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FOREWORD

In 2013 ICAS and the UK Financial Reporting Council (FRC) commissioned two international teams of researchers to investigate what mix of attributes, competencies, professional skills and qualities need to be combined in an audit team in order for it to perform a high quality public interest audit in a modern and complex global business environment.

This team from the University of Manchester; ESSEC Business School; and the University of Aston explore the views of key audit stakeholders to address this crucial question. The study was based on focus group discussions in the UK, Belgium, France, Germany and Sweden. The focus groups included audit partners, audit committee members, regulators, users and academics. Other sessions were held with trainee chartered accountants and students.

Rather than a list of specific skills and competencies, what emerged from this research was a bigger constellation of areas of difficulty – or ‘pressure points’ – where the challenges lie for auditors. Eleven pressure points were identified from the research, covering four broad categories: the context of the specific audit engagement; the development of audit personnel; firms as suppliers of audit services; and interactions with stakeholders and society.

The challenge, the researchers say, will not be met by a checklist of skills but rather by more fundamentally considering the ‘functional competence’ of audit and the ‘value proposition’ it offers to business and society. The researchers state that the audit profession has to confront these issues if auditing is to have a sustainable future and be regarded as a valued and relevant function for the demands of the modern 21st century business environment and society. The issues revolve around: making sure that audit is recognised as a skilled, judgemental activity; recruiting and developing suitable audit professionals; and managing the delivery of the audit as a professional service.

ICAS and the FRC welcome the opportunity of collaborating with the researchers on this important global issue. This research has been overseen by a Steering Committee, chaired by Richard Fleck, and the Committee will publish its own report based on the findings of the two research reports and the collective knowledge and experience of the members of the Committee.
The FRC and the Research Committee of ICAS have been pleased to support this project. The views expressed do not necessarily represent those of ICAS or the FRC itself, but we hope that the results will lead to a constructive debate on the future of audit and the skills and competencies which will be required in order to meet that vision.

Allister Wilson
Convener of ICAS Research Committee
March 2016

Stephen Haddrill
FRC Chief Executive
March 2016
ACKNOWLEDGEMENTS

This research depended on participation from a large number of people, representing different occupational and professional backgrounds, and the authors wish to thank all the participants for their willingness to give what in most cases was a significant amount of time to take part in the group discussions on which the research is based. We are particularly grateful to those in countries outside the UK for showing interest in our research and to those who facilitated the contact with communities in different countries and the organisation and hosting of the discussion sessions.

The writing of this report has benefited from comments received from members of the ICAS/FRC Steering Group associated with the project and from participants in the Audit and Assurance Conference, Edinburgh 2015 and the EIASM Audit Quality Conference, Venice 2014 and we are grateful to those who have listened to presentations, read drafts and made suggestions for the development of the report. The authors also wish to record their thanks to Michelle Crickett, ICAS Director of Research, and Angie Wilkie, Research Co-ordinator for their support and assistance throughout the project and to both Michelle and Professor Angus Duff, previously the ICAS Research Adviser, for commenting on drafts of this report.

Finally, the Research Committee and researchers are grateful for the financial support of The Scottish Accountancy Trust for Education and Research (SATER), now known as the ICAS Foundation (charity registered in Scotland SCO34836) and the UK Financial Reporting Council. Without this support the research would not have been possible.
EXECUTIVE SUMMARY

This project was established: to investigate the perceptions of different groups connected to the audit function regarding the key skills and competencies required for auditing; to consider how these views may have changed over time; and, in so doing, to examine differing understandings of the operation and significance of auditing drawn from research participants’ experiences in conducting, observing and reviewing audit practice and receiving audit reports.

In order to collect evidence on these issues, a series of focus group discussions was held across several European cities. The choice of varied European locations was designed to capture a wide range of viewpoints and experiences. Focus group participants included individuals from a variety of relevant backgrounds: audit partners in public practice, audit committee members, users of financial statements, regulators and audit quality inspectors, academics, and early career accountants in public practice.

The approach adopted in this study centres not on defining a specific, defined schedule of skills or a new competency framework for auditors but on discussing the overall competence and sustainability of the audit function. Certain aspects of auditing which demand specific skills or competencies were mentioned. For example, it is possible to identify an emphasis on the need for:

• strong understanding of the audited business and ability to assess business models and identify risks in that business;
• psychological awareness and a range of soft skills around interaction with boards and management;
• project management ability to draw together, apply and assess diverse expertise;
• the ability to make clear judgement calls on significant and sometimes difficult issues and the strength of character to be resilient in applying that professional judgement; and
• technical abilities to deal with accounting issues, valuation models and the scale of ‘big data’ in large, complex and diverse entities.

However, reference to such specific attributes was generally made in the context of establishing broader points about how auditing has been changing and what
influences the effectiveness of the modern audit. Accordingly, the main analysis in this report is summarised with reference to a series of significant ‘pressure points’ for auditor skills and competencies. Eleven such pressure points, discussed in four categories, are identified from the discussions as being of particular importance (both individually and in terms of interactions and tensions between them) for the effectiveness of auditing in the current and likely future environment.

The context of the specific audit engagement

Understanding the complexity of modern business – The auditor’s ability to understand the business is critical for an effective audit function and the complexity and scale of major enterprises together with the technical issues that arise in specific industries place increasing pressure on that understanding.

Accounting complexity – Developments in financial reporting have given rise to concerns that ‘the auditor is no longer the accounting expert’.

Systems complexity – The speed, complexity and remoteness of information processing places considerable pressure for skills to supervise and evaluate analytical work and is changing the nature of what constitutes evidence for audit purposes.

The development of audit personnel

Individual professional judgement and resilience – The ability to exercise professional judgement and possessing ‘soft skills’, such as psychological awareness and courage, are widely seen as critical for auditing, but the routinisation of audit processes and reliance on checklists to ensure compliance with standards can undermine the development of the quality of judgement required.

The development of staff and partners – There is a pressure point for the public practice accountancy firms that undertake audits (hereafter referred to as ‘audit firms’) audit firms concerning how they nurture the development of staff to ensure that it is the best quality auditors who progress to senior positions and partnership. This includes the need to demonstrate the attractiveness of audit as a long-term professional career.
Firms as suppliers of audit services

Recruitment and retention of suitable staff – The loss of attraction of auditing as a destination career, coupled with changes in the conventional model of a broad-based pyramid to firms’ organisational structures places pressure on firm recruitment for ensuring suitably skilled auditors for the future.

The place of audit in multi-service professional firms – As auditing has become a smaller proportion of the revenues of major firms, the skills and attributes associated with quality auditing become less identifiable as defining characteristics of the firms.

Interactions with stakeholders and society

Satisfying the requirements of regulation – While regulation is said to have led to identifiable improvements in audit quality there is also a clear concern that the dominance of a mind-set focused on regulatory compliance is detracting from the development of other important judgemental skills.

Governance contribution – High quality communication with those charged with governance can make a considerable difference to audit effectiveness but the requisite interpersonal skills place additional pressures on audit recruitment and training.

Value to the reporting entity – The capacity for auditors to develop and demonstrate suitable understanding of the entities they audit is advocated as being essential to the development of auditor insight and respect. However, using such knowledge to inform discussions with client management and to provide additional, ‘added value’, services is often seen as a potential threat to auditor independence. Commercial pressures on audit fee margins, regulatory restrictions on auditor-client relationships and the intangible nature of audit quality are all factors capable of being cited as impacting on the ‘value contribution’ of audit.

Communication with stakeholders – Developments in external audit reporting formats have consistently sought to enhance the quality of auditor communications but have persistently failed to quell expressions of concern on the part of external stakeholders. Ongoing developments with more longer-form and free-flowing audit reports are underpinned by formal commitments to reveal more about key auditor judgements and enhance the visibility of the audit process but to succeed, and to
sustain enhanced levels of audit reporting, they will need to break with a lengthy historical precedent.

The collective scale, significance and sheer diversity of the identified pressure points encourage different and deeper ways of thinking about audit within (and without) audit firms and the profession. The space for thought with respect to audit has very often in the past been a constrained one, with a characteristic sense of recycling of key issues and imperatives. However, if the primary challenge concerns the functional competency of the statutory financial audit as a whole rather than a set of specific skills, fundamental re-thinking is needed as to how auditors in their current and likely future institutional working contexts can provide and sustain a service that is of value to, and appreciated by, business and society. Put simply, the ‘auditing’ profession has to ask itself whether the current state of affairs, with respect to auditor education, training and practice is as good as it gets? Is this really the best that can be done?

In seeking to stimulate subsequent debate and development, the report’s principal debating themes provide a powerful starting agenda for enhancing the functional competency of audit. Auditing professionals, policy makers and those on whose behalf the audit is undertaken would do well to confront the following issues and challenges if auditing is to have a sustainable future and be regarded as a valued and high skilled function relevant and appropriate (i.e. ‘competent’) for the demands of the modern, 21st century business environment and broader society.

Conceptualising the audit as a skilled, judgemental activity:

• continue to make more visible the nature and value of the exercise of professional judgement;

• develop a structure for audit skills that extends beyond the construction of normative frameworks of core individual competencies to explicit consideration of the contextual influences on audit practice and the overall competence of the audit function;

• revisit the professional and regulatory emphasis on audit uniformity, typically represented by the notion and insistence that ‘an audit is an audit’, in order to give due recognition to the fundamental, idiosyncratic essence of audit and the acceptability of variation in the ways of meeting/being compliant with ‘standards’.
Recruiting and developing suitable audit professionals:

- ensure that generic recruitment processes in multi-service professional firms sufficiently reflect the necessary attributes that are specific to audit, as distinct from other services;
- enhance the nurturing of the development of relevant disciplinary expertise in ways that prioritise intellectual curiosity and not just technical compliance;
- review the manner in which softer skills (such as psychological awareness and interpersonal capabilities) are developed and assessed through education, training and experience.

Managing the delivery of the audit as a professional service:

- ensure that audit teams exhibit a collective competence that goes beyond the generic standards and skills required of each individual auditor;
- recognise that the overall effectiveness and sustainability of audit depends critically not just on the people employed as auditors but also on the structures within which such auditors work;
- re-assert the importance of auditing and associated skills and competencies to the identities and defining characteristics of professional firms and in relation to professional career development paths.
1. BACKGROUND

The last two decades have seen the external audit function placed under intense public scrutiny, with an associated rise in regulation and oversight. At the same time, debate over the future role of audit continues to be prominent. Major professional bodies across the world, large accountancy firms, regulatory bodies and public policy think tanks have been active in undertaking and commissioning projects to investigate market and broader societal demands for and constraints on the audit function, the future shape of the auditing profession and the broader quality of auditing practice (for some relatively recent examples, see ACCA, 2010; APPC, 2014; AuditFutures/RSA, 2014; FRC, 2006; 2013; ICAS, 2010; Mazars, 2014). Such initiatives reiterate the need for the auditing profession to attract highly competent staff. However, the precise skills sought are relatively unclearly specified, in language such as ‘multi-skilled accountants’ (CPA Canada, 2013) and auditors requiring ‘all-round skills’ (KPMG, 2013), a level of vague generality that persists even with the existence of formal competency frameworks (e.g. ACCA, 2014; AICPA, 1999; see also IFAC, 2003 and Boritz and Carnaghan, 2003 for reviews and discussion of competency based approaches for the professional accounting) and international accounting educational standards (IFAC, 2012; IAESB, 2014; Crawford et al., 2014).

