

June 7, 2019

## **Response to the Brydon Review on Quality and Effectiveness of Audit**

**From: Stuart Turley, Christopher Humphrey and Javed Siddiqui, Alliance Manchester Business School, University of Manchester.**

We welcome this opportunity to express our views on the quality and effectiveness of audit. In making this submission, we have chosen not to address the 60 questions listed in the Call for Views individually. Instead, we have focused on what we regarded as the most fundamental elements of the review's objectives as outlined in Section C of Appendix 1 of the document (pp. 48-49). This has led us to provide a response, which centres on re-thinking what is audit, considering whether its social significance could be enhanced through a different conceptual framing regarding its role and key stakeholders and what the implications would be for the auditing profession and its regulators/standard setters.

The emphasis on thinking differently about audit is drawn from considered reflection on the lengthy and repetitive history of attempts to develop the future of audit and the belief that the current Review is not just an opportunity to secure meaningful change but one that has to break with the traditions of the past that have seen innumerable official audit investigations fail to deliver what was promised and much anticipated.

In launching the current Review, Sir Donald Brydon made explicit reference to the 1992 McFarlane Report on the Future Development of Auditing and noted the similarities in what was being contemplated both then and now. As part of our research in preparing this submission, we consulted the written submissions made to the McFarlane Report and we would like to highlight several observations in these submissions that made explicit reference to the societal obligations vested in a statutory audit function. Colin Boyd, University of Saskatchewan, envisaged an audit future as such: "Instead of accounting to the shareholders on the firm's use of their money, auditors will be asked to account to stakeholders on the firm's various impacts on society. The auditors of 20 years hence will be the referees who report on performance and who will blow the whistle when the firm diverges from a standard of proper conduct in society. Our future auditors will be ethics practitioners, in other words." The Institute of Internal Auditors (IIA) spoke of the societal need for the external auditing profession to become broader and "to command the high ground in the external review of corporate affairs". Professor David Flint, University of Edinburgh, saw the major and dramatic changes proposed by McFarlane as being necessary if auditing is to meet the needs of society and a direct consequence of an over defensive and conservative attitude on the part of the auditing profession. He was critical of the development of philosophical principles on which auditing practices were based and changed, concluding that "Auditing has developed as a collection of practices to meet specific objectives rather than as a social function of which the practices and the immediate objectives were the instruments i.e., these have been seen as the end whereas they should be regarded as the means to the end which is of a higher order."

Our response is written in a fashion that aligns closely with such expectations and wishes for auditing to assume a more visibly social purpose and responsibility. This, ultimately, rather than markets, competition, choice and shareholder value, is what has to lie at the core of an auditing profession committed to serving the public interest and what needs to dominate our current discussions on the future of audit. We argue that there is a need to promote audit as a service with societal value and to make the social once again central to our contemplations of what is audit.

Stuart Turley  
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### **Respondents' Profiles:**

**Professor Stuart Turley** has held a Chair in Accounting at the University of Manchester since 1994. Between 2002 and 2012 he was a member of the Auditing Practices Board (within the Financial reporting Council), which set practice and ethical standards for auditors in the UK and Ireland. He has been a member of the Scientific Committee of the European Auditing Research Network since its inception, serves on the editorial boards of several journals, and was formerly a member of the Research Committee of the Institute of Chartered Accountants in Scotland. In 2016, Stuart was awarded a Lifetime Achievement Academic Award made by the British Accounting and Finance Association. Stuart's award was described by BAFA as a fitting tribute to a longstanding commitment not only to academic excellence and a respect for the diversity of intellectual inquiry, but to sustaining the overall distinctiveness and comparative strengths of the wider UK accounting and finance discipline in what is an ever increasingly competitive global educational arena.

**Professor Christopher Humphrey** is a Professor of Accounting in the Accounting and Finance division of the Alliance Manchester Business School. He has served on a range of important external committees and professional boards, including being a co-opted academic member of the Council of the Institute of Chartered Accountants in England and Wales (ICAEW), a former chair of the Conference of Professors of Accounting and Finance (CPAF) and a close adviser to the ICAEW's Audit Futures initiative. In 2015, he received the *Distinguished Academic Award* made annually by the *British Accounting and Finance Association (BAFA)* and in 2016 became a Fellow of the Academy of Social Sciences, being noted as a leading figure globally in auditing and accounting research, with a particular interest in interdisciplinary and international aspects of auditing and accounting.

**Dr Javed Siddiqui** is a Senior Lecturer in Accounting at the Division of Accounting and Finance at the Alliance Manchester Business School. Javed's primary fields of research are auditing, corporate governance and corporate social responsibility (CSR) reporting. His research has been funded by the Institute of Chartered Accountants of Scotland (ICAS) and the Commonwealth Scholarship Commission, UK. Javed has also worked as a consultant for a number of international development agencies, such as the World Bank and the United Nations Conference on Trade and Development (UNCTAD), Big Four accountancy firms, the Financial Reporting Council in Bangladesh, as well as national level professional accountancy bodies. In recent times, Javed has prepared the National Policy Note on audit reforms in Bangladesh, and has been included in UNCTAD's academic and research network to support the work of Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).

## **Response to the Brydon Review on Quality and Effectiveness of Audit**

### **Overview**

As indicated in our covering letter, while the review contains a number of very specific questions addressing individual dimensions of the statutory financial audit, we believe that it is vital to take this opportunity to fundamentally re-think the concept of audit. The sheer number of piecemeal reforms being contemplated at this time (and duly referenced in the Review), the divergence of views as to their respective merits and varying levels of supporting evidence are all powerful indications that what is most needed at this time is deep conceptual thinking, not quick or popular fixes. This is especially so as the scale of proposed remedies keeps increasing and the urge to act seems driven more by notions of impression management, commercial and/ or political expediency, or a lack of confidence to think differently and a limited historical awareness (e.g., in terms of reforms that persistently resurface after having been previously contemplated and rejected).

The lengthy history of the audit expectations gap and the historical regularity of ‘future of audit’ investigations also suggests that the requisite spirit and scale of reform is not something that just seeks to put audit back to what it was – as ‘what it was’ is a history of the problematic. A more dynamic sense of repair is required, centred on reassessing the conceptual underpinnings of audit and its essential role and scope. We provide a start to such analysis in the attachment to this response and summarise below some of the key policy implications as they relate to the Review’s specific terms of reference. These include the need to:

- Invoke an overall obligation for auditing to function as a service that provides a direct and valued contribution to society;
- Treat assurance as a sub-set of audit rather than the other way around;
- Free auditors to be ‘first order’ providers of information, advice and expertise rather than simply second order checkers conditional on the disclosures of other;
- Establish a new concept of corporate public interest audit, rather than a more narrow reliance on financial statement assurance provided for private benefit;
- Enable audit to have a more flexible scope both in terms of the nature and scale of investigation and reporting, adapting as required to different societal contexts and stakeholder demands.
- Review the relationship between markets, regulation and professionalism and the relative significance of each in terms of their impact on audit practice and its development.

In light of our call for a conceptual re-thinking of audit, we do not focus specifically on many of the questions in the *Call for Views* that relate to potential changes to specific elements of existing audit practice, including the nature of auditor liability. These are matters to consider once the overall scope and role of audit and its social significance have been rethought.

