



Ann Vanstraelen and Ulrike Thürheimer

2016B04: The auditor's evaluation of misstatements – Exploration, drivers, and consequences

How did you get into auditing research?

Ann: "I have been following the financial news from an early age. When I was starting my PhD, I read an article about bankruptcies in Belgium. The headline was that auditors were always too late with disclosing going-concern problems as many companies received a clean auditor's opinion in the year prior to bankruptcy. Intrigued by this, I decided to conduct an economic analysis of the auditor's going-concern opinion decision-making process as the subject of my PhD. So from the beginning, I was very interested in the topic of audit quality. Soon I found my way to Maastricht University, because they were the first to put academic auditing research on the map in Europe."

Ulrike: "During my studies, I was always interested in research. I loved reading research papers. Ann, who was my professor in the auditing courses, was always a great role model, and I started my PhD with her as my supervisor. What fascinates me about auditing is the business model. Auditors provide an opinion, that is valuable, but consumers do not have much or any insight into how the auditor formed this opinion. On top of that, auditors also face many conflicts of interests, for example being paid by the client while serving their shareholders. All of this makes researching auditing quite interesting."

Why do you think auditing is so exciting?

Ann: "Many people are relying on the information provided by the auditor. The prosperity of society is highly dependent on the provision of reliable information that is necessary for good decision-making by various stakeholders. I consider it a prestigious profession."

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I always tell my students that in the past, like in ancient Egypt and China, auditing was considered one of the most prestigious occupations that served society. However, in the past 20 years, auditors have received bad publicity. I want to conduct research that is relevant for audit firms, standard-setters and regulators.”

Ulrike: “One goal of the 2016B04 project is to research the value of auditing for society. The auditor, by detecting misstatements and through the process of adjusting and waiving misstatements, stands between pre and post-audited financial statements. This is how we can estimate the impact of the auditor. It’s important for our research to stay close to and to be informative for practice, but also standard-setters and regulators. Ultimately, we as researchers also want to have impact.”

What are, according to you, the most relevant issues in auditing?

Ann: “First, audit quality is one of the key challenges. Audit firms have already invested heavily in improvement in recent years. The next big step is digital transformation. The Big 4 audit firms invest a lot in digital platforms to have a more efficient and effective audit. Practice is ahead of standard-setters when it comes to technology, so this must be coordinated. Also, we will need a different type of auditor who understands these technologies. With robotic process automation, for example, some tasks currently done by junior auditors can be eliminated, but that will also make the job more interesting. This does not mean auditors will become irrelevant, technology is a facilitator. Second, the profession must address the needs of society. We see a shift in society’s expectations of society towards reporting fraud or climate risks. For example, EY recently portrayed climate risk as a Key Audit Matter. Auditors don’t have the monopoly for other types of assurance, but they do have the reputations of providing independent high-quality opinions on information.”

What will your message be at the conference?

Ann: “We want to give insight into the value of the audit by providing descriptive evidence on detected misstatements and how they are evaluated. We know that there is some variation in audit quality. Our research could help audit firms to explain these variations. Next, we want to investigate what happens to detected misstatements and the impact of, for example, misstatements that are waived on the financial statements that are released to the public.”

Ulrike: “The human factor in our study is about the process of evaluating detected misstatements, during which both auditors and clients are involved. This is often characterized as a negotiation process. As Ann mentioned, with this project, we can also show the value of the audit, and this should be of interest to the profession and other stakeholders. It provides insights into the value that auditors create.”

What does your ideal study look like?

Ulrike: “With regard to the 2016B04 project, we have a lot of data and information on the audit side, which is great. However, if we had more detailed information about the client side, and the negotiation process about detected misstatements, we could perform a more comprehensive study. Furthermore, the current focus of the study is on the evaluation of detected misstatements, i.e. the decision to adjust or waive. If we knew whether the auditor detected all misstatements or not, we could also shed more light on the process of misstatement detection.”

Ann: “In general, as empirical researchers, we are very dependent on data. The data gathering process has shown us how much effort it takes for the firms to collect the data. We have learned a lot from our conversations with the firms and I think they have learned from this process too. The audit firms are now investing much more in information systems that help to retrieve data that is suitable for both the audit firm’s internal processes and academic research. I believe this is one of the main outcomes of the FAR research projects. And this will pave the way for many exciting research opportunities in the future.”