

# 20 years of ISAR:

# The past and the future of audit research

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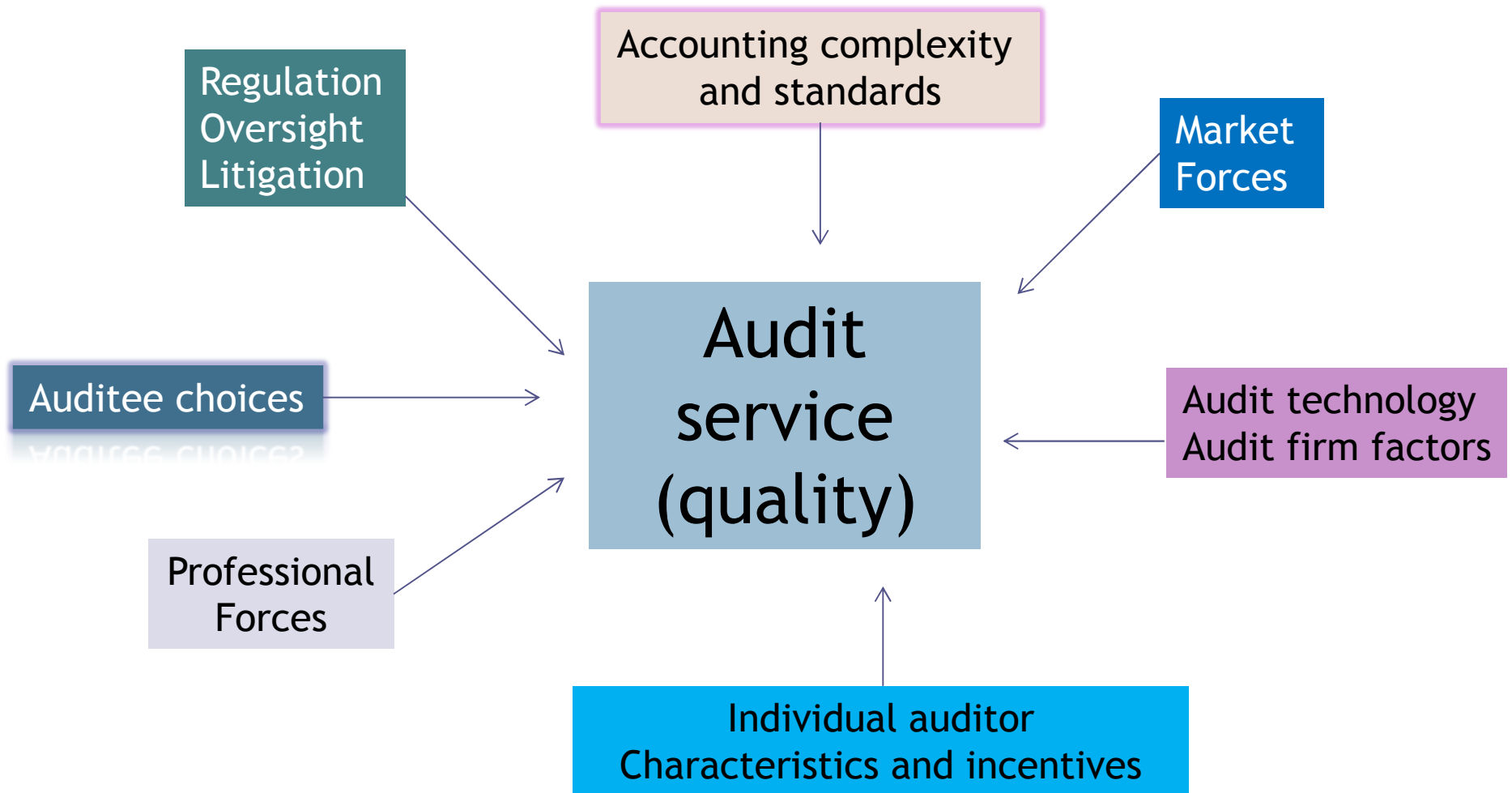
# The world in 1995 ...

- Population 'only' 5,57 MM (currently 7,21 MM!)
- The internet entered public consciousness
- eBay was founded
- Toy Story released by Pixar (= first ever full length computer animated film)
- Steve Fossett first person to make a solo flight in a balloon across the Pacific
- Nick Leeson is arrested for his role in the collapse of Barings bank
- Austria, Finland and Sweden join the EU (15 member states; now 28)
- Schengen Agreement goes into effect in various European countries
- Bill Clinton is President of the US and Jacques Chirac voted president in France; John Major Prime Minister in the UK and Paul Keating in Australia
- Pete Sampras and Steffi Graf won Wimbledon; Ajax the UEFA cup  
South Africa Rugby world cup; San Francisco 49ers win super bowl in US
- Robert Lucas, Jr. Nobel prize for Economics
- **Ted Mock organizes the first ISAR in Oxnard, CA !!**

# Overview

- What is an audit service?
- The past...
  - Some key facts in the auditing world
  - What did we learn from archival studies?
  - What were the most popular research topics?
- The future...
  - Ideas/topics for future (archival) research