This ordering is of critical significance because an evident pattern to emerge from the history of ‘future of audit’ studies is that audit reform seldom shifts the underlying core conceptual basis of audit (despite the number of serious questions asked in this direction). Reform typically is piecemeal, watered down, even peripheral, reflecting the populist ‘reform menu of the day’ or adds another level of complexity to an already complicated institutional set of arrangements. There are so many times that we have heard statements in the following form:

‘If we had started with a blank piece of paper and designed an audit function and associated regulatory arrangements that we could be confident would be socially fit for purpose for the long term, we most certainly would not be where we are today’. Now is an opportunity to do something that not only stands the test of time but sets an agenda for thinking about audit and the auditing profession so as to ensure that the destiny of audit no longer has to rely on independent, external studies of its future...and where expectations of audit are spoken of in distinctly positive terms rather than ‘gaps’.

## **Context of the Review**

We first want to make reference to a number of points about the context within which the Review is taking place, which we believe are important to acknowledge in determining the approach that should be adopted in answering the questions posed by the Review.

1. The criticisms that have been directed at auditors do indeed require answers, but they are not unique or unprecedented, and it should be emphasised that they do not necessarily reflect the large majority of audits. Too great a focus on problems in some individual cases could divert attention from more fundamental reflections that could engender more positive developments in relation to auditing.
2. A number of reports have already been published in recent months, commenting, for example, on aspects of the market for audit services and audit quality and there is a danger that these could condition the current review. We would encourage an approach that is not to be constrained by, or seeks to be consistent with, the recommendations in the recent reports. Issues about market structure and organisation of the delivery of the audit service should follow from consideration of what its role could be, not the other way round.
3. It is evident that internationally there has been interest but also some surprise and concern about the proposals contained in other reports published in the UK. The auditing of significant entities has an inevitable international component and international complexity provides one of the main challenges for modern-day audits. Consequently the scope of the current review should not be seen as a UK problem for UK solutions. There is a need to approach the Review considering how the UK can provide leadership and innovation for the international business and professional community, and to avoid playing to immediate, short term UK economic and/or political agendas.

## **Expectations and the role of audit**

1. The role of audit has to be seen alongside other aspects of corporate governance that influence the organisation and operation of business and confidence in business entities within society. There is a sense in which audit tends to be defined entirely as a ‘second order’ function in this context, but also as the ‘first order’ source of problems. Thus the auditor’s responsibilities are conditioned by a corporate governance model which says that if there is something to be reported it is for the company to report and the auditor to provide a comment, rather than the auditor having a primary responsibility for contributing something additional. However, when things go wrong it often appears that the primary blame is placed on the auditor, when, in many cases, the primary source of the problem lies elsewhere in the corporate governance framework, including poor business decision making

and/or reporting by company management, inadequate oversight by audit committees, inherent limits in the financial reporting framework etc. This Review of the audit could usefully redress this balance, primarily by considering the potential for audit to make a more substantial 'first order' contribution to governance by releasing auditors from the constraint of only commenting on what has already been said by someone else.

Two recent examples of developments in reporting can illustrate this point. In the area of going concern, the auditor's responsibility has been developed as second order to the requirement for the company to make a more explicit statement about future viability. Similarly, questions can be asked of the impact of attempts to incorporate discussion in the audit report of areas of significant risk (or 'key audit matters') given that does appear to have been a high degree of circularity of reporting by the audit committee on such issues. Consequently the degree to which the audit provides something additional or novel has been limited.

In our view, the Review provides an opportunity to change the approach from one which sees audit as a subset of assurance to one in which specific assurance (for example on the financial statements) is seen as a subset of audit. This approach could be relevant to many of the possible areas for change in the scope of the audit that are referred to in the *Call for Views*.

2. The problem of an expectations gap in auditing has been longstanding and enduring. The conventional response to this has been to make repeated changes affecting some specific aspect of regulation, communication or market arrangements in order to correct what previous changes have failed to achieve. A more appropriate response might be to recognise that an expectations gap is an inevitable feature of a service such as audit, which relies on beliefs about what it comprises rather than either a directly observable product or an experienced service. That is not to say that effort should not be made to develop audit in the light of revealed expectations but the Review should not consider its task as one of identifying specific expectations problems to be 'fixed'. Rather this is an opportunity to reset and develop new expectations for the contribution of auditing.
3. At a number of points the *Call for Views* makes reference to the 'public interest' nature of the audit. While the concept of the public interest is often invoked in debates about the role of audit, each specific audit is essentially treated as a private interest engagement, limited to acting on behalf of and reporting to the members of the company as a body only, within a reporting framework that explicitly recognises only investors, lenders and creditors. Notwithstanding the difficulty of defining public interest, in our view it has to go further than what is currently captured by the idea of a 'public interest entity' and the arrangements for audit engagement contracts.

Considering the 'public interest' as reflected in the public response to situations of corporate collapse and alleged audit failure leads us to two observations. First, although the auditor's report is associated only with the financial statements, stakeholder interests (and hence the source of their criticisms of auditors) are frequently reflected in broader aspects of corporate activity and reporting. Second, although the auditor's report is addressed only to company members, many other stakeholders, such as pension scheme members, employees and trade suppliers feel aggrieved that their interests are not being adequately protected by audit.

Two changes that the Review could consider in relation to the question of expectations and the public interest would be to make the audit report more of a report to the public, rather than a private report that is simply made public, and to broaden the scope to incorporate consideration of more potential consequences associated with the organisation's position and operations as reflected in the financial statements. Such changes would simultaneously encourage auditors themselves to see their role as one that is associated with public interest and serving society, and to be more than a relatively narrow, compliance function.

4. Overall the Review should be taken as an opportunity to reaffirm a position for audit as something which is of service to society because it helps to allow stakeholders and interest parties to have greater confidence in the manner of operation of businesses, including the representation of those activities in financial statements. The value of audit can also be enhanced by developing it more as a 'first order' function of importance in its own right.

### **The breadth of scope of auditors' responsibilities**

1. Developing the audit in a manner which sees financial statement assurance as one part of a broader corporate audit could be consistent with consideration of many possibilities for the scope of the audit that are referred to in the *Call for Views*, including narrative disclosures, internal control and risk management, fraud, going concern and financial sustainability, and non-financial performance measures. It is not our objective in this submission to argue specifically for particular extensions to the scope of audit, but we do wish to make some points concerning how an evaluation of possibilities should be approached.
2. First, we do not believe a 'shopping list' approach should be the primary way in which the development of the audit should be evaluated. Consideration of individual aspects of corporate activity and reporting that may or may not be relevant to include within the scope of audit should be guided by a more fundamental and conceptual understanding of the role of audit, as advocated above (and explained in more detail in the appendix to this submission), rather than as a short-term reaction to some perceived 'demand' and something that is implemented without a substantive evidence based.

Without a proper conceptual and societal foundation for the function, individual changes are likely to have only a marginal impact on the conduct and effectiveness of audit. One example could be the area of reporting on internal control, where there is danger of repeating the same cycle of increasing company disclosure with associated auditor comment, when much of this consideration is already a component of the audit and at a time when even in the US, where a major emphasis was placed on this area following the Sarbanes-Oxley Act, there is now a move to reduce the internal control reporting requirements for some categories of company.

3. Second, we would also recommend that developments in the scope of the audit be considered to reflect the broader societal interest in audit rather than simply 'what investors and other users' need, as stated in the *Call for Views*. This point is similarly explained in more depth in the accompanying Appendix in discussing that the fundamental essence and social value of audit derives from the capacity of auditors to be an alternative voice; to 'think differently' and act accordingly.



