

**The London School of Economics
and Political Science**

*Auditor Professional Scepticism: A qualitative
exploration of its development and operation
in the United Kingdom.*

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A thesis submitted to the Department of Accounting of the
London School of Economics for the degree of Doctor of Philosophy.

London, 30 September 2018

DECLARATION

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ABSTRACT

This thesis explores auditor professional scepticism and answers three key questions, (1) the influences that shaped the current understanding of professional scepticism in the UK, (2) the problems and challenges in making professional scepticism auditable, and (3) how artefacts are used to construct and capture the operation of professional scepticism in audit engagements. These questions are addressed using archival methods, interviews, and through rare access to an audit firm for ethnographic interviews, focus groups, and participant observation. This affords a ‘back stage’ understanding of professional scepticism, highlighting audit’s social nature and the impact this has on scepticism’s operation and evidencing.

A genealogical analysis first argues that the rise of attention to professional scepticism in the UK is the result of changes in regulatory structure, ongoing corporate crises, and an effort to re-individualise the auditor. Ideas of professional scepticism changed over time, from being ‘healthy’ to something that is ‘professional’, with this mapping to changes in the emphasis on fraud. Auditees came to be seen as clients, magnifying tensions between trust and doubt. It took a reset of regulatory settings to re-individualise the audit and bring the attention back to auditor professional scepticism. This sets the scene for regulatory attention on scepticism.

Regulators have increasingly noted an absence of scepticism in inspected engagements. This raises the question of the auditability of scepticism. It is argued that the challenges in auditing scepticism come from a broad conception of what it is and what it ‘looks like’. Issues also arise with auditability being applied to audit, as audit is effectively turned upon itself. The gaps between being auditable and making things auditable become apparent as a result, with a resultant paradox of evidence arising.

The third argument is presented using rare audit firm access to position scepticism as a jointly-constituted product of both social and material conditions. A sociomaterial view allows for the social conditions and the material artefacts and their affordances to be viewed as co-creators of professional scepticism, suggesting a distributed location of scepticism and challenging traditional structure-judgment divides. This chapter also links in to the concerns about auditability as it shows how the artefacts most linked to the source of professional scepticism are the ones least likely to be preserved, despite their role as a co-constitutor.

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ACRONYMS

Acronym	Full Term
AAA	American Accounting Association
ACCA	Association of Chartered Certified Accountants
AGM	Annual General Meeting
APB	Auditing Practices Board
APC	Auditing Practices Committee
APC of CCAB	Auditing Practices Committee of Consultative Committee of Accountancy Bodies
CCAB	Consultative Committee of Accountancy Bodies
EC	European Commission
FRC	Financial Reporting Council
FSA	Financial Services Authority
GFC	Global Financial Crisis
IAASB	International Auditing and Assurance Standards Board
IAPC	International Auditing Practices Committee
ICAEW	Institute of Chartered Accountants of England and Wales
ICAS	Institute of Chartered Accountants of Scotland
IFAC	International Federation of Accountants
IFIAR	International Federation of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IOSCO	International Organisation of Securities Commissions
ISA	International Standard on Auditing
ISA (UK)	International Standard on Auditing (United Kingdom)
LSE	London School of Economics and Political Science
NAS	Non-Audit Services
PCAOB	Public Company Accounting Oversight Board
PIE	Public Interest Entity
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley legislation

ACKNOWLEDGEMENTS

This document carries my name only, but it is the product of many individuals and organisations who helped to make it possible. To each and every one of you I offer an unreserved thank you.

A tremendous debt of gratitude is owed to the Department of Accounting at the London School of Economics and Political Science. The financial support from the department made these four years of study possible, while the academic collegiality and extensive expertise of faculty meant that I experienced a challenging learning environment beyond my imagination. I know I am better for having been amongst your ranks for the last four years.

Particularly noteworthy are the two project supervisors who guided my efforts. Firstly, my primary supervisor, Associate Professor Doctor Andrea Mennicken. Your research experience and in-depth knowledge of a seemingly endless range literature meant that I was always challenged, learning, and thinking. Professor Matthew Hall, your input, guidance, and enthusiasm for the project is also recognised and your continued involvement from Australia was greatly appreciated. From day one you both provided consistent, extremely generous and fairly considered comments on the work that you read through. You were also most generous with both your time and advice, despite facing numerous other demands. Most importantly, you remained enthusiastic about the project and confident in my ability to deliver. Hopefully this finished thesis does justice to your commitment and support during my candidature. You both provide me with a high benchmark as I progress with an academic career. I also wish to acknowledge and thank Professor Mike Power for his comments during the upgrade process.

To the numerous professionals who volunteered their time to participate in interviews I also say thank you. Your reflections on practice are the very foundation of this thesis and a simple thank you seems a rather insufficient response for your offering of your time and thoughts. A particular thank you to the audit firm and its representatives who made the field placement a reality and afforded a rich first-hand perspective via a participant observation. Your involvement reminds me that opportunities can arise from the most unexpected of circumstances, while also

reinforcing my enthusiasm for field-based research efforts and the opportunity to engage with the profession.

A constant presence across this four-year journey were my Accounting PhD colleagues at LSE. Each week we met in the timetabled block that was generically coded as AC500. Whenever papers were discussed or work was presented you offered feedback, perspectives, and suggestions that invariably assisted my own progress and also challenged my thought processes. For that I am thankful. I am admiring of your efforts and diverse perspectives and appreciative of the collegiality you demonstrated. Particular recognition goes to my office colleagues past and present – with special acknowledgment for Dr Nadine DeGannes, Daphne Hart, and Rani Suleman. You were all fellow travellers on this PhD journey and have provided constant encouragement and a friendly workspace for the discussion of ideas. More importantly, you have also become valued friends. I must also acknowledge the generous help of Dr Dorothy Toh who, at relatively short notice, provided note taking support in a focus group session.

A key to my sanity and well-being has been my small but valuable network of friends here in the UK. Among these, particular thanks go to Marc and Sam for their generosity when I first arrived in London, as well as for your continued and ever valued friendship. Thanks also to Julian for your regular counsel, as well as the opportunity to temporarily suspend scepticism and disbelief in theatre land over the years. To my Australian friends who made the journey over - Nathan, Patrick, and Adrian - thank you for visiting London and catching up and for keeping in contact.

Thank you also to those in Australia who helped shape my decision to undertake further studies in London. The encouragement and assistance of Dr Carlin Dowling and Professor Michael Davern during the PhD application process was most valuable. In addition, you were both influential in developing my perspective as an academic. Bill Blair, Dr Gordon Boyce, and Dr Cindy Davids are also recognised for their positivity and friendship and for being tremendously supportive and enthusiastic colleagues during my formative academic years. To Dr Diane Janvrin, Dr J.P. Krahal, and Dr Margarita Lenk, thank you for your continued voices of encouragement as we have collaborated in recent years. It is an understatement to say that I have learnt a lot from having had the opportunity to work with those mentioned in this paragraph.

Finally, one group that cannot go unacknowledged is my family. Perhaps my biggest disappointment in this process is that Dad is not here to see this achievement.

His memory lives on and his influence is ever paramount. He always offered a constant urging to my sister and I, reminding us that it did not matter what we did as long as we did our best. I hope and trust that this is a fitting tribute to his influence and memory. To Mum, Bernie, Narelle, Brendan, Zack, Lucy, Joseph, Amy, Edward, Audrey, Nan, and Pop I also thank you for your continued support. While distance has meant that we have not seen each other for some time, in reality you all were never far from my thoughts over these past four years. I look forward to once again seeing you all sometime soon.

1 INTRODUCTION

“...the FSA’s work has led it to question whether auditors are sufficiently sceptical when challenging management’s basis for determining the models and assumptions used to derive ranges of fair value estimates – in particular, the selection of particular estimates from within such ranges of probable estimates – where key inputs may be unobservable.” (FSA & FRC, 2010:23)

“In failing to exercise—and voice—professional scepticism towards...aggressive accounting judgements...[the auditor] was complicit in them. It should take its own share of responsibility for the consequences.” (House of Commons Committee, 2018:53)

1.0 OVERVIEW

Much has been written about auditor professional scepticism over the last decade. It has been described as “an essential element of the financial statement audit” (Quadackers, Groot, & Wright, 2014:639) and “essential to the auditing profession.” (Hurtt, Brown-Liburd, Earley, & Krishnamoorthy, 2013:46) Despite this, its description and application across research has been “somewhat inconsistent” (M. W. Nelson, 2009:4) and “difficult to define and measure” (Hurtt et al., 2013:46), evidencing an overall lack of consensus (Nolder & Kadous, 2018). This thesis argues that as much as we may know about professional scepticism, we still know very little about what it means within its natural context - the audit firm and the engagement team.

The House of Commons Committee investigating the failure of Carillion provides a recent example of the attention to auditor professional scepticism. Their focus is consistent with past regulatory discussions linking audit failures and deficiencies to inadequate professional scepticism levels (APB, 2010; FSA & FRC, 2010; Hurtt et al., 2013:46). Evident in both of the quotes is a continued concern with auditor professional scepticism. Although eight years apart, both point to worries about the audit. Particularly evident are concerns for the extent of challenge through speaking out and acting against “aggressive accounting judgments” (House

of Commons Committee, 2018:53) encountered during the audit. Auditors are portrayed as a “voice” (House of Commons Committee, 2018:53) of dissent, expected to make their objections known and act upon them – the *verba et acta*. Audit firms, the profession, and regulators alike have grappled with professional scepticism for over a decade. Despite such attention there is still a frequent mention of it in audit inspection reports and news commentary (for example Shoaib (2018) in *Accountancy Age* reported on a decline in audit quality, with this accompanied by the observation of an increased frequency of professional scepticism being mentioned in 2018 audit inspection reports). The mentions of scepticism have accompanied corporate failure (for example, Carillion) and highlight the link between auditor performance and the pressures and expectations from the regulatory, political, and wider community sources. This attention has used professional scepticism as a focal point, highlighting what is seen to be unacceptable levels of scepticism being applied in reviewed audit engagements.

Such prevalent concern about audit quality in general and professional scepticism in particular provides a practical context for this thesis which addresses how professional scepticism developed and how it operates in the UK audit setting. More specifically, it asks about the conditions of possibility for auditor professional scepticism, with attention to the conditions that led to the emphasis on professional scepticism and the conditions that are instrumental in its operation. In addition, the audit firm environment is examined through a field study that describes how professional scepticism operates within the audit firm and one of its engagement teams. The argument that is prosecuted consists of three components and these, along with their associated research questions, are considered in the sections that follow.

1.0.1 Where did professional scepticism come from?

The first consideration is how professional scepticism was made into an object of regulatory attention (chapter three). This is the starting point for considering professional scepticism. The historical perspective is argued as important for understanding the current means of regulating professional scepticism. The genealogical approach (Foucault, 1991a) makes apparent how historical conditions provided the conditions of possibility (Miller & Napier, 1993) for the current understanding of professional scepticism. Particular dimensions of scepticism

become apparent through the historical analysis, including the role of the individual auditor, the role of judgment, and the question of audit evidence.

First, it is argued that the rise of professional scepticism in the United Kingdom represented a turn in the expectations placed on the outward demonstration of conduct by auditors. While recent failures have been linked to insufficient scepticism, the history suggests that earlier failures provided the basis for professional scepticism to become a ‘thing’. This was in response to the changing financial reporting and auditing environment and the demise of professional self-regulation. This turn of events provided the conditions for professional scepticism to become a regulatory object, bringing with it the simultaneous problematisation and emphasis on the role of the individual in the audit. In a somewhat paradoxical manner, auditors were being required to make their processes and contests more visible in a time where the description of audit as “the certification of the unknowable” (Pentland, 1993:611) was seemingly never more apt. Auditors were being asked to demonstrate more questioning and challenge on financial statement items about which they potentially knew less (Smith-Lacroix, Durocher, & Gendron, 2012).

1.0.2 Auditability of professional scepticism

As regulators became increasingly attuned to levels of professional scepticism the term appeared more frequently in the regulator’s audit firm inspection reports and annual reports. The comments in the reports, as well as in discussion papers of the time, suggested a regulatory understanding of professional scepticism as something that was visible and auditable after the fact. Examples of this were evident in an FRC discussion paper (APB, 2010) and subsequent position paper (APB, 2012). However, as chapter four argues, the construction of auditability (Power, 1996) has several necessary conditions of possibility that, when applied to professional scepticism, become potential conditions of impossibility. Establishing the auditability of scepticism requires consensus on what scepticism is and on the ways that it can be demonstrated. As chapter four illustrates, there were mixed views on the former question and apparent uncertainty on the latter. Concerning the consensus on meaning, the implications of scepticism for the audit approach were a point of contention, with the argument becoming one of neutral versus presumptive doubt mindsets in an engagement setting. When the discussion turned to forms of evidence for scepticism the consensus on what could operate as a material trace was just as

problematic, with firms and regulator in disagreement over proposed forms of evidence. These were significant points of contention and central to the construction of auditability.

A further significant factor in the uncertainty was that judgment that was seen to be a part of professional scepticism. Professional judgment is an area of opacity and obscurity for the profession (Power, 1997), with this problematising its auditability. Whether as a defensive mechanism in order to protect the profession's turf or a problem of making the tacit explicit, the transparency of judgment processes and how these evidenced scepticism in action was a point of contention – especially given the approach of audit inspections under the FRC and their emphasis on making individual judgments a point of focus. This saw firms and professional bodies offering judgment frameworks as a way of evidencing scepticism. These pointed towards a more systems-based approach to auditability (Power, 1996, 1997) and provided a scientific and rational depiction of processes.

A further challenge to scepticism's auditability was its suggested nebulous state, with evidence suggesting that scepticism changed its form across the engagement and was only understood in hindsight. This was due to its distributed operation, being part of the individual, the engagement team, the tools employed, and the engagement setting. This presented implications for the traceability of professional scepticism, since what scepticism 'is' cannot necessarily be anticipated. Rather, scepticism is seen as a changing thing whose meaning and significance becomes apparent over time, with the auditability of scepticism argued to lead to scepticism becoming what it wasn't.

1.0.3 What happens in the firms?

The final question considered is how artefacts are employed in the creation and capturing of professional scepticism within the audit firm setting. Artefacts are employed as the empirical focus since they are the embodiment of organisational and professional knowledge practices and understandings (Power, 2016; Riles, 2006). They represent a certain understanding and way of seeing and guide both what is done and how it is done in the audit setting. The use of audit artefacts has also been a topic of mixed conclusions, with examples being research into checklists and decision aids. An argument for their use is that they aid in the management of cognitive processing in complex situations (Gawande, 2010). However, regulators have raised concerns

that their imposition of structure and process narrows the scope of auditor thought and consideration (see, for example, concerns raised in the discussion paper by the APB (2010)).

Chapter five takes these concerns as a starting point and problematises the understanding of audit artefacts. A particular attention is given to the debates in the structure-judgment literature which have highlighted tensions within previously considered topics of audit firm structure and methodology design (Bowrin, 1998; Carpenter, Dirsmith, & Gupta, 1994; Dirsmith & McAllister, 1982a, 1982b) and the role of individual judgment in the audit process (Martin, Rich, & Wilks, 2006; M. Nelson & Tan, 2005; Smith-Lacroix et al., 2012). The initial metaphors for understanding audit design and operation, the mechanistic and organic categories (Dirsmith, Covalleski, & McAllister, 1985; Dirsmith & McAllister, 1982a) suggested a positioning of audit process as structured (mechanistic) or judgment based (organic) in an either/or scenario. These views arguably failed to incorporate the social element of the audit, with audit design set and followed but the question of the context in which that occurred left unattended. The methodology of the audit firms was seen as the force that shaped what auditors do.

Positioned in relation to these studies, chapter five argues that the consideration of professional scepticism in an engagement is not just about judgment or structure. It is not all person or all artefact. Rather, it is about the recognition that scepticism can come from both the artefact and the auditor. Under this view the operation of scepticism is distributed between artefact and auditor and an understanding of scepticism is conditional upon how these two dimensions relate to and shape each other. Sociomateriality (Leonardi, 2013; Orlikowski, 2007, 2010; Orlikowski & Scott, 2008) is used to argue that the artefacts in the audit engagement are a combination of social and material factors engaged in intra-action – they shape each other - rather than an imposed force from the artefact alone. This perspective changes the understanding of audit artefacts and provides a basis for considering the type of artefacts that make up the audit, pointing to possible reasons why evidence of professional scepticism is often seen as missing from completed engagements.

1.1 MOTIVATION

The impetus for this research comes from the heightened attention to auditor professional scepticism over the last decade, with regulators (APB, 2010, 2012),

practitioners and their professional bodies (Auditing and Assurance Standards Board & Institute of Chartered Accountants Australia, 2013; Kemp, 2012), standard setters (IAASB, 2012b, 2015a, 2015b, 2017) and academics (Glover & Prawitt, 2014; Hurtt et al., 2013; M. W. Nelson, 2009) frequently considering its role and significance. Globally, the IFIAR has also reported concerns about the evidencing of scepticism, observing that insufficient scepticism is “a factor underlying many audit deficiencies.” (IFIAR, 2014:3) Various professional bodies have also devoted time and resources towards developing support materials (Auditing and Assurance Standards Board & Institute of Chartered Accountants Australia, 2013), revamped educational designs, and forums for professional reflection and collaboration (ICAEW, 2012a, 2015, 2018). This attention highlights the relevance of the topic as a matter of professional concern and the attention to practical solutions that increase professional scepticism.

The accounting and auditing literature had also voiced a longstanding concern about what research tells us about professional practice. In 1998 Hopwood highlighted the need to examine the audit firm setting, as “rules, procedures, standardised processes and manuals...[were] more characteristic of the activities of audit firms rather than widespread diffusion of discretion and judgement.” (Hopwood, 1998:515) Hopwood identified changes in how the audit firms were structured, with this seen to challenge the traditional understandings of what audit involved. Many of these concerns are held in the current attention to scepticism, with the questioning of technology, audit tools, and challenge within the audit process linked to the structural and technical traits of the audit firm setting and the operation of scepticism (APB, 2010).

Such concerns raise fundamental questions about (i) the nature of activities inside audit firms, and (ii) how these activities foster professional scepticism. They highlight a need for an improved understanding of

what is done in the name of audit practice and how such practices relate to, influence, and are influenced by, broader social, organisational, and regulatory contexts. (Humphrey, 2008:185)

The extant literature (see summaries and overviews by Hurtt et al. (2013) and M. W. Nelson (2009)) refers to the practical significance of professional scepticism and note how the work typically engages practicing professionals as subjects in their research tasks. Despite this, there is still an observed challenge that not much is really

known about what it is that auditors do as part of being sceptical. This perceived gap in the understanding of practice represents a critical dimension to which this study contributes. Prior research into scepticism has placed significant attention on the individual auditor. This creates gap from practice since the auditing issues of substance, like professional scepticism, are taken for granted, with their “roles and consequences moderated by the cognitive properties of its immediate users rather than the setting in which it is placed.” (Hopwood, 1983:288). In other words, by focusing on individual auditors and their judgments the contextual element of professional scepticism is lost. With the loss of context comes an unavoidable severance of the connection to practice.

