

WORKING PAPER

Challenges in Global Group Audits: Evidence from Component Audit Leaders

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KEY TAKE-AWAYS

Regulators and standard setters have expressed concerns about global group audit (GGA) quality, as deficiencies in group audits account for a significant proportion of all audit deficiencies worldwide. To explore how both the group and component auditor processes and behaviors impact the quality of component audits, we conduct an experiential questionnaire with 86 experienced component audit (CA) leaders. The qualitative responses confirm regulators' concerns about insufficient involvement of group auditors in the component audit. Specifically, CA leaders experience a lack of group auditor involvement in the staffing, planning, and fieldwork phases of the component audit, as well as insufficient review of component auditor work. Regulatory and cultural barriers, along with insufficient fees, pose further challenges for CA teams. However, CA leaders also report positive experiences, perceived to improve audit quality, when group auditors work collaboratively with CA team during planning and fieldwork.

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Challenges in Global Group Audits: Evidence from Component Audit Leaders

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ABSTRACT

Regulators and standard setters have expressed concerns about global group audit (GGA) quality, as deficiencies in group audits account for a significant proportion of all audit deficiencies worldwide. To explore how both the group and component auditor processes and behaviors impact the quality of component audits, we conduct an experiential questionnaire with 86 experienced component audit (CA) leaders. The qualitative responses confirm regulators' concerns about insufficient involvement of group auditors in the component audit. Specifically, CA leaders experience a lack of group auditor involvement in the staffing, planning, and fieldwork phases of the component audit, as well as insufficient review of component auditor work. Regulatory and cultural barriers, along with insufficient fees, pose further challenges for CA teams. However, CA leaders also report positive experiences, perceived to improve audit quality, when group auditors work collaboratively with CA team during planning and fieldwork.

Keywords: audit quality, component auditors, group audits.

I. SYNOPSIS AND INSIGHTS FOR PRACTICE

When conducting audits of large multi-national companies, auditors often distribute portions of the audit work to affiliated ‘component’ auditors. Regulators and standard setters have expressed concern regarding the quality of these global group audits (GGAs), and inspection agencies across various jurisdictions consistently find deficiencies in group audits (e.g., IAASB 2015a, 2015b, 2017, 2019; PCAOB 2016, 2021a, 2021b, 2022). Further illustrating this concern, the International Forum of Independent Audit Regulators (IFIAR 2024) reports that deficiencies related to group audits over a recent five-year period (2019-2023) account for a significant proportion of all audit deficiencies identified worldwide.

IFIAR, the IAASB, and the PCAOB have identified multiple factors that generally lead to low audit quality, including areas of concern that demand particular attention in the context of group audits. These areas comprise: a lack of involvement and coordination by the group auditor; group auditors’ insufficient assessment or application of materiality; insufficient group auditor assessment of component audit risk, component auditor competence, or review of component audit work; a lack of effective and robust communication between the group and component auditors; inconsistent application of group audit standards (e.g., ISA 600); barriers arising due to the nature of multinational group audits (including, culture, language, and legal and regulatory differences); and, an appropriate work effort by component auditors. Notably, academic research on GGAs has predominantly focused on the *outcomes* of component auditor use (such as audit quality or investor reactions) or on problems and issues with GGAs from the group auditor perspective. Our research contributes to the literature, audit practice, and regulation by examining the matter from the perspective of component auditors, helping to identify underlying root causes that contribute to either reduce or enhance audit quality within GGAs.

We employed an experiential questionnaire among 86 experienced component audit (CA) leaders in the Netherlands, representing multiple global firms. This approach allowed us to gain a deeper understanding of how both the group and component auditor processes and behaviors impact the quality of component audits. Our questionnaire employed a retrospective focus, prompting the CA leaders to recall and describe a recently completed component audit performed at the direction of a within-network group auditor located either in the U.K. or Germany. Recognizing that the IAASB identifies concerns related to staffing, planning, fieldwork, and review (completion), we structured the questionnaire into these four distinct audit phases, in addition to general questions. After describing the engagement, CA leaders provided details on the nature and extent of positive features (i.e., what went well) and/or any challenges (i.e., what did not go well) within these four phases, and then described any barriers they experienced across the audit process.

Many responses from CA leaders confirm regulators' concerns regarding the insufficient involvement of group auditors (GA) in the component audit engagement. CA leaders also detailed important challenges experienced in their engagements, including: inadequate communication by the GA about the engagement and minimal direction of staffing requirements; the GA's use of a centralized, standard audit plan that often lacks sufficient understanding of the component's specifics, requiring the CA team to modify risk and materiality levels; limited or absent formal review of their work by the GA; and barriers such as audit fees not adequately reflecting the required audit work, as well as challenges in interactions with GAs due to cultural and regulatory differences in requirements across countries.

