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New Directions in Auditing Research: Conceptual Repair, Technological Disruption(s), Local Professional Governance and the Battle for Inclusivity

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In our call for papers for this special issue we sought to advance our understanding of auditing and the context in which it operates from a broad perspective. We also emphasized the role in-depth qualitative methods could play in this regard. The five special issue papers do not disappoint in addressing these aims. They tackle several themes underlying different levels of transformation in audit practice and the environment in which it operates. The papers offer in-depth, rich insights into real-world issues which draw on 'sense-making' theories to significantly advance our understanding of these transformations. The transformations addressed encompass: the concept of audit; new audit technologies; professional associations; and inclusiveness and diversity in audit teams. The papers' focus on audit-related transformations is timely given that, in several European contexts, audit practice and the accounting profession are yet again being scrutinized and subjected to suggestions for regulatory reform. This forms part of a cycle whereby auditing, auditors and the accounting profession continually confront calls for changes seen as essential to securing stability and the protection of the public. We hope that the papers' findings, interpretations and future-oriented focus will stimulate significant debate and inform future research. We review the four transformation-oriented themes pervading the papers below and draw on them to suggest a future research agenda.¹

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¹We would like to acknowledge the significant importance of the work and ideas of Mary Canning in the development of this special issue.

Transforming the Concept of Audit – Delivering ‘Dynamic Repair’

Humphrey et al. (2021) offer a provocative analysis of the conceptual nature of audit and its propensity to evolve into something more socially purposeful. They position their paper in a context where the audit expectations gap, variously defined, persists alongside repeated debates about the quality of audit arising from high profile audit failures in several European contexts. For them, audit remains trapped in a repetitive cycle of crises followed by reform. Reform proposals, from audit-only firms to independent appointment boards, are seen as misguided as they fail to contest the form, purpose and social value of audit *in and of itself*. Instead, these proposals offer repackaged, often unproven solutions promising ‘better ways of delivering the same old audit.’ Humphrey et al. seek to escape this conceptual conservatism and offer us an alternative to the (lack of) conceptual reflection characterizing much debate on the concept and practice of audit. They implore us to think differently about audit to enable us to reconfigure its conceptual basis. This can be achieved by applying a process of ‘dynamic repair.’ Four conceptual configurations arising from ‘dynamic repair’ are presented which seek to provoke debate and reorient our focus when contemplating audit reforms. First, fixed, rigid views of the concept of audit are argued to restrict reforms to mere amendments in the way a narrow, standard conception of audit is enacted. *What* needs to be done and *how* this might be achieved are privileged while the *why* of audit is disregarded. This limits the possibility of embracing, or at least considering, fundamentally different forms of audit which might widen its objective and contemplate audit as a first- rather than a second-order function. Second, the presumed relationship between audit and assurance should be reversed, with assurance treated as a subset of audit rather than vice versa. This would create the conceptual space to embrace what audit *can become* thereby encouraging more deliberation on how audit and auditors can best serve society. Third, we are asked to reflect on how the emphasis on consistency and strict compliance in international audit standard setting prevents ‘product innovation’ in the realm of audit. Audit is conceived as a unitary product or service. Despite the persistent concerns surrounding audit quality from bodies such as the International Forum of Independent Audit Regulators (IFIAR), audit standard setting fails to facilitate the forms of product innovation and underlying continuous improvement required to underpin a more socially-oriented audit conception. Fourth, Humphrey et al. call for critical scrutiny of the repeated presumptions asserting that auditors and audit contribute to ‘the public interest.’ A ‘dynamic repair’ would reconfigure the audit and reimagine it in a manner designed to move beyond these presumptions and offer an audit conception that more clearly contributes to a set of agreed social values.

Transforming the Practice of ‘Traditional’ Audit Through New Technologies

Salijeni et al. (2021) shift the focus from conceptual transformation to practice-oriented transformation. They examine how auditors use and perceive widely-lauded Big Data and Analytics (BDA) tools, focusing on how certain properties of BDA reorient the audit process and shift the relational dynamics within audit firms. They uncover disparate experiences of BDA in which their efficacy is both lauded and lamented. Certain BDA properties expand evidential scope and create space for a more efficient focus on key audit areas. However, the reliability of BDA outputs are viewed sceptically as mere ‘add-ons’ to traditional (manual) techniques resulting in ‘over-auditing.’ Visualization properties are lauded as they more readily uncover client inefficiencies and areas of audit concern. For example, visualization dashboards’ ability to relay several dimensions through which disputed accounting issues can be regarded and rationalized enables auditors to offer comfort to clients in cases of disagreements. Their enhancement of the visibility of audit workflows also allows auditors to more easily support claims of audit quality –

making their audit judgements ‘more auditable.’ BDA also reshape relations between auditing and other firm functions and specialists working on audit assignments. This is reorienting the audit knowledge base, potentially threatening the uniqueness of auditing as a distinctive field of practice.