The auditing research literature has consistently emphasised the significance of two principal institutional pressures faced by the profession – the commercial pressures of a globalised business, on the one hand, and the pressure or commitment for audit professionals to work in the wider public interest on the other (see Barrett et al. 2005; Cooper & Robson, 2006; Gendron, 2002; Gendron & Spira, 2010; Humphrey & Moizer, 1990; Humphrey et al., 1992; Malsch & Gendron, 2011; 2013; Mueller et al., 2011). It has also been argued that the advance of so-called ‘organisational professionalism’ (where the content of auditors’ professional work is defined by reference to their employer’s organisational culture) is fast outpacing that of ‘occupational professionalism’ (constructed by reference to general codes of conduct, typically developed by constituents such as professional associations) (Evett, 2011).

Research studies have examined the transformation processes from trainee accountants to entrepreneurially spirited, business-minded audit partners (see Kornberger et al., 2011; Carter & Spence, 2014). The emerging impression is that the content of work performed by senior members of staff of the Big Four audit
firms, is only partly related to notions of technical expertise and standardised professional conduct, and is increasingly defined by one’s social skills and ability ‘to navigate a complex network, judge the positions of others within the network and ensure a continuous flow of information throughout the network’ (Kornberger et al., 2011, p.530). In their examination of career paths of audit firm partners and other senior staff, Spence & Carter (2014, p.959) argue that those staff who ‘embody commercial-professional logics ascend to the top of the organizational hierarchy (partnership) while those who more readily embody technical-professional logics are unlikely to progress beyond director level’, and that such a trend towards promotion of more entrepreneurial skills has gained further momentum in the aftermath of the 2007-08 financial crisis. Indeed, while acknowledging that audit derives its legitimacy from ‘the quality of the probing, independent and sceptical approach’ (p. 8), recent auditor surveys demonstrate that ‘delivering what the market wants’ represents ‘one unifying theme’ in auditors’ discussions of the value of the audit function (KPMG, 2013, p. 8). The existing literature makes it very clear that the nature of professional work, skills and competencies required of a modern-day auditor and the very meaning of what is involved in being a professional is not just an issue of considerable importance but also one where there continues to be real scope for debate (e.g. see Kornberger et al., 2011; Malsch & Gendron, 2013, Carter & Spence, 2014).

This report contributes to these discussions in a critically distinctive way by directly addressing the overall competence and sustainability of the audit function. A typical policy orientation in this field is to pursue an idealised list of core individual skills and to adjust formal, official competency frameworks. However, such approaches rather mask the fact that concerns over auditor skills and competencies go beyond the level of the individual and reflect deeper, fundamental questions regarding the social role and significance of audit. Accordingly, the report is presented in a fashion that centres on the overall functional competence of audit. Further, just as audit technologies and audit fields are seen to be co-constructed, in the sense that the content of audit practice is inherently connected to, and interacts with, the context in which such practice is undertaken, (see Robson et al., 2007), the report is premised on the importance of recognising that transformative change in the day-to-day working environment of auditors can be driven both by changes in the philosophy, culture, structures and practices of individual audit firms and also by shifts in the broader institutional arena in which audit is situated. Thus, what stand as core competencies depend both on prevailing attitudes within firms and also on audit market conditions and associated regulatory arrangements seeking to ensure that practice is consistent with societal demands and expectations.
The data used in this study has been collected directly from a series of focus group discussions with a range of stakeholders including partners in accounting firms, audit committee members, regulators and early career accountants from public practice. The participants have given their views on the important characteristics of a successful audit and the competencies and skills required of audit staff. Instead of using these viewpoints simply to generate a long list of desired individual skills and competencies, the comments have been organised or collated around what can be classified as a series of major ‘pressure points’ that directly shape or influence the overall competency of the audit function. The report details these pressure points and assesses their significance for the current status of the audit, its future development and its longer term sustainability. In summary, the report makes it very clear that the overall effectiveness and sustainability of audit depends critically not just on the people employed as auditors but also on the organisations and contexts within which such auditors work. In contemplating the skills and competencies associated with contemporary audit practice and the implications for the role and future development of the auditing function, the report encourages more intellectually informed ways of thinking about both the practice environment and the demands and obligations placed on the auditing profession.
2. RESEARCH APPROACH

The study employed a qualitative research approach to examine how understandings of the competency of audit have changed over time and identify key competency gaps and opportunities for development. The focus group method was chosen (Krueger and Casey, 2000) in order to stimulate good interaction and discussion between research participants, whilst also capturing a wide range of viewpoints from a range of countries and from those at differing stages of their career. This provided a valuable dynamic in terms of enabling a rounded discussion and assessment of the pertinence of different beliefs, opinions and reported experiences regarding audit practice, the way it has developed over time and the extent of variation arising from different firm structures and contexts.

An initial pilot group session was held in Cambridge to establish the viability of the method and to refine the protocol for use in the subsequent sessions. This was followed by further focus group sessions held in six locations: Brussels, Dusseldorf, Edinburgh, London, Paris and Stockholm. These focus groups were made up of a mix of auditors in practice, staff working for professional institutes, audit regulators and inspectors, investors and investment managers, corporate managers and auditing academics. In the case of the Brussels and Stockholm events the discussions involved two meetings with different participants. In addition, two focus groups with students and trainee chartered accountants were held in Birmingham and Edinburgh.

The choice of varied European locations was designed to capture a wide range of viewpoints and experiences. For each focus group meeting, the intent was to encourage frank and free-flowing discussion. This typically meant that the size of each focus group was relatively small, although logistical matters did lead to two focus groups having larger numbers. There was variation in degrees of experience both within and across the focus groups, with some bringing together highly experienced auditors, or just newcomers to the profession, or recently retired senior audit partners.
Table 1 - Focus group schedule

<table>
<thead>
<tr>
<th>City</th>
<th>Number of participants</th>
<th>Represented participant groupings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge (pilot)</td>
<td>25</td>
<td>Academics, Partners in Big 4 audit firms, Regulators</td>
</tr>
<tr>
<td>Paris</td>
<td>11</td>
<td>Partners in Big 4 audit firms, Partners in non-Big 4 audit firms, Professional institutes, Regulators</td>
</tr>
<tr>
<td>Stockholm</td>
<td>39</td>
<td>Academics, Partners in Big 4 audit firms, Investors, Partners in non-Big 4 audit firms, Professional institutes</td>
</tr>
<tr>
<td>London</td>
<td>13</td>
<td>Partners in Big 4 audit firms, Partners in non-Big 4 audit firms, Investors, Professional institutes, Regulators</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>10</td>
<td>Corporate managers, Investors, Partners in Big 4 audit firms, Public sector auditors, Regulators</td>
</tr>
<tr>
<td>Brussels</td>
<td>9</td>
<td>Academics, Corporate managers, Partners in Big 4 audit firms, Professional institutes</td>
</tr>
<tr>
<td>Dusseldorf</td>
<td>8</td>
<td>Partners in Big 4 audit firms, Partners in non-Big 4 audit firms, Professional institutes</td>
</tr>
<tr>
<td>Student and trainee chartered accountants</td>
<td></td>
<td>Students on placement with audit firms</td>
</tr>
<tr>
<td>Birmingham</td>
<td>6</td>
<td>Trainee and early career chartered accountants</td>
</tr>
<tr>
<td>Edinburgh (2)</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>
The task of identifying suitable participants and persuading them to attend proved to be more difficult than originally anticipated and it was not possible to arrange precisely equivalent representation of different interests for each focus group. Coupled with variation in the scale of coverage across countries (e.g. more focus groups were held in the UK), this made infeasible any detailed cross-national comparison. That said, while having focus groups from a number of European locations broadened the range of voices represented in the study, there was considerable consistency in the main themes and issues highlighted by participants.

The focus group discussions concentrated on the processes, skills and competencies required to ensure a consistent, high quality audit function. At the beginning of the discussion, the nature of the research study and its primary motivations and context were explained. Participants were assured that their anonymity would be respected, and, where permission was granted, the discussions were recorded and/or detailed notes taken by one or more of the research team. Individuals were usually asked to introduce themselves and to summarise what particularly interested them in terms of the project. A series of questions were then used to trigger and stimulate debate following a protocol agenda developed by the research team in advance (see Appendix 1). The questions covered four main areas: changes and developments in auditing and their significance; key skills and competencies; factors encouraging and promoting (or hindering) the development of such skills and competencies (including interaction with regulation); and innovation and future opportunities and challenges. The purpose of the questions was to prompt initial ideas and provoke response, with the aim that the discussion would then become self-stimulating. The role of the project team members attending each focus group meeting was to chair and manage the discussion in order to ensure that adequate time was devoted to anticipated pertinent topics, that as many voices as possible were heard, and that major emerging thematic issues were developed to their maximum capacity and not left partially discussed. The level of interaction between the research team and focus group participants was active but subtle. As far as possible, a common approach and consistent coverage of topics was applied across the focus groups, while allowing the detailed content to be quite participant-led, including giving participants plenty of space to broach subjects that they considered to be particularly relevant. Overall, the adopted approach helped to elicit genuine, heartfelt perceptions and viewpoints rather than standardised responses to a predetermined and potentially constrained set of questions. It also meant that the reported experiences considered in this report can legitimately be regarded as being ‘experience led’ and neither abstract nor hypothetical. The focus groups varied both in length (from
Inevitably, the progress of discussion in each focus group session had its own dynamic, although the researchers chairing the sessions sought to ensure coverage of all the issues in the agreed protocol. As with all studies that rely on data reflecting the perceptions and views of individuals expressed in their own words, there is also a potential limitation that individuals may seek to represent a view of the world or a set of issues for particular purposes or because they perceive that an undisclosed agenda lies behind the object of the research, although again considerable efforts were made to establish an atmosphere for the discussions that would engender a free and open exchange of views.

Analysis of the group discussions was facilitated by the fact that the project team maintained a good degree of continuing presence across each session, with senior members of the research team attending and leading multiple sessions. Summaries of each focus group meeting were prepared shortly after each session and shared among the project team. Both actions enabled common and important themes to be developed in a clear and substantive fashion. Recordings of focus group sessions were transcribed and subsequently actively read and analysed. In analysing the material generated from the focus groups, the overall aim was to understand the meaning and significance that participants were attaching to different audit skills and competencies and what their observations and assessments meant in terms of the overall functional competency and sustainability of audit. In doing so, the emphasis on the pressures confronting auditing and the selection of specific pressure points as a structure for presenting the results of the study were not predetermined. Rather they arose from listening to the discussions and from a re-reading of the comments made. At a first level of analysis, possibly due to the fact that most focus groups comprised senior and experienced individuals from a variety of backgrounds, the dominant tenor of the discussions was on the functional competence of audit and what promotes good auditing, rather than on individual lines or elements in a competency framework. At a second level of analysis, the character of much of the discussion was seen to focus on why auditing might not be operating as effectively as it could and the barriers and developments that have inhibited its effectiveness. Collectively, this highlighted the significance of functional, institutional and environmental factors enhancing or constraining the quality of audit and gave rise to the report being structured around a series of critical situational factors or ‘pressure points’ – where the demands of
the audit task, perspectives on its role and scope and reported experiences gave rise to fundamental sources of pressure, challenge and opportunity regarding the organisation, management and delivery of auditing. The next chapter of the report identifies and explores the main pressure points which emerged from the focus group discussions.
3. ANALYSIS AND DISCUSSION

This section presents the main analysis of the evidence on the overall competence of the audit function provided by the comments collected from the focus group discussions. As noted earlier in describing the conduct of the group meetings, such discussions predominantly centred on what participants saw as necessary for auditing to offer a valuable contribution to business and society, and, accordingly, this chapter concentrates on delineating the factors and forces regarded as influential in shaping the ability of the audit to deliver such a contribution. While reference is made to particular attributes and areas of skill, the approach does not seek to define a comprehensive schedule of specific, required individual abilities. Rather the discussion is organised around eleven situational factors which are described as fundamental ‘pressure points’ on the overall competency of audit. As described in the previous section, these factors were identified from the discussions as having particular importance for the effectiveness of auditing in the current and likely future environment. The structure and set of issues used to present the findings in this chapter are therefore interpretive and reflective and the study is presented in that spirit.

