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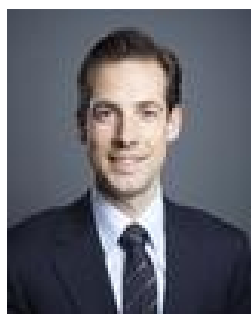
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Aschauer: are trustful auditors less sceptical?

Mandatory auditor rotation may not be the answer for improved audit oversight and governance. Prof Ewald Aschauer considers the findings of a major survey into the relationship between auditors and CFOs, suggesting trust and professional scepticism go hand in hand

Perhaps nothing in contemporary accounting has generated more debate than mandatory auditor rotation – whether companies should be required to periodically change audit firms or audit firm engagement partners. So voluminous has the research been, in fact, that some have wondered if the issue merits it.



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Pros and cons of mandatory rotation

An argument frequently advanced in its favour is that long auditor tenure can induce staleness into the auditing process, with auditors relying excessively on prior years' working papers.

Rotation, the argument goes, militates against this tendency by guaranteeing a fresh look at clients' accounts. The converse of this argument, advanced by rotation opponents, is that familiarity with clients' finances confers significant advantages in terms of audit efficiency and cost.

Proponents of rotation also contend that it is needed to guard against excessive trust, or cosiness, as it is often termed, developing through long associations between clients and auditors.

Perhaps because of its emotional ramifications, this claim has gained considerable traction in the public arena and the continuing debate about the mandating of rotations in the US,

UK and EU. After all, if auditors come to trust their clients, the thinking goes, they can hardly maintain the professional scepticism essential to sound auditing.

Or can they?

Indeed, it is easy to think of a good reason they can. Won't auditors tend to be trusting of clients that view them as properly sceptical? And to the extent that clients resist professional scepticism, won't auditors tend to become less trusting? Won't a trustful relationship be the basis for enhanced information exchange and less conflict between auditors and clients?

Audit relationships

The results of the study, which were published in the spring issue of **Behavioral Research in Accounting (American Accounting Association)** indicate that, far from trust and professional scepticism being contradictory, they go hand in hand. There was a basically healthy balance in the auditor-client relationship that deserves leeway from regulators. Naturally, this raises doubts about the value of mandatory rotation. Indeed, there was no significant relation between auditor scepticism and the length of companies' relationships either with audit firms or engagement partners.

The findings emerged from an omnibus enlistment and survey effort. From an extensive list of auditors randomly enlisted by phone, those who agreed 1) to respond by mail to a survey on the auditor-client relationship, and 2) to send a sealed envelope containing a letter and questionnaire from us to the first business listed alphabetically on their client list. Correspondence was coded to preserve anonymity of both auditors and clients while permitting pairs to be matched.

We received usable questionnaires from 233 pairs of auditors and client contacts, mainly CEOs and chief financial officers (CFOs). On average, client companies had about 800 employees, had engaged their audit firms for 11 years and had worked with the audit partners for eight years.

Measures of trust and professional scepticism were based on auditor or client responses, on a scale of one (totally disagree) to seven (totally agree), to six statements. Items to gauge auditors' trust of client contacts included 'has a strong sense of justice'; invariably 'sticks to his/her word'; 'would not knowingly act against our interests'; and 'contributes to the audit more than required'.

Statements to gauge corporate and company contacts' estimates of auditors' professional scepticism included 'thinks that learning is exciting'; 'takes his/her time when making decisions'; 'likes to understand the reasons for other people's behaviour'; 'has confidence in himself/herself'; and 'frequently questions things he/she sees or hears'. The analysis of survey responses was controlled for a variety of factors that could affect views on either side.

Auditor trust has a strong positive correlation with professional scepticism, a result which in our view indicates that 'any regulation inhibiting a trust relationship between the auditor and the client will certainly not improve and potentially even harm professional scepticism. One example of regulation embracing this proposed balance might be to avoid the mandatory rotation of auditors away from their clients and instead implement a systematic external review of auditors work'.

To be clear, our findings should not be seen as minimising the potential danger from collusion between clients and auditors, to which external review is the best answer. Fortunately, external review mechanisms are increasingly in place, such as the US Public Company Accounting Oversight Board (PCAOB) in the US, the Financial Reporting Council (FRC) in the UK and the Financial Reporting Enforcement Panel in Germany. The survey raises questions about the value of mandatory auditor rotation. If further initiatives to extend this are on the back burner at present (as seems to be the case), that is probably just as well.

About the author

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Research project

The research was conducted by professors Maïhias Fink of Johannes Kepler University Linz, Andrea Moro of Cranfield University, Katharina van Bakel Auer of Vienna University of Economics and Business, and Bent Warming were published in the spring issue of [Behavioral Research in Accounting](#) (published by the American Accounting Association).

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