Transforming Field-level Governance of Audit – Change Dynamics in Professional Associations

Loscher et al. (2021) offer an in-depth examination of the tensions that global audit quality monitoring schemes provoke among different segments of the accounting profession. They highlight how globalized efforts to enhance audit quality which suited Big 4 accounting firms clashed with localized understandings of audit quality among smaller audit firms in Germany. A perceived threat of marginalization led to an eruption in intra-professional conflict and the formation of a new professional association for small audit firms. The ensuing framing contest over the interpretation of the regulatory scheme of audit quality control illustrates the relevance of professional associations in processes designed to improve audit quality. The paper demonstrates how imposing global audit quality frameworks in local contexts is rarely seamless and can induce significant and successful resistance from local audit firms. It also reminds us that the global domination of Big 4 professionals in transnational regulatory structures should not be taken for granted in local contexts.

Detzen et al. (2021) also focus on change deliberations within professional associations. They study how a group of early-career accounting professionals in The Netherlands sought to influence decision making in a professional association experiencing considerable critical scrutiny due to widespread concerns about audit quality and member behavior. The paper reveals how their attempts to influence an institutional change agenda aimed at audit and governance reform floundered due to their positioning as *contributors to debates* as opposed to change-oriented *decision makers*. They became a mere symbol of representation of young professionals as opposed to proactive purveyors of a substantive change agenda. In a context in which the profession and audit practice was seeking reinvention, their meekness in the face of hierarchical indifference offers a salutary lesson for those seeking to encourage a younger generation of accountants to transform how professional associations govern and enact audit change agendas. The diverse nature of the group also led to different values sustaining contrasting commitment levels. ‘Shared mental models’ proved elusive as active and passive members clashed. This delayed decision-making curtailed contributions to evolving debates by raising *awareness* as opposed to instigating *action*. Feelings of insecurity and inexperience fostered a political naivety which induced hesitation and an implicit tendency towards the conservatism the group was formed to confront. This paper is an important contribution to debates on efforts to challenge the status quo within professional associations particularly around work practices related to audit. Its conclusion that initiatives to engage young professionals more centrally in audit change agendas may prove counterproductive if their influence remains limited is a warning to those who see change as a necessary condition for institutional stability. It also causes us to ponder how Humphrey et al.’s ambitions for ‘dynamic repair’ might be realized in practice and whether a younger generation of audit professionals will manage to emerge to carry a bold reformist agenda.

Transforming Audit Teams – Accounts of Inclusiveness and Diversity

Bujaki et al. (2021) address issues of inclusiveness and diversity that are central to discussions of the future composition of audit teams. They analyze representations of gender and ethnic

diversity in eight large accounting firms' recruitment photographs. While they find that females and non-white individuals are well represented, they are frequently depicted in subordinate, 'outsider' roles which may signal differences in the career opportunities open to them. The authors reflect on their own experiences as accounting professionals working in organizations that were not fully inclusive or welcoming of diversity. They contrast this with the predominantly female and or non-white composition of their student cohorts and highlight the need for accounting firms to capitalize on the skills and intellect of these students. They express concern that there may be a hierarchy at work in public accounting firms that privileges white men, followed by white women, and then non-white individuals. This suggests that it may be some time before leadership roles in public accounting firms reflect not only greater diversity relative to national demographics, but also greater inclusiveness by making everyone feel accepted and comfortable at all levels of the organizational hierarchy. Nevertheless, they temper their concerns based on an analysis of pictures of *identifiable, named* employees which depict a wider range of diversity than photos of unnamed people. This makes them more optimistic that the *actual* diversity in public accounting firms may exceed the diversity depicted in recruitment websites. They call for firms to be conscious of the need to ensure that the denotative content and the connotative interpretations of recruitment photographs are consistent with each other so that commitments to inclusiveness and diversity result in the recruitment of a more diverse group of employees. This increased employee diversity may also stimulate the diversity of thinking required to realize the conceptual transformations proposed by Humphrey et al. and help to counter the impotence of the younger professionals in Detzen et al.