Addressing such a gap in the literature is more than a simple exercise in ‘gap spotting’ (Alvesson & Sandberg, 2011; Sandberg & Alvesson, 2011). It is an opportunity to problematize and wonder about the “extent it might be possible to think differently” (Foucault, 1992:9) about professional scepticism. This exercise in problematisation points to a dismantling of the taken for granted and accepted positions (Bacchi, 2012) that have been built up around professional scepticism. An idea open for problematisation in this study is that professional scepticism is built around the individual auditor and their judgment. This exercise in problematisation does not seek to diminish the role of the individual. Rather, it intends to put the individual and their judgment in a context where there is interaction between the auditor and their setting, as opposed to the understanding of auditor-environment relations that are reflected in existing literature. This problematisation of the existing research offers theoretical and practical contributions to the current understandings of professional scepticism, with these achieved through an interpretivist paradigm, which is a point of differentiation from past work where the functionalist paradigm had prevailed (Burrell & Morgan, 1979; Lukka, 2010).

The challenge to the functionalist assumptions comes through the shift in focus when thinking about professional scepticism. While prior research has emphasised auditor judgment in the experimental setting, this study considers professional scepticism as exercised and described by the auditor as part of actual practice, thereby placing professional scepticism within its social context (Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980; Hopwood, 1983). This permits the consideration of what auditors actually do, opening up our understanding of both the social and material dynamics that this work argues are part of professional scepticism.

This is a significant variation on the existing literature. It represents a positioning consistent with more recent theoretical and conceptual analyses of professional scepticism by Harding, Azim, Jidin, and Muir (2016), Chiang (2016), and Nolder and Kadous (2018). Each of these authors highlight the potential for research to move beyond a focus on individual judgment and engage with wider sociological theories for understanding professional scepticism.¹ This move is important since it recognises that scepticism can be understood as a product of social influence and social factors. Such an understanding makes scepticism more than an individual's conditioned response to the audit environment, explicitly recognising the potential for the auditor to shape their environment and for the environment to also shape the auditor.

Guénin-Paracini, Malsch, and Paille (2014) and Gill (2009) also highlight the significance of the social elements influencing the accountant and auditor in the field. The former highlights the role of affective states in the audit process, leading to a reconsideration of the questions that are typically raised when considering professional scepticism. Guénin-Paracini et al. (2014) note the tendency of regulators and academics to debate questions concerning (i) whether scepticism is innate or acquired², and (ii) what can be done to increase professional scepticism. Such questions emphasise the individual as the location of scepticism and emphasise the outcomes from the individual. In light of their finding that fear has a constant presence in the audit process, with this seen to create natural incentives to be sceptical, Guénin-Paracini et al. (2014) suggest that the questions about scepticism need to shift away from the rules, procedures, and scripts that focus on improving or increasing scepticism. Instead, the argument is offered that the refocused attention should consider the audit environment, since “no normative approach will increase significantly auditors' level of scepticism.” (Guénin-Paracini et al., 2014:284) The rejection of a ‘normative’ ideal for scepticism is suggestive of a variability depending

¹ Harding et al. (2016) argues for the use of sociological concepts of trust and distrust in considering professional scepticism, while Chiang (2016) engages in a conceptual analysis of the relationship between independence and scepticism that extends beyond the level of the individual auditor. Nolder and Kadous (2018) also refer to the need to consider attitude and mindset, with the former seen to include affective dimensions of the auditor.

² For example, consideration of trait versus state dimensions of scepticism developed in Hurtt (2010)

on context. Similarly, scepticism has been seen as the product of technocratism and quasi-science (Gill, 2009:68-69), with rules and approaches derived as needed based on specific issues and the demands of particular problems, rather than being prescribed procedures. These highlight the impact of context, something recognised in this study as the context for scepticism is a key part of the investigation.

This makes the motivation for this study theoretically driven, in the sense that new theories and understandings are brought to the consideration of scepticism. Specifically, this study brings in to consideration theories that help understand the conditions of possibility attached to scepticism, with auditability (Power, 1996) highlighting dimensions of scepticism that potentially limit its ability to be made auditable while also suggesting limitations to the scope of making things auditable. Sociomateriality (Orlikowski, 2007) also provides a different view, recognising the interaction between auditor, social setting, and material devices as part of being sceptical. Rather than suggesting a one-size fits all approach to scepticism, these theories recognise the context specific dimensions that are argued as key to professional scepticism. Both of these approaches also highlight that professional scepticism is distributed across multiple dimensions, emphasising the need to consider its operation beyond the individual auditor.

There is also a practical element to the motivation, since the attention to what auditors 'actually do' brings the practice dimension to the foreground and promotes a greater relevance of research work and its ability to inform practice. The fact that part of this work involved a field study within an audit firm highlights the relevance of the topic for practitioners and academics alike. For practitioners the understanding of scepticism is significant to how they execute audits and are accountable to regulators when inspections are performed. For the academic audience, professional scepticism provides an entry point for considering several long-standing tensions in the audit literature, including the role of the individual auditor, the distribution of audit tasks between the individual and the infrastructure of the firm, the implications of auditability in a regulated setting, and the role of the audit firm's infrastructure in shaping the conduct of audit engagements. This means that the issues and analysis come from and relate to the practitioner setting, reflecting the work realities of the field (Leisenring & Johnson, 1994; Power, 2003; Power & Gendron, 2015).

Existing research reflects the regulatory concerns for the existence and evidencing of professional scepticism (APB, 2010), with these frequently motivating

research considering how scepticism could be promoted, enhanced, and evidenced in engagements. The body of recent work shows a tendency to manipulate contextual variables (for example, accountability style (Kim & Trotman, 2014), partner emphasis (Harding & Trotman, 2017), client confidence and responses in electronic communications (Zimmerman, 2016), outcome biases in superior evaluations of audit work (Brazel, Jackson, Schaeffer, & Stewart, 2016), instructions provided in audit guidance (Rasso, 2015)). The attention is on how these impact demonstrated sceptical activity by the auditor-subject in an experiment task. These reflect the more general tendency in the literature to focus discussions on functionalist views that see the auditor as providing “conditioned responses” (Burrell & Morgan, 1979:2) in a “mechanistic or even deterministic fashion” (Burrell & Morgan, 1979:2) to their environment. The resultant literature under such a world view emphasises ends rather than means to ends (Burrell & Morgan, 1979).

1.2 CONTRIBUTION

The motivations mentioned in the previous section provide a basis for the contributions that are outlined below.

1.2.1 Role of the Individual

While prior research has placed considerable attention on the individual auditor, the dominance of experimental methods and judgment-based tasks has meant that the context in which the individual auditor operates has been absent from empirical work. This thesis argues that the context of the auditor and professional scepticism is multi-dimensional and can include the audit firm and its culture, the audit team, the client setting, and regulatory influences. These various contexts for auditor professional scepticism are considered in the empirical material and highlight their importance for understanding the operation of professional scepticism. The genealogy demonstrates how changed understandings and pressures in the wider environment over time provided a basis for the expectations attached to the auditor and their professional scepticism in the present setting. Chapter four provides an insight into how the influence of the regulatory context impacts the visibility of professional scepticism. Chapter five considers the audit firm setting, drawing out examples of how firm wide culture and policies down to conduct within a particular engagement team shape the operation of professional scepticism. Each of these settings shows a different dimension of the individual auditor and their application of

professional scepticism, highlighting the importance of considering the context in which the individual is located when gaining an understanding of what it is the individual does. This leads to the next contribution - the understanding of what auditors actually do.

1.2.2 What do auditors actually do?

This thesis makes a significant contribution as a result of the field access that was used as a basis for two of the three chapters. The interviews used in chapter four and the audit firm placement for chapter five offer an understanding of audit practices in general and professional scepticism in particular that have not been widely considered (Griffith, Hammersley, & Kadous, 2015; Humphrey, 2001, 2008). The call for scepticism research to move beyond the laboratory setting was identified by Harding et al. (2016), who branched out to consider the issue through the sociological constructs of trust and distrust. This thesis similarly departs from the typical understandings of scepticism that have been based on individual judgment and actions. Much of the existing literature on professional scepticism has adopted assumptions that see the individual as the location of scepticism. While this understanding may be based on the normative definitions in standards, its application in research brings with it a series of implications for how the role of the auditor and the operation of scepticism is to be understood.

Specifically, with their emphasis on the individual auditor's sceptical judgment and action,³ prior research prioritised rationalised accounts based on theories related to cognition, expertise, and judgment. Such theoretically rationalised accounts carry with them presumed auditor roles and functions (Power, 2003). Under such views the audit environment is understood as the focus of auditor observation, making the auditor an independent body looking for triggers and cues that would provoke scepticism. This presents the auditor as a somewhat passive and responsive individual - an understanding that is the target of problematisation in this thesis. The findings of this thesis show how the auditor engages with their audit context and how artefacts operate with the auditor in the application of scepticism. This perspective contrasts the understandings gained from the experimental work in the area.

³ Dependent variables in the modes presented in review articles (Hurt et al., 2013; M. W. Nelson, 2009)

1.2.3 Structure-Judgment Debate and the Location of Scepticism

Audit research that has looked at audit firm structure, methodology design, and task design has typically taken the view that there is a dichotomy that can be applied when describing the designs. This is evident in the Mechanistic-Organic alternatives for understanding audit (Dirsmith & McAllister, 1982a, 1982b). The modern audit environment, with its pressures on efficiency, time, and resources, as well as a constant attention to litigation risk, has created an environment where documentation and structure are key for evidencing due process and adherence to standards and legal requirements (Bowrin, 1998). This accords with the mechanistic, machine-like view of audit process design. This view has not been taken without question, with Dirsmith and McAllister (1982a:227) wondering if there is “a tendency for documented minimums to become working maximums.” Francis (1994) raised a similar critique, noting that the increasingly structured audit methodologies within firms meant that

auditing has increasingly privileged objectivist knowledge and technocratic rationality...over and against subjective understanding or what has traditionally been characterized as the auditor’s professional judgment. (Francis, 1994:236)

These views point to structure in audit methodology and process design as a source of concern, with Francis explicitly highlighting a quasi-scientific rationality as a driving force in audit process design. This brings with it a predictability in execution, with structure through artefacts – which are a means of representing and dispersing knowledge and routine (Riles, 2006) – part of the concern. It is this either/or approach that exists in the structure-judgment literature that this thesis addresses. It considers structure through audit artefacts that are presented in terms of an interactive and context-dependent understanding built around sociomateriality (Orlikowski, 2007; Orlikowski & Scott, 2008). The empirical material highlights how the nature and functioning of audit artefacts is shaped through the auditor and the social setting, rather than being imposed on them. This means that they provide a means for both structure and judgment, as the context demands and the affordances allow. This emphasises the collocation of scepticism in the individual and the artefact and how these operate in light of engagement context. They also evidence examples of the distributed location of professional scepticism, with this giving cause to refocus understandings of where scepticism is generated and located in the audit engagement.

1.2.4 What tools do auditors use when they are sceptical and how?

The thesis also provides insights from STS studies on the role of artefacts, with these illuminating how scepticism is constructed within the engagement team. Much of the prior research has looked at the role of artefacts in the audit process from a functional perspective, highlighting how audit tools like checklists and other similar devices can structure tasks and offer a way of dealing with complex environments and bringing a consistency to auditor decision making. Having said this, Bowrin (1998) also points out the conflicts that exist in some of the findings, with these attributed to the time period under investigation and the operationalization of various measures. The role of artefacts in the prior literature is viewed in terms of their link to audit decisions, with the artefacts seen as something to be complied with and followed since they were seen to be the embodiment of a particular expertise and 'better' way of approaching a task. Such an approach to artefacts was also a way of demonstrating compliance, with structured approaches helping meet regulatory requirements across all engagements and providing an outward sign of audit legitimacy (Bowrin, 1998; Power, 2016). These accounts of what was done in the audit represented rationalised accounts and were removed from where the audit action was, with the artefact being a clean and idealised way of depicting the audit. The artefact is essentially a representation of practice that is one step removed from practice and couched in standardised terms and descriptions of procedures.

This thesis provides a different view of the role of the artefacts. It considers the social and material dimensions of artefact use, highlighting how the artefacts within the audit act as a means of constructing and representing professional scepticism. This is a very different interpretation to the functional view of artefacts and suggests that their operation is more than an effort in standardisation driven by legalistic and compliance concerns. This is important because it shows artefacts as a shaping influence on scepticism, as opposed to a strictly structured force and adds to the understandings of the difficulties faced by auditors in processing complex situations and the role that artefactual support can play in such circumstances (Griffith, Hammersley, & Kadous, 2015; Griffith, Hammersley, Kadous, & Young, 2015; Rasso, 2015). Rasso (2015) highlights the role of specific instruction types in helping process evidence, pointing to the role of artefact design. This study adds to these understandings by highlighting how it is not just artefact design as given to the

auditor, but also artefact design as co-created between the auditor and the material artefact that aids in the operation of scepticism.

1.3 WHAT HAS BEEN DONE?

The prior literature on auditor professional scepticism has been reviewed by several different writers, with comprehensive reviews by M. W. Nelson (2009), Hurtt et al. (2013), and Glover and Prawitt (2013, 2014). Both Nelson (2009) and Hurtt et al (2013) review a literature that is predominantly experimental and based around auditor judgment tasks involving the exercise of professional scepticism. Both reviews offer models that attempt to synthesise the existing research, and in so doing they focus on how the research findings relate to the individual auditor. Nelson (2009) proposes a model that places the auditor's sceptical judgment and sceptical action as the centre of attention, while Hurtt et al (2013) extends that position by offering a framework that considers sceptical judgment and action and its antecedent conditions.

M. W. Nelson (2009:1) develops a model that “describes how audit evidence combines with auditor knowledge, traits, and incentives [for example, avoiding litigation, protecting reputation, and client retention] to produce judgments that reflect [professional scepticism].” For Nelson the individual is the site where professional scepticism is produced, with professional scepticism described as “a product of auditors' judgment, but...revealed by sceptical behaviour, and therefore an attribute of auditor performance.” (M. W. Nelson, 2009:5) This means that Nelson categorises the existing research based on what it tells us about the mind of the auditor (the sceptical judgment component) and the behaviour of the auditor (the sceptical action component). The main concern of the model is how the sceptical judgment of the auditor is converted into sceptical actions.

Hurtt et al. (2013) builds on the Nelson model, proposing four antecedent conditions to sceptical judgment, with these argued to capture the impact of individual characteristics, evidence encountered, client characteristics, and external environment characteristics. The Hurtt model can, therefore, be seen to elaborate on the conversion of sceptical judgment to sceptical action that was a key focus for Nelson. This is achieved with the addition of a stage that captures the outcomes of sceptical judgment. Under this design the outcomes of judgment flow through the antecedent factors and these then determine the sceptical action that results. In other words, sceptical

judgments are framed against individual, evidence, client, and environmental factors and then the decision to act sceptically is made. These observed sceptical actions then flow back into the antecedent conditions and form the basis for further judgments.

Both the Nelson (2009) and Hurtt et al (2013) models demonstrate the insights available from looking at professional scepticism from the point of view of the individual auditor's judgment. Their models see the process of scepticism as a one-way process, with all factors leading to the individual auditor and the sceptical judgment and sceptical action. However, there is little recognition of the possibility that the auditor may also shape the environment in which they operate. As a result, the Nelson (2009) and Hurtt et al (2013) models fail to reflect the social dynamics that this thesis sees as being a key part to the understanding of professional scepticism. This concern traces back to earlier arguments that have called for the recognition of context and social setting in empirical accounting and auditing research.

The models also raise the broader question of how individual judgment is impacted by the structural features within which they are seen to operate and how these different structural features could also impact the shaping of professional scepticism. While Hurtt offers some guidance on this point, suggesting factors that are beyond the individual (client and external environment factors), the points that still need elaboration are where the triggers for inputs into sceptical judgment come from and how these are handled in processes of judgment and action, as well as the nature of the suggested antecedent conditions and their potential to impact each other. These point to the consideration of professional scepticism as a concept that operates with the individual as part of a wider context. While other work has looked at audit in context through ethnographic studies (for example, Gill (2009), Guénin-Paracini et al. (2014), Guénin-Paracini, Malsch, and Tremblay (2015), Pentland (1993)) to the best of my knowledge no study has looked at scepticism through such approaches that emphasise the importance of context.

Glover and Prawitt (2013:7-17; 2014:P4) offer an understanding of professional scepticism based on the structural setting of the auditor as part of wider audit firm and profession level influences. Drawing on the "lack of common understanding or practical guidance on what professional skepticism is and how it can be demonstrated and documented." (Glover & Prawitt, 2014:P2). They aim to strike "an optimal balance between effectiveness and efficiency" (Glover & Prawitt, 2014:P3) by allowing scepticism to operate within a range that incorporates the

different levels of doubt reflected in presumptive and neutral positions. Their model evidences an attempt to bring together the different definitions of professional scepticism that have been used in the literature (something noted by various writers on the topic, including Hurtt et al. (2013); M. W. Nelson (2009); Quadackers et al. (2014)).⁴ This leads to a continuum of scepticism that links different levels of scepticism to the risk of material misstatement, as well as suggesting a consideration of the impact that individual (e.g. biases, time pressure, personality and culture, performance measures), team (e.g. client pressures, management style, tenure, groupthink), and firm/profession level factors (e.g. audit resource levels, incentives in place, client dependency, NAS levels).⁵

By recognising these different structural levels and their inter-related impact on professional scepticism, Glover and Prawitt (2013, 2014) offer a point of distinction from the Nelson (2009) and Hurtt et al. (2013) models. Specifically, they recognise that scepticism is both enhanced and challenged by factors that operate at each of the levels, with this going beyond the individual as the locus of professional scepticism. Their model suggests that scepticism is influenced by sources in addition to the individual auditor. This allows for the inter-related actions of individual, team, firm, profession, and regulator to be considered in the framing and operation of professional scepticism. In effect, while the individual auditor and their judgment is still there and important, so too are the broader contextual settings within which these judgments occur.

⁴ See Table 1 for a sample of definitions of scepticism from the literature

⁵ See Glover and Prawitt (2014) p7-p10 for a complete list of structural level threats, mitigating factors, and suggestions.

DEFINITIONS OF PROFESSIONAL SCEPTICISM	
STUDY / SOURCE	DEFINITION / OPERATIONALISED AS
Harding and Trotman (2017)	Assessment of fraud susceptibility and reliability of evidence (0-9 scale)
Shaub and Lawrence (1996:126)	“Being willing to doubt, question or disagree with client assertions or generally accepted conclusions. An auditor demonstrates skepticism by having skeptical thoughts or exhibiting skeptical behaviour...[including] additional testing or directly confronting the client.”
Lee, Welker, and Wang (2013:213)	“a mental perspective of presumptive doubt”
M. W. Nelson (2009:1)	“PS as ‘indicated by auditor judgments and decisions that reflect a heightened assessment of the risk that an assertion is incorrect, conditional on the information available to the auditor.’”
Hurt (2010:151)	“...a multi-dimensional construct that characterizes the propensity of an individual auditor to defer concluding until the evidence provides sufficient support for one alternative/explanation over others.”
Glover and Prawitt (2014)	Maintaining a questioning mind, with the extent questioning varying based on the position between neutral and presumptive doubt. The position is influenced by structural factors.
FRC (2016:8, para 15) ISA 200 (UK)	“recognizing that circumstances may exist that cause the financial statements to be materially misstated...due to facts or behavior indicating irregularities, including fraud, or error, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and of those charged with governance.”