Figure 1 provides a summary framework in which the eleven pressure points are organised into four categories representing the broad areas of pressure on the provision of audits at the desired level of skill and competency.

• The context of the specific audit engagement

There are a number of important pressure points that arise out of the context of the individual audit engagement and the way in which these are manifest can vary between sectors and clients. In essence, an effective audit contribution depends on the manner in and extent to which the audit addresses the context of the audited entity itself.

• The development of audit personnel

This refers to pressure points related to the capacity of firms to develop a sufficient cohort of suitably trained and qualified staff with the necessary attributes to deliver a successful audit function. Critical here is both the notion of professional judgement and how such judgement is developed.
• **Firms as suppliers of audit services**

Some pressure points relate specifically to the nature and functioning of professional firms, both as mechanisms through which the audit is delivered and the broader context within which auditors apply and refine their skills and competencies. The pressure points addressed here refer mainly to existing firm structures and experiences with such structures.³

• **Interaction with stakeholders and society**

There are several pressure points which concern the ways in which auditors understand their role and communicate to stakeholders and broader society regarding the expected contribution of the audit. In part, consideration of such pressure points returns to the basic and long-standing issue of audit expectations and the sheer difficulty of meaningfully discussing the skills and competencies required for audit without first considering the nature and role of the audit itself. What is expected from the audit function and the requisite skills and competencies of auditors are inevitably intertwined and this was apparent in the manner in which focus group participants frequently moved from discussing auditor attributes to broader comments about the role of the audit.

Figure 1 - Pressure points on auditor skills and competencies

![Figure 1 - Pressure points on auditor skills and competencies](image-url)
Each of the individual pressure points included in Figure 1 is discussed in the next section. Although they are considered under the four categories, it is important to emphasise that neither the four categories nor the individual pressure points are regarded as being entirely independent or discrete. Rather it is better to view the entire picture as a representation of what was referred in one of the focus groups as ‘the ecology of audit’ (also see Mennicken, 2009), in which key issues arise as much from the interactions and tensions between factors as from the individual pressures points alone. It is these interactions and tensions which lend a sense of the dynamic to the development of the audit ecology and which are most relevant to the potential for a valued contribution from auditing in the future.

The volume of data collected through the total hours of discussion in the focus group meetings is extensive and inevitably only a selection of that evidence can be reported. In the discussion which follows, each pressure point is introduced with a number of quotes from the focus group participants to illustrate the evidence base giving rise to the identification of the pressure point, followed by analysis of the understanding expressed in the focus groups as to why something is a source of pressure on audit competence. Some additional short quotations are also used within the narrative to communicate ideas of particular significance that were expressed in the participants’ comments.

The context of the specific audit engagement

Understanding the complexity of modern business

Figure 2 - Illustrative comments on the impact of business complexity on requisite auditor skills

Business has become exponentially more complex and that obviously has a huge impact, a huge impact on audit.

I think understanding the business is different. I think it’s that fascination about how does this industry work and how does this firm in this industry work.

Somebody comes along to review the file from outside it looks perfect but no-one has understood what’s going on.
But equally when you’re making judgements you can only make good judgements if you understand the business and you can only understand the business if you get out and about and you talk to people and that to me is all part of you visiting the client, it’s all part of making that planning process a much better process.

One of the pictures … was the audit team in the audit room. And there they were, 11 of them around the table with their laptops and that was their audit. And I said to her you know when I was doing an audit that room would have been empty because we’d all be out on the floor asking questions, finding out how the business works and you know, looking people in the face and finding out about it. Now partly because they’re worried about the legal repercussions they email somebody in the next room asking them a question, to make sure that there’s an audit trail so that they can email it back again the next day and give them the answer.

That’s what bothers me about … if I’m honest, of all the things that worries me at the moment is we take relatively young people, we put them in a big team, we expect them to follow a methodology which I understand why … and then through that methodology they’re expected to validate something that … actually is a rather important issue. And I just struggle with that fact.

I was for my sins Head of Audit Technical at … for 12 years and people would come to me and say ‘Well the software is telling me X’ and I’d say ‘I don’t care what the software is telling you; what is the business and your understanding of the business telling you?’

One pressure point that is universally seen as being of critical importance for the delivery of high quality audits is the manner in which general auditing expertise is combined with other sectoral or industry specific expertise in order to address reporting and other business risks specific to the audited entity. Broadly speaking this emphasis is captured in the idea of the need for auditors to ‘understand the business’ and this was frequently referred to by participants in the focus groups as fundamental for effective auditing. This emphasis on understanding the business is not new; it was implicit in auditing before many of the processes and steps became formalised and codified in structured audit approaches; and firm methodologies and
Standards, from at least the 1980’s onwards, have emphasised the importance of this understanding. The reason that the need for business understanding can be considered a pressure point on auditor skills and competencies involves a number of factors that were cited by participants in the focus groups.

- First, simply put, businesses and business models are more complex than they were even one or two decades ago. This is not universally the case for all audit clients, but it is a predominant trend as companies engage in more platforms of activity with a greater diversity of contractual partners and often employ more complex financial structures.

- Second, major enterprises are also bigger and the audit of large, global corporations presents considerable challenges for the auditor. A consequence of size is that the audit can become more remote from the corporation’s operational activities, such that auditors become reliant on increasingly indirect access to parts of the corporation but still have to formulate a considered understanding of the business.

- Third, in many audits there are critical issues that are specific to the client and/or the client’s industrial sector and may require considerable technical awareness and expertise. Examples include the nature of expertise that is required in order to audit natural reserves in the extractive industries or the assets (and potential liabilities) generated through research in the pharmaceutical and bio-medical sectors.

The complexity of business raises some interesting challenges in terms of the way in which the audit is delivered and specialist audit staff are developed. As posed in some of the focus groups, the question is: is it better to recruit a field expert with the relevant technical and scientific background and train them to approach the issues from an audit perspective or for those who have the necessary audit perspective to be equipped to deal better with the technical demands of the industry? Views on this issue varied among participants in the focus groups. Some took the view that there is a danger that the auditor as an ‘industry amateur’ might miss key issues or risks, while others held that purely industrial experts are likely to identify issues but without an appreciation of whether or not they have audit significance. What does appear to be the generally accepted position is that, whichever way the audit is organised, a capacity to identify and understand the business issues is of critical importance for effective auditing and that this is source of increasing pressure in the delivery of audit services. Audit firms already make extensive use of industry experts and a consequence is that a key skill for the successful auditor is being able to evaluate the adequacy of the work of those
technical experts. A consequential factor arising from the complexity of business is the extent to which the audit needs to be, as described by one participant, ‘tailor made’, allowing discrimination between the needs and demands of different businesses, rather than constrained by a universally applied template.

An interesting further dimension of the requisite breadth of expertise to be incorporated in complex audits is the idea that a characteristic of the effective auditor is of acting as a ‘project manager’. Thus, the lead auditor need not have all the expertise personally, but must know how to organise the relevant contributions, evaluate how they are being delivered and draw the outcomes together as a basis for reporting and the delivery of an audit opinion. The scale and complexity of major modern businesses and the consequent effects on the audit of those organisations means that more generic, project management skills have become an important component of the audit.

**Accounting complexity**

**Figure 3 - Illustrative comments on the impact of accounting complexity on requisite auditor skills**

The accounting is the language that you’re using I think, it’s the language that the auditor is using to communicate to say, yeah, things are okay here or you know, we’ve got problems or whatever. So I think you’ve got to really understand the accounting. I think the trouble with the accounting, like the auditing, is that it’s got too complicated and too complex for the listener. So you’ve got some very, very bright people trying to use a language which is you know, foreign to the average listener and that’s where we’re losing the battle.

And I think accounting standards have also changed and taken judgement away from people and it’s become much more formulaic. So as a finance director you’d say ‘But this feels right’ but I know IFRS now tells you you’ve got to go this way.

I was having a conversation with a colleague in Paris recently about accounting and auditing and for accounting issues you go and talk to the National Office and you say ... whoever the technical department is and say we’ve got this situation, I think you know this makes sense but you know, talk me through the ... because they’ve seen more of it and you’re actually calling upon their experience.

Basic understanding of bookkeeping seems to have gone.

The relationship between the required skills and competencies for auditors and accounting knowledge and expertise was reflected in two types of comments from
the focus group participants.

The first aspect concerns the view that the continued development and complexity of accounting standards has made auditing more difficult. In part this reflects the volume of standards, but it also concerns the impact of standards on the nature of the financial information subject to audit. The view was expressed that the increased use of valuations and estimates and the impact of fair value measurements has meant that more of the critical numbers in the financial statements were of the form where more than one plausible outcome existed. If client management proposed an approach that appeared to be consistent with standards it was seen to be more difficult for auditors to argue for an alternative treatment.

The second aspect is reflected in the view advanced by some participants that developments in accounting have to some extent left many auditors behind. Comments such as ‘the auditor is no longer the accounting expert’ and that company personnel often have greater expertise relevant to the application of accounting standards in the context of the specific business than the auditor reflect a concern that client management are more able to bring forward arguments and rationalisations that put pressure on auditor judgement and that there is a need for the auditor’s accounting expertise to be sufficient to respond to that pressure.

An issue to consider here is how adequate accounting expertise on the part of auditors is being developed or needs to be developed. For example, some participants argued that the breadth of material that is to be covered in order for professional auditors to maintain their expertise and keep up to date is extensive, while the available training space to support such continuing professional development is limited. In contrast, participants in one focus group placed considerable emphasis on the importance of technical development of graduate recruits through university education. It was argued here that there is a role for university programmes to give a strong theoretical and technical basis for those entering the profession and that it was difficult to rely on professional training and examination alone for such a provision. However, placing emphasis on demonstrating technical accounting expertise prior to recruitment would involve a major adjustment in an environment such as the UK, both from the professional firms, to place greater value on university training and the consequent routes and hurdles for entry to the profession, and from universities, who have not placed primary emphasis on detailed technical accounting skills as a core outcome of degree programmes.
It is noteworthy that when asked to name specific key skills and competencies that are most defining or important for high quality auditing, many participants did not immediately refer to accounting and auditing expertise as such. One exchange of comments between two participants indicates somewhat divergent views: ‘I think in a way I would argue that too much accounting knowledge makes you a worse auditor’ – ‘Well to me I think accounting is still a core skill because …’ More commonly participants referred to soft skills, using terms like communication, integrity, interpersonal skills, courage etc. It is possible that this emphasis is because the base of technical competence is assumed, and, in one group, when pressed about a lack of emphasis on accounting skills the comment was made ‘we think that’s a given’ but the observation remains that ensuring suitable technical accounting competence is a pressure point for effective auditing in the modern environment. Audit teams need to incorporate the skills to determine if ‘the accounting is right or wrong’.

**Systems complexity**

**Figure 4 - Illustrative comments on the impact of systems complexity on requisite auditor skills**

I think if I was thinking about the significant changes in audit I’d step back to the fundamental change in how businesses and business processes were run from the IT change. Because that fundamentally changed the financial reporting process, that fundamentally changed what could go wrong, it fundamentally changed what you needed to do to do an audit. I think that’s much more pervasive than the tools we’re using, the tools we’re using yes are important but business is involved in change.