4. Third, a more radical possibility would be to allow for the possibility of varied scope between companies. Certain aspects of an audit in the public interest could be required for all companies but others could be allowed to vary to reflect the characteristics of the company, its activities and its reporting. Such an approach might place more demands on users to understand the nature of audit in an individual company but could allow for the innovation and development in corporate audit that would be socially desirable.
5. Finally we would also argue that consideration of the breadth of scope of the audit has potential implications for the organisation of the supply of audit in the market. For example, it is the highly complex nature of major modern business enterprises that drives the risks that things go wrong in a way that has substantial consequences in society, and reinforces the limits of financial reports alone as a representation of such business, and this is likely only to increase in future. It would therefore be inappropriate to reduce the potential for audit firms to have the breadth of knowledge needed to evaluate that complexity and assess those risks by opting for a narrow quarantining of audit activity from everything else. Similarly, joint audits based simply on size (Big 4 plus non Big 4) as a means of promoting competition are unlikely to be the most efficient way to deliver the broader concept of auditing we are arguing for. In contrast, joint audit based on the complementarity of skills necessary, for example to include IT firms or other specialist expertise, could indeed help to serve a positive future 'public interest corporate audit'.

### **Communication and reporting**

1. As commented earlier, the ambiguity around the status of the audit report as public information could be addressed by making it the auditor's responsibility to report publicly on the result of their audit (in whatever terms are, and across whatever scope is, considered appropriate for the role desired).
2. With reference to specific potential changes in the audit report, the suggestion for graded reports is something which would seem to require experimentation and collection of evidence on effect. As explained above and in the accompanying Appendix, there is arguably more potential in contemplating having audits of differing scope than one form of audit with differently graded reports.
3. Another possibility could be the idea of including disclosure explaining what has changed as a result of the audit. Some audit reports make reference to unadjusted (immaterial) audit differences, but reporting the effect (on income or assets, or disclosures) of what has changed as a result of the audit process might give an alternative measure of audit quality in the sense of the impact that auditing is having on the financial statements being made available to external users.

### **Other matters**

1. Considerable claims have been made in recent years about the potential for developments in data analytics to enhance audit quality. The truth of these claims needs to be properly researched and tested more fully than to date. However, the real potential value of technological development should be that it creates a basis for the auditor to make the broader contribution envisioned in the comments above, not that it simply makes it easier to do 'more of the same'.

2. The subject of liability is also raised in the review document. While it should not be the case that auditors are subject to unreasonable risk, or seen as guarantors for the mistakes of others, they should need no protection from redress for their own negligence. Safe harbour protections should also be assessed on the basis of appropriately researched evidence of the extent to which claimed threats of liability are actually present in practice.
3. Several recommendations have already been made in recent reports on the effectiveness of audit for changes in in the manner of supply of audit services, organisation of the market and regulatory oversight. We would reiterate that we believe these should be revisited in light of the outcome of more fundamental thinking about the potential role of audit in the future rather than serving to constrain the scope of the current review.



## **Response to the Brydon Review on Quality and Effectiveness of Audit**

### **APPENDIX: In pursuit of better business: Re-thinking audit and its social significance<sup>1</sup>**

#### **Keeping a central focus on the ‘future of audit’**

Debating the ‘future of audit’ should be both conceptually fascinating and socially rewarding. However, very often it falls far short of such lofty ideals. Debate can degenerate into a discussion not about the future of audit but about the future of the Big four firms or the nature of the audit market. It can also get locked into ways of thinking that are neither radical nor strong in conceptual analysis and thus reproduce the status quo. Analysis tends to focus on incremental change, while various (old) ‘hobby horses’ (such as the audit expectations gaps or the value of IFRS) are revisited. People seek to dominate a collective discussion with their singular perspectives, and yet we frequently end up in a discussion that has been had many times before; where the debate is notable only for its familiarity and circularity. Debates over the future of audit end up struggling with contradictions and competing self-interests. Arguments become circular or stuck in a manner from which it is difficult to generate anything compelling and coherent. If anything more radical does emerge, it tends to come in the form of speculative proposals that antagonise rather than resolve, and which, ironically, reinforce what we have come to accept and understand as audit (with extensions in audit rejected for proposing something that is ‘not audit’). Instead of conceptual creativity and innovation, we end up focusing on different ways of delivering the same old limited type of audit or re-organising its provision and related audit professional or regulatory institutions.

So what is not being discussed, considered or questioned? What could happen if we departed from the so far dominant forms of thinking? In contemplating such thought it is first important to remember that:

- The phrase ‘future of audit’ (as in the BEIS ‘Future of Audit Inquiry’) should lead to open and wide ranging debate as we are not talking about the future of ‘the’ audit that we have come to know and classify as the current, statutory financial audit. It is ‘audit’ as a concept that needs to be discussed and its boundaries should not be taken or presumed as a given.
- The future of audit does not have to be contemplated just in terms of extending the current form of assurance to other areas of application; of subjecting different (e.g., more future oriented) types of information to the usual audit assessment. Audit in the future could be very different in form, not just a greater application of the same thing.
- Factors claimed to be fundamental to the audit function/arena are often deemed to be so without any deep consideration as to their necessity. We must avoid letting things slip into common parlance and become almost taken for granted terms and notions. For instance, ‘choice’ is invoked as being vital in terms of audit appointments but without any real discussion or evidence as to what such choice delivers in terms of enhanced

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<sup>1</sup> The ideas in this essay draw on and develop material contained in a detailed unpublished working paper, jointly authored by C. Humphrey, A. Sonnerfeldt (Lund University), N. Komori (University of Sheffield) and E. Curtis (University of Galway) entitled “What Auditing Never Became”, a blog prepared for the ICAEW’s Audit Futures initiative (accessible at: <https://auditfutures.net/blogs/thinking-differently-is-audit>) and an article reflecting on the recently published BEIS Select Committee Report on the Future of Audit accessible at: <https://www.ft.com/brandsuite/alliance-manchester-business-school/audit-and-the-importance-of-thinking-differently.html>.

audit quality. For a profession that is supposed, across the board, to be doing audits in compliance with international standards on auditing, choice should be less of a debating issue than the quality and exacting nature of such international standards. Levels of delivered audit ‘quality’ really should not be of such a scale of difference that ‘choice’ matters so much and, if they are, the problem is not one of choice but of standards implementation. .

- Many people focus predominantly on the ‘audit market’ and the need to take action to strengthen the market, without stopping to contemplate why a statutory audit function is being discussed in terms of a market. The Companies Act is concerned with, and contains specifications on, the audit ‘function’ - not the audit ‘market’.
- The essential value of ever increasing regulation is also assumed – with even the profession calling for and acknowledging the value of ‘strong regulation’, but without questioning whether it is a weak profession that requires strong regulation. A strong profession, arguably, should not require strong regulation.
- People talk grandly about the public interested nature of audit but fix their reforming focus on things very particular to their own interests; making mythical representations that an auditor working in accordance with such interests will naturally deliver broader benefits. Very easily broader goals get supplanted by more specific proxy goals and the beguiling faith placed in such goals promotes a myopic focus on quick fixes that look both speculative and inadequate if a deeper perspective is taken. And inconsistencies get missed.
- So faith is placed in enhancing market competitiveness but with little discussion of the risks of promoting competition over a service that is not easy to observe in terms of the quality of its provision and where there are already evident worries over the commercialisation of the ‘profession’ charged with delivering such a service. Similarly, discussion about serving the public interest and ‘social’ responsibility typically gets supplanted by what it is possible ‘economically’ to do within the Big firms; of the need to address their concerns over recruitment or the economics of auditing and the nature/sustainability of the investments being made in IT and new technologies etc.

### **Developing the concept of audit – attempts to encourage different thinking**

There often seems to be a vivid level of economic and political pragmatism shaping the reforming process – such that reforms are rooted in a vision that utilised the same form of audit but aims for it to be carried out more cheaply and efficiently. Or reforms take place not because they are regarded as proven good things in terms of enhancing the quality of audit practice but because there is sense that they have become a political necessity – a symbolic reform signalling a certain commitment to change on the part of the firms.