Table 1: Sample definitions of Professional Scepticism from the literature

1.4 STUDYING SCEPTICISM IN ITS CONTEXT OF OPERATION

Accounting and auditing research has often been seen as removed from actual practice (Chua, 1986; Gendron, 2000; Guénin-Paracini et al., 2014; Hopwood, 1996, 1998, 2007; Humphrey, 2001, 2008; Kirkham, 1992; Miller, 1994; Power, 1995, 2003; Power & Gendron, 2015), with there being several “theories *about* practice that, in the main, are neither *of* nor informed *by* practice.”(Chua, 1986:602, emphasis in original) . Harding et al. (2016) suggest a similar accusation could be levelled at the research into professional scepticism, noting that despite the volume of empirical work in the area there has only been a marginal, at best, increase in observed sceptical action. Part of their explanation was linked to the importance of the modern audit context, as they noted the high demands placed on the profession and the “significant challenges auditors face in meeting these expectations...[and] the audit profession faces considerable contemporary pressure in dealing with an increasingly complex business environment.” (Harding et al., 2016:243) They also note the tendency for professional scepticism to be seen as some sort of panacea, pointing out that it is “part of a portfolio of measures” (Harding et al., 2016:243) rather than a single catch-all solution.

Despite the volume of research into professional scepticism, as evidenced in the Nelson (2009) and Hurtt et al (2013) summary models, the Harding et al. (2016) observations echo the critique that little is known about what auditors actually do. Hopwood (1996:217) noted that research has “a rather impoverished view of the audit task and one that fails to cast adequate light on audit in action.” Power (2003:381) similarly argued for the benefit of studying “practical, as opposed to experimental, settings.” Power’s (2003) argument was based on the dominance of experimental psychology and analytical economics in the existing research, with this seen to divorce research findings from actual practice. The result is that understanding “the complex ‘back stage’ of practice in its social and organizational context” (Power, 2003:379-380)⁶ is not possible. This is despite the back stage representing a significant site for understanding audit, since that is where the rationalization and legitimation of the audit process occurs – it is where audit must construct its

⁶ As noted by Power (2003), the back stage idea is also described by Goffman (1990).

operations and make things auditable (Power, 1996) in order that it can then be trusted by others as well as by those within the process (Power, 2003).

These distinctions between judgment model approaches and getting backstage highlight the different understandings of the audit environment that are present in existing research. Kirkham (1992) argued that the auditor is a part of the audit environment, meaning that what they do and how they do it is influenced by the environment and so too will the environment be influenced by what the auditor does (see also similar discussions by Hopwood (1983); Power (1996)). This is a critical difference between the understandings of the models previously described and the insights available by going ‘back stage’ in audit research. The environment is not just the client setting - it also includes the engagement team, the audit firm, and the wider community who use audited information. This makes audit more than an individual completing a cognitive exercise that identifies and responds to cues in the client setting. What is highlighted is the auditor’s role in the construction of the auditable environment so that audit is possible (Power, 1996). The activities that occur in these ‘back stage’ processes will not be evident in rationalized accounts from normative decision making and judgments, yet these activities are what make up the ‘real’ activities of audit. Importantly, a point of problematisation in relation to the existing research in the area is that professional scepticism and the tasks attached to it cannot be specified or known in advance (Rasso, 2015) – it is a product of its setting and what unfolds in the engagement. What auditors do will be a product of the interaction between the setting and the auditor, rather than being predetermined and done to the auditee. This means scepticism has no predictable form – it will be shaped based on interactions with the audit setting.

Humphrey (2001, 2008) observed the gains from “continuing to broaden the analysis permitted by audit judgment research and encouraging more adequate theorization of the institutional and social context for auditing.” (Humphrey, 2001:375) This allows for an understanding of “what auditors do and do not do” (Humphrey, 2008:178), as opposed to rationalised accounts of what they are presumed to do. For Humphrey (2001), this encapsulated earlier concerns about what audit research tells us about practice, recognising the impact of the “myriad of (non-technical) pressures and conflicts which characterize the multi-faceted nature of auditing.” (Kirkham, 1992:299) This would foster a “move beyond approaches that

focus on...the construction of predictive models that link variables and outcomes but say little about the process by which such outcomes arise.”(Humphrey, 2008:180)

Arguably, the preceding discussion highlights the distinctions between the approach taken in this thesis and that of prior work considering professional scepticism. It is apparent that the bulk of the existing work on professional scepticism operates in an answering machine role (Burchell et al., 1980), with “presumed or imposed particular forms of economic and scientific rationality” (Burchell et al., 1980:15) suggested by the cognitive and behavioural models that afford the resulting rationalised accounts. These rationalized accounts of audit processes are challenged by going ‘back stage,’ (Humphrey & Moizer, 1990; Kirkham, 1992; Power, 1995) allowing a shift from the answering machine understanding of professional scepticism to a view that recognises the rationalization machine (Burchell et al., 1980) in action, a machine built to meet “the need to justify and legitimize.” (Burchell et al., 1980:18) The actual audit process and setting is different to the rationalized accounts from laboratory settings due to an active social and contextual dynamic.⁷ Considering these social and contextual dimensions changes the understanding of research into professional scepticism. For example, Guénin-Paracini et al. (2014) investigate the role of affective states in the audit, aiming to “challenge the dominant cognitive orientation adopted by academics and regulators in their understanding of audit risks and auditors’ scepticism.” (Guénin-Paracini et al., 2014:266) Their distinction between the cognitive dimension and other dimensions of audit work highlights the tension between thought processes as rationalised and what is actually done and experienced during the engagement. It also points to understandings of scepticism that go beyond the individual and the promotion of sceptical behaviour.

With this in mind, the contention about the meaning of professional scepticism is the necessary starting point and essence of the professional scepticism discourse. That there are different ideas of what professional scepticism is and what it looks like points to a field where social consensus is yet to be attained (Power, 1995, 1996). Glover and Prawitt (2014) offer a take on the multiplicity of ideas about what professional scepticism is and the form it takes, with this being part of their wider

⁷ See, for example, field work exploring the operation and understanding of independence (Guénin-Paracini et al., 2015), the negotiation of what it means to be a professional accountant (Gill, 2009), and the role of fear in audit (Guénin-Paracini et al., 2014)).

argument for why it has been difficult for profession and regulators to agree on professional scepticism in engagement reviews. Moving closer to the consideration of these “contingent organisational settings” (Power, 1995:317) of audit, they suggest that “A key to addressing factors that may enhance professional scepticism is to recognize that different factors become relevant at different structural levels of the professional setting.” (Glover & Prawitt, 2014:P3) In effect, professional scepticism is about the judgment of the individual. But it is also about much more, including the individual’s position as a member of a professional body and part of an audit team, that team’s position within an audit firm, and the audit firm’s position in an industry that is subject to regulation and political attention.

Understanding what scepticism is requires the consideration of this context and this is something that cannot be defined in advance. It is on this point that this thesis adds a contribution to the existing professional scepticism literature, with its consideration of how professional scepticism was made into a thing in the UK, the auditability of professional scepticism, and the role of artefacts in the operation of scepticism. Each of these questions considers professional scepticism, but does so from beyond the realm of the individual and their execution of judgment. It brings the contingencies of the practical setting and its operation into the understandings of professional scepticism and highlights how the idea of professional scepticism changes – both over the longer historical period and within the more temporally constrained engagement setting.

1.5 THE JOURNEY AHEAD

1.5.1 Genealogy

The starting point for the empirical analysis is the consideration of the genealogy of scepticism and of how it became an item of regulatory attention in the UK. This historical analysis is considered an important starting point for the analysis of professional scepticism, since it allows for the consideration of the discourse and forms of power that shaped and changed the current understanding of professional scepticism. Such an understanding is significant for the current understanding of professional scepticism, forcing consideration beyond the functional ideas that may dominate today’s understandings of audit (Foucault, 1984a; Miller & Napier, 1993) and proposing the possibility that audit in general and scepticism in particular is “a phenomenon which is what it isn’t and can become what it wasn’t.” (Hopwood, 1983:289)

Hopwood's phrasing may appear awkward, but it highlights a tension between present states and alternative future states, while also pointing to a necessarily wider understanding of how things come to be and what they subsequently become. This is where the genealogical approach offers benefits for the understanding of scepticism and provides a distinct viewpoint from those offered in conventional history narratives. The genealogy provides "a reconceptualization of the current order... problematising it in terms of its historical production." (Kearins & Hooper, 2002:735) This offers a benefit of the genealogical approach over a conventional historical narrative, since the genealogy permits an emphasis on how things change, as opposed to conventional historical approaches that emphasise institutionalised understandings and continuity. The current conception of professional scepticism is traced through events in the history of audit in the UK. In tracing this history there are evident changes in the dynamics of power and purpose that inform the operation and expectations attached to the financial statement audit. The significance of the changes that came with the FRC assuming regulatory responsibility for audit only becomes apparent when such a genealogical perspective is adopted.

The current understanding and operation of scepticism is seen to be the result of the events that preceded it, including changes in regulatory function, corporate failures, political attention, and changed understandings of the role and purpose of the audit. The genealogy reveals a certain re-birth of the importance of the individual in the audit, with professional scepticism enabling this rebirth as well as being created by this rebirth. The two are a joint product of concerns about previously existing regulatory structures, highlighting how changes in regulatory regimes are significant in the professional setting. They also highlight one of several paradoxes that emerge in the consideration of professional scepticism - the rebirth of the individual occurs as the profession essentially loses the power of self-regulation. The rise of the attention to professional scepticism and its ability to be demonstrated also points to concerns about transparency of audit procedures and the audit culture within financial regulation. Evidencing audit procedure was a noted concern from the 1960s and it would be vociferously called for by the FRC in their inspection reports. This raises the second problem for consideration, the auditability of professional scepticism.

1.5.2 Auditability

Audit inspections in the post-GFC environment frequently referred to insufficient evidence of professional scepticism being applied. The genealogy in

chapter three highlighted how concerns about evidencing both audit processes and independence were matters of debate and concern from the mid-1960s. Those early discussions highlighted the question of the auditability of scepticism, since for it to be observable in inspections it needed to be able to be seen in a time and place beyond the audit engagement. In chapter four the auditability of scepticism is considered in light of the FRC's discussion paper on scepticism in 2010.

Auditability may be seen as a trait of a wider audit culture (Strathern, 2000) and legalistic approaches (Van Maanen & Pentland, 1994), with the idea of making things auditable (Power, 1996) having been applied across numerous settings (Free, Salterio, & Shearer, 2009; Radcliffe, 1998, 1999; Skærbæk, 2009). However, this does not mean that it is uncritically accepted. Pentland, for example, asks "Should everything be "made auditable" and subjected to that peculiar brand of rationalization?" (Pentland, 2000:307) Pentland demonstrates a concern for the impact of making things auditable, raising the uncertainty about where such impacts are felt

Consequences deserve careful investigation, because auditing is not just a neutral rendering of the facts. Despite the ideology of independence, "making things auditable" tends to change the underlying activity being audited. Auditing clearly has an effect, but what kind of effect and for whom? (Pentland, 2000:307)

The nature of the auditor-auditee relationship is one particular area where Pentland problematizes auditability, with auditing seen as "self defeating" (Pentland, 2000:310) when there is an "adversarial" (Pentland, 2000:310) auditor-auditee relationship. This dimension is particularly relevant for the analysis of audit inspections by the FRC. In the case of the auditability of professional scepticism we see a context different to the financial statement audit, with co-construction of auditability not necessarily an objective of regulatory inspections. This makes auditability's commanding of a certain logic and an ability to anticipate, in order that material traces can be constructed as part of the audit trail, a point of weakness. Consequently, the challenges to the construction of auditability for professional scepticism seemingly come from the very nature of audit itself,

The rhetoric and procedures of auditing imply an analogy to scientific practice, but the actual practice has only superficial similarities. We are led to expect empirical science, when the best we can hope for is hermeneutics. (Pentland, 2000:311).

Chiang questions the general auditability of scepticism by highlighting the flawed attention to ends rather than means, observing that

Audit regulators need to understand that it is insufficient to assess PS [Professional Scepticism] by audit outputs. Instead the implications of the auditor – client structure, conflict of interest, and personal bias should be brought into the discussions of PS [Professional Scepticism]. (Chiang, 2016:193)

Chapter four takes up these issues using archival material and interviews with representatives from the audit profession, regulators, audit committee members, and professional bodies. Analysis of their views, in light of regulatory and professional debates on scepticism, highlight some of the tensions and challenges in making professional scepticism auditable.

1.5.3 Artefactualisation

The final question to be considered is the role of artefacts in the construction and operation of professional scepticism.

The audit literature contains various metaphors for audit practice and duties (Dirsmith et al., 1985; Dirsmith & McAllister, 1982a, 1982b; Gill, 2009). The considerations by Dirsmith et al. (1985) and Dirsmith and McAllister (1982a, 1982b) highlight metaphors of contrast relating to the execution of the audit process. Mechanistic and Organic are the descriptors offered as summaries for the design of audit firm methodologies. The mechanistic approach brings with it the metaphor of the machine (Dirsmith et al., 1985), with consistent performance and a strict specification of what is to be known and how it is to be known (Dirsmith & McAllister, 1982a). The organic metaphor sees the audit as “responsive to the nature of the client organization being audited” (Dirsmith & McAllister, 1982a:215) Under this approach the role of individual professional judgment is critical. The organic approach relies more on social controls within the audit firm (Dirsmith et al., 1985). The key distinction between the two approaches is the means of exerting control, with mechanistic approaches relying on “formalised, routinized, specific, well-defined, programmed, structured, scientific, and rational” (Dirsmith et al., 1985:48) approaches, while the organic approach places its reliance on the socialisation within the firm. Both “aim for the same end: regularizing the auditor’s work” (Dirsmith et al., 1985:49).

The use of structured approaches at the task level of the audit has emphasised a distinction between well-defined and routine tasks and those with little or no guidelines and in need of judgment (Bowrin, 1998). Structured approaches have also been linked to the complexity of the business environment, with structure seen as a way of managing risk by helping to make sure that the various regulatory requirements are satisfied (Bowrin, 1998). These are also seen benefit task effectiveness (Bowrin, 1998). The structure at the engagement and task level is typically understood as coming through the use of checklists and procedure guidelines – examples of artefacts that are completed as the tasks are performed. In the debate about professional scepticism there has been a concern from the regulators that the use of artefacts can limit the auditor’s thought process, creating a focus on what is on the list as opposed to what could exist beyond the list. Under that view, the auditor is seen as somewhat removed from the audit setting and guided by the artefactual content, as opposed to what they have seen and heard in the client setting. Dirsmith and McAllister (1982a) capture this potential artefactual impact on audit process when they ask, “does there exist a tendency for documented minimums to become working maximums?” (Dirsmith & McAllister, 1982a:227) In effect, does the imposition of structured approaches through artefacts limit what is done and what is seen?

Based on these expressed concerns, chapter five emphasises the role of artefacts in the audit process. The basis for this context comes from the understanding of the role artefacts serve, with the chapter proposing a role for both the artefact and the auditor that evolves within the engagement setting. This contrasts the traditional view that the artefact is taken and applied to the client setting. Chapter five proposes a sociomateriality (Leonardi, 2013; Orlikowski, 2007, 2010; Orlikowski & Scott, 2008) understanding of artefacts, providing a basis for recognising that the material nature of the artefact and the social circumstances of its application are important considerations. Under this view the artefact is a collaborative influence in the construction and operation of professional scepticism. It shapes and is shaped by the social setting in which it is involved. This positioning also challenges the structure-judgment opposition, suggesting an understanding of the engagement process as a combination of the two, rather than an explicit choice of one approach over the other.

2 METHODOLOGY

“The harvest is plenty, the laborers are few. Come with us into the field.” (Dirsmith, Covaleski, & Samuel, 2015:194)

2.0 WHAT IS BEING STUDIED?

This thesis examines the United Kingdom setting, where the financial statement audit requirements are contained in the Companies Act, with this enforced by the FRC, a statutory body created by parliament. The FRC also issue and enforce auditing standards (ISA (UK)) and inspect a sample of completed audits of Public Interest Entities (PIEs). They have frequently raised the topic of auditor professional scepticism in their audit inspection reports, consistent with an international attention to the topic that is evident in IFIAR annual reports¹⁰ and the IAASB discussions.

The focus for this project came from a smaller investigation into the corporate governance of audit firms as a result of the Audit Firm Governance Code (“The Code”) (ICAEW, 2010). The Code highlighted issues with the public perception of audit and audit firms and a growing concern about their operation, seeing the application of corporate governance principles to the professional partnerships as a way to address such concerns. This saw audit firms appoint independent non-executives to oversee their partnerships (ICAEW, 2010), providing an outside voice in “the public interest aspects of the firm’s decision making.” (ICAEW, 2010:6) Interviews with three practitioners (IR01, IR02, IR03) were conducted as initial inquiries into the area, with these exploring how the firms were organised and how the respondents reflected on their experiences. One participant had experience prior to the introduction of The Code (IR02) and the others were in the UK setting during its introduction.

The Code came in as audit firms were also permitted to incorporate and take up limited liability status. Additionally, they were releasing transparency reports that provided insights into their financial performance and governance mechanisms (Deumes, Schelleman, Bauwhede, & Vanstraelen, 2012; Financial Reporting Council, 2015). Much was happening to make the audit firms more visible and more

¹⁰ Available from IFIAR website - <https://www.ifiar.org/activities/annual-inspection-findings-survey/index.php>

transparent. However, the observability of what happened within the engagement was still open to problematisation, as the topic of professional scepticism highlighted. In one particular interview (IR01) there was reference to the FRC inspections, the inspection reports, and their attention to various matters. The follow-up from this point was to review the inspection reports, with these providing the basis for the topic of professional scepticism.

There was also something happening from the regulatory angle. The FRC had earlier assumed responsibility for audit regulation and began releasing audit inspection reports – first in an aggregated annual report and then, from 2008, for each specific audit firm. My initial reading of these reports, along with the documents from an attempt to codify audit quality (FRC, 2006), and the transparency reports and general financial press, led to the observation that professional scepticism was being mentioned with increased frequency. The inspection reports provided initial evidence of this, prompting me to look at the FRC’s actions upon becoming the UK’s audit regulator. The discourse surrounding their takeover of responsibilities and their structuring of the regulatory role pointed to an effort to construct a new way of conceiving the financial statement audit and expectations of auditors.