However, CA leaders also describe instances where GA involvement is viewed positively and even improves the CA engagement. For example, some CA leaders note that when the GA

provides timely directions and communication for the engagement while allowing the CA leader autonomy in staffing decisions, it leads to a positive experience. Other commonly cited positive experiences include situations where the GA: steers the planning process; obtains a solid understanding of the component before developing the audit plan; provides timely instructions and deadlines; collaborates with the CA team during planning; offers effective supervision and responsive communication throughout fieldwork; and is actively involved in the engagement's closing phase, providing a thorough review of the CA team's work files.

Overall, the GA's involvement, coordination, and communication practices in CA engagements are central to shaping CA leaders' positive and negative experiences. Although not all challenges or positive aspects raised by CA leaders are necessarily unique or exclusive to GGA's (i.e., they can also arise in general audit engagements), each was reported as significant in relation to the quality of the GGA engagement they had experienced. Importantly, a disconnect in GA involvement, communication, and oversight, along with the CA team's lack of input on establishing a sufficient audit fee, is likely to exacerbate these challenges in the GGA setting due to its distinct engagement dynamics.¹

These findings offer valuable insights for regulators, standard setters, and audit firms in their endeavor to improve GGA quality. First, recent research has focused on the GA perspective in CA engagements, identifying challenges that GAs face in component audits and often attributing group audit quality issues primarily to the component auditor (e.g. Downey and Westermann 2021). By highlighting the CA leaders' experiences, the current study provides a counter-balanced

¹ For example, CA teams receive directions and instructions from a distant GA who by definition is less involved and thus less knowledgeable of daily operations than an engagement partner on a regular engagement. Another example is that the CA effectively works for two clients – one being the component client and the other being the GA (along with the group client), complicating the complex engagement dynamics.

view, emphasizing that not only CA teams, but also GAs are seen as responsible for certain challenges and quality issues.

Second, several issues raised by CA leaders in the current study—such as limited GA involvement, communication and coordination issues, lack of reviews, and insufficient engagement fees—have been documented in prior research (e.g., Downey and Bedard 2019; Downey and Westermann 2021; Sunderland and Trompeter 2017) and in regulatory findings. The confirming evidence presented in this paper reinforces that these issues are still affecting CA leaders, and these collective findings can help involved parties develop effective solutions in practice. For example, an important collective finding is the inadequate feedback loop between the CA and GA. Many reported issues consistently recur across repeat engagements, highlighting the need for standard setters and audit firms to continuously address this feedback gap. For instance, challenges such as insufficient engagement fees and lack of review should be communicated from the CA team to the GA to facilitate improvements in future engagements. The lack of review of the CA work (or communication that such a review occurred) limits learning opportunities for both CA teams and GAs. Specifically, CA teams miss out on feedback regarding adequacy and completeness of their work, while GAs miss insights into engagement challenges and component-specific understanding. Overall, our findings suggest that regulators and firms should consider enhancing guidance on the relationship dynamic, particularly the feedback loop, between the GA and the CA teams.

Third, the insights into CA leader experiences provided by this study highlight multiple novel issues pertinent to standard setters and firms. For example, CA leaders report that GAs often adopt centralized audit plans across multiple components without fully understanding the specific client. To ensure the engagement quality, audit firms should reinforce the importance of the group

auditors' role in tailoring audit plans and actively monitor their involvement. Standard setters and regulators can consider how such centralized planning inhibits audit quality and explore ways to phase out such plans, ensuring CA leaders receive detailed and focused plans specific to their component client.

Finally, the positive experiences reported by CA leaders offer valuable insights for firms on best practices to improve or uphold the quality of component audit engagements. Positive experiences include GA direction, timely communication and instructions, and adequate involvement and communication during each audit phase. These best practices can be incorporated into firm guidance on GGAs, as they foster motivation and a sense of relevance among CA teams, which in turn can contribute to improved GGA quality.

II. LITERATURE REVIEW

IFIAR (2024) details four categories of deficiencies within the group audit inspection theme. These include: “1) failure to sufficiently consider the nature, timing and extent of involvement with the component auditor’s work including evidence of reviews performed; 2) failure to develop a group audit plan (e.g. scoping) and/or appropriately communicate instructions to the component auditor; 3) failure to appropriately calculate materiality for the group and the related component audits; and, 4) failure to appropriately resolve issues identified by the component auditor” (IFIAR 2024, B-8).