Much of this works against a clarity of thought – and if there is any such clarity it tends to come with a negative tone - with reforms that seek to extend the role or scope of audit being countered or dismissed by insurances that what is proposed is ‘clearly’ not ‘audit’. This is a reflection of the way in which what counts as audit has tended to derive from the traditions of practice and what has, by implication, felt comfortable. Tradition, even with the long standing ‘expectation gap, serves as a boundary or counter to anything more radical – “yes, that it is interesting but it is not audit”. We have to move towards a frame of thinking that focuses on the conceptual development of audit and not the conceptual justification for the current form of audit.

To break out of this conceptual stickiness or conservatism, we have to think differently – we have to find some breaches in the walls of tradition and open a space in which new conceptions of auditing can emerge.

One obvious way is to ask questions that have not been asked before – whether they be questions of audit practices, structures and/or reform proposals that have gone without major challenge and just taken for granted. Such questions are not hard to raise. For instance, why do we focus so much on the notion of an audit ‘market’ rather than an audit ‘service’? Why we don’t trust market outcomes even though we appear to believe so much in markets? Why we are critical of the Big firms but are happy (and trust them) to work closely with (if not train) challenger firms as ‘joint auditors’<sup>2</sup>? Why do we place faith in challenger firms when the market has clearly preferred larger firms? When we presume the benefit of mandatory audit rotation, why we do not actively question and seek accounts of the cost of all the lost time in unsuccessful tendering bids – and to weigh such costs against the benefits of being audited by firms that successfully won the tender bid? Why does a profession subordinate itself to regulators and calls for strong regulation without seemingly recognising what that implies about the strength and quality of the profession? Why do we have a history of audit defined by failure and crisis but not success? Why do we talk of things as being post a particular scandal or crisis (post-Enron, post-Asian crisis, post the global financial crisis)? Why do we not mark the history of audit by notable success, progress and advances, especially given its supposed commitment to serving the public interest? Why do those subject to audit not talk routinely of the value and enabling qualities of audit work? Of the enhanced value delivered through audit? Why does audit routinely get described as boring and tedious? Yet why do some audit partners (working ‘in the public interest’) earn salaries at a multiple of 20 plus times higher than the salaries of public interested and public serving nurses and teachers? What determines a socially appropriate balance between public interest and personal benefit? What would the audit function look like if it was not statutorily required? Would it look similar or radically different to the current form of audit? What would Apple or Google have done with audit if they, rather than KPMG or Deloitte had been a big 5 audit firm in the early 1990s? Where would they have taken audit? Where could audit have gone?

Such questioning is a form of disruption, of trying to push people out of their comfort zone and taken for granted perspectives and positions – encouraging them to think differently, to think more deeply, more conceptually, to be more historically and socially aware. One reason for pushing such thinking and analysis is the dual tendency for (a) debates not to be very intense in terms of their reference to and reliance on the specifics of empirical practice and context (relying on abstracted, textbook explanations of, and justifications for, audit) and (b) when practice is explicitly discussed, there is pretty clear evidence of a diversity in the quality of practice (with some audit committees, for example, being deemed as effective and others openly acknowledged as not). The dominant sentiment was a need for more empirical insight and explanations that were coming not from the ‘outside looking in’ at the auditing profession, but from the ‘inside looking out’. There was a need to draw on and make more visible what ‘insiders’ saw audit practice as representing and achieving, rather than just relying on markets, regulators and standard setters to forge the pathway ahead. In this regard, it is particularly striking how little reference the auditing ‘profession’ makes to its professional status and how, conceptually, much greater attention is being given to the nature and role of markets as compared to notions of audit professionalism. The exception here is a regular degree of reference to the notion of ‘professional scepticism’ but even here the persistent use of the two

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<sup>2</sup> In his submission to the CMA, Siddiqui, J. (2019) pointed out that the empirical evidence on the impact of joint audits on audit quality is largely of an inconclusive nature.

words in tandem tends not to allow for the concept of professionalism to extend beyond and be discussed in terms that extended beyond scepticism. If anything, there is a growing tendency for the profession to take a position that subordinates itself to the position held by and assigned to standard setters and regulators. The evident lack of recognition of the repetitive nature of audit history (the notion of an audit expectations gap is a far from new concept) is also something that has to be actively addressed – which is where stress placed on studying the history of ‘future of the audit’ studies comes in - as a graphic way of illustrating that we have been here many times before and not go close to thinking in radically different ways about audit (i.e., the concept of audit and not the different ways of organising and delivering the same product/service).

### **From thinking differently about audit to determining that the fundamental essence of audit is thinking differently**

It was from here that the idea emerged of not asking immediately and routinely what audit should become but starting, as a disciplining device, by asking what audit never became. Why, for instance, had audit never shaken off the shackles of being regarded as tedious and boring? Why did auditors frequently get left in a position of having to defend audit, by phrasing such as “I know it may sound odd or counter-intuitive and I understand the logic of what you are saying or where you are coming from, but unfortunately, that is not our job as auditors, that is not what auditing is about”. Why had audit never moved from this position? Why had it not moved to being intuitive rather than counter-intuitive?

The primary aim here was to stimulate analysis of the context within which auditing was constructed and practiced and to seek to reveal the multiplicity of powerful institutional forces that had frustrated numerous efforts to change and which typically served to reinforce the status quo, no matter how dysfunctional it may have seemed. In essence, if you really did understand what had stopped audit from developing or changing, you would have a much better chance of not just securing change, but securing productive and socially purposeful change. There was a sense here as well that the pursuit of change in the audit institutional environment and associated practice arrangements (although not the concept of audit itself) was becoming ever more desperate and speculative in what needed to happen – and that a level of cautioning was needed to quell the gambling tendency with reforms and the associated push to get a sufficiently strong level of political momentum behind reforms (whose future effects were far from known) and to satisfy the appetite for ‘being seen to do something’. This was not to deny the seriousness of the issues facing the auditing profession and the compelling nature of the case for action – but to confront ruling patterns of behaviour dominated by the listing of various possible initiatives and (speculatively) scoring them to determine the ‘best’ way forward. Rather than really discussing the intricacies of the audit working environment, people were tending to work with caricatures of this environment.

Collectively, much of the above served to raise sensitivities as to why the ultimate outcome and effect of pursuing reform in the audit institutional environment (and ‘rationally’ the most effective strategy) so often gave the appearance of ‘muddling through’ – with the evident imperfections and contradictions on different sides of the debate leading to sub-optimal reforms, while the providers of audit, for all the negative press associated with the function, appearing to be managing to do financially quite well out of a context that was far from inspiring and socially satisfying. In this context, Richard Sennett’s distinction (in his book on craftsmanship) between basic and dynamic repair is particularly illuminating - and can be used to portray much of the audit reform debate and agenda as being oriented towards basic rather

than dynamic repair. Particularly significant here has been the reliance placed on the phrase ‘an audit is an audit’ and how, despite all the problems with audit practice, it has served to dampen down the case for change by encouraging the view that ‘we know what an audit is, nothing more, nothing less, nothing different nor distinctive’. Its influence can be seen in a variety of standard setting encounters (especially around the historical removal of the small company audit and the contemporary resistance to introducing a lesser or different form of attestation in this sector) and the phrase could be seen as the classic illustration of the anti-innovative tendencies in audit and the privilege being awarded to standard setters (as the notion of an audit is an audit was defended on the grounds that an audit had to be the same across all circumstances and jurisdictions – it had to be standard and standardized).