If I go back 20 years or even more than that when I started, we tended to do a lot more work on systems and controls and the nitty-gritty of things than auditors do now. And I think with the growth in importance of the internal audit profession, companies have pushed back on a lot of this work.

For example we designed this [the audit] in the days before computers, we designed this in the days when most people’s arithmetical skills were not great, we designed it at a time when people actually added things up and gave comfort that it was all being done properly. The reality is in the modern day and age the integrity of the control system and the choice of accounting policies, or the act of deciding what’s the right ones, combined with the validation that judgements
have been made on a sensible basis, combined lastly with risk analysis, are the things that actually define the credibility of the numbers. Because if the controls aren’t right, the product of the systems is not reliable. If you don’t understand the risks, you don’t understand what you should be checking.

If the technology isn’t working, you’re not going to have a clue whether or not the numbers are right. And the technology ... then the other issues are all the complexity of the financial modelling and God knows what else that underpins it. Does everybody have the right skills in the team ... because at the end of the day, most of the problems are attributable to control issues or understanding issues.

Developments in business systems, the speed and nature of processing and the complexity of associated controls gave rise to a number of comments on the requisite skills and competencies for effective auditing.

The volume, speed and remoteness of processing have an impact on how the audit evidence process itself is constructed and conducted. One emerging trend is for the development of data analytics as an important tool in the conduct of the audit. It was commented that this kind of analysis is increasingly of generic relevance but relies on expertise which has been located in specialist functions in the audit firms rather than something expected of all auditors. Consequently a potential pressure exists regarding access to the appropriate level of analytical skills, both for the understanding of complex information systems and for the design and interpretation of suitable analytical tests. A related consequence of the nature of modern business information systems is the development of the audit firms own data centres, normally located ‘off-shore’, as a means of undertaking routinised audit procedures and analysis. The pressure on understanding and judgement may be increased when such procedures are undertaken remotely.

At a fundamental level, the nature of information processing in modern businesses can give rise to a basic issue about what constitutes audit evidence. A considerable aspect of the way in which audit methodology has developed over time has been how inference is incorporated into the collection and evaluation of evidence, for example, statistical inference from a sample to a population, inference from the existence of controls to the risk of error in system outputs and inference from the quality of high level management control to the risk of misreporting. It is important
that audit staff at all levels do not view the audit simply as the completion of a series of predetermined procedures and separate tests but have a strong understanding of the nature of audit evidence and the rationales that underlie the work that is being undertaken. This is illustrated by a participant’s comment that if asked to explain why a particular sample size or sampling approach is being applied, few staff would be able to make any connection to underlying ideas about sampling, probability etc.

The increased complexity of modern business information systems, coupled with the demands for efficient evidence collection and consequently a high reliance on those systems, creates an evident pressure point for auditors. They need to have a highly developed understanding of the nature of evidence provided by particular procedures to investigate and test the systems, and therefore of the audit conclusions that are warranted and, importantly, the conclusions that cannot be drawn from different types of testing. Such a practice context places considerable pressure on supervision skills to instil critical evidential values in junior staff and to ensure appropriate interpretation, assessment and communication of the results and significance of audit work.

The development of audit personnel

*Individual professional judgement and resilience*

*Figure 5 - Illustrative comments on the need for professional judgement and resilience*

*I think everything in the last 20 years that I’ve seen is starting to take judgement away from people because you’re scared of making a judgement and saying no I’m not going to fill those boxes in because someone comes in afterwards and says you haven’t filled the boxes in.*

*Well I mean I think investors have a concern about audit quality and the fact that there’s no evidence to us as to what judgements are exercised.*

*I think industrialised documentation of the audit ... took the thinking out of auditors to a certain extent.*

*I think one of the problems firms get into is when people are taught how to use the software, this is presented as the firm’s audit methodology and really it’s just how to use the software. It’s not this is how we audit, it’s this is how you fill in lots of screens. And as people have said already, people become obsessed with filling it in and ticking the boxes.*
When you get problems I find it tends to be because they don’t have a great understanding and they’re [audit staff] more tied to a process rather than understanding.

It would be interesting to ask a psychologist but the risk is that the human mind tends to focus on one rather than the other. If it’s focusing on documentation it’s not focusing as much on judgement. So I think there’s an issue relating to regulation as well as technology.

Part of the problem is you can have a situation where you can have the most extraordinarily difficult judgement that the auditors make and actually end up making the wrong judgement, and in very difficult circumstances sometimes, and then they get hammered by the regulator because it wasn’t properly documented.

At the top, courage is needed.

Courage to challenge is the big thing.

But that’s where your moral courage comes in as well... What surprises me is why the auditor is not insisting sometimes that the company goes against the standard in the interests of communicating what’s really going on. And nobody’s got the guts to do anything.

The provision of quality auditing cannot be separated from the quality of professional judgement exercised by key audit staff. A number of participants expressed views to the effect that the single most critical competence for an auditor is the ability to ‘make the right calls’, that is to exercise appropriate professional judgement in a variety of circumstances. The reasons that participants adduced for why this can be considered an important pressure point for auditing, both now and in the future, are several.

One relevant factor is the changes that have taken place in the nature of audit work. Automation within the companies being audited has made much of the audit process-driven. Within the audit firms too, automation has been promoted for reasons of ensuring consistency, promoting efficiency in the execution of the audit and ensuring appropriate quality of audit in terms of compliance with relevant
standards. However, concerns were expressed that a more ‘compliance mind-set’ results in greater emphasis on the audit as a series of procedural steps and processes and that there is a danger that the qualities of professional judgement may get lost or become subordinated as a result. If a quality audit is seen as completion of an automated system then it is easy both for the need for judgement on key elements to be missed and for the quality of professional judgement not to be developed. The desire for efficiency and the economic pressure on budgets for completion of the audit work can also have a negative impact on the manner in which decision making is approached and therefore how judgement skills are promoted.

Numerous comments were made by participants about the impact of information technology (IT) on the development of audit staff. For example, it was observed that it is the IT which ties the audit team together, in the sense that the team members communicate about and discuss the progression of the audit through the software installed on laptops rather than more directly outside the system. It was also said that audit staff spend less time nowadays ‘walking the floor’ and interacting with staff in the audited entity and that this has an impact on the development of skills of knowing how to read people and to triangulate what is said by different sources and design the plan of audit work accordingly. In addition, it was said that getting outside the audit team room is not simply about the necessary steps to collect particular pieces of evidence but also, as discussed in an earlier section, about developing auditors’ understanding of the business.

One idea used to characterise the influence of IT on the development of audit expertise was that staff have come to view the software system for documenting and controlling the audit as the firm methodology itself, rather than as a representation of a methodology which relies on broader concepts and principles.

An important additional factor influencing the development of individual judgement was said to be the fact that junior staff have become less involved in decision making as the audit progresses. The view was expressed that junior auditors need to be able to observe partners and other senior personnel making decisions and exercising judgement more directly and frequently than is now commonly the case. This point is relevant to the attractiveness of auditing as a destination career for highly motivated recruits. It also relates to an issue commented on later in the report of conducting two audits, one for the file and regulatory compliance and one where the real judgements and decisions are considered.
The discussions in the focus groups did try to tease out some more specific meaning to the concept of professional judgement. As commented earlier, this quality was seen less in terms of technical expertise and judgement and more often referred to as ‘soft skills’. These included things like communication with various groups and interpersonal skills but, with respect to the quality of judgement, also referred to characteristics such as being ‘self-reflective’ and ‘understanding one’s own biases’, being a ‘good judge of character’ and having ‘integrity’ and ‘courage’ in decision making, which were described as ‘pretty much top of the list’. While these latter characteristics may seem to be personal attributes, it was commented that they can be taught because ‘people can watch other people in a different situation’.

The pressures on developing the ability to make appropriate professional judgements are not easy to resolve. It is unrealistic to expect firms to step back from the use of automated systems for the management and recording of the audit. It would also be counterproductive to suggest a completely free form audit as a means of promoting decision making and judgement in audit staff if such an approach would increase the risk of a loss of quality from the failure to meet necessary standards of work. However, it would appear that there is a clear challenge for the audit firms to develop a mode of operation which mitigates some potential negative effects of how audit systems software has developed.

The development of staff and partners

Figure 6 - Illustrative comments on the importance of staff and partner development

I think that’s probably the single biggest issue that the profession is facing and ultimately the investors are facing is you know, dare I say it my generation of partners who have completely different training and so on. You know the next generation ... if you think about the current trainees when they come through to that level, I think it would be a completely different situation in terms of their skill sets and in terms of the ability to identify problems and exercise judgement and so on. That’s a real issue that we’re facing. You can actually see in the firms the generational differences between the different generations of partners and the younger, newer partners are, you know, they’re different.

So the standard-setting process doesn’t work, the regulation process doesn’t work and we end up with kids who ... well they probably do have these skills of communication and all the other things but they’re not allowed to show them.
And then secondly, it’s who do we take with us to our meetings? I mean in terms of the on-the-job training and seeing you know, senior partners taking people and saying this is how we operate, we’ll only take either maybe senior managers or you know, colleague partners, junior colleague partners. I mean I will always take my colleague partners to meetings unless it’s really you know, something I want to do on my own. But then is it perhaps too late? You know is it then too late because it’s really only the senior managers and junior partners who get exposed to that and that’s probably potentially too late?

The good auditor from the firm’s point of view is very often the one that gets new clients. That’s a good auditor... To survive you need new clients, so of course it’s important.

In appraisal meetings you would say: ‘Well this person’s very good at getting the job in on budget and they produce very nice files and they can pen a nice email’ and all those sorts of things. And very rarely did you say ‘Well she is really good because she finds stuff out’.

A key issue for the future sustainability of a credible audit function is the development of people able to assume roles as leading professionals - acting as engagement partners and in other such senior positions. Many comments were made that that the development of a good auditor requires considerable nurturing. The qualities necessary for individuals to assume these roles are significantly linked to the idea of informed individual professional judgement as discussed in the previous section.

One general perspective from the focus group discussions is that a key attribute for partner level is strength of personality. A view commonly expressed is that this attribute is still apparent at partner level currently but that there are significant concerns about the possibilities for succession and the adequacy of more junior staff. As commented in some of the other sections of this analysis, a strong belief was apparent amongst the audit practitioners participating in the focus groups that it is a variety of softer skills that are most characteristic of a good auditor. These skills include a number of personal attributes relating to judgement, communication and interpersonal relations. For example, it was commented that auditors need to develop a ‘psychological awareness’ in order to be effective in executing their role,
that is, to be able to read people, maintain distance and negotiate. One element in nurturing these skills is the development of experience in client meetings. Trainees commented that observing such meetings helped sustain their interest and connection with an audit, although the extent of exposure to client meetings varied inversely with the size of the firm and the client. The pressure point for the audit firms here relates to how they ensure that it is the best quality auditors that develop and progress to senior positions. Whilst describing getting someone prepared for partnership as ‘a process of training, coaching, regular counselling, a process of nurturing’, one retired partner also admitted that ‘we were bad at accompanying people on the journey to being a partner’.

One view that was expressed is that the nature of work in the large firms loses attraction when set alongside the desires and expectations of younger people and that this is even more the case currently than with previous generations. This raises issues about the nature of incentives that make it possible to retain the best staff and build strong audit teams. There is an important issue for firms (and regulators) to consider about how to ensure that auditing is projected as an attractive long-term professional career to the most able individuals amongst the current and upcoming generation of audit trainees and junior personnel. In particular, retaining senior staff and providing the appropriate nurturing in the final two or three years before becoming a partner appears to be critical.