Prior research has provided greater detail of the problems faced in conducting GGAs. For example, Sunderland and Trompeter (2017) identify and discuss six major issues highlighted in the IAASB’s 2013 post-implementation review of their clarified standards on group audits and the use of component auditors. They emphasize problems related to the nature and extent of GA involvement, including the group auditors’ knowledge of the component (including necessary

statutory audits), and their knowledge of the component auditor (including their competence and independence) to be able to rely on the work of the CA team. Additionally, they address the quality of CA documentation in relation to GA requirements; the level, timing, nature, and extent of review of the CA's work; along with appropriate identification, specification, and communication of the group audit risks, and component materiality and scoping. Overall, Sunderland and Trompeter (2017) note a lack of direct research on these topics within the GGA context and propose several focused questions on how and why these issues occur, as well as the level of necessary GA action for achieving appropriate outcomes. Our study responds to their call for further research by examining CA leaders' perspective on related issues.

Academic literature on group auditing largely focuses on the outcomes associated with the use of component auditors, particularly regarding audit quality. In general, this research finds that a greater extent of component auditor involvement is linked to lower audit quality (e.g., Dee, Luseged, and Zhang, 2015; Downey and Bedard 2019; Burke, Hoitash, and Hoitash 2020; Impink, Lyubimov, and Prasad 2020; Sun, Wang, Kent, and Qi 2020; Carson, Simnett, Thurheimer, and Vanstraelen 2022). Notably, some studies find that the use of component auditors can benefit audit quality under certain conditions, such as when the group auditor possesses greater expertise in conducting GGAs and has experience with the component's country (e.g., Gunn and Michas 2018).

While this literature provides insights on the largely negative association between the use of component auditors and audit quality, these studies do not investigate how or why potential problems in GGAs are occurring, and research on these reasons is limited (Downey and Westermann 2021). Downey and Bedard (2019) examine challenges related to coordination and communication within group audits, finding that these challenges are influenced by factors such as client size, regulatory status, and group structure, while cultural and language barriers play a

comparatively lesser role. They also find that employing a tacit coordination strategy leveraging knowledgeable, experienced, and stable component auditors can help mitigate challenges.

Downey and Westerman (2021) provide the most comprehensive study on GGAs, investigating the group audit process and the challenges perceived by GAs in two central areas: component audit engagement planning and component auditor performance. In terms of planning, their GA participants detail common practices, such as influencing the choice of CA partners and assessing their qualifications, while relying on the partner to choose their engagement team. They report that while the GA dictates the scope of work, the decision on whether to provide explicit engagement instructions or allow the CA team to define the scope can vary based on the level of autonomy granted to the CA team. The GAs indicate that “physical proximity with component auditors through site visits” enhances their understanding of the CA perspective and helps build trust in the CA work (Downey and Westerman 2021, 1411). Additionally, the GAs report controlling GGA fees, which are typically negotiated for the entire component. They acknowledge that any fee negotiation with the CA leader generally favors the GA, even though they recognize that allowing the CA leader to set the fee would create stronger incentives for the CA team to perform effectively and efficiently.

GAs report that most of the challenges they experience are related to component auditor performance. Specifically, they note that component auditors often underperform by delivering non-compliant work or documents, missing deadlines, and violating independence requirements, which undermines the reliability of their contributions. Additionally, GAs experience delays in communication and work from component auditors, hindering their ability to conduct a thorough review. GAs also view component auditors as uncooperative, often shifting the responsibility for resolving issues back to the GA. Many of the issues described are reported by the GAs to stem

from component auditors' misunderstanding or misinterpretation of the standards and methodology, or from their inability or unwillingness to produce high-quality work.

Overall, Downey and Westermann (2021) find that group auditors regularly attribute performance issues in GGAs—including the component auditor's work quality, documentation, and communication failures—to the actions of the component auditor. However, they note that prior research has been “one-sided” (Downey and Westermann 2021, 1428) and lacks insights from the component auditor's perspective and experiences in the GGA process. Consequently, this paper focuses on component auditors and their experiences, including both the challenges they face and the positive aspects of their work in GGAs.

III. RESEARCH DESIGN AND PARTICIPANTS

We employ an experiential questionnaire to solicit information from highly experienced component audit (CA) leaders (i.e., managers, senior managers, and partners), based in the Netherlands. These leaders were involved in GGAs, performing audit work over a component of the consolidated financial statements for “within-network” group auditors in either the U.K. or Germany.² We collected data from 86 CA leaders representing five global network firms in the Netherlands, three of which were Big-Four firms (n=52) and two of which were international medium-sized firms (n=34). The questionnaire was distributed electronically to all respondents via the Foundation for Auditing Research in the Netherlands.