Appreciating what audit never became and the importance of pursuing change from the perspective of dynamic rather than static repair encourages pursuing different slants on the potential for innovation in auditing - illuminating factors that were constraining innovation and how thinking differently could deliver different outcomes. In summary terms, this meant looking at how the construction of assurance services had been done in such a way as to restrict development in audit. As audit had been defined as a subset of assurance and because assurance was seen to draw quite closely on core dimensions of auditing, it meant that any new assurance service (drawing largely on audit traditions) would be classified as assurance and not labelled as a new audit variant. Future development in ‘audit’ and the conceptual space to be occupied by audit was inherently constrained because it was assurance and not audit where the development was taking place.

Other devices included re-thinking what is the nature of the ‘truth and fairness’ assessment provided by the auditor. Could accounts of pay day lenders whose business model depended on customers taking out short term loans at APR’s of 1460% ever be deemed capable of producing accounts that could be deemed to be ‘fair’, even if the transactions of the business have been recorded accurately? Could going concern considerations extend to contemplation of social equity and how shifting social values could quickly result in the business being unsustainable?

Could audit move from being a secondary function, whose social value hinges fundamentally on the information being assured through audit, to a primary or first order function whose value is inherently dependent on what auditors do? That enabled audit to move from a hearing or listening tradition to a ‘doing’ domain? With the profession committed to supporting UN sustainable development goals, it is possible to envisage the auditing profession not framing its commitments here around what it has traditionally done (and discussing what social consequences arise from such actions) but starting with sustainable development goals (and social challenges) and asking what the auditing profession, with all its skills and capabilities, does to have the most impact on such goals. Whilst various audit firms have been involved in certifying issues such as labour governance in supply chains, the efficacy of such audits have remained questionable, mostly due to the narrowness of their scope<sup>3</sup>. In short, to put social impact first and not as a consequence of a traditional auditing framework and associated action. Or to push the holistic thinking to a higher level by eliminating or restricting any reference to existing company legislation and formal (national and international) auditing standards and then try to define audit.

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<sup>3</sup> Siddiqui and Uddin (Accounting, Auditing and Accountability Journal, 2016).



Following such framing, it could be argued that the fundamental essence of audit is one of providing an alternative voice, a function that speaks out when others don't, a guide, a sage, an educator, an inspirer, that sees and responds (or encourages others to respond) to problems and threats before others do. In this way, auditing can be framed as a form of social conscience. It is not just a case of thinking differently about audit, it is realising that *auditing is thinking differently*<sup>4</sup>. Such framing also lends itself well to a contemplation of audit as a more diverse form of product – almost the antithesis of the notion that 'an audit is an audit'. It helps to facilitate representations and constructions of an audit as something distinct, unique and dependent, in terms of scope and approach, on what social circumstances and contexts necessitate and foresight demands. It also lends itself to a very different form or representation of standard setting – where the standard setting more follows traditions in electronic engineering where the emphasis is on product innovation and development through the mutual sharing and compatibility of technology. Standard setting is about creating the conditions to enable product innovation, not to harmonise and converge around a singular product.

This also has the feel of something that lends itself more directly to the application and exercising of professional skillsets – it engenders the making of choices, of exercising judgement, of determining how best to respond to encountered circumstances. Choice is not a function centred around the selection between different sets of professionals all working to the same standards and rules; it is a function centred around the differential exercising of professional judgement and intuition – if the core definition of a profession is its social utility, of providing a service that the public values, then this puts judgement as to what needs to be done more centrally in the hands of socially sensitive professionals and starts to break down the straight jacketing that increasingly appears to characterise a very standardised and regulated auditing profession.

### **Assurance is a subset of audit, not the other way round**

Such an alternative conceptual representation of audit as 'thinking differently' can be expected to invite questions as to what really is audit and what defines its scope/boundaries and any associated skill sets? How is such a vaguely specified function going to be systemised and what determines an appropriate level of quality in the provision of such a service? It is important, however, to step back and remember this: we currently have a system that is very formally specified in legislation, with an appointment process where proposed audit work and working arrangements are scrutinised in depth by those purchasing the audit service and by those regulating it; we have ever lengthening audit reports explaining what auditors are doing and what they have found and yet there are strong suspicions that such reports are being read in any great depth (at least based on the coverage given to them in the media), and an audit expectations gap that some say is higher than ever, and a lack of confidence in the auditing profession that appears greater than ever. Could it be argued that the more routine, standardised and formally specified and regulated audit becomes, the less professional and socially purposeful it becomes? If all of this focus on markets, regulation, oversight and an arguable marginalisation of professionalism has got us to here, then maybe that itself is the most powerful case for advocating and pursuing a very different approach?

A concise and powerful way of categorising such an alternative way of thinking about the concept of audit is to recognise that *assurance should be seen as a subset of auditing* (and not the other way round – which has been the tradition in seeing audit as a subset of assurance).

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<sup>4</sup> This was the main theme of a recent blog that one of us wrote for the ICAEW's Audit Futures initiative – see <https://auditfutures.net/blogs/thinking-differently-is-audit>

This immediately transforms thinking about audit as it allows audit to be something more than just assurance; audit is more than a secondary function assuring the credibility of a primary information set. It also allows discussion to switch from assertions that something is not audit to assessments of what auditing could become, with such contemplations grounded less in what auditing has typically been and more in what society needs from audit. This is a much more direct way of securing a socially purposeful audit function. It is also very different from asking the public what it expects from the current form of audit because it requires a greater contemplation of the nature of the society that we live in. Indeed, if audit is a social conscience, contemplations of what is audit are fundamentally connected to what type of society we want to live in and what types of audit are best placed to help in securing or delivering and maintaining such a society. The current form of audit that we have in place (which is a largely assurance based audit approach) is what has, by implication, been decided on in the past as the most socially conducive form of audit – but if this has failed for so long to live up to ‘expectations’, then it is not something that conceptually should be seen as a permanent fixture, an immutable object. It is something that can be changed, both conceptually and practically.

### **Connecting ‘all’ reforms: The catalytic consequences of a broader conception of audit**

In terms of the current Review, it is very important to situate all of its recommendations, whether fine tuning or more radical ones, within an overriding framework – as recommendations will define, characterise, ground and potentially limit the significance of the Review – and shape the way people react to it. If the initial focus is evidently centred on ‘fine tuning’ the existing audit function, then this essentially privileges such a way of thinking of audit - when so much contextually and historically points to this being a problematic specification and conceptualisation of audit. There could then be a big risk that other suggestions and proposals regarding the future development of audit are assessed as building out of this construction (an extension to what is already there and been accepted as ‘the’ definition of audit) – but which could have been regarded very differently if they had been viewed from a different representation of the essential roots and purpose of audit. With a different framing, certain reform proposals could be viewed from a premise that they are potentially vital canons or pillars of a broader defined audit concept rather than optional, possible add-ons to the existing, ruling way of looking at audit.

A strong philosophical or conceptual repositioning of audit has to be one that goes beyond what is currently specified and assumed in international auditing standards, company law and practice traditions. This is why the notion of audit as a social conscience works at a deeper level, as it: (a) directly connects audit and society, and the stakeholders that make it up; (b) provides the conceptual space and justification to think of different forms of audit and (c) does not require the review to specify all the particular reforms required for audit but offers an analytical lens through which reform can be contemplated (in light of all the various assessments as to whether different segments, entities and change drivers within Western capitalism are functioning in ways that are deemed to be contemporarily appropriate/suitable). The point under (c) is not to say that the Review cannot make very specific recommendations (which is a strong expectation) but rather that it provides a framework, or the analytical means, through which reform needs to be contemplated if it is to amount to a dynamic repair and to break from the tradition of revisiting audit reform through a very narrow and static lens every so many years (in the aftermath of the latest corporate scandal).