This was accompanied by an FRC discussion paper which raised professional scepticism as a topic of debate (APB, 2010) and the release of a position paper offering guidance on how the FRC saw professional scepticism (APB, 2012). The latter paper aimed to provide “a common understanding” (APB, 2012:title page) and “reaffirm” the role of professional scepticism, suggesting that the UK was in the process of (re)conceptualising professional scepticism. These dynamics meant that the UK setting was one where professional scepticism was not only observed in regulatory discourse, but also contested within the profession, suggesting boundaries and tensions over its meaning and application. This provided a natural point of focus for qualitative and interpretative work, since it at such boundaries where ideas remain unsettled and open to interpretation (Guba & Lincoln, 1982)

2.1 OVERALL RESEARCH DESIGN

The main considerations for research design are the questions of intent and the assumptions about the social world under investigation. Referring to the former, it is a case of asking “which methods best suit my explicit intentions here?” (Gray &

Milne, 2015:54) Referring to the latter, it involves the questioning of ontological, epistemological, and human nature assumptions (Burrell & Morgan, 1979). This thesis contends that professional scepticism is constructed through the interaction of people and environment, with meaning made based on the combination of person, place, and time. It is understood as the product of auditor consciousness and interaction within a social setting. In other words, “in everyday life actions do not take place in a vacuum of private, subjective meanings... We not only interpret our own actions but also those of others with whom we interact, and vice versa.” (Chua, 1986:613). This makes the understanding of scepticism a relativistic matter “that can only be understood from the point of view of the individuals who are directly involved in the activities which are to be studied.” (Burrell & Morgan, 1979:5) To investigate this process an approach is needed that provides access to those involved in the process of construction and the opportunity to interpret their thoughts and actions – the ability to “share firsthand the environment, problems, background, language, rituals, and social relations of a more-or-less bounded and specified group of people.” (Van Maanen, 2011:3) This makes an ethnographic/naturalistic approach suitable for this thesis (Lincoln & Guba, 1985).

This ethnographic approach overcomes the “rationalized accounts...[that hide] the complex ‘back stage’ of practice in its social and organizational context.” (Power, 2003:379-380). By considering the “social and organizational context” (Power, 2003:380) the emphasis shifts to how different settings and influences shape professional scepticism, its operation, and the process of establishing a shared understanding, recognising that actions take on their meaning through their intention and their setting (Geertz, 1973). It invites the consideration of lived experiences (Parker, 2003) and the different meanings attached to scepticism and for the exploration of how different settings work to constitute and enact their meanings. Under this view, professional scepticism is a negotiated and potentially amorphous thing that takes different forms in different contexts.

The research questions consider professional scepticism from practice, with practice broadly seen as “embodied, materially mediated arrays of human activity centrally organized around shared understanding.” (Schatzki, 2001:2) It is how this shared understanding is established and employed that is the focus for this thesis. Merchant and Van der Stede (2006:131) emphasise the connection between field-based research and understandings of practice, noting that “One easy prediction of the

future is that the major advances in the accounting field will continue to come from practice.” Its benefits are observed in research that has been able to offer rich descriptions of the field that capture the experiences and emotions and affective dimensions of participants (Guénin-Paracini et al., 2014; Guénin-Paracini et al., 2015), the negotiated and deliberated aspects (Anderson-Gough, Grey, & Robson, 1998; Anderson-Gough & Robson, 2002), the rituals and socialisation within accounting firms (Grey, 1998) and, more broadly, the backstage aspects (Power, 2003) of audit.

In considering how professional scepticism is enacted through audit artefacts, or the view that it can be made auditable, there was a need to see and hear the accounts of what auditors do. The link between field and research was important for recognising the role of context (Hopwood, 1983, 2007). The making of meaning and understanding comes about through the relationships and contextual happenings that cannot be readily captured through proxies (Malsch & Salterio, 2015; Parker, 2003). This is a key rationale for the qualitative field work undertaken in this thesis. Each substantive chapter considers scepticism with this in mind. The importance of social interaction in the conception of scepticism meant that the task of the research was to “express the field as social and not simply describe or clarify it...as if part of a given nature.” (Ahrens & Chapman, 2006:819-820)

The following sections describes the research question and data sources for each of the empirical chapters, building the link between the questions asked and the methods employed to answer them.

2.2 GENEALOGY

Chapter three asks what were the influences that shaped and informed the current concept of professional scepticism? This is addressed using a genealogical method (Foucault, 1984a, 1991a, 1991b; Kearins & Hooper, 2002; Miller & Napier, 1993), tracing the evolution and development of the idea of professional scepticism to its current position in the UK. The genealogical approach meant that there were no pre-conceived concepts being traced over time (Foucault, 1991a). Rather, the approach was about showing how ideas about the nature of the audit and the auditor’s role as a source of challenge changed across time based on historical contingencies, with the historical events used as a way of understanding the present (Kearins &

Hooper, 2002). This is in contrast with conventional histories in that it offers “one possible narrative” (Kearins & Hooper, 2002:736), as opposed to one definitive narrative. Archival documents are “key elements” (Kearins & Hooper, 2002:739) for genealogies and a description of the document set used is contained in the next section.

2.2.1 Data Collection Methods Used

Chapter three draws on extensive documentary sources, including news items, professional journals, political and regulatory documents and policies, and items from the various accounting firms. Specifically, articles were sourced from the press (The Times, The Financial Times), Professional journals (Accountancy), accounting firm biographies (E. Jones, 1981, 1995), parliamentary debates, discussion papers and position papers, and submissions made in response to discussion papers. These data sources provided a wide base for the construction of the historical narrative and provided an entry point into the historical discourse of the profession. The historical sources were also considered in terms of how they offered new ways of thinking about the current situation and how they could be linked to current concerns (Kearins & Hooper, 2002). This pointed to material that considered the role of the auditor, the nature of life within an audit firm, developments and changes in auditor-audit firm-state-based regulatory relationships, and wider social discussion concerning understandings of the function of audit. Specific incidents that pointed to these themes were the focus, including the creation of professional bodies and legislation relating to auditing, corporate failures, state-organised inquiries into audit, the GFC, and changes in accounting and auditing standards.

The initial historical material that was examined (APB discussion paper, position paper, The Code, inspection reports) pointed to a “pragmatic stance” (Kearins & Hooper, 2002:742) that professional scepticism had become an object of regulatory focus. This provided the basis for asking how this position came to be.

Constructing the genealogical path was subjective and interpretive, particularly when it came to specifying stages or events. Based on recommendations in the literature (Kearins & Hooper, 2002), attention was given to objectives of different groups (for example the professional bodies, regulators, individual audit firms), attempts at creating differences (for example, the lay versus professional auditor), and how different ideas and relations came to be institutionalised over time.

These themes and historical demarcations were established based on a chronological reading of the data sources. Articles from the newspapers and professional journals were sorted in chronological order and key words or themes that summarised the positions and issues being considered were noted down. Attention was given to common themes or topics across a period of time. The histories of Price Waterhouse (E. Jones, 1995) and Ernst & Whinney (E. Jones, 1981) were also read, with issues and themes mentioned in these able to be cross checked with news items and professional journals. This provided a cross reference for what was being talked about in the articles. These also provided a way of focusing on parliamentary debate and regulatory discussion, with mentions of debates or particular inquiries prompting their follow up and often signalling pushes for increased auditor jurisdiction or concerns about the impact of events on the profession (for example, litigation).

2.3 AUDITABILITY

Chapter four analyses the ability to make scepticism auditable, highlighting the limiting conditions within existing discussions of auditability (Power, 1996). The nature of the auditor-regulator relationship as potentially adversarial provided a distinguishing feature for the dynamics of scepticism being auditable (Pentland, 2000) and highlighted the need for views from both practitioners and regulators. Interest centred on issues concerning the definition of scepticism, its traceability, and the views of regulators and practitioners on how scepticism could be made auditable. Accordingly, chapter four uses semi-structured interviews with practitioners, regulators, professional bodies, and audit committee members as a way of gaining the different views and understandings of professional scepticism.

The interviews are combined with a regulatory discussion paper (APB, 2010) and position paper (APB, 2012), and submissions made by participants in the discussion paper process. These documentary materials complimented the accounts of individual interview participants. Similarly, the IAASB had working papers and submissions from various representatives (IAASB, 2012a, 2015a, 2015b) that referred to understandings of the operation of professional scepticism. These documentary items were sourced to capture the debate over time and add context and position to matters raised by interview participants. The field was constructed in this way so that it reflected the wide range of views and understandings of professional scepticism and how these different views engaged with each other. This field

construction for chapter four was seen as important for recognising that there are multiple realities and understandings involved with professional scepticism (Guba & Lincoln, 1982; Lincoln & Guba, 1985).

2.3.1 Interviews and Subject Recruitment

Interview subjects were typically recruited through direct contact - meeting people at conferences or professional functions, connections and links established through colleagues, or electronic approaches through LinkedIn. LinkedIn searches were conducted using criteria that included “audit”, “London”, and various audit firm names. Sampling paid attention to potential extremes (Flick, 2014), with participants having extended experience (Partners) and lower levels of experience (Senior). The inclusion of auditors, regulators, non-executive directors, and professional bodies also reflects the potentially different intensities of experience with scepticism, as well as the sensitive cases/sites (Flick, 2014) in the discussion of professional scepticism. Primary selection criteria (Flick, 2014) emphasised a familiarity with and exposure to the auditing profession, with this seen as essential to the ability to reflect on its operation and the issues attached to professional scepticism. This meant that the sampling frame was constructed to include individuals who were likely to have been involved in engagements that were subject to FRC inspection (auditors) or involved in inspection processes (regulators), with these being the target population (Goldstein, 2002). The returned profiles were reviewed to check for these aspects and a short message was then sent inviting the individual to participate. This initial contact was framed as reaching out for their professional expertise. The introductory message provided a short personal introduction,¹² an outline of my research interests, and a statement referring to LSE Ethics guidelines that emphasised voluntary participation and anonymity – it set out the ground rules for any subsequent interview (Goldstein, 2002). Participants who did not reply or who indicated no interest were not contacted again. Those who indicated interest were contacted and a time and date for the interview was arranged.

At the commencement of each interview participants were reminded of the ethical guidelines (voluntary participation, the nature of the study, how data would be used, an offer of follow-up information from the study, and a copy of the interview

¹² Recipients could also access my profile for my biographical details and background

transcript (where recorded)). Permission to record the interview was also explicitly requested. Interviews were then conducted in a semi-structured manner, with this described in more detail later in this chapter.

2.4 ARTEFACTUALISATION

Chapter five asks how are artefacts involved in the operation and capturing of scepticism within the audit firm? This question is motivated by the structure-judgment tension in audit literature and the tendency to view audit as either structured and mechanistic or judgment based and organic in nature. It challenges this dichotomy, arguing for the importance of considering how the social setting and the material artefact shape each other. The attention to the artefacts of the audit process placed this question within a firm-specific setting.

2.4.1 The Firm as the Field

The research question reflects an interest in how things were done in an audit engagement, as well as how the firm-setting influenced auditors' actions and the audit process. With a key interest being the infrastructure of the firm and the artefacts that are part of the infrastructure, there was a need for a firm-specific setting where the context of the firm and the “complex ‘back stage’ of practice” (Power, 2003:379-380) could be observed. Many have noted the challenge of addressing questions of audit practice from within the audit firm (Dirsmith et al., 2015; Gendron, 2000; Power & Gendron, 2015; Sikka, 2004), with the backstage typically inaccessible due to “the immense complexity and proprietary nature of the audit process” (Pentland, 1993:605) and concerns about client confidentiality, legal exposure, and other threats. These challenges make the data for chapter five a rare accomplishment, drawing on access to an audit firm over an extended period, with this including access to a range of areas within the firm.

This took the focus beyond just the auditors in the field. The research question brought in the wider firm setting, calling for an appreciation of how things were done in the engagement and how these were shaped by the firm's policies, procedures, methodology design, and technologies. This meant that there were discussions with representatives from various areas within the firm¹³ in order to capture their

¹³ See Appendix 9 – Table 19 for a summary of field access within the firm.

understandings and descriptions of operations. The interest in the infrastructure and how it created artefacts necessitated such varied views (Star, 1999; Star & Ruhleder, 1996), with infrastructure dependent on various individual perspectives. So, for example, the elements noticed and addressed by the auditor in the field could be different to those highlighted by someone from HR or Learning function since they all look at things from particular points of view. The execution of the engagement represents the coming together of these different parts of the firm and the perspectives on how this happens will depend on the role of each area. To capture how these different elements of the audit firm came together and supported the engagement, it was necessary to focus the investigation in chapter five on one specific audit firm. Sampling within the participating firm occurred based on a situation basis for deciding what activities and interactions would be conducted and observed (Flick, 2014). This led to three activities that were the focus for data collection - a series of interviews, focus groups, and a participant observation of an engagement team. The offered account of the time with the participating firm, including access and the conduct of the field work, will include an element of a “confessional tale” (Van Maanen, 2011), with description accounting for how the field placement came to be and the experience in conducting the field work, with this being a reflexive device to highlight my “participative presence in the studied scene.” (Van Maanen, 2011:91)

2.4.2 Gaining Access to The Field

Access to the field came about from the least expected of avenues. A range of strategies are suggested by Monahan and Fisher (2015), two of which apply to this study - attending conferences and initiating and following-up on multiple leads. In late-March 2016 I attended an education charity event in central London. During the informal drinks I was talking to a representative from the charity. They saw my nametag contained ‘London School of Economics’ and assumed I was a beneficiary of the charity. Having clarified this misinterpretation we started talking about my PhD studies. As I described my interest in audit they replied that they were working for a firm, stating ‘we should talk.’ Business cards were exchanged and I indicated that I would be in contact via email.

A research outline was subsequently drafted and it served as a ‘pitch’ to the firm. Guidance for the preparation of this document – including the type of information to include and general document layout - was obtained from Faff (2015),

with further suggestions and comments received from both project supervisors. The final document (see APPENDIX 1 - Figure 6) aimed to convey the relevance of the project, the timeline for my candidature, and the availability of anonymity and the operation of ethics guidelines, while also serving as a “credible signalling” (Wolff, 2004:201) of the research interest.¹⁴ Credible signalling was built in by demonstrating that the research request and related project were serious. To aid with this supervisor details were provided and evidence of background work on the topic was included. While the specific details of research questions and analytical approaches were still somewhat opaque, general research principles that demonstrated an attention to the potential impact and concerns of the firm were mentioned. These included ethics and confidentiality matters, the explicit mention of my candidature timeline (in order to signal possible time frames and durations), and a sensitivity to the professional environment the firm. In this document the participating firm was constructed as having an interest in the research outcomes through a linking of the project goals to firm-specific details and commentary.

Once the contact received the form a meeting involving myself, the contact, and a Partner was scheduled.¹⁵ This occurred at the firm’s London offices and was the starting point for a process of “cross-question” (Wolff, 2004:199) – repeated presentations and discussions about the aim and nature of the research. This occurred over approximately eleven months and involved different people from the audit area discussing the research project’s interests. The different people I encountered sometimes made it unclear as to whose agreement actually counted, or whether it was a decision that involved numerous views (Wolff, 2004). As the discussions progressed the distributed nature of the firm structure was also highlighted through the range of representatives I met. Towards the end of the process it became somewhat clearer, as the two eventual gatekeepers became the common point of contact in meetings. This culminated in the formal granting of access to the firm on 15 February 2017.¹⁶ A non-disclosure and confidentiality agreement was produced by the firm and signed prior to the first field meeting on 1 March 2017.

¹⁴ The version included in Appendix 1 – Figure 6 has had identifying information redacted.

¹⁵ Meeting dates listed in Appendix 9 – Table 19

¹⁶ Summary of Meetings available in Panel A of Appendix 9 - Table 19

Throughout the negotiation process there was both discussion about and construction of my 'role' (Flick, 2014:158) (e.g., observer, participating observer), with observer ultimately being the determined position. This allowed for interaction with members of the firm through interviews and focus groups and an observation of an engagement. Being an observer brought with it the opportunity to ask the naïve questions and enquire about what is taken for granted by those within the firm (Wolff, 2004). My presence at the firm and exposure to individuals within the firm was restricted to scheduled meetings, focus groups, and observations. Those who I saw on multiple occasions recalled who I was and what I was doing, so I was not a complete outsider every time I entered the firm's offices, but my role was to observe not participate in the activities of the firm, making me a peripheral member (Adler & Adler, 1987; Parker, 2003).

2.4.3 Gatekeepers

In carrying out this research there was a necessary presence of what could be termed 'gatekeepers', these being "fixed subjects and authority figures facilitating or guarding access to knowledge" (Eldridge, 2013:477) Crowhurst and Kennedy-Macfoy (2013:458) raise the need to consider the influence of gatekeepers and their reflexive implications:

the interpersonal and intersubjective relationships established between gatekeepers, researchers and researched and the factors that mediate, shape and give meaning to these relationships...seeking access through gatekeepers is approached and analysed as a historically situated social and cultural process that embodies the power relations of the contexts in which it takes place.

Power relations and the role and influence of gatekeepers concern Crowhurst and Kennedy-Macfoy (2013:458), with these seen

as relational, co-constitutive, requiring trust, and bearing important consequences for the direction a piece of research can take, the quantity and quality of data that a researcher can gather, as well as the kinds of conclusions a researcher can draw.

The above concerns were present in various forms, with the non-disclosure and confidentiality agreement specifying two gatekeepers for the field work. Field

access was constructed through the gate keepers, meaning that access to people within the firm was not unrestricted. For example, I could not directly contact members of the firm and any meeting with informants from the firm required one of the two gatekeepers to be present as an observer. The gatekeepers were responsible for recruiting participants for interviews and focus groups and arranging the participant observation. They were acting as a mid-point of contact between myself and those within the firm, protecting the firm from potential risks and also facilitating my research interests.

Crowhurst and Kennedy-Macfoy (2013) note a potential for gatekeepers to impact the research process, prompting reflection on the relationship with the gatekeeper as well as with the field in general. As a starting point, the Gatekeepers were familiar to me by the time the agreements were signed and the field work commenced, with each of them having been party to at least one of the pre-access meetings.²⁰ This also meant that they were familiar with the research interest and the areas of the firm's activities I was interested in. In terms of their impact on the research process, the gatekeepers were essential to this research and making the field access possible. They were also supportive beyond the conduct of the interviews, focus groups, and observation, with one of the gatekeepers emailing me notices of forthcoming seminars that were being held by the professional bodies, documents on scepticism that had been issued a few years ago, and providing points of introduction for interview subjects.

They were also involved in the research beyond independent observer roles. The main gatekeeper who attended the meetings and focus groups and was my main point of contact would, on occasion, make comments during meetings and focus groups. Reflection on these comments suggests that they were in line with what was being discussed at the time and were contributions, rather than efforts to steer the conversation from particular topics – these included reflections on their experiences as different topics came up in conversation (for example, the design of the firm's engagement management system or the operation of appraisal systems). At times they would also comment that they were learning things about how the firm operated and the processes it had in place.²¹ The second gatekeeper was an experienced partner

²⁰ See Panel A of Appendix 9 – Table 19

²¹ Field journal – Meeting with Human Resources - 4 December 2017

within the firm and was an interview subject but did not observe any other activities. This meant that when being interviewed they were aware of the overall goals and interests of the research project. My impression was that this did not shape their contributions, with the interview covering a range of areas and reflecting on both the achievements and challenges faced within the firm.