The experiential questionnaire elicits and explores information about the GGA context as experienced by the CA leaders, allowing for a rich description of these contextual features (Gibbins and Qu 2005). Our questionnaire design employs a retrospective focus, prompting CA leaders to recall and describe a recently completed component audit directed by a within-network group

² Institutional Review Board approval was granted for this study.

auditor in either the U.K. or Germany. To encourage CA leaders to focus on a single recent experience, they were asked to provide a code name for the engagement, which served to “fix it [the case] in their minds” (Gibbins and Qu 2005, 72). After describing the engagement, the CA leaders responded to twelve open-ended questions, elaborating on positive (“what went well”) and negative (“what did not go well”) aspects at each engagement stage, including staffing, planning, fieldwork, and review. Additionally, they provided insights into specific instances associated with the component auditor modifying the group auditor plan, and instances where they encountered cultural barriers. These qualitative questions are a subset of a larger data collection effort that included CA leaders’ quantitative assessments on the quality, efficiency, and effectiveness of the engagement, as well as the GA’s involvement in the staffing, planning, fieldwork, and review phases. These quantitative data are not included in the current study; instead, the focus is on the qualitative responses, which constitute the focal points of analysis. All responses were coded by the author team and a graduate research assistant with Big-Four audit experience to identify common themes.

The total sample comprises 86 component audit engagements, with the group auditor based in the United Kingdom 60.5 percent of the time, and in Germany 39.5 percent of the cases. At the time of the experience, many respondents were partners (41.9 percent), followed by senior managers (27.9 percent) and managers (26.7 percent). Most of the engagements described had occurred within the past year (80.2 percent), with the remaining 19.8 percent having occurred within the last one to two years. The component audits were predominantly full-scope audits (88.4 percent). On average, the components had annual revenues of approximately €25 million - €125 million and similar levels of assets. Over 50 percent of components were significant to the group audit due to size, while approximately 16 percent were significant to the group audit due to risk.

Only 1.2 percent of all components were public, but the group was public in nearly one third of the sample (31.4 percent). Thirty-one percent of components operated in the manufacturing industry, followed by retail (19.8 percent), and technology (9.3 percent).

In our analysis, we highlight the prevalent themes identified by CA leaders and discuss their implications for audit practice. To offer support and specific experiences within these themes, we include select responses to the open-ended questions from our participants.³ CA leaders provided insightful and detailed responses to the open-ended questions. For the ten open-ended questions in our analysis (86 respondents, 10 questions), we achieved a collective response rate of 94% (807 out of 860 questions answered), with detailed responses for 85% (731) of the questions. Respondents were candid in their responses, often describing controversial or adversarial issues, and provided detailed and lengthy responses. This level of engagement gives us confidence that the respondents were highly motivated and invested in the study, thereby enhancing the validity of our findings.

IV. FINDINGS

We structure our results according to engagement stage—staffing, planning, fieldwork, and review—and conclude with a discussion of perceived barriers.

Staffing

CA leaders indicate that, in most instances, GAs offer minimal direction or input when it comes to staffing the component audit. This observation confirms regulators' concerns about the inadequacy of GA involvement in the component audit which includes insufficient assessments of

³ Our findings highlight the themes that are pertinent and specific to global group audits. While CA leaders raised further issues, those that are not exclusive to group audit engagements (i.e., they are generic for most audit engagements) are not included in our findings. These issues include having: the appropriate mix of team members on the engagement, adequate resources to perform effectively, auditor experience, experience with the client, client cooperativeness, and information reliability.

the competence of the component auditor.⁴ In cases where GAs do provide direction on staffing requirements, CA leaders express a positive view, emphasizing that it promotes audit effectiveness. The main challenges faced by CA leaders in staffing revolve around the lack of timely communication from the GA regarding the component audit, as well as untimely requests to complete the component audit.

This lack of timely communication affects CA leaders in three primary ways. First, CA leaders base staffing decisions primarily on staff availability at the time they are informed of the GGA engagement, in contrast to their approach to staffing local engagements, which is typically planned farther in advance. CA leaders indicate that this ad-hoc staffing approach often promotes instability within the CA team due to high turnover, reducing effectiveness as the team has less experience and fewer established relationships with the component client. Further, CA leaders state that when their team has limited familiarity with the GA and their requirements, greater reliance on GA communication and direction is needed during the engagement, which is typically not received. Second, staffing based on ad-hoc availability often requires the CA leader to utilize different team members than those involved in the statutory audit, which they report as directly impacting engagement efficiency. Third, untimely GA requests, regularly accompanied by strict deadlines, often clash with component auditors' busy season for local clients or even vacation periods. This was reported to adversely affect the CA teams' motivation and capacity to conduct efficient, high-quality audits. The following two quotes exemplify CA leaders' frustration:

The timing of the group reporting is the beginning of February which is in the busiest season. The group sign off though is the end of March. The reporting deadline [should] be delayed to ensure better staffing. (22)

The timing of this engagement during the low season (summer) requires team members to reschedule their holidays [vacation]. (10)

⁴ ISA 600 (IAASB 2022) emphasizes the importance of the group engagement partner adequately understanding the component auditor, including the component auditor's competence and capability (§26, 12).