# Audit service (quality)...





**The Past...**

# Some Key Facts

1995 – PSLRA in US

2001 – Mandatory disclosure audit fees in US  
(with ‘Audit Analytics’ as a result)

2001 – Enron

2002 – SOX Act in the US;  
subsequently similar regulations elsewhere

2005 – Mandatory IFRS in Europe and other countries

2006 – EC audit directive  
and subsequent implementation in EU

2007/2008 – GFC

2008 – GAO report in US

2010 – Dodd-Frank Act

2010 – EC green paper on audit issues

2014 – EP votes on audit regulations



# What have we learned from archival studies?

(Source: Hay, Knechel & Willekens, 2014. Routledge Companion to Auditing)

# Audit environment

- Audit quality
- Effects of joint supply of audit and non-audit services
- Effects of auditor tenure and rotation
- Earnings management and auditing
- Market for audit services
- Globalization of auditing
- Institutional differences between audit environments
- Auditing in private companies



# Impact of regulation

- Impact of standards
- Effects of litigation
- Oversight and inspection

# Audit Process related

- Industry specialization
- Judgment and decision making
- Analytical procedures
- Audit approaches and business risk auditing
- Audit committee and corporate governance
- Auditing ethics



# Audit reporting


- Going concern
- Reporting on internal control

# Alternative audit services

- Assurance of environmental, social and sustainability information

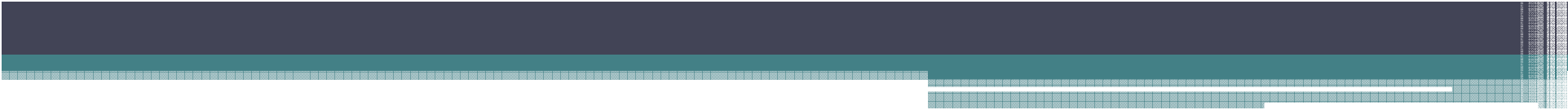
# Most popular keywords in AJPT since 1995 (archival studies)

- Audit committee
- Audit fees
- Audit quality
- Auditor independence
- Corporate governance
- Earnings management
- Going-concern
- Industry specialization
- Material weaknesses
- Non-audit fees/services
- Restatements
- Sarbanes-Oxley Act



**Three things  
we did we NOT learn  
so much about...**

**and Why?**

- 
- What is the incremental effect of auditing, really?  
Most audit quality studies are jointly testing financial statement quality and audit quality.
    - Data limitations
  - Most studies have an implicit constant audit-firm quality assumption. What is the effect on quality of individual auditor characteristics.
    - Make full use of partner level data!
  - What do we know about auditing in the financial sector, as it is typically deleted from our samples, though it is a crucial sector!
    - 'Easy' fix




**The future?**



is a mystery...

But audit quality will always matter!





“Our contribution to knowledge and practice can be enhanced by a concentration on some central themes and incrementally building on previous research. I believe the discipline may benefit more from theory refinement than individual papers all looking to be the first in some way”

K. T. Trotman in: *The Routledge Companion to Auditing*, 2014.

# Theory...

- Rational expectations... and economic theory is great
- Do we believe that economics is the true driver of history (or auditing), just like Lucas?
- Move beyond agency theory and borrow theories from other disciplines to describe auditing phenomena

# Audit Quality...

- New metrics of audit quality
- How do the primary attributes of an audit affect the various indicators of AQ?
- One size does not fit all!  
For different stakeholders, different audit attributes will be valuable

# Regulation

- Why and how does audit quality differ across countries and regulatory settings?
- Oversight and inspection effects
- Effects of the recent changes in regulation, e.g. in the EU, w.r.t audit reporting, etc.

# Audit markets

- How do auditors compete?
- Differentiation versus cost leadership strategies
- How do audit firms differentiate beyond size and industry ?
- Audit market segmentation?
- Measurement of industry specialization
- Structure of the global audit market?

# Auditing and governance

- Monitoring nexus: Internal control over financial reporting, Internal auditing, external auditing, audit committees and boards: disentangle (joint) effects on financial reporting
- Audit committee characteristics and its effect on auditing and financial reporting quality
- CEO and CFO incentives

# Auditing in private companies

- Different role/value of auditing in private companies
- Do we really need a mandatory audit requirement for privately held firms in the EU?
- Is competition in the market for private audit clients different as compared to the market for public clients?

# New forms of assurance

- Competition in this segment of the assurance market
- Effect of these new assurance services on competition, pricing and quality in the audit services market
- Effects of new forms of assurance on markets and costs



# Ethics research

- Under –researched area, though ethics themes are fairly constant over time
- Link between individual auditor ethics characteristics and audit quality issues
- Ethics dimension as ‘omitted variable’ in most audit studies: how to adapt research designs?

# ‘Archival’ judgment research

- Link between various judgment-related variables and audit quality metrics
- Auditor judgment studies with archival data – validate tons of valuable experimental evidence by archival data from working papers: what did the auditors really do?