Transformative Audit Research

As this brief introduction shows, the articles assembled in this special issue all have in common that they enable and support a research agenda that aims to transform the state of auditing in multiple ways. They attest to the ability of audit researchers to be not just spectators but also actors in their object of study by producing thought-provoking, relevant, and portable knowledge that can escape the boundaries of academic research. But, paradoxically, they also attest to the immensity of the task. Each of these studies, while challenging in its own way, only scratches the conceptual and empirical surface of important issues that should deserve more attention in the coming years from audit scholars. Let us set (tentatively) the course for this transformative research agenda:

First, if we want to engage seriously with the proposition of a dynamic repair of auditing, then we need to better understand conceptually and empirically the cyclical pattern of reforms: How are the ideas for audit reform articulated? Where do they come from? How are the expert committees constituted? How do they work? How are committee members selected? What kind of knowledge do they use to form their opinions? Are they subject to specific biases or cognitive frames? What is the role of the committee chair in leading the discussions? All of these questions deserve answers if we are to somehow break with the repetition of the past and design thought processes and deliberative discussions conducive to truly disruptive regulatory innovations.

Second, the audit industry is at the intersection of two interrelated technological disruptions: Big Data and Blockchain. The former is expected to enable auditors to collect client information, especially in risky areas, that is not captured by traditional accounting data, and to extend the scope of their analysis across large amounts of data. The latter, working as a reliable peer-to-peer ledger, has the potential to impact all record-keeping processes, including how transactions are processed, recorded and reported. Both seem to pose an existential threat to the audit profession by calling into question the purpose and added value of the audit practice. Both also

offer unprecedented opportunities for firms to modernize their value proposition and streamline financial reporting and audit processes. It is too early to tell whether or not auditors will successfully navigate this dual technology shift. However, it is not too early for researchers to begin studying the consequences of these transformations. Significant and innovative fieldwork is needed to assess how Big Data and Blockchain might (together) impact the stability of the audit society, the distribution of cultural and economic capital within firms, and the development of a different form of professionalism.

Third, despite their venerable age and the perception of being overshadowed by more flamboyant and relevant transnational players, local professional associations have stood the test of time remarkably well. They still control and exercise considerable power in their sphere of influence. However, research on them remains quite limited, focusing primarily on their role as interested parties in regulatory battles aiming to secure gains or minimize losses. As a result, our knowledge on professional associations from a social and organizational perspective remains quite scarce: What do people do there, other than prepare and fight the next regulatory battle? How are careers made within these types of organizations? How are resources and influence distributed internally? This granular understanding of the structure and culture of professional associations is critical to account for their position in the political economy of the field and their endurance as obligatory passage points.

Fourth, accounting firms are sensitive to societal changes. They have to adapt their internal organizational processes accordingly, and in particular their recruitment, advancement and management of employees. They have developed multiple initiatives aimed at championing the value of diversity in the workplace, taking into account the rise of new standards and growing political pressures exerted from the outside to reflect the plurality of society within their structures. PwC initiated a Global Diversity Week a few years ago ‘to focus on developing a globally consistent approach to diversity as a business imperative and enabler for our strategy.’ Since October 2009, the firm appointed a Global Diversity & Inclusion Program Officer aimed at ‘providing advice and assistance on the issue of diversity to Chairman of PwC International Ltd.’ However, despite official discourses and an abundance of employment initiatives to promote the value of a diverse and inclusive workforce, the outcome is disappointing. The proportion of women partners is still at odds with the proportion of women graduates in accounting and a significant gender pay gap persists. In the UK, KPMG reported a gender pay gap of 39%, EY 32%, Deloitte 35%, and PwC 38% in 2019. The ethnicity pay gap appears to be even bigger reflecting the significant underrepresentation of people of color in leadership ranks. A global investigation published in November 2019 in *The Financial Times* documented numerous accounts from former Big 4 employees of experiences of harassment, bullying and discrimination in the workplace. All these indicators point to the possibility of deep structural anti-diversity and anti-inclusion mechanisms. More research is needed therefore not only to excavate such mechanisms and explain their effects, but also to elaborate and promote concrete transformational policies and sincere accountability practices.

Disclosure statement

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