Interestingly, at the same time, several CA leaders express that they neither expect nor desire GA involvement in the staffing of the component engagement. In fact, some CAs view the absence of GA involvement in staffing positively, as it grants them greater ownership and autonomy over the engagement, which they believe promotes improved audit outcomes. That is, when CA leaders can determine staffing based on their needs, prior engagement experience, and knowledge, this is perceived to result in a more effective and efficient engagement, as well as higher audit quality.

Planning

CA leaders recognize the critical role of the GA in steering the planning process. Specifically, they emphasize the importance of receiving GA instructions and deadlines in a timely manner, effective planning supervision and oversight, and transparency in the group auditor's expectations for the audit. These factors, CA leaders reveal, provide their team with a clear focus for the audit, enhance their ability to meet the required deadlines, and lead to what they perceive as better audit outcomes.

Overall, CA leaders report that GA involvement in planning fall into one of three scenarios. First, the GA may be directly involved with the component (i.e., the client) and/or the component auditor, taking the lead in establishing the audit plan—occasionally in collaboration with the CA leader or team. CA leaders detail that such collaboration may involve meetings with the CA team and/or component client to gain a deeper understanding. They view this collaborative approach positively, as exemplified by the following quote:

The U.K. auditor joined the planning meeting in the Netherlands and gained understanding of the local business before sending the audit instructions. As a result, the audit instructions, as received, were specific and accurate. As part of the requirements, we sent our planned approach (focused on revenue recognition) [to] the [GA who] confirmed that they deemed this approach appropriate. I believe this upfront planning and discussing between the two teams went very well. (43)

Second, CA leaders indicate that in situations where the GA possesses limited knowledge of the component, they may delegate the responsibility of establishing the audit plan to the CA leader. This approach is also regarded positively:

As the group auditor had limited knowledge about the component, we drafted the group audit instructions ourselves. This included the identification of significant risks. The group auditor adopted [our plan]. This resulted in an efficient audit planning process. (78)

Third, CA leaders report experiences where the GA adopts a centralized approach by providing a standard audit plan to all components without tailoring it to specific component needs. CA leaders reveal that this approach causes frustration and often leads to inefficient audits characterized by redundant work. Importantly, they indicate that this approach requires the most adaptations to the audit plan, especially when the centralized plan does not align with the local interpretations of audit standards. CA leaders further suggest that when the GA develops a plan without a sufficient understanding of the component, this results in inadequate risk and materiality assessments, necessitating further adaptations. Additionally, CA leaders note that adaptations are often required when the CA team has performed the statutory audit using different risk and materiality thresholds than those imposed by the GA. The following quotes illustrate how and why CA leaders adapt the GA's audit plan.

Materiality was set too low for our entity. [It was] not realistic and the [GA] assessed risks for areas that were not applicable (like inventory: the company has no inventory). (20)

The group auditor determined a materiality level that we could not use for the statutory audit. In order to prevent duplication of audit work we performed the audit work for group reporting purposes on the basis of the (lower) statutory materiality. (64)

However, one CA leader, reflecting a minority view, suggests that it is not permissible for the component auditor to adapt the GA plan due to their firm's rules; such a rule could have implications for group audit quality and compliance with the auditing standards:

According to the firm's audit methodology, the instructions of a [group auditor] are leading in the procedures to be performed. Being non-compliant with the instructions is a quality breach. (70)

Fieldwork

CA leaders emphasize that GA involvement, supervision, and communication with the CA team throughout the fieldwork phase are critical to conducting an effective and high-quality audit. They note that GA involvement contributes to a smooth and efficient fieldwork process and helps prevent last-minute surprises. CA leaders express a need for, and place value on, a collaborative environment with the GA including open and responsive communication. The following quotes highlight these positive experiences:

The continued direct contact with the group auditor during the process ensured full involvement and their understanding of the difficulties in our audit. Due to this we were fully aligned. (24)

The group audit team was available for questions and from time to time checked in with the component team to discuss whether any issues have arisen during the audit to discuss solutions or a revised approach if necessary. (50)

CA leaders indicate that a lack of GA involvement or understanding of the component often creates additional work for the CA team and can lead to last-minute surprises arising towards the end of the audit, requiring further work. This is a common source of frustration for CA leaders. Additionally, CA leaders suggest that untimely or limited communication from the GA during the fieldwork phase negatively affects the CA team's efficiency. Many CA leaders express a desire for greater GA involvement in this stage, as illustrated by the following example:

[There was] very limited interaction with the group auditor during field work phase. We would expect a more directive role, given the ultimate responsibility lies at the group level. (48)

In contrast, one CA leader reports that low GA involvement can also be viewed positively as it affords the CA team the opportunity to make their own decisions:

The group auditor did not have an active role in the fieldwork part of the audit. This meant we were able to select and perform the extent of our procedures by ourselves. As the client is very cooperative, the fieldwork stage ran very smooth. (10)

Review

The potential for coordination and communication issues in group audits (Downey and Bedard 2019), coupled with the information asymmetry between the group and the component auditor (Downey and Westermann 2021), underscores the necessity for the GA to conduct a careful review of the CA team's work and involve the component auditors to help resolve any issues. However, regulators and standard setters have raised concerns that GAs are not providing sufficiently thorough review of the work conducted by component auditors. Responses from CA leaders echo these concerns, indicating that many GAs fail to provide a (comprehensive) review of the CA team's audit file. This lack of review, or its limited extent, is consistently viewed negatively by CA leaders, as illustrated by the following examples:

The depth of the file review was very limited, [yet] we are by far the most significant part of the group and generate the majority of the revenue for the group. There were no questions on the audit approach, or remarks on the file, just some minor questions were asked. (58)

The group auditor was not engaged. Over the course of several years there was never a quality review on our audit file nor regular calls. The only contact was regarding our proposal for a fee increase. (48)

CA leaders also report feelings that the absence of a GA review signals that the component audit engagement is unimportant to the GA. For example:

Although our component was in full scope, there was no group auditor review of our files. We received audit instructions which we answered. No additional questions were asked. Relatively, "our" component is not significant in the group. (34)

In cases where the GA does conduct a review, CA leaders suggest that prompt GA feedback significantly enhances their ability to make timely and effective revisions or perform additional work. In contrast, CA leaders describe that delayed reviews create timing and memory-recall

difficulties for the CA team regarding the details of the engagement. Moreover, they explain that delayed reviews are typically associated with tight deadlines, creating complications for the CA team, as they are often managing other engagements with competing deadlines.

The timing of their file review was challenging, as the group audit team started the work on consolidation a month later than we needed to report our findings to the group audit team. A short timeframe between reporting and review by the group audit team would enhance efficiency and the effectiveness and quality of the review process by the group audit team. (50)

In contrast, when CA leaders have positive experiences with the review process (i.e., it is smooth and easy), they often attribute this to the GA's involvement throughout the entire engagement. This ongoing involvement helps prevent any surprises during the review process.

We have included the group auditor during the audit for all relevant and sensitive issue topics. So, no surprises from the group auditor during their review. This also builds trust towards the component auditor. (72)

Other CA leaders express appreciation for the commitment shown by GAs, particularly those who visited the CA team, the client, or attended the sign-off meeting. This involvement permits CA leaders to address any issues directly and enables a smoother review process:

The group auditor visited us with regard to the prior year audit. It was nice to meet face to face and to discuss the audit practices in both Netherlands and Germany, to discuss our audit approach (also in relation to the group audit instructions) and to show the audit file in more detail. (53)

The group auditor came to the Netherlands for its review and participated in the audit closing meeting with the client. This face-to-face communication about audit issues was helpful to address the issues. (78)

Barriers

CA leaders report three thematic barriers encountered in their recent GGA experiences they perceive to impact the quality of the engagement, the morale and motivation of the CA team, and/or the relationship between the GA and the CA team.

First, CA leaders commonly face engagement fees that they deem as insufficient to adequately staff and conduct an effective audit, leading them to view the feasibility of the engagement as “unrealistic”:

As a component auditor we calculated the audit fee for “our” component ... The group auditor reduced this fee by approximately 30 percent, and without our approval they put this in the fee schedule for the Group. So, the budget for the audit of the component was determined by the group auditor in the U.K. and set at a much lower amount than we had calculated. It is impossible for the component team to meet the budget requirements. (15)

This issue with fee negotiation structure was common, with many CA leaders reporting that they do not establish or control the budget; instead, the fee is determined by the GA. CA leaders reveal this frequently occurs without a thorough discussion between the CA leader and the GA, or without the GA gaining a genuine understanding of the CA engagement needs and requirements. Consequently, the fee is typically lower than what the CA leaders consider as necessary, which directly affects the CA team’s psychology and emotions, although it does not seem to impact audit quality, as perceived by CA leaders. For example:

The fees are determined by the group auditor [and] are insufficient (very) for the work performed. This is a recurring topic with the [group auditor]. This does not at all influence the time spent or the quality of our work as component auditor. But it does impact the goodwill of the team members as you are not getting the feeling that you are taken seriously. This should be better understood by the group auditor ... Fair fee sharing is in my opinion very important for the relationship between group and component auditor. (72)

Second, CA leaders reveal that disparities exist between countries in the application and interpretation of audit standards, which can affect the execution of the audit. They suggest these disparities sometimes raise quality concerns. For example, the Dutch CA leaders suggest their local requirements are stricter and more rigid, partly due to recent regulatory scrutiny and greater focus on audit quality in the Netherlands (e.g., Detzen, 2024; Gold, Detzen, Van Mourik, Wallage, and Wright 2022; Humphrey, Canning, O’Dwyer 2018), compared to the group audit locations, such

as the U.K. or Germany. CA leaders mention that these discrepancies often present challenges for the CA team, particularly when they struggle to balance adherence to GA requirements while simultaneously meeting the more stringent Dutch standards. For example:

Due to the developments in the audit profession in the Netherlands in the past years we require much more underlying documentation, and management assertions (such as position papers) on accounting matters when compared to foreign auditors. The increased efforts from Dutch auditors are often not understood by foreign auditors and are usually treated as exaggerated. (85)

Relatedly, CA leaders reveal that the diverse interpretation and application of audit standards across countries can constrain CA teams' ability to rely on the work performed by others, such as the GA or specialists in the group country, as the work may not meet local requirements.

Third, CA leaders identify a barrier rooted in cultural personality differences. Dutch CA leaders describe their auditors as being more direct and abrupt in their interactions compared to auditors from other cultures. These CA leaders acknowledge that this cultural difference could indirectly affect audit quality due to potential breakdowns in communication and relationships with either the GA or client management. Together, these barriers reinforce the suggestions made by accounting bodies (e.g., IAASB, IFIAR, and the PCAOB) that the nature of GGAs, including regulatory differences and cultural factors, can impact audit quality.

V. CONCLUSION AND DISCUSSION

The central message of this study is that GA involvement and coordination throughout all phases of the component audit are critical for the effective and efficient conduct of component audit engagements. Our evidence from the perspective of CA leaders supports concerns about GGA quality and the underlying causes raised by standard setters, regulators, and other accounting bodies (e.g., IAASB, IFIAR, PCAOB). For example, CA leaders' insights support these accounting bodies' assertions that active GA participation, involvement, and communication are associated

with perceptions of high-quality CA engagements. Vice versa, CA leaders reveal that insufficient GA involvement and communication, the adoption of a centralized (standard) audit plan, lack of review, and insufficient fees are associated with negative experiences that affect audit quality.

Our findings contrast with prior research suggesting that GAs generally believe they already exert adequate and consistent effort, with challenges in GGAs being almost exclusively attributed to the component auditor (e.g., Downey and Bedard 2019; Downey and Westermann 2021). The counter-balanced view presented in this study provides regulators, standard setters, practitioners, and researchers an important alternate, or complementary, perspective to help understand why audit quality issues persist within GGAs and to aid their endeavor to improve GGA quality. We next discuss the major takeaways and implications for these parties.

Auditing standards clearly require GA involvement in the component audit. For example, ISA 600 emphasizes the need for the GA to adequately understand the component auditor's competence and capability (IAASB 2022). However, CA leaders' experiences indicate that such involvement is often insufficient across all phases of the CA engagement. This lack of involvement and direction, particularly in staffing and planning, raises concerns as it conflicts with regulatory requirements and is likely to undermine the quality of audits.

More specifically, even though GAs are required to review the work of the component auditor, CA leaders report that these reviews are often nonexistent or conducted cursorily. In some instances, CA leaders are unaware if a review even occurred. This is problematic, as the absence or insufficiency of reviews can result in component auditors exerting less effort, assuming their work will not be reviewed, and can cause GAs to miss valuable opportunities to improve their understanding of the component (client). This reported lack of compliance with auditing standards highlights direct practical relevance to standard setters for their future refinement of GGA

standards, as well as for audit firms and regulators in their efforts to increase the implementation and adherence to these standards.

CA leaders' motivation to ensure high audit quality appears to be impeded by feelings of frustration, a sense of insignificance, and constrained audit fees commensurate for the required level of work and quality of personnel. Interestingly, we also note that, while most CA leaders experience the lack of involvement negatively, some CA leaders in fact appreciate the autonomy to make their own decisions in these phases. This suggests that a healthy balance between adequate GA involvement and sufficient CA leader autonomy is essential.