2.4.4 Subject Selection

During the initial discussions the possibility of speaking to a range of representatives from different areas of the firm was suggested, with a provisional outline of meetings and activities produced. The coverage beyond auditors was deliberate, in an effort to exploit the benefit of the firm setting and the coming together of these different areas in the audit engagement. Speaking to representatives from these areas provided a background to the influences on the auditor in the field. This allowed for the consideration of what is termed infrastructure in chapter five, with these different areas operating in the background to the business of doing audits but being necessary to it none the less, since their actions and functions made the audit possible. Access across the firm also allowed for a range of views to be gathered beyond the audit practitioner, enabling access to aspects of the firm's operations that the auditor may not be aware of – for example elements of technical design in the engagement management system.

The scheduling of these meetings and the selection of individual participants were performed by the gatekeeper. This was for practical reasons, since they knew who would be most appropriate and also knew the time demands and constraints that people faced. My interpretation of the subject selection is that it was carried out in order to maximise the exposure to the different areas of the firm and to get people with relevant insight and experience. The fact that subjects were frequently partners suggested to me that this was not a trivial exercise for the firm and that they were taking their involvement seriously and were interested in the results. Beyond the initial cross-question phase of getting access, the operation of the field work was one where times for meetings, access to individuals, and opportunities for research were made available based on what the firm considered appropriate given the nature of the project and the pre-agreed areas of inquiry. The firm's strategy in the project seemed to be that of wanting to "allocate" (Wolff, 2004:199) what was needed to get the research done.

2.4.5 Consent

Interview and focus group participants within the participating firm were recruited by the Gatekeepers, with this being voluntary and open-ended. As an example of this, on some occasions there was a need to reschedule a meeting due to time conflicts or someone being unavailable. Voluntary participation was especially apparent during the focus groups, where in a couple of conversations the gatekeeper mentioned that not many people had signed up for a particular session and that it would be rescheduled (it eventually did not happen). Follow-up contact with focus group participants was also arranged through the gatekeeper. At the conclusion of the focus group participants were asked to advise the gatekeeper if they wanted to participate in follow-up interviews.²⁴ When I communicated with the gatekeeper to suggest some participants for follow-up interviews there was at least one person who had decided not to be involved.

All participants (participant observation, focus groups, and interviews) were aware that I was meeting them in my role as a PhD student, with no concealing of my research role during the time in the field. At the commencement of any meeting with participants they were informed of the nature of the study and the non-disclosure agreement that was in place. The Gatekeeper and myself would mention the existence of the agreements, as well as provide an overview of the research interest. In this introduction the anonymity of the participant and the participating firm was reinforced. Individual informed consent forms were not obtained for these in-firm meetings, with the agreement of the firm to participate (as evidenced by the NDA) and the communication of the terms of the study at the start of each meeting seen as a suitable basis for the existence of informed consent. Participants always had the avenue of communication to the Gatekeeper if there were concerns that arose from their participation.

2.4.6 Recording

Recording interviews was raised with the participating firm prior to the first field interview.²⁵ I was advised that it would not be possible, with some within the firm uncomfortable with the idea. A similar request was made prior to the conduct of the focus groups, pointing out the analytical benefits that come from the recording of

²⁴ See Appendix 11 – Table 21

²⁵ Field and Personal journal 21/2/2017

turns in conversation and how the path of the focus group conversation progresses. Similar references to the non-disclosure agreement and anonymity were made in canvassing this request. Recording was again not allowed, with the firm having concerns about it intimidating participants and inhibiting their willingness to speak frankly.²⁶

Gendron (2001) highlighted this potentially negative impact of recording interviews with auditors, while also noting strategies to work around situations where recordings were not made. Similar to the process described by Gendron (2001), all interactions with members of the participating firm were captured using manual notetaking. As a meeting progressed I would make note of themes, ideas, and points that were being raised. I would also try to capture short quotes of a few words to illustrate positions or ideas at various points in the interview (see, for example, Emerson, Fretz, and Shaw (2011) and Spradley (1980)). After each interview I would review these handwritten notes and annotate any additions or further recollections before typing them up in my field journal (Gendron, 2001).

Permission was obtained for the Focus Groups to have a specific notetaker present to capture the discussion. In both instances the note takers typed their notes in real time. I also made notes as the focus group discussion progressed. Following the first focus group, myself and Associate Professor Andrea Mennicken sat down and reviewed the notes, in a process that took around two hours. Following the second focus group I reviewed the notes prepared by Dr Dorothy Toh and made annotations. While my notes did not capture the extent of detail recorded by the notetakers, I was able to capture issues, flows in the conversation, emerging aspects in the discussion, and key words or points.

2.4.7 Thesis Review

The participating firm reviewed a copy of the thesis, with attention to identifiability issues. A telephone conversation was held where any concerns or issues over thesis content were discussed. The vast majority of concerns raised related to firm-specific terms that could identify the firm. A meeting with the two gatekeepers and the Engagement Partner from the Participant Observation also occurred. During these two meetings the research was discussed and a two-page summary of my observations was presented. These presentations were well received,

²⁶ Field and Personal journal - 9/6/17 and 12/6/17

with interest and follow-up discussion present in both feedback sessions. None of the participants questioned the credibility or believability of the ideas that were presented. Comments from the gatekeeper, who was one of the reviewers of the thesis document, also showed an interest in the discussion that was presented in chapters three and four. There was also some interest in follow-up presentations and some of those present at these meetings requested a copy of the completed thesis.

2.5 DATA SOURCES AND COLLECTION METHODS

The different data sources mentioned across the three empirical chapters are summarised in the table below.

Data Type	Sub group	Number
News Items ²⁷	Financial Press	431 articles
	Professional Journals	373 articles
Regulatory / Professional ²⁸	Discussion documents / reports	37 documents
	Submission letters	2 public discussions ²⁹
	Professional body - exam skills summary	3 pages
	Professional body - exam case	46 pages
	Professional body - exam scenario and questions	24 pages
	Professional body - skills progression grid	1 page
	Professional body - skills by subject list	14 pages
	Webcasts	3 videos
Videos	2 videos	
Interviews ³⁰	From outside the participating firm	24 interviews 21:03 hours 381 pages
	Meeting notes	112 pages
Participating Firm ³¹	Participant Observation Notes	60 pages
	Contextual Materials	172 pages
	Personal Reflective Journal	48 pages
	Engagement observation	2 days
Conferences ³²	Academic	3
	Professional	9

²⁷ Itemised list contained in Appendices

²⁸ Details provided in Appendices

²⁹ The APB's 2010 'Raising the Bar' discussion and the IAASB 2016 discussion paper on scepticism were the discussion documents whose submissions were reviewed.

³⁰ Details provided in Appendix 3 – Table 15

³¹ Fieldwork summarised in Appendix 9 – Table 19

³² Details of conferences available in Appendix 12 – Table 22

2.5.1 Field Notes

The field notes prepared from the meetings, focus groups, and participant observation sessions were multi-dimensional in nature (Emerson et al., 2011; Spradley, 1980). Notes were initially written in an A4 spiral bound notebook. This allowed for flexibility in note taking, being able to capture points and position notes on the page to represent their sequence and to add to them as the discussion progressed. It also allowed for sketches of room layout and other physical aspects to be captured.³³ The reliability of these notes was built around a structure of auditability that is depicted in Figure 1 (see page 76). For example, reading left to right in the field meetings section of the diagram the process is understood as follows:

For the field meetings there was a protocol that guided the questions and lines of enquiry. The resultant discussion was manually noted in my meeting notes. Once a meeting or observation concluded I would immediately review the handwritten notes, making any notes or additions in the margin while the meeting was still relatively recent in my memory. I would then update my reflective journal, field notes, and theory journal. I also maintained a list of suggested items, which were any reports or other items that had been suggested as useful by the participants. The field notes and suggested items were then reviewed and coded as part of the data analysis, with the theory journal and reflective journal providing input into the nature of coding. The coding resulted in coded data that was combined with field and theory journals to produce the relevant chapter.

2.5.2 Interviews

Interviews were conducted as semi-structured interviews, with the aim of eliciting the thoughts and experiences of subjects and capturing the “social construction of situated accounts” (Qu & Dumay, 2011), with this approach allowing for follow up questions to explore accounts in more depth (Horton, Macve, & Struyven, 2004). This interview technique allowed participants to produce accounts of their own experiences, with these shaped through the questioning, follow-up, and interactions. Interviews were structured to reflect the suggestions of Leech (2002), with introductory questions on participant background and experience as a way of

³³ Photographing the locations (for example, on a mobile phone) was not possible due to restrictions on identifiability of the organisations and individuals participating in the field work and other interviews.

establishing rapport and ease while also providing me with reference points for follow-up and further questioning. A list of questions relating to issues of interest were then referred to, with these leveraging off the initial participant description. This was seen as a way of engaging with the participant on their terms and also communicating interest in what the participant had to say.

The interview protocol contained a range of topics and follow up areas, with these based on general discussions of audit quality and scepticism in the academic literature as well as issues and debates that were present in the profession (Horton et al., 2004). Newspaper items, FRC discussion papers (for example, APB (2010) and APB (2012)) provided a starting point for designing the protocol. They also allowed me to communicate my own position and knowledge of the field and the debates to those who I would be interviewing, essentially acting as a way of establishing credibility with interview subjects. These also allowed me, if needed due to a matter raised by a participant, to refer to topics and concerns within the profession. Reference to these materials was in response to something that a participant may have raised, rather than presenting them with an unseen item. Consequently, while there was an a priori anticipation of topics and coverage there was also an inductive dimension to interview progress, as participants referred to their experiences and took the conversation in different directions. This “dilemma between preparation and presence” (Kreiner & Mouritsen, 2005:158) highlighted the informative rather than binding role that the interview protocol played, while also providing space for a “double interact” (Kreiner & Mouritsen, 2005:159) style, where the opportunity for follow-up and clarification would come from the path the participant had taken – something that is lost if the pre-set agenda is too rigidly followed.

While such reference points may have positioned the discussion, it was mentioned up front that there were no pre-specified ‘right or wrong’ answers (Marginson, 2004). In addition, to break down a respondent reliance on their own second-nature terms or concepts, where possible I also asked for examples or clarification on points that were raised (Marginson, 2004). This anchoring around the participant’s experience was similarly built from an early question asking for a description of their role and a typical day on the job. However, given the interview respondents were typically meeting after work, during a lunch break, or between meetings, there were sometimes time constraints that limited the extent to which follow up on all matters could be pursued.

Time was frequently a factor that shaped interviews. In several instances participants indicated that they only had thirty minutes free for a conversation. Or they would have to reschedule an interview due to changes in their own professional schedule. Others agreed to an interview during their lunch break, meaning that we chatted in a café with background noise and my own personal feeling of guilt as the subject talked away and their food was left untouched for periods of time. For me, this forced a flexibility in the interview and I had to be able to take the interview on the road as the scheduling demands of participants required.

The semi-structured design meant that there was a relatively open-ended discussion guided by the prompting and direction, with my own influence being unavoidable. Interviews were set up through my efforts, structured by me, and carried out in a dialogue between me and the participant – it was an “interpersonal drama” (Hermanns, 2004:209) in which I was one of the players. In most cases the interviews felt more like a conversation than an interrogation, with discussion and questioning from both myself and the participants during the process.

Once the interview commenced there was usually an interest in what I was researching, with several participants asking about the nature of the project. Both practitioners and regulators showed such interest, with these questions usually occurring at the start of the interview. This occurred in addition to my initial outlining of the interest of the study as part of the ethics and consent pre-briefing (Gendron, 2001). Such inquiry does raise for consideration how the subsequent discussion could have been shaped and influenced by how I positioned the precis of my work.

The outline I offered was generally broad, referring to an interest in scepticism and how it is seen within firms and through regulator activities, with these covering the interests of chapters four and five. In most instances this satisfied participants, although some did ask questions about the outline provided. In addressing these questions there was a tension between being too specific and appearing evasive. Participants had the right to know the nature of the enquiry and most pursued their questions out of genuine interest, rather than trying to second guess specific research questions, but it did highlight the interactive nature of getting interview data and the potential for influence from both the interviewer and the participant in shaping how the conversation proceeds. Towards the end of one interview the participant asked about specific hypotheses and variables that would be tested. It was in this situation that I was conscious of the delicate balance between providing an informed basis for

why I wanted to speak to the participants as opposed to providing information that would frame the way they answered the questions and reflected on their own professional experiences.

Participants were also aware of my background or keen to enquire about it. The interview process necessarily meant that I was a participant, with interview subjects wanting to know who they were talking to as a basis for their being willing to speak. For some there was a comfort that came through the fact that I had been referred to them by their colleagues. When meeting subjects who had been recruited through ‘cold calling’ on LinkedIn I had a sense that participants had already read through ‘my story’. With my professional profile visible to those I messaged, participants were able to know my history before deciding on participation. I have little doubt that participants used this, with some asking me questions about aspects of my professional life during the interview process and one spending several minutes at the end talking about a particular aspect of my work history that was not auditing related, leading to them also reflecting on their own family history.

The connections made through interviews were also ongoing in some instances, as I encountered participants at various professional functions and conferences that I attended. Moreover, there would be an interest in how the research was going and questions reflecting a follow up from their interview experience.

2.5.3 Participant Observation

Participant observation “allows the researcher to use the culture of the setting...to account for observed patterns of human activity,” (Van Maanen, 1979:539) with interest in how people in natural settings “come to understand, account for, take action, and otherwise manage their day-to-day situation.” (Van Maanen, 1979:540) It provides an understanding of

what the world is like to people who have learned to see, hear, speak, think, and act in ways that are different...[it means] learning from people. (Spradley, 1980:3)

Being there in the engagement room and observing provided a richer avenue for a perspective on practice, highlighting the “first order concepts,” (Van Maanen, 1979:541) - the facts of what happens (as observed) and the explanations of these facts (provided by the participants). Both the behaviour and the depiction of that

behaviour was made available. The participant observation allowed me “to hear, to see, and, most important...to write” (Van Maanen, 2011:3) about the field and professional scepticism, something that “is not itself visible, but is made visible only through its representation.” (Van Maanen, 2011:3)

The participant observation occurred at the end of the field work with the participating firm and involved me spending two days onsite with an audit team. Prior to the placement I agreed to additional terms that were added to the non-disclosure and confidentiality agreement.³⁴ A conference call between the gatekeeper, the engagement manager, and myself outlined what I wanted gain from the participant observation and what it would involve for me and the engagement team.³⁵

When I arrived at the site the engagement manager introduced me and it was apparent that the audit team had been briefed about my presence. I also introduced myself, mentioning that I was conducting field work with the approval of the firm, that I was subject to a non-disclosure and confidentiality agreement, and that the thesis would be reviewed by the firm. I also mentioned that there was no obligation to speak with me. The Engagement Manager then provided an overview of the audit approach and issues that were being addressed. Once this was complete the engagement manager suggested I have a discussion with one of the Junior Auditors, indicating some overview areas that I should see. Following this overview my role in the room oscillated between questioner, interviewer, conversation participant, and observer.

During the participant observation I was conscious of my role within the audit room. My experience in audit several years ago was my basis for styling my initial interactions and engagement, although this experience was of limited use since it was from a time before laptops were the norm. This meant that the dynamics and feel of the audit room – now technology driven with hardly a piece of paper in sight – were very different to my recollections. However, that experience, along with time spent teaching auditing in Australian universities and the interviews and focus groups with the participating firm, meant that I had the necessary familiarity with “the language, concepts, categories, practices, rules, beliefs and so forth” (Van Maanen, 2011:13) of the engagement team.

³⁴ Personal journal

³⁵ Field journal - communication April 2018; Personal Journal;

Some members of the engagement team were proactive in talking with me and others were willing to talk when I approached them. No one declined a request or question when I approached them. When I was not directly speaking with someone I would listen to the discussion in the room, noting the different topics and issues that were raised, who was raising them, who was responding, the context, and how they were handled within the group. Such a focus reflected the typically suggested dimensions for conducting participant observation (Flick, 2014; Spradley, 1980). While in the audit room I was mindful that

the ethnographer “inscribes” social discourse; *he writes it down*. In so doing, he turns it from a passing event, which exists only in its own moment of occurrence, into an account which exists in its inscriptions and can be reconsulted. (Geertz, 1973:19, emphasis in original).

My field notes included short quotes, to allow for a preservation of context and richer takeaway from the field, as well as descriptive details of what was happening, and my immediate thoughts and reactions to what I was seeing and hearing. These were constructed to allow an impressionist recall of different events during the observation, with these about what “mark and make memorable the fieldwork experience.” (Van Maanen, 2011:102) During one-on-one discussions with engagement team members I referred back to these events, asking for their recall and descriptions from their perspective. During these discussions I would also take notes, trying to capture short quotes. These discussions also involved team members talking me through tasks that they were working on, taking me through explanations and examples from the engagement. My questioning of participants sought clarification and elaboration of what I had seen and heard in the room. The participant observation allowed for elements of practice to be identified that would not have not been identified through interviews alone. Examples included some of the different types of artefacts (for example, the impromptu system map) that were not part of the formalised proceedings. By coming in as an outsider and observing I was able to view the engagement from that outsider position. Unaccustomed to the institutionalised roles and tasks that those within the firm do as a matter of routine, I could pursue the potentially naïve lines of enquiry about what was being done.

At the conclusion of each day of the observation I immediately reviewed the handwritten notes and annotated them with any other recollections or contextual

pointers and then typed them up in my field journal and made some comments and reflections in my personal journal. This process is mapped in the bottom third of Figure 1 (see page 76), which shows how previously compiled field notes and the information on the client background provided me with the basis for going in to the engagement team setting, where notes were gathered and then reviewed and typed up into the field journal.

My Role in Participant Observation

I was a peripheral member (Adler & Adler, 1987) of the engagement team setting, observing and talking with participants about what was happening but not actively doing the audit. This meant that I saw and heard a lot and made notes on that basis, highlighting the dependence of participant observation on being able to ‘inscribe the social discourse’ (Geertz, 1973). This raises questions about how my own background may have influenced what I saw and heard and how it was recorded. While I may have been a peripheral member of the audit team I was an active participant in the creation of the account of that team (Van Maanen, 2011). Bourdieu (2003) suggests that the researcher’s history in a participant observation is not a problem, provided it is scrutinised for any potential influence on the research:

I believe that the researcher can and must mobilize his experience, that is, this past, in all his acts of research. But he is entitled to do so only on condition that he submits all these returns of the past to rigorous scientific examination. (Bourdieu, 2003:291)

I went into the participant observation – indeed this entire project – with a background in accounting and auditing. My undergraduate degree specialised in accounting and accounting information systems, I completed a Summer internship with a ‘Big’ firm (including time in audit). I had applied to, been offered positions with, rejected and been rejected by the ‘Big’ firms. My subsequent teaching at universities kept me involved with and interested in issues surrounding the accounting/auditing profession. With this in mind it is perhaps not surprising that I ended up doing this research, since,

Without a doubt, who we are, where we come from and hence, in what context we are situated, influences the type and topic of the research we choose to pursue. (Sergi & Hallin, 2011:199)

This longstanding background was something that the field work participants from the firm did not necessarily know, beyond the fact that I was doing an Accounting PhD at LSE.³⁶

I saw this experience as working in two ways during the participant observation. First, it put me in a position where I understood what was happening and was able to put it into some context. This provided me with a basis for capturing the events in my notes and for noting items for follow-up questions.