Alongside this there is also a challenge regarding the manner in which the, apparently highly valued, softer skills are promoted and included in the training of staff. The paradox here is the contrast between, on the one hand, the rhetoric of judgement and the need for high level soft skills as the critical distinguishing characteristics of good auditors and, on the other hand, the apparent view of more junior staff on their experience as members of audit teams collecting audit evidence and building the audit file. As stated by one participant, and regularly concurred with in the focus groups, firms recruit lots of creative young staff but then spend a few years ‘beating the creativity out of them’. The routinisation of much audit work allows trainees to develop a view that auditing is largely the completion of a series of checklists and a consequence of this is that many good staff may be lost to the profession. There does appear to be a need for firms to do more to influence the perceptions that recruits and trainees form about the nature of audit and the qualities required of auditors, whether through changes in the tasks assigned, developments in training to focus on softer skills, or giving trainees more opportunities to see those skills in operation.
Firms as suppliers of audit services

Recruitment and retention of suitable staff

Figure 7 - Illustrative comments on staff recruitment and retention

I think part of the problem is we would think you know, these attributes which we are looking to recruit for you know, encouraged to challenge and board room presence and all those things; do you think maybe when Goldman Sachs recruits that those are the sorts of things that they’re looking for in the phenomenal interview process that people go through? And how do we recruit? We get them to do our online psychometric test. So is there an issue in terms of first of all how we recruit into the profession in the first place?

We’ve tended to focus on examinations and training rather than on education and I think ... I mean in the future audit we got a line in on looking at the education structure ... And I think you know, involving students or young managers or whatever more in the judgement issues, seeing that as maybe one area that we could do but I also think there’s something about ... I wonder if enough emphasis has been put on an integrated approach for education as opposed to compartmentalising various bits of it.

I don’t really know why it’s failing in the audit room because you know, the students are qualifying, they’re getting their audit qualifications, so there’s some disconnect between the people coming up through the training and then what they’re applying and what they’re going on to do after.

Participant 1: They fit the culture that is embedded in the organisation. And then in a sense the perception that you probably have is inevitably just because of the way you have split the audit into two streams [doing two audits]. That two stream thing strikes me as your original cultural problem.  
Participant 2: Yeah, once the culture’s established it’s quite difficult to break it.  
Participant 1: Exactly. And once the idea is the judgement happens above me and I don’t think about that question because I refer it upwards, of course I’m going to end up when I get to that position not ... you know, it’s first time I’ve thought of it.

People with integrity is pretty much top of the list.
Participants in the focus group discussion cast various doubts on the sustainability of the conventional model that major audit firms have operated for a long period of time - recruiting large numbers of trainees to perform much of the basic evidence collection and assessment needed for the audit but retaining only a small proportion to progress to the highest levels of responsibility for audit work and assignments. Under this model, recruits receive a training leading to a professional qualification which allows movement into a wide range of fields and the firm retains flexibility in identifying candidates for progression.

Nonetheless, this model was also reported as having begun to change in some major firms and, on the basis of comments made, it does appear a questionable basis for a sustainable audit function in the future. A broad-based pyramid model does seem to be inconsistent with the view that audit is a complex function executed by highly skilled and expert staff. The model relies on assumptions that it is possible to both recruit large numbers of high quality entrants and also retain the best of them within the audit service function. Both of these assumptions are debatable.

Trainees and newly qualified staff chose to stress the boredom they felt with their
work in audit in the early years. Exceptions here were those trained in smaller firms where their experience was said to be more diverse. The overwhelming view from the focus groups with early career participants was that the nature of the training experience was the price you paid for the qualification, and once you had qualified you could look elsewhere for a job. Trainees saw clear linkages between the nature of such work and low staff retention rates. Furthermore, some students who had spent one year on placement in Big Four firms stated that they had opted to turn down their graduate job offer to work elsewhere, though this may not be the norm. The degree of codification and prescription within firm audit methodologies may also be detrimental to retaining the best staff. A number of participants commented that the more creative and judgemental staff tend not to be attracted to what they regard as a codified, process-driven, hierarchical occupation.

Changes in the firms’ own approach to auditing and the volume of routine work are also affecting the shape of their organisational pyramid and therefore the opportunities to use a wide net of training as part of the process of identifying those who should progress to higher levels. The increased use of off-shoring for certain parts of the evidence process reduces the amount of work done domestically by trainees. If fewer trainees are needed within the audit process then the initial recruitment becomes even more critical for ensuring an adequate supply of staff with the requisite skills to progress in the future.

Finally, the process of recruitment itself also attracted some adverse comments. These included criticisms that audit partners are rarely involved in the recruitment process and interviewing potential staff and that the process has become highly streamlined through the use of psychometric tests and automated systems which may not appropriately reflect the kind of soft skills that ultimately are of most importance for developing successful audit partners.

In summary, the possible diminution of the attractiveness of auditing to potential recruits, both initially and as a longer term career, the competition from other occupational fields and the narrowing of the base of the pyramid, which in turn means that training is less of a filter for identifying those to progress as auditors, together mean that identification of the requisite skills at initial recruitment is a major pressure point for ensuring a suitably skilled audit workforce and a sufficiently competent audit function for the future.
The place of audit in multi-service professional firms

Figure 8 - Illustrative comments on the place of audit in the professional firm

With consulting business growth in the firm the question is how much is left on the audit part of the firm and how strong it [the influence of auditing on firm strategy and values] exists in the rest of the firm.

That brand value of saying in the end we’re auditors is important to all the other things we do.

And a key driver in the whole thing is ... has been the drive for efficiency within the firms. The drive for efficiency takes you to a slimline process where the more junior people you can put on the job the cheaper it will be to produce it. And therefore you design processes and software and tools and ultimately standards which enable you to lower the seniority of the people you can put on it.

No, just as margins are getting squeezed. I mean margins are getting incredibly squeezed because the costs are just rocketing.

Participant 1: Yeah, so we do more auditing for the same fee but the fees are being pushed down and the costs to the people that are doing it are going up.
Participant 2: The costs are a big issue as well.
Participant 3: And the investments we’re having to make in technology are phenomenal.

Because personally I think one of the worst ... one of the worst drivers of not having the best people working on audit is the fact that companies, and I blame them for this, drive down the audit fees.

Our intakes now know in the profession there is not room for former times. In former times it was always growth but this model has changed.

There is pressure on margins and it’s a tough business to manage in because you can’t charge for the stuff you used to be able to.

The pressure on the audit market will continue.
The existence of auditing as a professional service alongside a broad range of other services offered by accounting firms gives rise to both some benefits for the skills and competencies available to audit teams and some pressures on the audit function.

The conventional argument is that multi-service firms are able to bring a broader range of skills to the audit, as there are knowledge and skill spill-overs to the delivery of the audit. An important element of this synergy currently that was referred to is the recognition that auditing alone could not sustain the level of investment necessary to continue to develop audit procedures, for example in the area of data-analytics. A squeeze on the margins in audit fees can also result in a growing dependence on the multi-service activities of the firm. However, this can also have a consequence of reducing the extent to which auditing activity, and related skills and competencies, is seen as defining the overall identity of the major firms. It also influences the extent to which audit service is something those firms are known for although some participants did comment on the interconnection between auditing and the firms’ brand reputations in other areas.

While the provision of multiple services is capable of enhancing the audit through broadening the expertise and skills available within the firm and on individual audit teams, it also has to be recognised that such services have their own raison d’être and can be a source of competition within the firm. The multi-service nature of firms supplying audits can also be an influence on the delivery of the audit and the construction of what it means to provide a professional service called ‘audit’. One such influence mentioned in a number of the focus groups relates to the economics of different parts of the firms’ business and the pressure for the audit business to achieve a return that is commensurate with other parts of the firm. It was suggested that the proportion of fee income from audit is falling as the lines of business have changed over the years, with the changing business mix creating challenges for external audit partners.

This pressure can have an impact on the quantity and nature of competencies that can be brought to bear in the conduct of the audit and several participants commented adversely on the extent to which the audit has become ‘commodified’. In some environments there is a particular concern that auditing has become ‘less profitable’, though the extent of this issue appears to vary between different countries. Fee pressure and its impact on the business model for firms has implications for the operational activities linked to the audit, for example the increased use of ‘off-shore’ centres for the execution of some of the basic data
related aspects of the audit. As noted elsewhere in the report, this in turn has implications for the ways in which audit staff develop experience of the evidence process, the nature of recruitment and advancement within the firm.

A number of participants commented on the degree to which audit is linked to the identity of the firms. It was said that in the past it had been possible to distinguish firm identities and that the characteristics of their approach to audit were more visible but that has become much less true today and that it is difficult to say ‘what individual firms are really known for’. Similarly, the extent to which auditing is promoted externally as part of the firms’ identities, and therefore as a source of the defining characteristics of the firms as professional service organisations, has reduced over time. The consequence of this for the development of auditor skills and competencies is that, if the audit is seen as less central to the identity of the firm, the core skills associated with audit may become less central to what it means to be a professional within those firms and this will in the long run have an impact on the sustainability of relevant and high quality auditing.

**Interactions with stakeholders and society**

*Satisfying the requirements of regulation*

**Figure 9 - Illustrative comments on the impact of regulation on requisite auditor skills**

*I’m one of the people who would say that audit inspection both from the AQRT and from the PCAOB has substantially improved audit quality. We are definitely doing better audits now since we’ve been inspected than before we were inspected, I have no doubt about that, I think the problem then is that the pendulum is now swinging perhaps too far in other directions, there is so much focus on the documentation side of the audit and audit evidence that the thinking side has gone out of the audit.*

*If you take large complex multinational audits there are actually two audits going on in parallel. You’ve got a whole army of people executing the audit programme and gathering evidence and so on and then you’ve got ... to answer the question I think you’re asking, then you’ve got the senior members of the team who are looking at the risks and the judgements and all that. And you’ve got these two audits going on in parallel and that’s the issue.*
We literally have checklists and checklists and checklists and that’s how we are documenting our audits. And I think part of the problem is you know, it’s a regulator-bashing thing but it starts with the auditing standards actually, I don’t think … I don’t think the ISAs have kept track with how actually audit works.

The inspection process gets you a better audit, where you have to be clearer about your thinking. So you’re clear about your thinking and saying have I done a large enough sample?

But these are very complex drivers that are in response to the business changes in technology and it’s easy to you know, focus on them in one particular way. You know, the documentation of the standards themselves in part it’s how we chose to implement the standards into our tools and into our methodologies. It’s not the standards necessarily, maybe a little bit, but it’s also how we’ve done and how we’ve chosen to manage.

And so the way the standards have been written and the way that regulators make sure that we’ve done everything that’s in the standards, has driven that behaviour.

But the trouble is the way the standardisation has taken place has been by breaking down actually something which was quite objective into lots of little building blocks. And as the generations moved on they now think that doing each of the building blocks will get you to the right … answer.

Perhaps understandably, given the prevalence of references to regulation in debates about the future of auditing, the impact of standards and related regulatory oversight on the audit is something that was commented on to a significant extent in many of the focus groups. As a starting point on this issue it was often stated that the demands of regulation inevitably have consequences for the operational approach to auditing and the demonstration of skills that are necessary to deliver a ‘compliant’ audit. However, there was notable variation in the views that were expressed regarding the nature of the impact of regulation. Some participants offered comments that the quality of audits has clearly improved as a result of inspection and that the process of documentation has led to more careful decision
making and thought processes. The contrasting view is that regulatory compliance leads to checklists of essential procedures which take up such a proportion of the time available for the audit that the more considered and judgemental elements have become marginalised or concentrated in the activities of a few members of the audit team.

