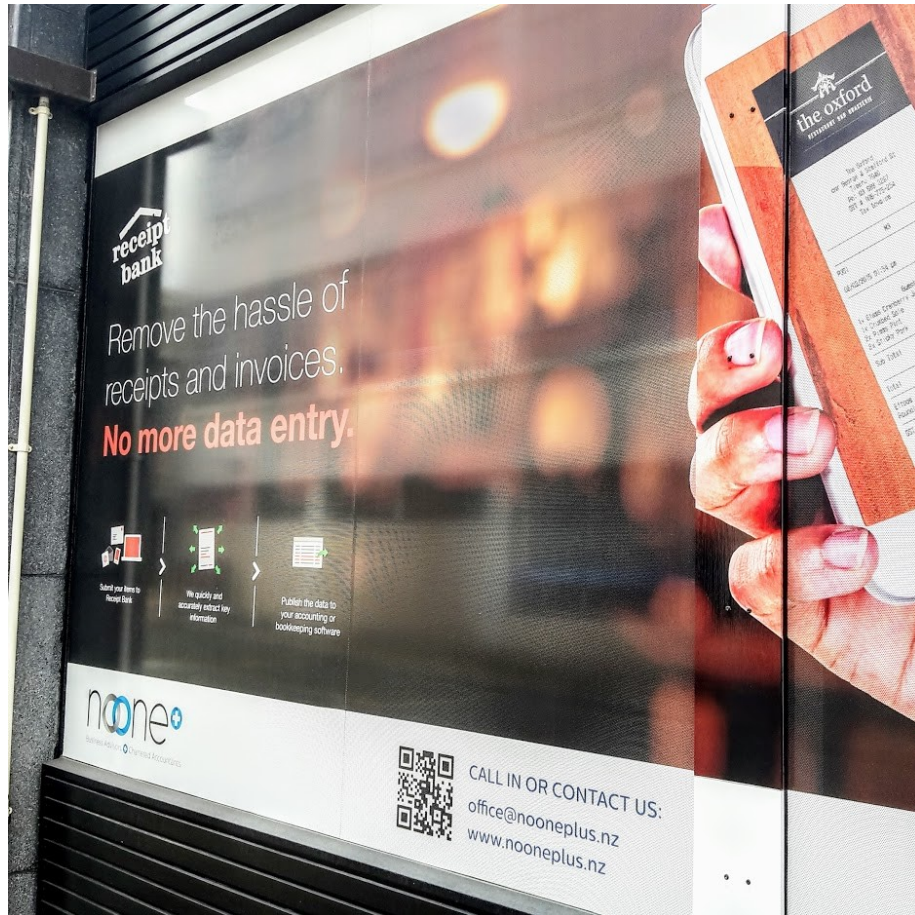


TECHNOLOGICAL CHANGES



VERSUS BARRIERS TO CHANGE

Accounting (and auditing) in the future . . .





“FRONTLINE 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)

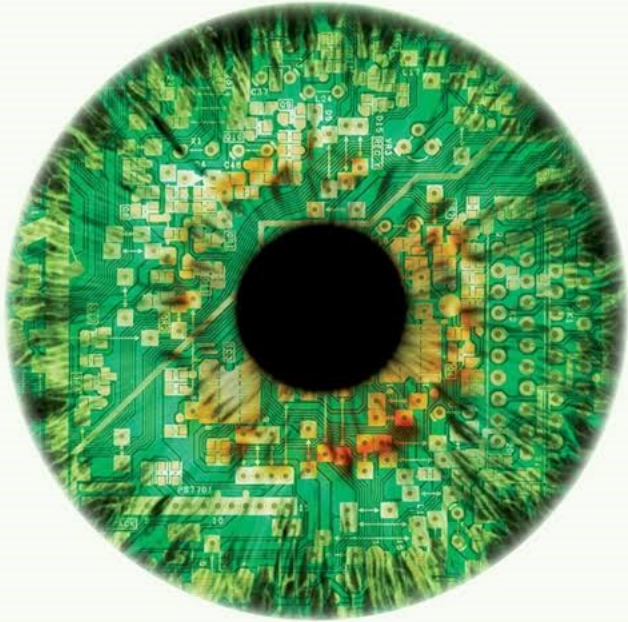
Auditing standards

- “. . . 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



International Auditing
and Assurance
Standards Board

RICHARD DANIEL
SUSSKIND SUSSKIND



THE FUTURE OF THE PROFESSIONS

HOW TECHNOLOGY WILL TRANSFORM
THE WORK OF HUMAN EXPERTS

“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



RESEARCH

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 . . .”



Australian Government

Auditing and Assurance Standards Board

Accounting as a learned profession

- “Accounting in 2036: A Learned Profession” (Barth 2018)
- Previously: 1987, 2011, 2015
- More research on what information users need
- More interaction with users



**American
Accounting
Association**

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



THE BIG FIRM PREMIUM

META REGRESSION ANALYSIS



WHEN “NO RESULTS” IS INTERESTING



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

Overview

- The bright future of auditing
- Unless . . .
- The bright future of auditing research
- Unless . . .



THE FUTURE of AUDITING RESEARCH

DAVID HAY



THE UNIVERSITY OF
AUCKLAND
Te Whare Wānanga o Tāmaki Makaurau
NEW ZEALAND