A key takeaway from our findings is that greater GA involvement, comprehensive GA knowledge of the client and the component auditor, timely instructions from the GA, and sufficient review of the engagement would enhance component auditor motivation and, consequently, audit quality. CA leader insights suggest the impact of GA actions (or the lack thereof) on CA teams should be communicated to GAs and reflected in audit firms' internal guidance. Additionally, when assessing quality control within their global network, audit firms should consider the psychological and emotional aspects of CA engagements and their impact on engagement quality.

Furthermore, audit firms could use insights from the current study to initiate systems to promote and set appropriate engagement fees. Specifically, the common theme of inadequate CA engagement fees raises several important implications for practice. First, the fees are typically established by the GA (as also noted by Downey and Westermann 2021) with limited negotiation opportunities for the CA and without sufficient GA understanding of the CA engagement. Whether this fee-setting structure effectively supports high-quality work is a concern for audit firms, as it directly impacts the incentives and motivations of component auditors. Another major question is

whether the CA's economic incentive is a root cause of many of the issues identified in this study and other studies reporting the experiences of GAs.

The consistent recurrence of issues across repeat engagement suggests there is a non-existent or dysfunctional feedback loop between the CA and GA. The lack of resolution on issues such as the untimely GA communication, the need for modifications to the audit plan, and absence of review on repeat engagements suggests there is ineffective or missing communication and feedback mechanisms between auditors. This inhibits learning, improvement, and audit efficiency, directly affecting audit firms' ability to improve GGA quality and potentially contributing to the deficiencies in GGAs consistently identified by accounting bodies. This feedback loop is a pertinent area for standard-setters to address, both through integrating it more explicitly into auditing standards and exploring regulatory initiatives that encourage constructive interaction between component and group auditors to ensure a more holistic oversight approach to GGA quality. Additionally, audit firms could strengthen the relationship dynamics between group and component auditors by establishing clear protocols for the communication of feedback, which could significantly improve the GGA process and enable more efficient and higher-quality work.

Finally, given the international nature of GGAs, CA leaders in our study report experiencing unique challenges adhering to GA requests while also complying with stricter local standards, and that they are sometimes unable to rely on the work of others despite this work being acceptable at the group level. Such challenges (which may also occur in reverse) are important for regulators to acknowledge when inspecting GGAs, for audit firms to consider in communications between the GAs and CA teams, and for standard setters to consider how to address these potentially conflicting requirements and which standards to prioritize within GGAs. These national differences and associated challenges also present a potentially rich area for academic research.

A potential limitation of our study is that our participants are CA leaders in an IAASB jurisdiction (the Netherlands) undertaking a GGA for IAASB-based group auditors (in Germany or the U.K). We believe, however, that our findings are generalizable to GGAs involving a US component or group auditor, given that IAASB, PCAOB, and AICPA standards on group auditing are “closely paralleled,” suggesting that the findings should be “applicable beyond the purview of the IAASB” (Sunderland and Trompeter 2017, 160).

Our study focus, though, highlights interesting opportunities for future investigations. For instance, while ISA 610 requires the group auditor to take full responsibility for the component auditor’s work, the PCAOB standard permits shared responsibility. This difference raises an important question for researchers, standard setters and regulators about whether, or how, this flexibility in standards impacts GGA quality. Furthermore, given prior research indicating that group auditors often attribute audit quality issues in GGAs to CA actions (e.g. Downey and Westermann 2021), it remains unclear to what extent PCAOB group auditors exercise this shared responsibility and how much control they delegate. Further insights in this regard could have a substantial impact on future standard-setting across jurisdictions.

Another avenue for investigation stems from the mixed findings in previous research regarding CA involvement in group audits. For instance, some studies find that CA involvement is associated with positive investors and lenders reactions (e.g. Chen and Conaway 2022; Krishnan, Mao, and Zhang 2023). In contrast, other studies link CA involvement to lower earnings informativeness and lower audit quality (e.g., Dee et al. 2015; Downey and Bedard 2019; Burke et al. 2020; Impink et al. 2020; Sun, et al. 2020; Carson et al. 2022), and negative investor reactions (e.g. Demek, Kaplan, and Winn 2020). While this study cannot help to reconcile these inconsistent findings, it offers valuable insights from CA leaders, which, together with studies focusing on the

GA perspective, can help audit practice develop measures with a more holistic view addressing the complex intricacies at play in the relationship between CA involvement and audit quality.

A final research avenue that could offer valuable insights into the discrepancies between CA leader views and GA perspective is a study that engages both CAs and GAs from the same engagement(s). This approach would allow for a direct comparison of their responses regarding the GGAs' quality, efficiency, effectiveness, as well as a deeper understanding of the sources of any challenges identified. Moreover, such a study could help identify a process for creating an effective feedback loop between these two parties, fostering clearer communication and potentially improving the GGA process as a whole.

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