

In the Public Interest

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The 2nd International FAR Conference on June 7 and 8 focused on the topic ‘Controversies in Future Audit Quality – A multi-stakeholder perspective’. With a challenging Minister of Finance, a critical oversight body, enthusiastic and renowned (inter)national academics, a broad and engaged audience, the Conference brought new and relevant insights for both academics and practitioners. Controversies regarding audit quality were discussed and several academics presented the status of their FAR research projects. The current MAB-FAR issue presents an overview of the interactions between multiple stakeholders and of the research projects.

First Olof Bik reports the views of multiple stakeholders about the *future of audit quality*. In the following I wish to refer to a few interesting remarks that were made during the conference.

According to one very important stakeholder, Jeroen Dijsselbloem, Minister of Finance, the audit profession should show initiative to regain public trust after recent audit failures and deficiencies reported by the Authority Financial Markets (AFM)¹. According to Dijsselbloem pressure should not come from politics to the sector, but rather from the sector towards politics, with suggestions on how to make improvements. Discussing the need for quality improvement, AFM board member Gerben Everts claimed, that the current earnings model hinders professionals to act in the public interest. He feels the sector itself should put forward suggestions to improve the business model.

Marco van der Vegte (Deloitte) referred to the “multi stakeholder” definition of audit quality outlined in the NBA Green paper (2017). He emphasized the importance of developing a common definition of audit quality incorporating different perspectives to bridge the current expectation gap in order to restore trust.

Pieter Paul Saasen (BDO) cautioned against moving towards a compliance driven sector in which everyone just follows the standards instead of applying professional judgment and taking responsibility. He also noted that changing an industry, a profession, or a firm, requires a lot of time.

All stakeholders agreed that academic research as initiated by FAR should contribute to the improvement of audit quality. For example, root cause analyses should address problems by pinning down more precisely where things have gone wrong and how they can be improved.

This view is also supported by Jan Bouwens in his pa-

per “*Can research improve audit practice?*” as empirical evidence also shows the importance to study audit practices as in any other sector differences in efficiency and quality of practices exist. Understanding methods and organization of work can help improve quality in a rapidly changing environment.

The next paper by Olof Bik and Julia Wijnmaalen presents an overview of the conference panel discussion: “*A true and fair value of the audit sector*”. Two audit practitioners (Agnes Kant and Michael De Ridder, PwC), an investor (Martijn Bos, Eumedion) and an academic (Chris Humphrey, University of Manchester) took the stage to discuss the need for change within the auditing profession. Five topics were discussed:

1. What is the added value of an audit?
2. What is good auditing?
3. How should regulators approach the audit sector?
4. How can future talent be attracted?
5. What are the challenges the profession faces and what does the future look like?

Referring to the future of auditing, professor Humphrey noted that “if the job of the audit is to enhance trust in society, and the audit sector is successful we will need less auditing, as auditing is there because we do not trust each other”. Assuming that “complete” trust can never be reached, has to be earned and maintained, the future of auditing seems to be bright.

Pursuant, academics presented a number of research projects under the auspices of the FAR and gave an overview of what is known about each research area. The first Research Project summarized in this MAB-FAR Issue is “*The loss of talent: A threat for audit quality?*” Frank Moers (Maastricht University) explains that the development and retention of talent is a key concern of audit firms. Therefore, one of the goals of the project is to provide insights into how audit firms’ Performance Management Systems can be redesigned to limit talent loss as far as possible. Given the team nature of the auditing function and that people are affected by their peers, it is expected that team composition can strengthen or weaken the development of individuals. These results of the project will provide insights into making well-informed staffing decisions that maximize individual and team performance.

Kris Hardies (University of Antwerp) presented the status of the FAR Project entitled “*Professional skepticism: A trending concept in need of understanding*”. Professional skepticism is an important auditor characteristic to ensure high audit quality. However, many questions

about the effect of professional skepticism on the quality of the audit are still unanswered. For example is it necessary for all members of an audit team to maintain professional skepticism? Also, what are the consequences of professional skepticism on various audit outcomes and which elements of the audit processes are affected by professional skepticism? By addressing these research questions, this project will help audit firms to understand variation in the professional skepticism profiles across engagement team members. It will also provide insights on organizational conditions that may help audit firms to improve audit processes and quality.

A paper about the FAR Research Project “*The effects of multiple team memberships on individual auditors’ performance*”, was presented by Reggy Hooghiemstra (University of Groningen).

Working in multiple engagement teams simultaneously is at the heart of how auditing firms organize their employee activities. As such, individual auditors are members of more than one engagement team at the same time (i.e., occupy multiple team memberships, or MTMs). The researchers provide some ideas about how to (re)organize individual work within audit firms in order to allow all employees to thrive within such an environment.

While auditors in the early phases of their career probably learn and develop most from being on many different engagement teams, they also struggle the most with having to switch between those teams. The project aims to provide insights to help solving this dilemma.

The final paper in this issue describes the FAR Research Project “*Coordination and Communication Challenges in Global Group Audits: Evidence from Component Audit Leaders*”. Denise Hanes Downey (Villanova University) and Anna Gold (Vrije Universiteit Amsterdam) examine (1) the determinants of coordination and communication challenges,

- (2) the degree to which the strategies described mitigate such challenges, and
- (3) how, ultimately, component auditors’ perceptions of engagement performance are affected.

Despite concerns about the quality of group audits only a limited number of academic studies have examined these engagements to date. The paper first describes why research in this area is important and has the potential of providing a valuable contribution to practice. The authors expect that results will highlight whether challenges are associated with specific client ownership structures, greater number of components, language/cultural barriers, and/or specific statutory audit pressures/requirements. Audit firms could become better equipped in properly identifying and ultimately dealing with such challenging situations. Results could also enhance the conduct of group audits through enriching the communication between group and component auditors, and may aid in the refinement of the applicable auditing standards (i.e., ISA 600).

Concluding, I am hopeful that this MAB-FAR issue will contribute to further understanding of the importance of academic research for the audit profession by solving controversies in audit quality and to retain and maintain greater public trust in the audit profession. For this purpose an open multi-stakeholder dialogue as created during the 2nd FAR conference is essential. ■

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Notes

- The Authority for the Financial Markets is responsible for public oversight of audit firms in the Netherlands.

References

- IAASB, International Auditing and Assurance Standards Board. International Standards on Auditing 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). Available at <http://www.ifac.org/system/files/downloads/a033-2010-iaasb-handbook-isa-600.pdf>.
- NBA, Koninklijke Nederlandse Beroepsorganisatie van Accountants, Stuurgroep Publiek Belang (2017). Green paper. De definitie van audit kwaliteit. Available at https://www.nba.nl/globalassets/projecten/in-het-publiek-belang/project-toekomst-accountantsberoep/green-paper-audit-quality_web.pdf.