As referred to previously, one way in which some practitioner participants discussed this issue was with the idea of conducting ‘two audits’, that is, that they oversee a process in which all the standards and regulatory requirements are met, in order to ensure that there is no risk of adverse findings from an inspection, but at the same time are approaching their evaluation the financial statements from an additional perspective of their understanding of the business as a basis for determining the final audit opinion. This idea is also reflected in comments that an important quality for an effective auditor is recognition that ‘compliance is never enough’.

The pressure points on the development of appropriate auditor skills and competencies from this issue involve, first, the question of whether standards and quality inspections do or do not promote a compliance mind-set that is counterproductive for high quality auditing and for the development of a cohort of staff to succeed into positions as audit partners and, second, if so, how do the firms compensate for this in order to promote judgement and broader based thinking. As illustrated in the quotations, views on the former point did vary, with some stating that quality had improved due to inspection. It was also clear from responses to questions about firm processes that the audit firms themselves have developed what might be referred to as their own internal regulatory approach. The questionnaires and checklists that make up a large part of the procedural stages of an audit have been created within the firms rather than coming directly from standards and the firms have their own systems of internal review. It is possible that these firm procedures contribute to the compliance culture that some audit partners criticise as much as the direct impact of regulation itself. It might also be noted that the comment about conducting two audits is one that came from senior audit partners participating in the focus groups and would appear to be less apparent to the trainees and junior auditors who took part in focus groups, who tended to emphasise the demands on them in terms of completing the required procedures alone.
Governance contribution

Figure 10 - Illustrative comments on the demands on the governance contribution of auditing

There’s a real problem with that because the analysts will always ask for more and press for more information. They’re not the investors, they’re not the people with the money. Part of the problem here is that the people whose money is being invested is so far away from those people who are reading the accounts. I went to a trustee training thing the other day at ... and we spent a day talking about how you think the layman looks at investment. And not once did they say you should look at a set of accounts.

Isn’t it getting a system where if the investors hold the auditors to account and it’s absolutely clear that the investors you know are the people whom the auditors owe their first duty and the investors actually take action if they think some firms are giving very wishy-washy audit reports that aren’t giving them an insight. I mean really I think it’s got to look at creating a new market where the investors are in the driving seat and are willing to put the resource in to drive the change through. And I think that will drive change across the profession.

We all come up with our whatever ways of audit every so often and we all know that every time we win an audit tender is because the audit committee’s been utterly convinced that that’s the better way of doing an audit. .... The worst thing you can have is a headline in the FT on the morning of the presentation which tells you something about how shallow sometimes these processes are. But I don’t think it’s about our wonderful audit processes which are all basically doing the same thing.

But I always get the impression that there are always changes at the margins, that if you actually look at the deep core of how good auditing is, if anyone can really say what auditing is really about, the key judgements and quality of judgement and stuff across the whole team, is that as good as it was 25/30 years ago? It categorically isn’t. And I challenge anyone to say its better now than it was 30 years ago and therefore stuff changes but the core element of it I don’t think does. And I think that’s the problem.

I mean I think rotation is good because I think companies will get better audits because the firms are going to have to innovate their audits.
The final set of pressure points identified from the focus group discussions all concern matters related to basic questions about the role of the audit. While no alternative to the existing position where the auditor’s primary responsibility is defined in terms of giving an opinion on the financial statements was advanced with any strength, there was a range of comments across several of the focus groups on the manner in which such a responsibility can be carried out and beliefs about potential shortcomings in what is delivered by the audit. Such views went to the heart of what is meant by the concept of a competent audit function, or what some participants referred to as the current ‘value proposition’ of the audit, and have important implications for the skills and competencies required of individual auditors.

One issue which gave a focus for much of the discussion was the skills needed for auditors to provide high quality communication to those charged with senior governance responsibilities in the audited entity, particularly members of the audit committee. Reference was made to, for example, the ability to gain co-operation and to build alliances with those responsible for governance issues – these were attributes which would help to build confidence in the audit function but also would be instrumental for ensuring that the audit is conducted and completed and disputes are resolved in a way which is consistent with the auditor’s perspective. The auditor should be able to hold their own in debates and discussions on issues around the financial statements and to command trust from those charged with governance, while at the same time maintaining a distance from the organisation being audited. At the same time as developing adequate working relationships, it was said that the auditor must exhibit resilience in relation to possible pressures from key individuals in governance in order to avoid the possibility of being ‘captured’ in a way that undermines independence and the quality of decision making.

This interpersonal aspect of the audit was held by a number of participants to be something that makes a considerable difference in terms of audit effectiveness. It again places emphasis on what was referred to as the ‘psychological’ aspects of audit skills and competencies, such as the ability to read people in meetings, to negotiate and achieve acceptance of one’s position and to persuade.
Value to the reporting entity

Figure 11 - Illustrative comments on the value of auditing to the reporting entity

It’s simple because it’s driven by the clients and the clients’ needs and the people addressing that. So we are in a stage at the moment where audit limits are going up and we’re actually designing assurance products for all those clients who used to have an audit, they’re paying us the same amount of money but to do something that’s completely different. It’s aimed at them, it’s what they want, it’s what their bank wants and the revenue need and then we say actually the audit probably isn’t fit for purpose for most of those anymore. It was 20/30 years ago. And that actually is driving the marketplace… So our change and the way we do things is moving away from the standards and the technical bit, and the IT bit that’s been written for that, into bespoke planning for the clients because that’s what the client wants.

And on the other areas where we can potentially add real value and so on, well you know, how do we do that in the constraints that we have because we’re constantly under pressure of resource … we’re under massive resource constraints in terms of just getting enough high quality people to do it and we’re under massive constraints because I would guess that one thing that the auditing room is going to do is it’s going to put massively, massively increased pressure on the firm’s resources.

Innovation is how do we talk to the supervisory board.

It’s very obvious that boards like some auditors more than others: ‘Because he or she understands our business we can discuss with them, we can ask them, they are ready, they are here for us’.

The expression ‘what you see is what you get’ - presentation skills etc. To make them [those charged with governance] confident this is the right selection. Their perception is five, six, seven, eight firms in this country can do a decent audit on a set of IFRS consolidated accounts. This is not the differentiating factor. The differentiating factors are those personal skills coming into education [of the client company]. How to make them aware of the essential methodology, are they moving onwards or lagging behind?

As an extension of the above pressure, in some focus groups, concerns were expressed that the manner in which auditing has developed in recent years and the pressures evident in, for example, the proposals for reform of auditing in the
European Union affecting auditor tenure and the provision of additional services were having the effect of reducing the relevance of audit when judged by those within audited entities. There was debate about the demand for, and whether it is even possible, within the constraints of auditor independence requirements, for the auditor to provide, a role captured in the phrase of ‘a trusted business adviser’, and different views were expressed on the question as to whether stakeholders are prepared to accept an auditor who ‘gets close to the client’.

An additional aspect of the discussion on whether changes in the regulatory position are affecting the manner of interaction between auditors and auditees is the extent to which firms view the opportunities for development and innovation as lying outside the traditional audit and in other areas of assurance services. The scenario implicit in some of the focus group discussions was one in which auditing becomes seen as a low margin, routinised activity that is completed purely to fulfil statutory obligations while other assurance services are seen as activities that are valued by clients and a resulting focal point for creativity and more profitable work. In this scenario auditing becomes an activity requiring only relatively low skills and competencies rather than the judgemental, intuitive and expert skills that, in the majority of the discussions, participants were keen to promote as the key to effective auditing.

The contribution that the auditor makes both in terms of interacting with those charged with governance and more generally in providing a service that is valued by the reporting entity leads back to the essential attribute that was discussed under the first pressure point in this analysis, namely the ability to understand the business. If the audit is conceived as a technical compliance exercise that is independent of the context in which it is being undertaken, then it is unlikely to be considered of significant value, and that could have implications for the long term sustainability of auditing as a claimed highly skilled profession.

Communication with stakeholders

Figure 12 - Illustrative comments on the need for communication with stakeholders

So however good you are in the black box, if you’re not actually communicating afterwards, does it really matter as much?

Well I mean harping on again really, the conversations we have with the bank regulators, they clearly do not understand what we do as auditors. But we then just have to take that on as a challenge, so we just explain better to you what we do do but we don’t understand their sort of criticism as supervisors.
Developing into the future I think one of the key skills is going to be communication with the public and with investors on your side but with the public in the public sector. How we communicate what we’re doing, why we’re doing it and why we should exist I think is really important and will develop more and more in importance as we go forwards.

My own personal view is I think we are on the cusp of probably some pretty exciting changes coming through again because integrated reporting is coming through, some of these things are getting challenged. And there’s no doubt that we went through a very intense period post-ENRON where we fundamentally changed the regulatory system, we fundamentally revisited what people were expecting from audit. We fundamentally were changing IFRS, we were implementing IFRS around the world, a massive amount of change. And you know those things are going to focus attention during a period of time. I think the potential with things coming out of the change in the market, with increased competition, the potential is that I think there’s some really exciting thinking over this.

But just changing the audit report which I think is the current focus of some clients in the profession is not necessarily going to give us the answer we want.

Having a system where auditors are expected to respond to their challenge, i.e. more shades of grey in audit reports rather than black and white, more questioning of auditors by investors and you will find the world will change fairly quickly.

A final pressure point relating to understanding the role of the audit concerns the quality of communication from the auditor to external stakeholders. While the largest group of participants in the focus groups came from backgrounds in auditing practice, there were a number of representatives of users of financial statements and the investment community. These participants offered some interesting perspectives on the communication offered through the audit report. Some investors were critical of reporting and argued that auditors are unwilling to disclose their judgement, and that a willingness to disclose more would enhance the value of the audit for the future. In response, participants based in audit practice reiterated the conventional argument that potential litigation and liability represents
a major constraint on what it is possible to disclose and report. In addition, a number of people commented optimistically that the emerging developments in the content of the audit report would lead to improved communication, understanding of the audit and appreciation of its value.

It was recognised that changes to the audit report are unlikely to be a complete solution and that the perceived competence of the audit is a more complex issue. Essential to development or innovation in the role and scope of the audit is the general trust and respect in which the audit profession and its major firms and senior practitioners are held. While some external stakeholders were concerned about a check-list, rule orientation in auditing, they were also cautious about the development of forms of audit more focused on helping the business improve or meet its objectives. Some wished simply for a return to more ‘good old-fashioned audit’ or what others qualified as a return to ‘good old fashioned audit judgement’. Interestingly, though, there was recognition that, especially with the rise of integrated reporting, auditors were going to have to get much more involved with broader analysis and assessment of business performance. The primary source of caution on the part of external stakeholders appeared to be rooted in the level of trust that they were prepared to place in firms’ intentions in developing a broader audit scope.

Ultimately, this is essentially where the pressure points on audit coalesce. As a statutorily required function, the implicit assumption is that audit is more than a market phenomenon. It is there because of certain market failings or at least the existence of corporate obligations and accountabilities that cannot be satisfied purely by adherence to a market discipline. But if audit allows itself to be judged by the market strength of its claimed ‘value proposition’, then it inevitably rides and falls with shifts in market sentiment. If the market sees little value in audit, then debates about skills and competencies lose relevance. As such, the real test and challenge that auditing faces is the extent to which it is, and can remain, socially relevant. Ultimately, it is only by a continuing reference to such deep-seated questions about the contribution of auditing that resolution can be reached as to the requisite skills and competencies of auditors.
4. CONCLUDING REFLECTIONS – THE FUNCTIONAL COMPETENCY OF AUDIT?

The purpose of this project was to gather evidence from the perspectives of those who carry out, rely on and assess audit practice on the attributes that they consider to be of greatest importance for an effective and valued audit function. Taken collectively, the resulting insights of core individual audit skills and competencies and the range of identified institutional ‘pressure points’ invite a fundamental contemplation of the overall competence of the audit function itself and what is required for the longer-term sustainability of audit as a service of high professional standing and broader public worth.