The tendency for many complex and unresolvable issues to be dumped in the grounds of the Review, is a fundamental challenge...and if people all have different expectations and



demands, the Review is going to struggle to be a resounding success – “you can only please some of the people some of the time” etc. But if the Review, through a deep and careful conceptual reframing manages to reset how audit needs to be viewed, then it will have served a massively valuable purpose. It would allow certain reform proposals to be made that command significant respect because they can be shown to be conceptually sound and consistent; it would also set in motion a longer realignment process (‘giving people a way of seeing and finding solutions for themselves’) with respect not just to audit but drawing connections and linkages to reviews contemplating/encouraging changes in the broader capitalist system<sup>5</sup>. In this respect, it feels as if reforms to the concept (and nature, scope, remit and practice) of audit can serve a catalytic function and encourage a deeper consideration and revision of other systemic key elements, traditions and institutional functions beyond audit. If people are able to acknowledge that the Review has made them think differently and given them cause to reassess various underlying beliefs and assumptions regarding not just audit but the way in which the capitalist system currently functions - and to connect (and question) key behavioural tendencies and delineations of institutional purpose in ways that they have not done before, then it is destined to be a big success!

So is it possible to argue that the Review is essentially setting in motion a reframing or repositioning of audit within a Western capitalist system that enhances audit’s social significance and alertness, which in turn serves to impact on (and enhance) other core systemic elements. This would resemble a ‘dynamic’ repair as it is constructing a fundamentally ‘dynamic’ audit function?

It would also help to set in train a bolstering of audit as a ‘profession’..especially if the notion of a profession is viewed from the perspective of public service and the serving of society (Mautz and Sharaf, 1962, p. 239, citing John L. Carey). It, intriguingly, fits well with the demand made of a ‘Future of Auditing’ study published in *The Accountant* in January 1942 which said that: “Attempts to persuade the accountancy profession to take a wider view of their public responsibilities have so far met with little success” (p. 31)! It opens up the potential for auditors to be more active and engaged in the development of ‘better businesses’. Under current constructions of audit, its role is primarily situated in the arena of trust enhancement rather than building ‘better’ businesses (and a ‘better’ society) - Interestingly, you can see both of these dimensions referred to in the mission statements of two of the big accounting firms (EY and PwC)<sup>6</sup>.

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<sup>5</sup> A couple of pertinent examples here would be: (a) Martin Wolf’s discussion of recent books by Colin Meyer (*Prosperity*) and Jonathan Tepper/Denise Hearn (*The Myth of Capitalism*) – which highlights concerns with the current form of the corporation and its governance, the failings of the current form of capitalism and the need to pursue alternatives, rather than standardising around one system/approach: “We should be explicitly encouraging a thousand different flowers of governance and control to bloom. Let us see what works” (M. Wolf, “Rethink the purpose of the corporation” Financial Times, 12<sup>th</sup> December, 2018, p. 13) and (b) Shoshana Zuboff’s (2019) book on the *Age of Surveillance Capitalism* which highlights the dehumanizing implications of an increasingly digital society with its excesses of monitoring and surveillance. And the importance of fighting for a more human future. Wolf connects directly to governance issues pertinent to the Review: “How, above all can such long-term trust be sustained if the constantly reiterated aim of the corporation is to serve the interests of those least committed to it, while control is also entrusted to those least knowledgeable about its activities and at least risk of damage by its failure? Yet these are reasonable descriptions of the place of shareholders in publicly-owned companies with widely-distributed shareholdings...These books suggest that capitalism is substantially broken. Reluctantly, I have come to a similar conclusion. This is not to argue for the abandonment of the market economy but for **better companies** and more competition” (p. 13, emphasis added).

<sup>6</sup> “The insights and quality services we provide help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we

However, this essentially is because audit has been framed as a subset of assurance. If, as noted earlier, it was the other way round ('assurance is a subset of audit'), then there is immediately far more scope for 'audit' to operate in a way that more actively and directly serves to guide and stimulate the building of better businesses. We may well have allowed 'consultancy' to populate such an advisory space but this is a social construction and not something that definitively dictates that is a form of activity that has to fall out of the remit of audit – especially if it is regarded as a way of the auditing profession providing advice and/or discipline as a public service (or, as some may alternatively represent it, in a way that serves the 'public interest')<sup>7</sup>.

### **From graduated audit opinions to different forms of audit**

Ultimately, discussions on the future role of audit have to consider the social significance of what is currently subject to audit – namely, corporate financial statements. The social significance of audit and the value of the assurance that audit provides fundamentally depends on how important are the (financial) statements which the audit is assessing. If these statements are not the main ways through which confidence is secured and engendered in contemporary corporations and if these statements do not play a fundamental role in developing socially valuable businesses, then the social purposefulness of audit has to be held in question - and consideration given as to where best to focus audit attention and how best to reframe/reconstruct an audit function?

One advocated reform that has gained increased prominence in recent years has been the emphasis on auditors providing graduated opinions rather than the so-called binary-styled report that corporate financial statements are either true and fair or not. It is important here, however, not just to think of audit in terms of **graduated audit opinions** but also graduated or **different approaches or forms** of audit. The current conceptual foundation of audit, by being dominated by notions of assurance, limits what audit can do – such that the only potential graduation is in levels and scope of assurance. Graduation does not, but could under broader definitions of audit, extend to different functional contributions. This is of particular pertinence to the role of audit in smaller entities – the UK had a long tradition in which all companies, regardless of size, were statutorily required to have an audit. This went with the need to comply with European Company Law directives and went because it was felt that it was not possible to provide a meaningful level of independent assurance, even though many stakeholders said

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play a critical role in building a better working world for our people, for our clients and for our communities. In a world that's changing faster than ever, our purpose acts as our 'North Star' guiding our more than 260,000 people – providing the context and meaning for the work we do every day." ([https://www.ey.com/en\\_gl/who-we-are](https://www.ey.com/en_gl/who-we-are))

"At PwC, our purpose is to build trust in society and solve important problems. It is this focus which informs the services we provide and the decisions we make." (<https://www.pwc.co.uk/who-we-are.html>)

<sup>7</sup> The same definitional issue applies with respect to the division between audit and insolvency. Traditionally, audit functions up until the time that a business goes into administration, when receivers then take over. But if auditors' insight and advice is capable of changing the strategic direction of a business and enabling it to avoid going into administration, why should this not count as audit? This is precisely what building better and more sustainable businesses can mean. It also highlights why 'fine tuning' adjustments to the current audit regime could serve ultimately to undermine or hinder the development of a more socially purposeful form of audit. Banning auditors from providing non-audit services has gained major political momentum and looks to have been accepted as a necessary act by the auditing profession (at least its largest firms) but what counts as 'non-audit' fundamentally depends on what is deemed to be 'audit' – and, arguably, we are not in a position (given the level of societal satisfaction with audit) to be making decisions with potentially long-lasting effect based solely on the current conception of audit. Audit, conceptually, is not fixed and it is not something, certainly in the present environment, that is deserving of being treated and classified in such 'fixed' terms.

that the engagement and involvement of a qualified professional accountant in the preparation and audit of a small company, family owned accounts was invaluable. Rigid conceptions of audit have arguably diminished the impact that the accounting profession has in the SME sector, with consequent implications for things such as the tax-take from this sector and the increased riskiness of bank lending to such companies. And this is just viewing audit in its traditional terms, which does not take account of the impact that the accounting profession could have had if a broader or more flexible form of audit had been capable of being applied in this sector.