# Institutional

- Relationship between accounting complexity (and variation therein) and value/role of auditing
- Institutional differences beyond the ‘traditional’ country variables; sound and up-to-date audit indices at country level are needed
- Is the role of auditing the same in different countries, and as a result can we compare countries using the same ‘measures’?



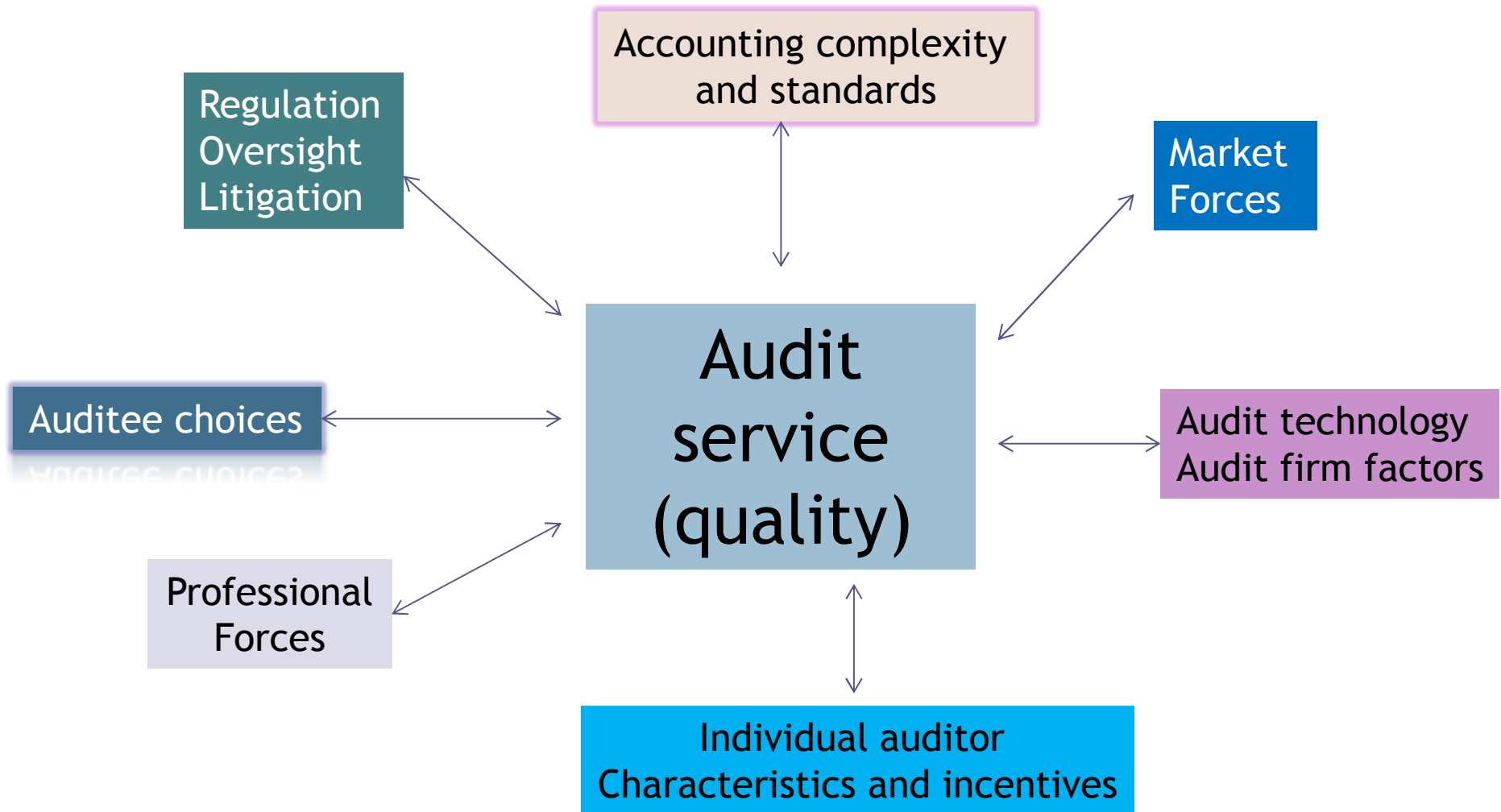
# The audit firm black box

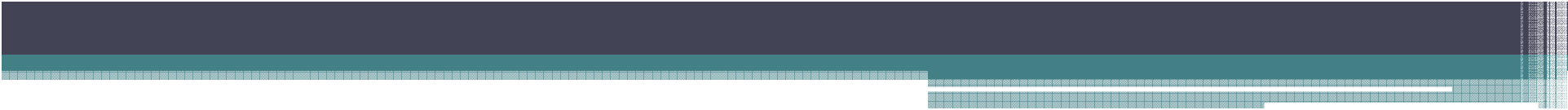
- What is the effect of various quality control mechanisms
- Human research practices and differences between audit firms
- Audit team composition effects

# More effects, please!

- Move beyond ‘earnings/financial statement/disclosure quality’ effects
- How does auditing affect the world?
  - Effects on financial markets and cost of financing
  - But also beyond: ‘macro-effects’ such as taxation income in countries

# Audit service (quality)...





Thank you for your attention  
and see you in 2034...

The End.