An example of this included a discussion about setting sample sizes and materiality levels.³⁷ My accounting and auditing knowledge gave me a frame for positioning this discussion and some of its potential implications. When I followed up on it later, the discussion with the person involved was framed without that positioning, as I asked them what was happening and how it was handled. What was interesting in that exchange was that I was asked if the actions that occurred concerned me. This exchange highlighted the potential for such encounters to change the role of the participant observer and I emphasised that my practical experience was limited and a long time, so I was not questioning what was done, but more how and why things were done for my own understanding. Similarly, when talking with another member of the team and they used a shorthand acronym as they were explaining something within the computer system. I was reasonably confident that I knew what it stood for, but I made the point of clarifying this with the team member before they proceeded.³⁸

There were also times in the observation when there was a presumption that I had limited knowledge of audit, with the engagement manager spending time after I first arrived to explain the process of the audit and the risk items that were being addressed.³⁹ While I understood the technical aspect of what was being explained to me, it was important for me to let the explanation continue. I was there to hear and see their account of the engagement and their explanation and understanding – I was the observer and they were one of the informants and “the informant is always right.”

³⁶ Interview participants recruited for the auditability chapter were in a different position, since many of them were recruited through LinkedIn. As a result, they had access to my background, with several asking about different items in my online CV.

³⁷ Field Journal 4 May 2018

³⁸ Field Journal 4 May 2018

³⁹ Field Journal 4 May 2018

(Rabinow, 1977:45) It was instances like these that helped remind me of the potential for ‘going native with the natives’ (Zaman, 2008). I also saw first-hand what is not widely recognised in this context...the role of the researcher as an active agent in research; and the relationship between the individual or personal attributes of the researcher and research questions, methodologies and methods.” (Boyce, Emmanuel, & Williams, 2003)

However, as much as I was an active participant in the collection of details from the ethnographic placement, I also needed to be a passive observer at times, letting the participants speak on their own terms. Whether that happened or not depends on the question of whether my presence in the audit room caused a disturbance or alteration to the “usual patterns of experience” (Rabinow, 1977:38). When the engagement manager introduced me to the team they mentioned my interest in professional scepticism on multiple occasions, and I had mentioned it when I introduced myself to the team. So there was definitely an awareness of what I was interested in and why I was in the room. Sometimes there would even be references made to it.⁴⁰ For example, when returning back from lunch on the second day there was a discussion in progress with the engagement leader and some colleagues. They were discussing the design of the client’s IT processes. As myself and some of the other team members returned to the room the discussion continued, seemingly oblivious to our return. A couple of minutes later a comment along the lines of, ‘Oh, Brett’s in the room – we better do that again,’ was jokingly made, as if to flag that this was scepticism in action.⁴¹ I don’t presume for a second that my presence drove the conversation – it was in progress before I got back to the room. However, that it was flagged when they realised I was there suggested an awareness of my presence.

I went in to the observation looking to observe what was there to be seen – I had no preconceived ‘things’ I was looking for, with the social dynamics and setting being the focus. I knew I was interested in the artefacts that were part of the engagement, but how they would appear and what they would reveal in the engagement setting was unknown until the observation occurred. Focus group discussions and interviews provided some basis for my expectations, but these came

⁴⁰ Field Journal - 4 May 2018

⁴¹ Field journal – 11 May 2018

from a setting different to the context of a live engagement. The observation was a product of where the team were at on the days I was there, as well as who was in the room at any point of time.

I was an outsider entering their work space to see their activities. But as much as I was an observer, there was also a sense of being observed. Those in the room were aware of my presence and curious about what I was doing. Beyond my initial introduction, questions were asked over lunch about my ‘story’ and what I was researching.⁴² There was as much interest in what I was doing as I had in what others were doing, reflecting “the dialectic process of fieldwork...[where] neither the subject nor the object remain static.” (Rabinow, 1977:39)

2.5.4 Focus Groups

Focus groups were used to collect data through group interaction (Morgan, 1996). The focus groups largely allowed the dialogue to progress on its own terms and provided insight into how topics were viewed and linked, how positions were established, and how different ideas on scepticism were shaped in a shared conversation. Two focus groups were conducted, one involving Partners and Directors and the second involving Managers.

Preliminary Work

Design considerations for the focus groups included participant groupings, the potential use of case material, and the capturing of participant demographics at the completion of the focus group session.

Structure

Two options for participant groupings were considered, (i) multi-level groups with the range of levels represented in the focus group (e.g., junior auditor to partner in the one group), or (ii) groups formed based on rank, with one group for audit juniors, another for mid-level staff (managers, senior managers), and a final group for more senior members (directors and partners). These were effectively a choice of either between or within group variation based on participant experience and position. This consideration is summarised in Table 2 (page 64) and elaborated in this section.

⁴² Field Journal - 4 May 2018, 11 May 2018

Table 2: Focus Group Design Considerations

	ADVANTAGES	DISADVANTAGES
MULTI-LEVEL GROUPS Focus groups with each group consisting of representatives from various (junior auditors to partners).	<ul style="list-style-type: none"> • Capture the nature of communication across the levels of the firm and within the engagement setting • Allows for a discourse analysis that could identify effects of authority and rank on the framing of scepticism • How they talk in the actual setting, able to “tap into fragments of interactions which approximated to naturally occurring data” (Kitzinger, 1994:105, emphasis in original) 	<ul style="list-style-type: none"> • Could lead to a deference by more junior members to the opinion of more senior members (Krueger & Casey, 2015) • Potential reluctance to contribute / self-censorship due to observability by more senior members (Kitzinger, 1994) • Dominance / group think due to the effect of senior staff being present, crowding out the participants’ “own language, concepts and concerns” (Wilkinson, 1998:188)
SINGLE LEVEL GROUPS Focus groups with each group consisting of similarly-ranked individuals (e.g. group of junior auditors, group of managers and senior managers, group of directors and partners)	<ul style="list-style-type: none"> • Participants can contribute on an equal footing, encouraging the voice of ‘minority’ or junior members • Conducive to the thoughts and ideas of participants, as opposed to being seen as presenting the firm’s line • Common communicative basis – profession, rank, experiences – and mutual social categorization (Hydén & Bülow, 2003) • Provides a “safety in numbers” for participants (Kitzinger, 1994:112) 	<ul style="list-style-type: none"> • The dynamic of interaction between levels, which is part of the engagement setting (e.g. reviews, delegation of tasks) is lost

Potential group dynamics were a key design consideration, with one possible outcome of multi-level groups being an environment where there was a dominance of a senior member’s ideas and a reluctance of more junior members to dissent or speak from their own experience. This mixed group structure could also have reflected the dynamic of a supervisor-subordinate relationship (Krueger & Casey, 2015) in the

workplace. Ethically, placing participants in a mixed-level environment that could replicate supervisor-supervisee relations was not desirable, potentially making participants uncomfortable and the environment one that could be perceived or experienced as threatening. Prior research also highlighted “strong arguments...against mixing categories of participants across authority or status lines...the discussion will be uncomfortable at best and conflict-ridden at worst.” (Morgan, 1997:37) This could diminish the extent to which group dialogue occurred, with the ‘minority views’ of lower ranked participants potentially crowded out. Analytically, this raises concerns about who is really talking and who’s voice is heard, thus impacting the interpretation of focus group data (Hydén & Bülow, 2003; Kitzinger, 1994).

A design employing between group differences was chosen, with manager level participants in one group and director/partner level participants in the second group. This distinction is justified based on audit research that points to the manager level as something of a tipping point in the auditor’s career, as emphasis moves from the more technical to the technical and more administrative/managerial aspects of audit and the experiences with the policies and control structures within the firm changes (Kornberger, Justesen, & Mouritsen, 2011; Van Maanen & Pentland, 1994). Research also points to changes as director/partner levels are reached (Carter & Spence, 2014). Both of these highlight a progression from technical to more administrative roles and then from administrative to more client-oriented roles, presenting different challenges for auditors. The design of the focus group allowed for these differences to be drawn out.⁴³

Case Material and Protocol

Case material was considered as a way to provide a focus point for discussion within the groups and a way to “get the discussion going” (Hydén & Bülow, 2003:307), building a common ground for communication (Hydén & Bülow, 2003). This was raised with the firm and discussed during a conference call with the

⁴³ For example, a perspective difference was notable, with the Managers group spoke a lot about time and budget challenges, while partner group tended to talk more higher level about the role of audit and how the audit serves the wider community.

gatekeeper and a representative from the learning function.⁴⁴ There were concerns about this approach, particularly with the impact on the participant time demands and the consequences for individual willingness to participate in the focus group.

It was also suggested that focus group participants would have different industry experience, so a case could limit discussion if people felt it was not within their particular area. A case was also seen as potentially triggering a rationalised procedural/methodological response from participants, instead of cultural and interpersonal elements and a discussion that builds ideas and concepts. Both the gatekeeper and the learning function representative were confident that once a cue was provided participants would be keen to share stories, procedures, and experiences.⁴⁵

The focus group was designed to address three broad areas, with these preceded by a general ice-breaker question (Morgan, 1997). The ice breaker was set up to generate participants' initial ideas about the meaning of scepticism. The subsequent themed topics covered general issues concerning scepticism and audit, the firm environment, the engagement procedures that are seen as linked to scepticism, and data analytics. These were chosen based on the research interest in the artefacts that are part of professional scepticism. The references to firm environment, engagement procedures, and data analytics provided avenues for participants to discuss what they did, what was used, and how things were done during an engagement. Prompter questions for each area were based around statements or suggestions intended to open up discussion, rather than narrow participants into direct yes/no, agree/disagree statements. The protocol also included follow-up pointers to guide my own moderation of the discussion (Morgan, 1997).

The focus group protocol was reviewed and approved by the gatekeeper and is reproduced in APPENDIX 11

Table 21. Group demographics were also gathered, with this seen as “quite useful” (Morgan, 1997:57) for interpreting focus group data. Agar and MacDonald (1995:79) argue for a need to consider participant history and background, for “without them, it’s difficult to evaluate the scope of what was learned.” (Agar &

⁴⁴ 12/6/2017 - Call documented in researcher’s journal. See also Panel A of Appendix 9 – Table 19

⁴⁵ 12/6/2017, documented in researcher’s journal.

MacDonald, 1995:79) A copy of the demographics form that was used is contained in Appendix 8 – Figure 8 (page 338). These items are intended to “provide an accurate sense of who was in the group” (Morgan, 1997:57) and aid in the interpretation of data from each focus group. However, it should be noted that the information was anonymised, so while an overall understanding of the group is available the linking of specific individuals to specific statements and demographic profiles was not possible.

Recruitment

Focus group participant recruitment involved the gatekeeper putting out a message asking for volunteers. This meant that participants within a focus group would not necessarily have worked together or be familiar with each other and could come from a range of practice areas. This lack of familiarity – referred to as the “strangers’ rule” (Agar & MacDonald, 1995:79) – is seen as a positive, reducing the tendency for participants to fall into established local terms and references from common engagements. This did not mean that the discussion would be free of institutional forces and patterns, since “many focus groups are drawn together through networks...they are products of institutional processes that powerfully shape them.” (Agar & MacDonald, 1995:79) In this case those networks included the audit firm and the wider profession, both of which were common to all participants. However, these institutional forces – for example the influence of firm-based training, professional requirements, processes and ideas in firm-based methodology and so forth – would apply equally across all groups and presumably in a consistent manner since all participants were from the same organisation.

Execution

The focus groups were held in the firm’s London office on 10-11 July 2017. As participants arrived they were introduced by the gatekeeper and I introduced myself. In both focus groups the tables were arranged so that participants sat around the outside and were facing each other, in a roundtable configuration, and I was in a position that could be seen as the head of the table (Morgan, 1997), with the notetaker seated in the back-left corner.

Each session commenced with an introduction by the gatekeeper and I read the introductory information (see protocol on page 295 of the Appendices) restating

the ethical guidelines and the NDA that was in place. At this point the first discussion topic was raised and the participants were invited to contribute. At the conclusion of each focus group the option to participate in follow up interviews was put forward, with participants requested to indicate to the gatekeeper if they wished to further participate.

Participant Summary

A summary of the focus group demographics is provided in Table 3 . All participants were professionally qualified with an accounting body and they all possessed tertiary qualifications. The highest level of study for eleven of the participants was a Bachelors degree while one Manager possessed a Masters degree. Degree backgrounds varied, with six participants (1 Partner, 1 Director, 1 Senior Manager, 3 Managers) having studied Business/Accounting. Other degree backgrounds included Law, Maths, Computer Science, Arts History, and Economics and Politics.

Table 3: Focus Group Summary

			GROUP 1	GROUP 2
			10 July 2017	11 July 2017
Gender	Male		3	2
	Female		2	5
Age	20-29			6
	30-39		4	1
	40-49		1	
Position	Manager			5
	Senior Manager			2
	Director		3	
	Partner		2	
Time	With firm (years-months)	Mean	17-1	7-9
		Maximum	23-10	11-0
		Minimum	12-0	4-11
	Current position (years-months)	Mean	5-5	0 -9
		Maximum	11-0	3-0
		Minimum	3-0	0-1
Know other group members? (Possible values 0-7)	Mean	5.2	2.0	
	Maximum	7	4	
	Minimum	4	0	
Work with other group members? (Possible values 0-7)	Mean	2.2	0.4	
	Maximum	5	2	
	Minimum	0	0	

Partners and Directors had at least three years in their current role. Amongst the Managers and Senior Managers there was a lower level of time in the role, with four of the Managers having just recently been promoted and reporting 1 month at the level of Manager. The Partner/Directors group also reported being reasonably familiar with other members of the group (mean=5.2) but not frequently working with the other group members (mean=2.2). For the Manager/Senior Manager group familiarity with other group members (mean=2.0) and having worked with other group members (mean=0.4) were both low.

2.6 TRUSTWORTHINESS CONSIDERATIONS

This final section outlines the steps taken to address issues of trustworthiness that are seen as critical to qualitative research.

A concern in the conduct of this research was the ability to demonstrate what is generally termed the reliability or trustworthiness (Guba, 1981; Guba & Lincoln, 1982; Lincoln, 1995; Lincoln & Guba, 1985; Malsch & Salterio, 2015; Shenton, 2004) of the data and the analysis techniques employed. Assessing the quality of research has been a longstanding challenge in general (Guba, 1981) and an area of increasing relevance for accounting and auditing research (Malsch & Salterio, 2015). Based on their reference in literature (for example (Malsch & Salterio, 2015)), four general criteria for trustworthiness were employed – credibility, transferability, dependability, and confirmability. Guba and Lincoln (1982:248) suggest that a research design “ought at least to propose what the inquirer will do to satisfy each of the...criteria and provide for trustworthiness.”

These dimensions are summarised in Table 4 (see page 75), which contains the trustworthiness goals and the strategies that were used in relation to each goal. A diagram is also provided to map out the audit trail that was established for the research (see Figure 1, page 76). Table 5 (see pages 77-81) also summarises how the different items in the audit trail map relate to the various trustworthiness criteria. This design was based on the specific demands of the field work being undertaken and reflects the range of unique opportunities and constraints that the different field settings offered (Boyce et al., 2003).

2.6.1 Credibility

Credibility refers to the believability of the research and its results for the research participants. Member checks were used to present findings to participants, with these operating in two ways. Two members of the participating firm reviewed the thesis and two meetings were held with the participating firm. These meetings involved the gatekeepers, the second reviewer of the thesis, and one interview participant (11/9/18), and one of the gatekeepers, the engagement partner, and another interview participant (13/9/18). In both meetings I presented a two-page summary of findings that described the three empirical chapters, the data sources from the participating firm, and a series of observations about how I observed the operation of scepticism. These meetings provided an avenue for the research participants to see and speak to the findings. Responses in the meetings demonstrated an interest in the research, with the two thesis reviewers making comments and observations on the chapters that were not part of the firm-based material. For example, the Gatekeeper mentioned on several occasions in both meetings that they liked the genealogy chapter and the ideas it presented about scepticism, noting the contrasting prefixes that had been attached to the term (for example, healthy and professional).

When I described my observations in these meetings there were no objections or challenges. The conceptual elements developed in chapter five were also supported, with the Engagement Leader supportive of the artefact classification that was developed. The classification also provided a basis for reflection about how and why the firm did things the way they do (for example, the handling of review comments), so it tapped into the experiences of those in the meeting. Subsequent discussion arising about the issues surrounding the evidencing of professional scepticism and material traces were also consistent with the ideas presented in chapter four.

Participants that were involved in interviews for chapter four were also offered the opportunity to review the chapter and provide comments on the discussion. An email was sent to participants offering them a copy of the chapter draft, with this also inviting follow-up comments.⁴⁹ At 16 September 2018 there were 14 participants who requested a copy of the chapter draft, with 1 of those having replied and engaged with the chapter material, indicating that it raised some interesting issues. Reflections

⁴⁹ A copy of the template follow-up letter appears on page 331 of the Appendices.

offered in the email drew on their experiences and were also consistent with the chapter (for example, the over-structuring of scepticism so it becomes a tick-box thing that is done to meet requirements). Other participants replied and sent through links to the IAESB discussion that was in process, with this looking at the positioning of scepticism in the accountant's ethical code of conduct. Again, the replies received suggested interest in the area and credibility of chapter 4.

Peer debriefing was also used, with project supervisors providing an avenue for reflecting on what was observed. Regular supervisor meetings were held and these would involve reviewing interview transcripts or discussing some of the thoughts and ideas from the field placement. Data obtained from sources other than the participating firm was also discussed in sessions within the Department of Accounting at LSE, with these attended by current doctoral students and faculty.

Triangulation of data was also used where alternative sources or accounts were available. For the field placement data there was an attention was placed on how the different data sources compared with each other and to documentation that was provided by the firm, with this reflected in footnotes in chapter five that highlight where different data references come from.

2.6.2 Transferability

For ethnographic research, an attention to a "thick description" (Geertz, 1973:6; Guba, 1981:81; Malsch & Salterio, 2015; O'Dwyer, 2004) of the context is seen as important for the work to travel to other settings and contexts. For the data gathered through the participating firm the descriptions of context, setting, and dynamics were built in to the description in my field notes and in the material presented in chapter five, with attention given to the dimensions of ethnographic notetaking (Spradley, 1980) and allowing for an impressionistic style (Van Maanen, 2011). Techniques like noting short quotes, capturing the setting and physical layout, as well as describing the feeling within the room were all employed to aid in the thickness of the description. Consultation with supervisors also provided feedback on the richness of the data as the data collection progressed. For interviews in chapter four, attention was given to how things were said, pauses, tone and other aspects that communicate a feeling or involvement in the topic.