Overview

At the level of individual auditor skill-sets and competencies, the concerns expressed about the accounting knowledge of auditors, their capabilities with modern-day IT systems, the need for expertise in issues affecting particular sectors and dealing with the complexities of economic oriented valuation models all point to areas where technical expertise is seen to be under pressure. Technological and data processing advances have facilitated the completion of audit files and improved recording and data sharing processes, but concerns were still noted about learning deficiencies in contemporary auditing, often illustrated by the image of the isolation of the modern audit team room, full of auditors completing work templates and emailing questions to colleagues, compared to a past where the audit staff were usually out of the team room interacting with client staff and learning about the business in the process.

There are also issues concerning the individual competencies needed for progression to become an audit partner. The widely asserted importance of ‘soft skills’ contrasts with the frequent assertion that compliance with checklists and standards now dominates much contemporary audit practice. This contrast raises questions as to where prospective audit partners learn their soft skills in a world dominated by hard rules or codified firm approaches and systems. While practice based participants were keen to affirm that people ‘do learn them’ and ‘good’ people get promoted, they did not find it easy to articulate how this happens. The potential difficulty of understanding how the necessary soft skills are acquired is illustrated by the need for senior auditors, whether audit managers or partners, to act in the role of project manager and manage a multi-disciplinary team when they
themselves have limited expertise in most of the represented disciplines. Reliance on the belief that this kind of skill is developed ‘on the job’ seems to be at odds with, or at least under pressure from, the suggested increasing routinisation of auditing. There are also questions as to what really comprises desired soft skills and whether such skills can be fully learned in house or require exposure to alternative, more open and reflective learning environments or should even be more explicitly tested. Ultimately, it is difficult to be clear if and how current models of progression ensure that firms do not lose ‘good’ people and that those who make it through to partnership are definitively better qualified and more skilled than those who chose to leave audit.

The maintenance of a suitably skilled audit profession is also under pressure at the stage of recruitment into practice, and some participants acknowledged that it is open to doubt whether they are recruiting the ‘brightest and the best’. Potential recruits are attracted both to other career pathways within the accounting profession and to a wider set of opportunities outside. Junior staff express considerable reservations about the skills needed for success in the early years of a career (Jones 2014) and the attractiveness of auditing as a destination career in itself rather than as a route from which to move to different occupations. Older partners spoke of the requisite partnership skills being increasingly less common in younger audit staff and the judgement skills required to make an effective audit partner not being evident in much of the on-the-job audit training requirements. These concerns about both recruitment and the acquisition of appropriate soft skills in progression suggest that the auditing profession could be facing a considerable succession problem.

Uncertainties about the contemporary standing of auditing, both in society and as a defining characteristic of professional firms, also have an impact on the potential for development of a suitably skilled and competent audit function. While some aspects of regulation have been associated with improvements in audit quality (through tightening processes and levels of documentation) there are also concerns about the emergence of a checklist or compliance culture. Some practitioners refer to the idea that the audit comprises one set of activities to create an audit file which will satisfy the regulators’ desire for compliance with standards (and to meet the procedural quality controls applied within audit firms), and another through which the auditor becomes comfortable that key issues and risks have been adequately addressed. The increasing regulatory constraints on the provision of auditing services, for example through restrictions on non-audit services offered to audit clients, was also highlighted as potentially making audit less attractive to the broad
range of disciplinary experts that are seen as an essential and vital component of the modern-day audit team. With pressures on margins and the continuing increases in audit exemption limits, the audit market was not represented by participants in the focus groups as a strong growth area. Fears were expressed that auditing will become less closely identified as a defining service of the major accounting firms, with consequent effects on the priorities attached to the development of the skills and competencies required for audit. While the major accounting firms continue to be successful, highly profitable businesses and large scale graduate recruiters, the above observations do point to a number of significant challenges that need to be addressed by auditors and those on whose behalf the audit is undertaken. The challenges considered in the remainder of this concluding section of the report are intended to stimulate an action agenda designed to promote an audit that is functionally ‘competent’ for the 21st century.

An intellectual audit

An initial concern in contemplating the future for auditing is the intellectual space within which such discussions take place. The auditing profession is seriously committed to promoting diversity in terms of its recruitment processes but how embracing is it of diversity of thought in relation to conceptualisations of audit practice? While welcoming and endorsing ongoing, professional thought leadership initiatives and projects discussing alternative ‘audit futures’, there is a continuing need to establish a broad discursive arena in which stakeholders can move beyond the current statutory audit requirement and challenge the traditions, cultures, constraints and boundaries that surround and govern its practice. The pressure points identified in this report inevitably raise questions as to whether the professional discipline of auditing can be sustained through existing educational and training structures, especially when coupled with the hierarchical form of organisation within the large accounting firms and generations of new entrants who encounter, and seem more willing to accept, a stricter rule-orientation. It seems unlikely that trying to address such pressure points in piecemeal ways will be sufficient to prevent a substantial decline in notions of audit professionalism. As Mautz and Sharaf (1961), writing on the philosophy of auditing more than half a century ago, powerfully remind us:

> If we forget the theoretical foundation of auditing and let it dwindle to a mere collection of rote procedures and practices reminiscent of its early history it will not only lose stature in the eyes of the world but will forfeit the best method of solving its most perplexing problems. (Mautz and Sharaf, 1961, p.17)
It is clear going forward that there are fundamental implications not just for professional training but also for the future conduct of auditing research and the educational programs experienced by accounting trainees prior to their entry into the profession. Change should be promoted from within practice itself but educational initiatives are also required to stimulate the development of a generation of auditors with the breadth and depth of thinking to understand auditing as more than the execution of certain procedures and compliance with rules and to bring the appropriate challenge to the representation of a business provided in its financial statements. There is a need to question continually the strength and quality of the learning and knowledge environment within accounting firms in creating auditors who can reflect critically and creatively on the contemporary and likely future nature of audit.

A worrying feature across all focus groups was that auditor participants found it difficult to identify the key agents and drivers of change within their own firms with respect to audit and innovation in audit practice. Change was most frequently attributed to external regulatory pressure and/or characterised by a strong control and compliance orientation within firms, necessitating greater attention to documentation, review and inspection. In one focus group, in a country where auditors are required to study auditing and accounting at university level, emphasis was placed on the importance of developing the theoretical and broader intellectual standing of the discipline of auditing. However, in several focus groups the dominant discourse surrounding audit discussions was of a predominantly commercial (‘the business of auditing’) or regulatory (‘the control of auditing’) orientation; an environment in which functionality and routine dominated over ideas and judgement.

**Viewing audit in its institutional context**

In contemplating a sustainable future for audit, analysis and policy proposals must be informed by the institutional context which auditing is currently positioned within and is likely to encounter in the future. As stated in the recent AuditFutures/RSA (2014) report, broader-based thinking about audit relies on considering perspectives relating to society, people, institutions and scope:

> We could design a new audit product and recruit the ideal people to deliver it, but if we retain insufficiently adaptive institutions, and pitch these services to a market and a society that does not care about them, the future of audit is not bright. If our society and its markets want more from audit, but firms are not set up to deliver,
and the right set of skills are not in place, then the future for the profession is not bright. If we have bright minds, smart structures and an ambitious and informed public, the future of audit should be bright. (p. 27)

Raising questions about the possibilities of auditing moving beyond ‘standard’, and of encouraging diversity and innovation in practice (for more discussion, see Catasús et al., 2013) invites questioning as to just how far institutional arrangements governing audit can be changed to embrace any reshaping of the role and scope of audit. Clearly, in a European context, the future is going to be influenced by the initiatives that have developed in the European Union to promote market competition combined with regulatory oversight. National and international developments in audit reporting look set to encourage greater visibility of professional judgement and the contribution that auditors are making to broader processes of corporate governance. However, these developments are still at a very evolutionary stage and will place demands on the exercise and communication of auditor judgement to demonstrate a more tailor-made, less standardised audit function (Knechel, 2013).

Too often, historically, debate on auditing has been hindered by the power of institutionalised interests and behaviour patterns. At times, criticisms of the contribution made by auditing have been met either by a defence which relies on the limits and constraints of the statutory requirements on auditors or by nostalgic appeals for a return to ‘good old fashioned’ accounting and auditing. Alternatively, debate can degenerate to the level of rather unproductive clashes between the auditing profession and its regulators as to the contemporary quality of audit practice and the contributory benefits provided by inspection regimes. None of these responses will create a future for auditing in which it makes a valued contribution to economy and society.

This project has sought to break through or move beyond such standpoints, collecting evidence from detailed, engaging and committed focus group discussions with a broad range of stakeholders. The strong impression is that now is not a time for complacency but nor is it a time for knee-jerk reaction or base political point scoring. Substantive change and developments in the competencies and capabilities of audit and auditors requires more fundamental action than are offered by ‘quick fix’ solutions, audit rebranding exercises, tinkering with professional examination syllabi or the promotion of ‘new’ audit testing/analytical techniques.
The collective scale, significance and diversity of the pressure points identified in this report can encourage different and deeper ways of thinking about audit, both within and outwith audit firms and the profession. Auditing continues to be associated with a substantial expectations gap and one that has consistently gone beyond matters of misunderstanding of the role of audit to concerns with levels of auditor performance. In encouraging an enlightened commitment to audit development it is worth remembering that the current position for audit has not come about through positive reasons. It has been arrived at because of corporate collapses, excessive commercialisation, market and regulatory failures, loss of trust, conceptual misunderstandings and under-performance. Seldom, if ever, is the history of auditing told by reference to key innovations and advancements. It is not without reason that people have written about the relatively static nature of the audit expectations gap (see Humphrey et al., 1992; Chandler et al., 1996; Economist, 2014).

New directions

The case for substantive over piecemeal or patchwork change can be demonstrated by considering how attempts to address one particular pressure point can serve to exacerbate other pressure points. For example, a regulatory reform may increase the appearance of auditor independence but serve to decrease auditor competence or the knowledge base on which professional judgements are made. Likewise, new audit methodologies offering flexibility and creativity in auditor judgement will struggle to have a major practical impact if their implementation fails to disturb a control culture within accounting firms and across regulators that implicitly distrusts the reliability of such judgement processes and relies significantly on monitoring checks and ‘360 degree feedback’ and evaluation systems. Concerns that auditing has become a fundamentally negative space are reinforced by the way, at the level of the audit of large companies or public interest entities, audit is increasingly referred to as rule-based, regulated, de-professionalised and not ‘profitable’, while at the level of the smaller companies audit is referred to as a ‘burden on business’, with audit exemption levels duly increasing and more companies no longer required to have an audit.

A counter argument would be to say that what has traditionally been understood as representing what society needs from audit has fundamentally changed, with various modern day ‘monitoring’, ‘control’ and ‘verification’ functions being underpinned by an ‘audit’ philosophy without being commonly referred to as audit. Expansion in the social reach and significance of audit has been reflected in depictions of an ‘audit society’ and an interest in ‘making things auditable’ (Power,
1996; 1997) and a growing social reliance on consumer ratings and rankings (see Jeacle and Carter, 2011) and voluntary certification (‘compliance with standards’) regimes (see Brunsson and Jacobsson, 2000). Although such processes would not historically have been classified as ‘audit’, they have encouraged people to focus on the appeal of the (vague) idea of audit. Power spoke of a democratisation of audit as more people are able to act as ‘auditors’ (2011, p. 325). Francis (2011) even contemplated the extent to which auditing had become a function ‘without borders’ (p. 318). The danger for the auditing profession is whether the rise of alternative assurance services will help to make redundant the more traditional audit service, and it is this danger that the above call for fundamental thinking seeks to avoid. It may be possible to be relaxed about growth in assurance services and to appreciate that different assurance activities are capable of being defined as a form of modern day auditing. Nevertheless, quite specific concepts and contexts are invoked when reference is made to the ‘statutory financial audit’. So while many activities can be seen to be associated with the process of auditing, when people speak of ‘audit’ it usually means quite particular things and excludes others. In short, it does matter what the term ‘audit’ is used to refer to and how that term is understood (see Humphrey and Owen, 2000).