Historically, it is very interesting, if not poignant, to see that at the same time as discussions were taking place in the early 1990s over the value of the McFarlane report and its attempts to invigorate the concept of audit, the accounting profession and the UK government were formally endorsing the removal of the statutorily required small company audit. From a future perspective, especially when countries such as the UK are dogged by declining levels of productivity, it is vital that consideration is given to the form and nature of companies that are best placed to deliver growth and innovation and to contemplate what, in this regard, an accounting profession able to operate with a revamped or expanded conception of audit could deliver and facilitate.

If ‘assurance’ is required in other places or if other forms of audit<sup>8</sup> are potentially better placed to deliver sustainable businesses, then this is where the attentions of the auditing profession need to be devoted. This, in turn, has direct implications for the skill sets and educational/professional training requirements that need to be developed and applied in the auditing profession<sup>9</sup>. Evidently, there are numerous service delivery issues raised here (a number are not new and have been debated for many years in relation to the current audit

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<sup>8</sup> It is possible here to use the term ‘other functions’ rather than ‘other forms of audit’, on the grounds that there could be various ways and means to secure sustainable businesses, but this fails to recognise that there is a conceptual issue to debate as to where you draw the boundaries around what can be represented as ‘audit’ and the ways in which an audit can be delivered and by whom. Some of this segment discusses these issues in relation to the respective legitimacy of different service providers and the requisite qualification and professional training programmes/processes, while other points address the jurisdictional boundaries drawn around audit (e.g., whether it is an organisational function with social intent or a societal wide function in terms of its reach). Debating the concept is a big topic but an important one that needs to be addressed not by professional closure but professional openness – embracing the potentially expansive scope of a more socially significant audit function, that is not just constructed around notions of checking and inspection but facilitation and development.

<sup>9</sup> In this regard, it is interesting to note that a major (2008) US-based Treasury investigation of the future of audit placed a great deal of emphasis on educational and training processes and the societal representativeness of the auditing profession in terms of its staffing profiles and recruitment processes. A couple of illustrative quotes from its final report also demonstrate the clear connections drawn between societal well-being and audit, albeit for the current form of audit:

“We accepted the challenge of chairing this Committee because we believed in the vital importance of auditing as a profession for the health of our markets and our economy, and, in a certain respect, the well-being of our society. The role of the auditor is noble. Yet, the prestige of the profession is understated. It is our sincere desire that the reputation of the profession will grow as recommendations made by this Committee are implemented and as the profession competes vigorously for a greater share of the best talent. Confidence in the content of information of all kinds is necessary for a complex society to function and many play a role. The rule of law, and a free and independent press are key structures in developing that confidence. So too is a strong and transparent auditing profession insofar as confidence in our economic enterprises and markets is concerned.

A desired outcome is an environment in which savings can be invested with confidence, but the more important outcome is that we can live our economic lives relatively free of suspicion and mistrust about the bedrock of our infrastructure of investor safeguards. Investment risk will always exist, and that is as it should be. The pursuit of higher returns involves greater risk and our markets consistently produce winners and losers. But, investors should have confidence that our infrastructure, including audits of public companies, is fundamentally fair and functioning effectively. (Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury, October 2008, p. II.6, <https://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf>)”

function, but are potentially assigned a heightened degree of focus by broadening the conception of audit beyond assurance). For instance, do you constrain the provision of audit to a particular professional group or broaden it? What are the technical and reputational benefits of a function being associated with a certain form of expertise and associated professional and ethical training processes, included legally mandated services such as taxation and registrar work)? Or do contemporary 'going concern' assessments rooted in assessments of the overall social sustainability of a particular business demand a whole new (and broader) set of skills, competencies, mind-sets and ways of thinking that are more evidently prominent in other disciplinary backgrounds? Technology is an evidently critical issue here, both in terms of changing the delivery of current auditing services and enabling the provision of new forms of audit. There are communication issues and responsibilities to discuss in terms of who/what gives auditors the licence, authority and requisite expertise to 'call out' companies for being unethical, incompetent or in trouble and the extent to which any such 'call outs' are public or private, punitive or enabling? There is also a debate to be had over the extent to which audits of the future are organizationally based or have a broader social focus and remit - social audits, for example, do not have to be centred on individual organizations?

Such a scale of questioning immediately invites impracticability concerns but this would be to miss the main point (as well as forgetting that the current auditing system would appear not to be working to best effect). The primary purpose at this stage is not so much as to provide a whole range of specific, ready-tested solutions but to deliver one very important result – namely, to engender different conceptual thinking about audit and to break free of the shackles of just one dominant way of looking at audit – as this serves to constrain so much. The antithesis to the notion of 'an audit is an audit' is to say that each audit is special and distinctive...and the more valuable for it. Can we move from privileging the consistency of process to privileging the substantiveness of impact?

If different forms of audit can produce a fairer and more sustainable society than we have under the current pursuit of consistently applied audits of one particular form, then that is a result worth pursuing, or at least thinking about more deeply. It could almost be held out as one of the defining characteristics of being professional – of continually reinvigorating the professional space within which the auditing function operates and is constructed; a space that could involve not just new functional priorities and obligations, but new players (not just the same, but smaller, audit firms) from different backgrounds and having fresh outlooks, even with potentially very different professional - accounting - qualifications.

### **A global stimulus - Invigorated thinking and embracing the social**

It is also important to remember that ideas travel easier and faster than context specific reforms – as institutional frameworks still vary around the world, it is unlikely that UK-based reforms will be directly and unanimously copied in other jurisdictions. But new ideas and thinking can unambiguously take hold and transfer quickly from one jurisdiction to another – so a UK-based review of the future of audit has arguably more chance of being globally significant if it gives the world a new way of thinking about audit and then lets the world embrace it in ways that (differentially) seem fit. There is, ultimately, a big space for both debate and action between the extremes of 'that is not audit' and 'this is what we do but I realise it may not make any obvious or immediate sense to you'.

The notion of building better businesses is also something directly pertinent to the accounting profession itself - continuing some of the above discussion themes, it could be contemplated

that as a society we need ‘better’ accounting firms and the above reforming approach could offer a number of invigorating possibilities.

The auditing profession has long claimed that it recruits the ‘brightest and the best’ but has recently expressed concerns that it is no longer doing this, particularly in the audit arena. The accounting profession has a minimal presence in schools and educationally, even at ‘A’ level, accounting is seen as a purely technical subject. Broadening the role and social significance of auditing could make it more attractive to younger generations who see the world through a very different lens compared to their elders. For instance, what impact would it have if the audit focus shifted from analysing respective responsibilities when a company collapses to one of demonstrating and illustrating the auditors’ contribution to the success of the company? If the desire is for better companies then an important audit story is explaining what the auditors did to make them better?