Sampling techniques were also relevant for the material in chapter four. Participants were recruited for interviews based on their audit experience and

exposure. While practicing auditors were a significant part of the pool of respondents, participants from the regulator, audit committees, and professional bodies were also involved. Participants were also asked if they knew of any other people who they could suggest as potential interview subjects. This created a sample of participants that reflected various parts of the audit industry, in order to capture different ideas and understandings of professional scepticism. The discussion and planning with the participating firm during the negotiation preceding the NDA can be seen as a form of purposive sampling, supporting an intent to “maximise the range of information uncovered.” (Guba, 1981:86)

2.6.3 Dependability

Dependability targets “trackable variance” (Guba, 1981:81) and comes from the use of stable procedures and an ability to track where procedures changed, flagging attention to how this could have influenced the data. The development of interview protocols, focus group protocols, and research outlines as part of interview preparation and the negotiation of field work access provided a basis for consistency.

At a minimum, these items provided a consistent launching point for interviews, although it is important to remember that across the field work there were interviews and meetings with a range of people from different functional areas. Further, even when interview participants were from a similar role or function, there was still a variability that came through the semi-structured interview design. The interview protocol contained discussion hooks or follow up points that guided the conversation, but these were not binding - the aim was to get the subject’s thoughts and connections of ideas, rather than build it for them.

The use of varied data gathering techniques within the participating firm also aided dependability, with interviews, focus groups, and participant observation providing different means of accessing the firm. Data gained from these methods were compared and during the descriptions in chapters four and five there has been an attention to map the use of the different data sources, with this demonstrated by the footnote references to different meetings, data gathering activities, or field notes and bringing together the observations from practitioners performing audit with those from other areas of the firm.

2.6.4 Confirmability

Confirmability relates to being able to verify the data that was produced. A key dimension of confirmability built into this research project is the established audit trail. This process is mapped in Figure 1 (see page 76), which depicts the process from the original collection of the data to its inclusion in the completed thesis. The diagram maps where data was sourced from and the different documents and records that were involved in the generation and use of the data.

For example, the interview protocol was used in interviews and where possible the interview would be recorded. The recorded interview would be transcribed and a list of suggested items would also be compiled.⁵¹ Interviews were then reviewed and coded.⁵² The coded data, the coding templates, field journal, theory journal, and reflective/personal journal were then used to produce the respective chapters. This audit trail can be followed through for each of the chapters and is reflected in the empirical descriptions, which link back to data sources (for example, specific interviews, meetings etc). The solid arrows on the map indicate items that were directly coded, while the dashed arrows from the personal journal and theory journal indicate items that informed the coding.

Where documents are referred to in the research map an accompanying description is offered in 5 (pages 77-81), which links each document, its contents and function, to the trustworthiness dimensions

The audit trail was designed based on the discussions of naturalistic inquiry designs (Guba, 1981; Guba & Lincoln, 1982; Lincoln & Guba, 1985) and was also discussed with the primary supervisor of the project prior to the field placement. Sources of data used for the genealogy chapter were predominantly historical documents (news items, regulatory reports, records of political debate for example) and these are verifiable of their own accord through the reference details and their availability to the general public. A list of the items consulted in preparing the genealogy is available in the appendices.

⁵¹ Suggested items refers to additional references or sources that participants may have suggested or additional material that participants provided. For example, some provided copies of materials from their professional body, others referred to regulatory reports that had been published.

⁵² Detailed chapter-specific coding descriptions are provided in chapters three, four, and five, with these linked to the specific questions, theoretical base, and empirical setting.

2.7 ETHICS

For all participant interaction (interviews, field work with firm) a research ethics self-assessment form was completed, reviewed by project supervisors, and lodged with the Department of Accounting at LSE. The risk assessment for work with human subjects did not raise any issues that required additional procedures to be followed or approval of the project at higher levels within the school.

Issues relating to participant recruitment have been described in the previous sections. Participants were advised of the voluntary nature of their participation and of the provision of anonymity. From a practical point of view, once one person opted for anonymity all participants had to be anonymised. Otherwise it would have potentially been possible to identify participants or their organisations through reverse engineering and processes of elimination.

For interviewees in chapter four, consent to participate was contained in the email from participants confirming their availability and willingness to participate in the project, with their provision of suggested meeting times and dates seen as indicative of their willingness to be involved. Participants were also educated and informed professionals operating in the business or professional setting, arguably placing them in a less-vulnerable position. The follow-up with participants at the end of the project saw the nature of the investigation, the ethical aspects of participation and anonymity, and voluntary participation and the right to review the use of the data once again communicated to them.

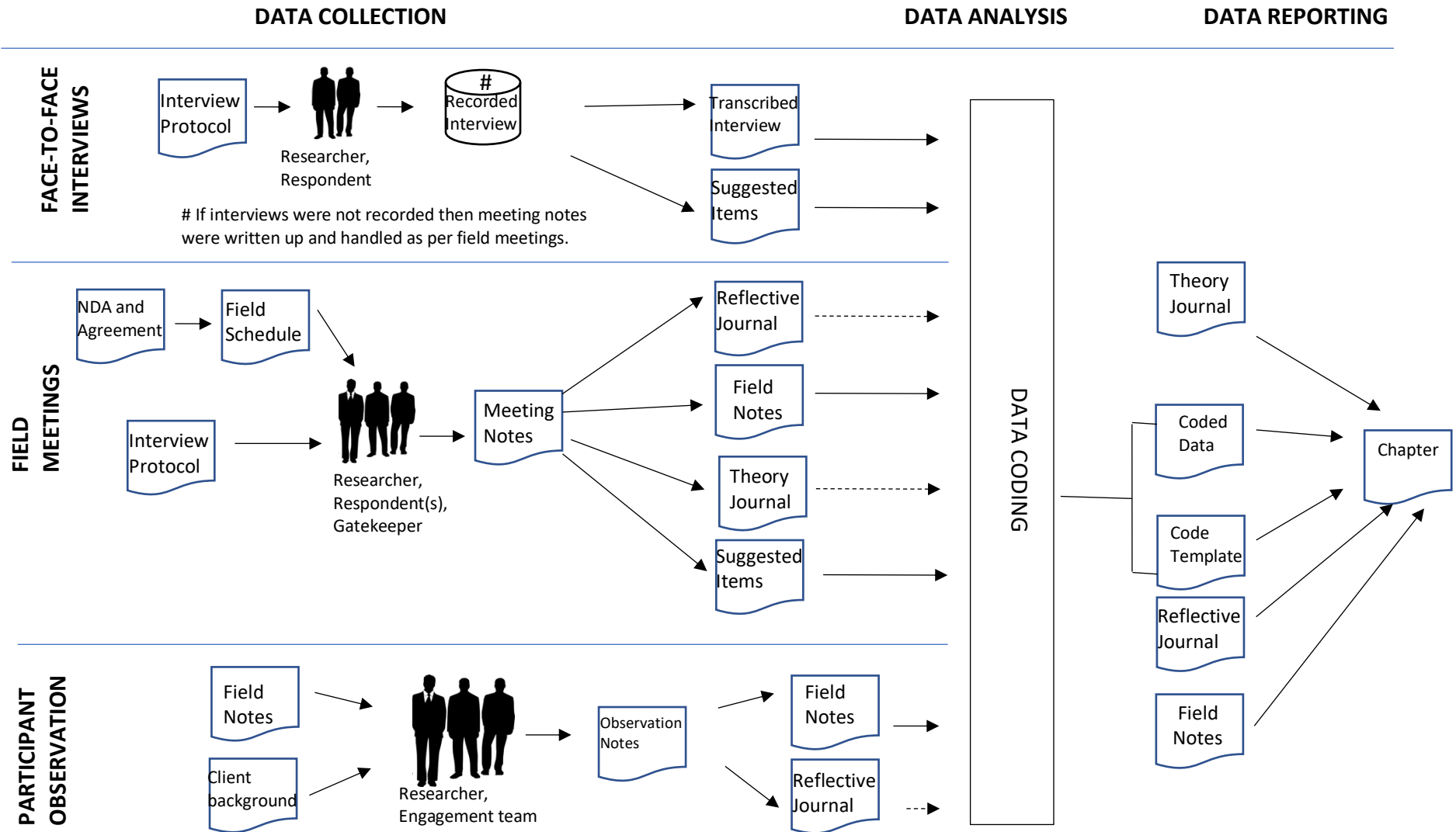
Interviewee details were kept in a password protected file that was stored, along with interview recordings, transcripts, and field related materials, on an encrypted hard drive. Physical materials and the encrypted hard drive were stored in a secure cabinet in my office.

Table 4: Building in Trustworthiness

DIMENSION ⁵⁴	STRATEGIES / ACTIONS TAKEN		
	Genealogy	Field Placement	Interviews
Credibility Is the data and its interpretation believable to the participants involved? Does the data measure / test what is intended?	<ul style="list-style-type: none"> - Triangulation across sources 	<ul style="list-style-type: none"> - Participating firm reviews thesis before submission - Debriefing with firm - Triangulation across sources of data 	<ul style="list-style-type: none"> - Participants able to review transcripts and chapters - Option of debriefing of results - Recording of interviews
Transferability Is the description thick enough for it to be transferred to other contexts?	<ul style="list-style-type: none"> - Thick description - Purposive sampling 	<ul style="list-style-type: none"> - Thick description - Purposive sampling - Discussion with supervisor - Conference attendance 	<ul style="list-style-type: none"> - Purposive sampling - Thick description - Discussion with supervisor - Conference attendance
Dependability Are the results stable?	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> - Dependability audit - Writing up notes after field meetings/observation - Interview protocols 	<ul style="list-style-type: none"> - Dependability audit - Interview protocols
Confirmability Can the data be confirmed?	<ul style="list-style-type: none"> - Data comes from external documentary sources - Copies of articles and reports made and stored 	<ul style="list-style-type: none"> - Practicing reflexivity - Confirmability audit - Log of email communications 	<ul style="list-style-type: none"> - Practicing reflexivity - Recording of interviews - Transcripts produced - Inclusion of coding matrices - Confirmability audit

⁵⁴ Based on Guba, 1981; Guba & Lincoln, 1982; Lincoln & Guba, 1985; Malsch & Salterio, 2015; Shenton, 2004

Figure 1: Map of the Research Trail



DOCUMENT	PURPOSE	ADDRESSES GOAL(S) OF⁵⁵	COMMENTS
INTERVIEW PROTOCOL	Outlines the semi-structured interviews, including discussion points and follow-up areas	Audit Trail [DEPENDABILITY] – Stability of interview content, coverage, and areas referred to.	A basis for interview discussion. The nature of the participants meant that some variations on coverage occurred.
MEETING NOTES and OBSERVATION NOTES	Compiled during field work discussions – a “condensed account” (Spradley 1980:69). The aim was to capture key quotes/references in discussions, with short verbatim grabs of “indigenous meaning” (Emerson et al., 2011:16) documented as the basis for the ethnographic record and for future reference and subsequent expansion in FIELD NOTES. (Spradley, 1979, 1980)	Audit Trail [DEPENDABILITY] Thick description [TRANSFERABILITY] – verbatim grabs / quotes Triangulation [CONFIRMABILITY] – with other interviews and archival sources Triangulation [CREDIBILITY] - with other interviews and archival sources	Attention to: - WHO said it? - TONE of statement - CONTEXT of statement (e.g. at what point in discussion, what triggered etc) - REACTIONS - SETTING (atmosphere in room, non-verbal cues etc) Prepared during meeting and observation and written up after the meeting. (McKinnon (1988); Spradley (1980:80-84))
REFLECTIVE JOURNAL	Reflects the interactive nature of naturalistic research, with construction occurring in both the	Peer Debriefing [CREDIBILITY] – Discussion with supervisors as fieldwork progressed. These were kept	A basis for discussion with peers on how field work is progressing and for the consideration of how

⁵⁵ Based on criteria described in Guba (1981); Guba and Lincoln (1982); Lincoln and Guba (1985); Shenton (2004)

DOCUMENT	PURPOSE	ADDRESSES GOAL(S) OF ⁵⁵	COMMENTS
	<p>respondents and the researcher. These capture my reflections, thoughts, feelings, and ideas as the field work progressed (e.g.: (Emerson et al., 2011; Guba, 1981; Lincoln & Guba, 1985:327-328; Spradley, 1980) and were a way of identifying/dealing with any researcher bias (McKinnon, 1988). Potential basis for informing domain analysis (Spradley, 1980:85-99)</p>	<p>separate from field notes, to distinguish data and reflection. Audit Trail [DEPENDABILITY] – Linked to field notes and field schedule, they offer contextual details for framing and interpreting data in analysis and reporting stage. Reflexivity [CONFIRMABILITY] – Personal dimension on data collection and analysis, interactive/con- construction of both participant and researcher</p>	<p>the personal experience shapes and is part of the field work data collection process. How do I feel in the field? How are others seeing me?</p>
FIELD NOTES	<p>The detailed write up of field notes, with the context and points from meeting and observation notes expanded and written out.</p>	<p>Audit Trail [DEPENDABILITY] Peer Debriefing [CREDIBILITY] Triangulation [CREDIBILITY]</p>	<p>Prepared after interview/field meeting and builds on the contextual quotes and notes from the meeting. Periodically shared with supervisors for discussion of evident themes/ideas and consideration in conjunction with reflective journal.</p>
THEORY JOURNAL	<p>Notes and thoughts on theoretical perspectives and means of positioning the work within theory (McKinnon, 1988), elements for</p>	<p>Audit Trail [DEPENDABILITY] Peer Debriefing [CREDIBILITY]</p>	<p>Various theoretical positions and ideas were considered in the course of the project. At various points these were reviewed and</p>

DOCUMENT	PURPOSE	ADDRESSES GOAL(S) OF⁵⁵	COMMENTS
	theorisation etc, as well as for documenting ideas / development of potential conceptual leaps (Klag & Langley, 2013).		written up and discussed with project supervisors.
SUGGESTED ITEMS	During interviews and field observations participants may suggest points of further reference / information. These items are seen as 'Suggested Items' and course of follow-up after the interview.	Collect referential adequacy materials [CREDIBILITY] Audit Trail [DEPENDABILITY]	Items in this category were either referred to or provided by interview and meeting participants.
CODE TEMPLATE	Describes the stages of thematic analysis of the data and provides descriptions of the thematic groups arrived and cross references back to Interview Transcripts or Field Notes to facilitate vouching back to the source. (Flick, 2014; Lillis, 1999)	Audit Trail [DEPENDABILITY] Structural Corroboration [CREDIBILITY]	Developed for each of the empirical chapters and shows how concepts for coding were derived and developed.
FIELD SCHEDULE	Provides an overview of the time spent in the field including the date and time of field placements and the different areas of the organisation and people involved in the placement session. (Guba, 1981; McKinnon, 1988)	Time in Field [CREDIBILITY] Audit Trail [DEPENDABILITY]	Prepared by the participating firm, this outlines the proposed areas included in the placement and a loose timeline for their completion.

DOCUMENT	PURPOSE	ADDRESSES GOAL(S) OF⁵⁵	COMMENTS
TRANSCRIBED INTERVIEW	Recordings of interviews transcribed into document form. Used as a reference for analysis and coding and quotes used cross referenced back to individual transcripts.	Audit Trail [DEPENDABILITY] Thick description [TRANSFERABILITY] Peer Debriefing [CREDIBILITY] Triangulation [CONFIRMABILITY] Member Check [CREDIBILITY] - Interview participants have option of viewing transcripts	Transcripts were reviewed for accuracy and participants were offered a copy of the transcript.
CHAPTER	Chapter / paper based on data and analysis	Member Checks [CREDIBILITY] – reviewed by participating organisation and results presented to participating organisation; Interview participants have option of viewing papers. Audit Trail [DEPENDABILITY] Peer Debriefing [CREDIBILITY]	Participants were offered the opportunity to review the chapter their material was used in and to meet for follow-up discussion. 10 participants reviewed a draft of chapter 4 and 2 members of the participating firm reviewed chapter 5. Results from chapter 5 were also presented to the participating firm.
ARCHIVAL SOURCES	Items gathered from secondary sources, like newspaper items, professional journals, regulatory documents, and other such sources. These provide a basis for gauging the wider context over time and allow for	Triangulation [CONFIRMABILITY] Triangulation [CREDIBILITY]	These documents have, to the extent possible, been captured in electronic form and are preserved in their condition at the point of capture (for example, web page pdf images).

DOCUMENT	PURPOSE	ADDRESSES GOAL(S) OF ⁵⁵	COMMENTS
	the positioning of comments and references in a wider referential frame. They also offer a basis for triangulation (Guba, 1981; McKinnon, 1988)		
NDA and Agreement	Outline of agreement between researcher and the participating organisation.		Provides evidence of the occurrence of the field placement.

Table 5 Documents and Audit Trail Components

3 THE GENEALOGY OF SCEPTICISM

3.0 INTRODUCTION

In 2004 the FRC took over the regulation of auditing in the United Kingdom. This was a significant structural change that reduced the profession's claims to self-regulation. This shift is argued to have provided a basis for reimagining the role of the individual in the audit process, with regulatory attention to professional scepticism seen as the vehicle for such change.

The genealogy presented in this chapter describes these changes. It is argued that the nature of the auditor's responsibility shifts from the professional individual to the professional body to the professional firm and, finally, back to the individual within the firm. This interpretation contributes to the understandings of the audit profession, recognising the changing nature and locus of attention and shifts the focus from the sites of professionalization to the individuals within the sites. This also highlights how there was much at stake in the conditions that led to the creation of professional scepticism. The described events highlight how audit went from a focus on the individual built around ideas of scrutiny and knowledge to the individual being a small part in a much bigger professional services firm. With this background, the attention to scepticism is seen as a re-birth of the individual auditor, albeit typically within a firm setting. Such a change is made possible by the change from self-regulation to FRC-based regulation and an effective reset of regulation.

This chapter investigates the conditions that made auditor professional scepticism a focus of regulatory attention within the UK. While prior studies have examined auditor professional scepticism and the engagement setting, considering the conditions that impact and are impacted by scepticism (Hurt et al., 2013; M. W. Nelson, 2009), their analysis is situated in the present and relies on a particular conception of scepticism that takes the understandings of practitioners, regulators, and standard setters as a given. This chapter adds to their understanding by describing the changed ideas about the role of the auditor and the professional conception of what it means to be sceptical. It highlights the influence of context (Burchell, Clubb, & Hopwood, 1985) and how understandings, problems, and solutions to problems change over time and some problems never disappear (Day, 2000). This chapter highlights how scepticism is the product of earlier events. When these events are

considered, there is an observable difference in auditor role and the source of challenge. Early auditors saw their ability to scrutinise the auditee as a selling point, with this distinguishing the professional from the lay auditor in times of seemingly endemic fraud. In the modern setting the role of the auditor challenging the auditee is still seen as important, but the source of its emphasis can be seen to come from the regulatory bodies.