Further, if the firms that deliver ‘traditional’ audit services have lost a degree of social trust and have had questions asked of the social relevance and value of the statutory financial audit function that they have delivered for so many years, it is going to require a considerable level of effort and persuasion to convince society that audit is nowadays on an attractive and sustainable development path. Will auditing attract the right kind of recruit if the firms and the profession emphasise: the importance of compliance with international auditing standards and a degree of uniformity implied in the idea that ‘an audit is an audit’; maintain rigid organisational control structures; fail to portray auditing as a long term career of choice; represent the audit training process as something that is primarily ‘learning on the job’; and, in some countries, has a professional status that permits both entry and continuing audit registration post-qualification without any independent, higher educational study of the subject? The ‘auditing’ profession has to ask itself whether the current state of affairs, with respect to auditor education, training and practice is the best that can be done.

The functional competence of audit

In considering potential developments to answer the challenge posed by the questions discussed above, it is important to appreciate that many of the practice related concerns reported from this study go beyond individual auditor
competencies and capabilities (e.g. as recognised in IAESB, 2014) to what can be considered as the collective competence and capability of audit as a function. Focusing on the collective as well as the individual level is critical as the seriousness of the challenges (and opportunities) facing audit are, and have to be seen as, systemic in character and not mere failings on the part of certain individuals. Individual skills are important because of the extent that they serve to make auditing more effective and consequently it is relevant to start with the audit function and then work back to specific requisite skills. In highlighting the scale and significance of individual pressure points this report emphasises that the focus of attention has to be the longer-term sustainability of auditing as a professional function, including its relevance and appropriateness for the demands of the modern business environment and its broader social significance.

If the primary challenge concerns the functional competency of the statutory financial audit as a whole rather than a set of specific skills, success in meeting that challenge will depend on fundamental thinking, or rather re-thinking, about how auditors in their current and likely future institutional working contexts can provide a service that is of value to, and appreciated by, business and society. In order to stimulate such subsequent debate and development, a number of concluding important areas for development are set out below derived from the principal themes that emerged in the focus group discussions. They provide a powerful starting agenda for audit firms, professional bodies, educators, regulators and other stakeholders to act.

**Conceptualising the audit as a skilled, judgemental activity:**

- continue to make more visible the nature and value of the exercise of professional judgement;
- develop a structure for audit skills that extends beyond the construction of normative frameworks of core individual competencies to explicit consideration of the contextual influences on audit practice and the overall competence of the audit function;
- revisit the professional and regulatory emphasis on audit uniformity, typically represented by the notion and insistence that ‘an audit is an audit’, in order to give due recognition to the fundamental, idiosyncratic essence of audit and the acceptability of variation in the ways of meeting/being compliant with ‘standards’.

**Recruiting and developing suitable audit professionals:**
• ensure that generic recruitment processes in multi-service professional firms sufficiently reflect the necessary attributes that are specific to audit, as distinct from other services;

• enhance the nurturing of the development of relevant disciplinary expertise in ways that prioritise intellectual curiosity and not just technical compliance;

• review the manner in which softer skills (such as psychological awareness and interpersonal capabilities) are developed and assessed through education, training and experience.

Managing the delivery of the audit as a professional service:

• ensure that audit teams exhibit a collective competence that goes beyond the generic standards and skills required of each individual auditor;

• recognise that the overall effectiveness and sustainability of audit depends critically not just on the people employed as auditors but also on the structures within which such auditors work;

• re-assert the importance of auditing and associated skills and competencies to the identities and defining characteristics of professional firms and in relation to professional career development paths.
ENDNOTES

1 The Cambridge focus group was run in conjunction with the 24th Audit & Assurance Conference organised by the Auditing Special Interest Group of the British Accounting and Finance Association (BAFA). While some auditing practitioners were present, the focus group was mainly attended by university audit researchers, the majority of whom had close connections with practice through their teaching and research activities. Although a pilot for the main set of focus groups, comments made have also been used as part of the analysis. The Stockholm focus groups involved one formal focus group with fourteen Swedish auditing researchers and former practitioners and an informal discussion session with twenty-five auditors and representatives of professional bodies, regulators, preparers and users of audited reports who had gathered in Stockholm for the launch of a new book on the auditing profession in Sweden and a presentation on audit innovation by one of the authors of the book (see Catasús et al., 2013). The session was inevitably less structured than a number of the other focus groups but covered numerous similar themes regarding auditor skills and competencies.

2 Due to logistical issues, the focus group in Brussels had to be divided into two components, one being a meeting with retired senior audit partners and the other being with staff drawn from two professional bodies, two accounting firms and a Belgian university.

3 With the primary focus of the focus groups being on lived experiences with audit, only a limited amount of discussion was devoted to prospective, alternative organisational forms (for example, whether ‘audit only’ firms would enhance or hinder the development of necessary skills).
REFERENCES


APPENDIX 1: INDICATIVE FOCUS GROUP QUESTIONS

The following is an indicative list of the type of questions which were used to elicit views and stimulate discussion about the competence of audit as a function and the contributory individual skills and competencies of individual auditors.

Changes and developments in auditing and their significance

The opening element of the focus group explored participants’ views as to the way in which the responsibilities of auditors have changed, how they are likely to change in future and what the implications are for the skills and competencies auditors should exhibit.

• Based on your experience of conducting, observing or reviewing audits, is the practical audit function significantly different today compared to that operating ten or twenty years ago?
• In what ways has it changed?
• What factors or pressures have been the major influences for change?
• How would you describe the essential characteristics of the audit function and of audit practice without using the word ‘audit’?
• What occupation or occupational role would you classify as most similar and most different to that of the auditor?
• How well does audit practice reflect the kind of function required; if a market research study was conducted into the demand for and supply of auditing, what would the results look like?
• How have the corporate reporting crisis of the early part of this century and the more recent financial crisis affected the role and conduct of auditing?
• Is this a special or distinctive period of history and what kind of opportunity or threat does it pose for the conduct of auditing?

Key skills and competencies

Building on any general expressed views of the auditor’s role, expectations and the contribution of auditing to governance and the functioning of economy and society, this segment of the focus group sought to delineate attributes which could
be described as specific auditor skills and competencies, at both the individual and firm level. Participants were encouraged to state and if appropriate define such attributes and justify their importance to the value of audit.

- What are the key competencies and skill sets currently required for an effective audit contribution?
- What would you list as the three top attributes for an effective audit contribution to corporate reporting?
- Are there any differences or tensions between the skills that are desired (whether in terms of how auditors would wish to see their role or users would wish to see exhibited) and the practical day to day realities of an audit engagement?
- Are there competencies which exist at the level of the audit firm, its network or the profession as a whole rather than the individual engagement team and partner?
- What differences exist between sectors?
- What differences exist between the requirements for different sizes of organisation?

Factors encouraging and promoting (or hindering) skills

Having elicited views about potential sets of skills that are and could be applied in audit practice, this section of the focus group discussions addressed the factors in the environment which influence the acquisition, execution and evaluation of such skills in practice. This included consideration of inhibiting and facilitative factors, both currently and in the future.

- What factors most promote or most inhibit the application of appropriate skills and competencies?
- What role should be played by education at initial and post qualification levels?
- How do audit firm structures and strategies promote the development and application of appropriate required skills?
- How are competencies operationalised in the audit team?
- What challenges, pressures and other factors most influence the day to day experience of auditors? [Partners/audit team members]
- How are resources allocated to ensure effective application of necessary skills?
• How are skills and competencies incentivised and rewarded?

• To what extent is there a profession-led aspect to the attributes associated with the occupational role of being an auditor?

Consideration was also given to the variety of ways in which regulation affects auditing, especially in terms of its influence on the skills and competencies that auditors exhibit. To the extent that this topic had not arisen elsewhere in the discussions, potential questions on regulatory impact included:

• How would you describe the relationship between regulation and practice? [e.g. ‘practice leads’, ‘regulation leads’, ‘regulation reinforces’, ‘disconnected’ etc.]

• Can you cite specific examples of the interaction between regulation and the execution of auditing?

• In what ways has regulation enhanced audit quality or perceptions of the audit function?

**Innovation and future opportunities and challenges**

It was expected that participants would have indicated views by the closing part of the focus group as to the potential future development of the audit role and related skills. However, the following potential questions were available to give participants an additional opportunity to discuss what kind of skills and competencies are required for an appropriate audit contribution in the future as opposed to how things operate at the present time.

• Is there a major challenge facing auditing and opportunity waiting to be seized by auditors?

• Does audit need to break from the current understanding of ‘auditing’; in what ways and what kind of audit function could this lead to for the future?

• In terms of a reform agenda what are the available options? Is the basic model of audit broken and in need of change or not? Has auditing learned from past events?

• What factors are most likely to promote innovation in auditing or to inhibit innovation?

• What single major change would you suggest that would enhance auditing for the future, either in terms of development of the role or the execution of particular skills and competencies by auditors?
ABOUT THE AUTHORS

Stuart Turley is Professor of Accounting at Alliance Manchester Business School, University of Manchester.

Christopher Humphrey is Professor of Accounting at Alliance Manchester Business School, University of Manchester.

Anna Samsonova-Taddei is a Lecturer in Accounting at Alliance Manchester Business School, University of Manchester.

Javed Siddiqui is a Senior Lecturer in Accounting at Alliance Manchester Business School, University of Manchester.

Margaret Woods is Emeritus Professor of Accounting & Risk Management at Aston Business School, Aston University.

Ilias Basioudis is a Senior Lecturer at Aston Business School, University of Aston, and Chairman of the Auditing Group of the British Accounting and Finance Association.

Chrystelle Richard is Associate Professor of Accounting at ESSEC Business School.
In 2013 ICAS and the UK Financial Reporting Council (FRC) commissioned two international teams of researchers to investigate what mix of attributes, competencies, professional skills and qualities need to be combined in an audit team in order for it to perform a high quality public interest audit in a modern and complex global business environment.

This team from the University of Manchester; ESSEC Business School; and the University of Aston explore the views of key audit stakeholders to address this crucial question. The study was based on focus group discussions in the UK, Belgium, France, Germany and Sweden. The focus groups included audit partners, audit committee members, regulators, users and academics. Other sessions were held with trainee chartered accountants and students.

Rather than a list of specific skills and competencies, what emerged from this research was a bigger constellation of areas of difficulty – or ‘pressure points’ – where the challenges lie for auditors. Eleven pressure points were identified from the research, covering four broad categories: the context of the specific audit engagement; the development of audit personnel; firms as suppliers of audit services; and interactions with stakeholders and society.

The challenge, the researchers say, will not be met by a checklist of skills but rather by more fundamentally considering the ‘functional competence’ of audit and the ‘value proposition’ it offers to business and society. The researchers state that the audit profession has to confront these issues if auditing is to have a sustainable future and be regarded as a valued and relevant function for the demands of the modern 21st century business environment and society. The issues revolve around: making sure that audit is recognised as a skilled, judgemental activity; recruiting and developing suitable audit professionals; and managing the delivery of the audit as a professional service.

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