It also confronts an evident paradox in the profession’s current make-up – which sees it steering clear of taking political stances on and venturing explicit comment on matters such as rising levels of social inequality or the need to reform the gig economy but acting in very evidently political fashion when lobbying, for example, against proposed audit or regulatory reforms<sup>10</sup>. As Rachel Reeves, chair of the BEIS Select Committee, noted when launching her committee’s report on the Future of Audit at the ICAEW, this had been an investigation during which she had been subjected to the highest level of lobbying in her political career. The scale of political lobbying by the accounting profession is also readily evident in the recent book on the Big Four by Richard Brooks and in various papers by academic researchers<sup>11</sup>. From such a position, giving audit a broader scope and spirit is less dramatic a switch than it may seem at first sight, as it is essentially moving politics away from being buried in backroom dealings and behind-the-scenes lobbying and, instead, placing it centre stage, with a potentially more productive purpose – allowing the profession to be more outspoken and willing to engage with a broader range of social issues; opening up the world of audit to more opinions and views, helping to break free of stereotypical, abstracted representations of the current value of audit. We keep getting told and assured that the current audit is such a valuable function but, when put under the glare of publicity and public investigation, whether fairly or not, it seldom looks this way and auditors, as we have seen in the UK recently, can get caught in double-speak and contradiction, spending more time talking generically and hypothetically about what audit can do or stressing what is not and cannot be audit.

### **Connecting with the ‘lived’, professional, regulated and commercial realities of practice**

Such a reframing of audit encourages analysis to move beyond the basic or routine ‘usual focal points’ of future of the audit investigations as it concentrates attention on alternative conceptions of audit rather than alternative applications of the same (old) concept. It also invites consideration and contemplation of the potential catalytic impact that such alternative conceptions of audit could have on the institutional functions served by different key stakeholders and players in the audit arena and the implications for the broader exercising of corporate responsibilities and governance thereof.

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<sup>10</sup> Humphrey, Loft and Woods (Accounting, Organizations and Society, 2009) analysed the interactions between large audit firms, the International Federation of Accountants (IFAC) and other international regulators.

<sup>11</sup> For example, see Thornburg and Roberts (Accounting, Organizations and Society, 2008); Sikka (Accounting, Auditing and Accountability Journal, 2008)



It is also important for such discussion to be connected closely with detailed, empirical assessments and analysis of what it is really like to be an auditor at the grass roots, front-end service delivery level (whether they be partners or more junior staff as they will all have stories to tell. Our own informal engagement with practitioners over recent months has proved useful and informative, although it does depend heavily on there being a decent level of frank talking and not generic public-speak or talking from an ‘official’ script. We have found that people will talk if questions are phrased in a fashion that is challenging but balanced and informed. As indicated earlier, a very effective type of question has been to ask how audit teams are treated by client company management when on site – and even to ask the same questions to client company management. Who welcomes the auditors’ presence on site? Who actively seeks them out? Who wants to engage with them and learn from their work? Has anyone ever gone away saying that was the best piece of audit work that they had ever seen? Once you get beyond the formal talk and generic introductions, there is a lot of angst and heartfelt sentiments, if not disappointment, frustration, stress, even a ‘culture of fear’. Reference was made above to the high salaries of audit partners, but there are good numbers of staff at mid-career points who are far less remunerated but bearing the brunt of operational pressures. Despite the claimed commercial success of the firms, we have spoken to audit staff who make reference to declining margins and pressures to cut audit fees, reflecting a lack of appreciation of the relevance and usefulness of audit work to both client company management and stakeholders. In terms of operational engagement, we would also recommend talking to those who have left the profession (or the professional audit practice domain) and finding out why? Also to those who have remained in practice and find out how they see themselves as different to those who didn’t and what they did differently? Similarly, talking to those who have long inspected and assessed the nature and quality of audit work could reveal quite a good deal above and beyond what has been said more formally in annual inspection reports. We have also encountered a concern with the public stances being taken by firms and professional bodies and whether the profession as a whole should be stronger in its resistance to further regulation and to be less ‘masochistic’ in its willingness to accept criticism and punishment. Some do see the existence of the Review as an acknowledgement of failure on the part of the profession and that it is the profession who should be providing the answers that it is hoped that the Review will bring. Understanding this operating environment and the associated cultural considerations is an important part of constructing the future of audit, especially if it helps to move away from high level, idealistic representations of what is and what is being achieved by audit.

The same holds around the issue of standards and the role of regulation – as was said earlier a strong profession should not need a strong regulator and should be capable of setting its own standards and complying with them. The rise of standards has now become a very accepted component of professional life but it is possible to make the case that it is a major source of deprofessionalisation and that ‘real life’ engagement with operational auditors will expose a number of myths associated with the role of formal auditing standards and challenge their impact. The recent expectations gap report by the ACCA (2019)<sup>12</sup> visibly reflected the scale of deprofessionalisation when failing to provide any view as to what the profession thinks should be the future of audit but represents an ‘evolution gap’ as the need for the profession to respond to what the public wants. Ironically, it seemed to suggest that there is no independent professional vision of what an audit should be!

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<sup>12</sup> [https://www.accaglobal.com/content/dam/ACCA\\_Global/professional-insights/Expectation-gap/pi-closing-expectation-gap-audit.pdf](https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Expectation-gap/pi-closing-expectation-gap-audit.pdf)

## Better business, better audit business

A third dimension with respect to the lived realities of audit life within accounting firms is to move beyond attempts to enhance the visibility and transparency of audit work and the suitability of training and professional learning and development processes to seeking more transparency regarding the economics of the audit ‘market’. We talk a lot about the audit market and the need for it to be more competitive but we tend to focus on the need to introduce new entrants and concentrate less on how profitable the audit market is and how financially sustainable it is – and what is a fair and socially just ‘audit fee’ and associated remuneration levels for audit staff. Ironically, we should have far better financial disclosure on the part of audit firms (their transparency reports contain very limited financial disclosures), especially given their role as the public guardians of business and markets (and this is not a new call<sup>13</sup>). We need to be discussing audit fees and salary levels in relation to notions of social value – and to recognise that the employment market for auditing could look very different if the job and the profession were defined in an alternative or reasserted fashion. We need to be analysing and learning more about the status of the audit ‘business’ within the Big firms and not just pushing for its formal separation. We need to know more about the financial nature and sustainability of this business. If the pursuit of better businesses is to be a clarion call for audit, it is something that has to apply to the ‘business’ of audit within professional firms and also to the contributions made here by professional accounting bodies in setting the lead for professional firms (members) to follow.

Ultimately, if business is the fundamental problem and the primary goal determined to be one of developing more responsible, sustainable and overall better business, this is not something that just rests on and can be fixed purely through audit reform. But a certain type of audit reform can have a catalytic effect if the spirit of such reform is embodied by a commitment to better business, both within audit and the businesses subject to or interacting with audit. The opportunity is there to address the diminishing professional degrees of freedom in the audit arena but in a way that is socially productive. This requires attention to be devoted to three core areas: (1) the concept of audit and its relationship with socially sustainable business; (2) the relationship between standards, regulation and markets and impact on notions of audit professionalism; (3) the commercial realities of the audit business and the lived experiences of auditors (and audit stakeholders, even ‘disrupters’, but with a critical emphasis on understanding the ‘hidden’ world of audit practice and its developing undercurrents). It is a subject the auditing profession should be embracing and not outsourcing to or relying on others to develop. Debate in auditing is frequently tinged with a sense of *déjà vu*, even cynicism that change is inevitably difficult to secure. However, it could just be that the present constellation of factors in play makes this a special moment and opportunity – and the Review can provide the stimulus for something that, in the past, has only been imagined (or not even imagined!). But all of this has to be premised on, and grounded in, a strong conceptual re-thinking of audit.

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<sup>13</sup> The 2008 Treasury study in the US noted: “The largest auditing firms play a vital role in ensuring the integrity of our capital markets and fairness requires that if a handful of these firms dominate the public company audit market, they should be transparent and provide a level of financial reporting that is generally comparable to that of the public companies they audit. We would encourage the largest firms to do so voluntarily, but if that step does not occur, we would have the PCAOB determine the effective date and precise content of such public reports and disclosures. (Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury, October 2008, p. II.9, <https://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf>)”