The genealogy of auditor professional scepticism is about the construction of a concept - there was no discrete 'thing' called auditor professional scepticism waiting to be discovered. It is a construction that comes about through various actors and their circumstances. The conditions for its construction highlight the role of failure in making problems apparent (Star, 1999; Star & Ruhleder, 1996) and provide a basis for new solutions to be proposed. The genealogical approach is employed to highlight the "prior conditions that made a concept possible." (Hacking, 1991:184) The role of the prior conditions in shaping the present mean that no *a priori* definitions of scepticism are provided. While the ISAs and various regulatory documents offer definitions, taking these as a starting point would impose a presumption of the present on the past, something the genealogical approach aims to overcome (Kearins & Hooper, 2002). Under the genealogical approach auditor professional scepticism, its definitions and meanings represent "dependent variables to be explained" (Power, 1997:xviii) rather than presumed starting points.

This chapter allows for the rethinking of some of the themes and classifications in the accounting and auditing literature. Each of these represents a socially constructed boundary impacting the profession, the nature of regulation, and the bounds of auditor responsibility. Examples include understandings of the location of professionalization (D. J. Cooper & Robson, 2006), the nature of regulatory relationships (D. Cooper, Puxty, Robson, & Willmott, 1996; D. J. Cooper, Puxty, Robson, & Willmott, 1994), the influence of audit methodology, and the role and understanding of audit (for example, (Power, 1997)). It also highlights the tenuous boundaries of professional knowledge and how business expertise and accounting knowledge were built up as the basis for the professional audit but over time became secondary to outside expertise, with this changing the auditor's role and problematising the link between expertise and professional audit (Martin et al., 2006; Smith-Lacroix et al., 2012). These perspectives represent the forces and events that

led to the creation of auditor professional scepticism, with each having its own history and pathway to auditor professional scepticism.

3.1 THE GENEALOGY METHOD

Foucault described key aspects of the genealogical approach in *Power/Knowledge*, referring to a need to study objects of the present by not presuming their existence in the past. Specifically:

One has to dispense with the constituent subject itself, that's to say, to arrive at an analysis which can account for the constitution of the subject within a historical framework. And this is what I would call genealogy...a form of history which can account for the constitution of knowledges, discourses, domains of objects, etc., without having to make reference to a subject which is either transcendental in relation to the field of events or runs in its empty sameness throughout the course of history. (Foucault, 1984b:59)

A genealogical approach to accounting history sees accounting as impacting boundaries, creating environments, and transforming entities and practices (Miller & Napier, 1993:632) This means its antecedent conditions and subsequent impacts can reach in multiple directions, making the path of the “history of the present” (Foucault, 1991a) less than linear. It also suggests perpetual constitutive conditions as boundaries, environments, and practices are reshaped, emphasising “the outcomes of the past, rather than looking for the origins of the present” (Miller & Napier, 1993:633) in its analysis. There is no assumption that “words had kept their meaning, that desires still pointed in a single direction, and that ideas retained their logic,” (Foucault, 1984a:76). The present is understood as “A collection of layers of historical sedimentation...able to demonstrate how origins may be continually reinscribed or overwritten.”(Hook, 2005:14) This is one of the key points from this chapter, that ideas about auditor roles and duties have been subject to a continual revision, with this making claims that something like scepticism has always been part of audit subject to contestation.

As Hacking (1991:184) comments, “When there is a radical transformation of ideas, whether by evolution or by an abrupt mutation...whatever made the transformation leaves its mark upon subsequent reasoning.” Historical transformation

leads to the present, as opposed to the present being embedded in all that precedes it. In the words of Foucault (1984a:81),

Genealogy does not pretend to go back in time to restore an unbroken continuity...its duty is not to demonstrate that the past actively exists in the present, that it continues secretly to animate the present, having imposed a predetermined form on all its vicissitudes.

Identifying prior conditions requires the eventalization of things (Foucault, 1991b; Tamboukou, 1999), “making visible a singularity at places where there is a temptation to invoke a historical constant.” (Foucault, 1991b:76, emphasis in original) This helps to

emphasize the historical contingency of contemporary practices, and to debunk the apparent permanence of the present. We need to think in terms of multiple and dispersed surfaces of emergence of disparate and often humble practices, rather than in terms of present accountings as those to which all preceding practices have necessarily and inexorably been headed...we need to firmly dissociate outcomes from beginnings. (Miller & Napier, 1993:633)

The challenge hinted at by Hoskin and Macve (1988) is addressing the dual question of “what are the “origins” we should be looking for and what organizations should we be concerned with?” (Hoskin & Macve, 1988:37)

3.1.1 Sources and Method

This chapter uses archival material, including items reported in the mainstream financial press, the professional journals (*Accountancy* of the ICAEW was a main source), Hansard records of parliamentary debates in the House of Lords and House of Commons, and documents issued by the various bodies related to the regulation and operation of the profession (for example, FRC reports and invitations to comment, APB documents, CCAB, and IAASB).⁵⁶ The published biographies of the major accounting firms were also consulted.

Searches were conducted within *The Times* Archive, *Financial Times* archive, Factiva, and EBSCOhost for terms including ‘professional scepticism’ and ‘auditor

⁵⁶ A summary list of reports and documents from regulators, professional bodies and other sources that were consulted can be found in the Appendices.

scepticism’,⁵⁷ with these helping to locate the usage of the term. These searches were not intended to identify the ‘starting point’ or ‘creation point’ of scepticism, with this emerging through the genealogy. Academic literature was also drawn upon to position the movements in the profession. Some of these sources were more descriptive histories, while others offered theoretical perspectives and interpretive explanations. Archival material was sorted chronologically and each news item was read with an attention to the themes and issues that were being raised. This provided a basis for identifying when issues changed and how issues travelled across time, with this being the basis for the events in this chapter. This is not to say that an issue totally disappeared from discussion as the chronology of items progressed. Rather, it was a case of its prominence in discussion changing across time.

3.2 THE CRISES/EVENTS IN THE LIFE OF THE AUDIT

This section presents a series of crises or events that are seen as the conditions of possibility for the current attention on auditor professional scepticism (see Table 6, page 88). Events or crises are those that provide a “reversal of a relationship of forces...the appropriation of a vocabulary turned against those who had once used it.” (Foucault, 1984a:88) These crises/events are subjective, as is any attempt to demarcate history into thematic groupings (see, for example, Dirsmith et al. (2015) and their discussion of applying periodicity to the history of the profession, or Willmott (1986) who traces the history of the professional bodies in the UK using three time periods). The intent of the boundaries is to highlight the malleability of professional and practice boundaries over time, with this malleability coming from a persistent challenge and scrutiny of understandings of audit and its role over time. These changed understandings are often linked to shifts in power, as professions, firms, and regulatory bodies were part of an internal struggle for positioning and control.

This makes the demarcation of events an analytical tool more than a definitive historical delineation, as any attempt at “periodizing is a risky business.” (Chapman, Cooper, & Miller, 2009:9) The boundaries for the events are necessarily opaque, often overlapping, and far from objective. They are researcher constructed to help

⁵⁷ Searches were also conducted using the American spelling of skepticism.

with the "need to attend to the singularity of such moments. The territory of accounting is permeable." (Miller & Napier, 1993:633)

The starting point is the early days of the audit profession, representing a pre-history of scepticism. In this period the key concern was the burgeoning profession and the expectations of public, professional bodies, and judiciary on the nature and role of the audit function. It is in this early setting that the first crisis is identified, that being the crisis of expectations.

3.2.1 Crisis of Expectations – The Early Days

This section considers the profession's early formation, noting its growing presence amidst spirited economic development and changing corporate regulation. In this period the specific knowledge and experience of the auditor is positioned as an increasingly recognised strength. The accountant was seen to lever into the audit market on the back of broader business experience and help navigate the increased complexity of the business environment. Their growing esteem supported claims for professional recognition, which carried with it expectations of performance. Fraud also shaped the early demand for audit and the concerns about the accountant and auditor as an individual professional. The individual bore the expectations of the profession and was the focal point for its performance, with the accountant described as a 'physician' who can cure the 'disease' of fraud.

Accountants as physicians⁵⁸

Industrialisation was significant in the development of the UK accounting profession, with the Price Waterhouse (E. Jones, 1995) and Ernst & Whinney (E. Jones, 1981) histories seeing the 1840s as a "critical" (E. Jones, 1981:28) decade. The attention to growth and efficiency, along with legislative developments, encouraged several large public utilities that ultimately commanded specific accounting expertise. Allowing Joint Stock companies in 1844-45 and limited liability for companies (1856 and 1862) provided a basis for technological advances that drove new and large enterprises. The once small circle of owner and operator expanded as finance was more widely sourced. Investor protection became an

⁵⁸ Jones (1981:56)

increased concern as many companies were formed with “fraudulent intention” (Anonymous, 1888b:7).

Table 6: Events in the Genealogy of Scepticism

EVENT	TIMING	SUMMARY
Expectations	Until 1940s	<ul style="list-style-type: none"> • Attention on the role of the profession and how it was to fit in the corporate setting. • Formation of professional bodies • Legal determination of responsibility and the issue of fraud shaped the idea of audit and the need for challenge.
Auditor Role	1948- 1960	<ul style="list-style-type: none"> • Debates over boundaries. • The profession wanted control over who could perform the audit • Structured in-house methodologies rise. • Auditee comes to be seen as a client
Independence	Late 1960s→	<ul style="list-style-type: none"> • As the corporate entities grew so too did the audit firms, with the development of expertise and various NAS setting the basis for the all-round professional firm setting • Concerns about the ability to evidence independence • Scepticism linked to regulation and independence
Knowledge	2004 →	<ul style="list-style-type: none"> • IFRS and fair-value accounting problematised the knowledge of the auditor and existing audit techniques. • The boundaries of the auditor’s knowledge base, as well as the expectations of the auditor, were under challenge, with questions on their ability to challenge. • The GFC triggered a reconsideration of audit. The observation that “auditors have had a good crisis” provoked many to challenge the nature and expectations of audit

Audit was legislated in 1856 but was initially confined to certain organisations. Its legal requirement did raise the question of who conducts audits, with the statutory position vague and the accounting profession only just starting to establish itself (Carr-Saunders & Wilson, 1933). A common arrangement was that

the auditor was appointed by shareholders, often from among existing shareholders, and they could engage the assistance of an accountant in areas of specialist knowledge or complexity (Chandler, Edwards, & Anderson, 1993). However, using an accountant was an initial a source of hostility for some directors who saw shareholders and their need for information as a “nuisance” (E. Jones, 1981:53), with smaller investors seen as speculators and of little significance. The larger shareholders were seen as having “business experience...[and] a good relationship with directors.” (Maltby, 1999:35) The smaller shareholder was the minority and the auditor typically aligned to the entrepreneur and larger shareholders (Maltby, 1999). Entrepreneurial activity of the time meant that owners were generally close to their business so reporting and auditing was seen as less of a concern (E. Jones, 1981:54).

However, the use of an accountant in the audit became more of a norm as their business knowledge was increasingly recognised, with this knowledge coming from the profession’s growth from insolvency foundations (a foundation that meant accountants were seen as profiting from other’s misfortunes (E. Jones, 1981:45), part of a wider low-esteem the profession faced (Chandler & Edwards, 1996)) The ability of the accountant to offer advice meant that they could gain recognition of their knowledge (Maltby, 1999). These growing demands of audit provided leverage for the establishment of accounting as a profession, with the ICAEW gaining Royal Charter in 1880. This brought with it entrance examinations and Articles of between three and five years before individuals were formally admitted (Carr-Saunders & Wilson, 1933). The establishment of a formalised body of knowledge within the profession, as well as State recognition, were argued to be reason enough for supporting the appointment of a professional accountant as auditor, although at the time there were no restrictions on who could perform the audit. Further Companies Act changes in 1888 proposed that all companies be audited and present a balance sheet to investors at an AGM (Anonymous, 1888a:2). The ICAEW President, Mr Deloitte, noted that “the duties of the accountant had extensively increased, and were still increasing in the estimation of the public” (Anonymous, 1888d:6) thanks to a wider use of accounting and its increased recognition by legislators.

In 1889 the *Financial Times* referred to the auditor as having “become a permanent institution” (Anonymous, 1889:2), while also raising potential conflicts when the auditor prepares a prospectus and subsequently audits the company (Anonymous, 1889:2). Independence was seen as potentially compromised,

impacting both the actions and judgment within the audit process. The tone suggested that prospectus auditors were appointed as company auditor as a favour, in contrast with the envisaged role of acting in the best interests of the shareholders. More generally, the auditor's role was critiqued for its lack of definition and for the auditor being spread across multiple tasks. Even when performing an audit, it was noted that this involved preparing and finishing the books for the client and then auditing them (see E. Jones, 1981:53-56), or with the accountant being involved in establishing the accounting system for the newly formed company (Maltby, 1999). These point to the increased recognition of the skills that accountants could offer businesses, something highlighted by the lack of accounting skills within in an increasing number of companies.

The ICAEW viewed the environment opportunistically, seeing their role as of “the highest importance...a necessary factor in commercial life” (Anonymous, 1890:5) and crucial for the investing public. Such importance came from offering more than the bare certificate he had audited and certified according to the books and the vouchers...[with procedures to be described] so that everyone who could read could understand them, and be in no doubt whatsoever as to the position, or how the accounts referred to had been dealt with. (Anonymous, 1890:5)

The ICAEW description notes that audit processes were widely communicated and understood. There was “no doubt whatsoever” (Anonymous, 1890:5) about how the accounts had been handled by the accountant during the audit. This is suggestive of a clarity in what audit did and how it was understood and received in the wider environment. It also points to a profession that was building up a position, leveraging its knowledge and experience and attempting to establish itself. Arguably, there were incentives for offering such reflections of audit as being more than just a simple examination of books and vouchers.

As fraud increased in prevalence parliamentary debates considered the “grave abuses” (Anonymous, 1896:9) perpetrated through companies, noting a need for “more stringent legislation to protect innocent shareholders.”(Anonymous, 1896:9) The *Financial Times* observed that the 1888 Companies Act was motivated by “the interests of intending shareholders and of the public revenue on one hand, and the sins and wickedness of promoters, directors, and even outsiders on the other hand.” (Anonymous, 1888c:1) This provided a space for the early differentiation of the lay

and professional auditor, adding further motivation to engage professional accountants as auditors (E. Jones, 1981:55). Maltby (1999) also refers to examples where the profession attempted to distinguish itself based on being professional and prudent and having the knowledge that allowed them to know where to look, with the professional auditor being seen as the product of accounting “promoting itself as a profession of business advisors.” (Maltby, 1999:45) More recent commentators looked back on the era and noted that “fraud was a disease endemic in the Victorian economy, and public accountants were the physicians employed to drive it out.” (E. Jones, 1981:56) This was reflected in the audit manuals of the day, with Dicksee (1900:7) listing fraud as the number one focus for an audit. The prevalence of fraud was seen as a selling point for the auditor, who could make its detection their main purpose (Chandler et al., 1993).

Knowledge of business, the business environment, and management became key factors in dealing with fraud, further solidifying attempted distinctions between professional and lay auditors. E. Jones (1981:55-56) quoted Frederick Whiney, an auditor, who wrote:

We auditors are largely dependent on the honesty and fidelity of those who prepare the stock list. And here will come something which is not to be taught...the facility to judge whether the man or men...have done so honestly or not (E. Jones, 1981:55)

To be able to make such judgments required accounting knowledge, as well knowing the nature of the auditee’s operations, the people in the organisation, and being able to assess whether things seemed right (E. Jones, 1981:55-56). But there is also a hinted vulnerability of the auditor, being “largely dependent” on those who prepare the lists that are subject to audit. This could be seen as suggesting an inability of the auditor to challenge such preparers. It also points to the auditor relying on others and how, in the process of checking their assertions, there would also be implicit judgments of character. Trust and doubt as part of the audit process seemingly emerge at this juncture.

This section described the nascent conditions behind the demand for the professional accountant. The role of the legal setting, with the development of company law, was significant in the profession’s development (Maltby, 1999). These included an evolving industrial setting with its challenges to lay knowledge, a seemingly increased vulnerability of the investing public, and the formalised

recognition of the accounting profession through Royal Charter. These allowed the accounting profession to formally establish itself and its body of expertise, which came to be seen as a strength. What had not been negotiated were the obligations that came with the progress to a formally recognised body. Audit was not beyond reproach, with parliament noting a need to make audits of accounts “more satisfactory than it is at present.”(Anonymous, 1895:5) A key part of this would involve clarifying audit expectations.

Hints about the shaping of expectation were evident in the early ruminations of the profession, as they welcomed new responsibility and sought to make it clearer that audit was more than cross-checking. Their initial efforts were aimed at shifting expectations in the profession’s favour and building a base for claims to the audit function. Mr Deloitte’s comments showed this, as did the observation of audit being more than just checking what was provided by the auditee. We also see a role for judgment, although the discussion of judgment was centred upon assessments of client character and the problematisation of trust in the client, as opposed to the determination of accounting fact. Much of the argument for the profession came from fraud, with this being an argued reason for engaging the professional accountant. In the next section it is also seen to provide a constitutive force for the shaping of professional expectations.

A Watchdog not a Bloodhound

Several court cases from the 1850s onwards offered interpretations of audit expectations⁵⁹ (Chandler & Edwards, 1996, 2014a; Chandler et al., 1993; Teo & Cobbin, 2005). The prominence of fraud in Victorian times and the increased requirement for audits led to different understandings of what audit could do and was understood to do - what is today referred to as the expectation gap (Humphrey, Moizer, & Turley, 1992, 1993). The legal cases shaped the definition of the auditor’s professional duties and the boundaries of expected auditor actions. A key part of the debate was how the auditor engaged with the auditee, recognised signs of fraud, and recognised conditions that needed further inquiry. The profession argued it had the

⁵⁹ Detailed consideration of these can be found in Chandler and Edwards (2014a) and Teo and Cobbin (2005).

experience to deal with this, with *The Accountant* highlighting professional knowledge and a greater ability to detect fraud:

a shaky concern will dread submitting its accounts to the keen eyes of a trained investigator...the dread of independent examination will tell its own tale. (*The Accountant*, 8 May 1875, p.2-3, reproduced in Chandler & Edwards (2014b:location 462-487))

“Independent examination”, “trained investigator”, and “keen eyes” marked out professional claims of competence, signalling standards of professional performance. Distinct from earlier times, where the auditor was seen as alongside management and large owner groups, the auditor was now “independent”. The repositioning is quite apparent in the wording. With such a distinction came a heightened attention when auditees failed. Two landmark cases, *In re London and General Bank* [1895] 2 Ch 166 and *In re Kingston Cotton Mill Company (No 2)* 2 Ch 279, provided early benchmarks for evaluating audits.

London and General Bank afforded a clarification of auditor duty with respect to enquiry and challenge, with Lindley L.J. stating:

he does not discharge his duty by doing this [examining the books] without inquiry...An auditor, however, is not bound to more than exercise reasonable care and skill in making inquiries and investigations...**he must not certify what he does not believe to be true**, and he must take reasonable care and skill before he believes that what he certifies is true...**where there is nothing to excite suspicion very little inquiry will be reasonably sufficient...**Where suspicion is aroused more care is obviously necessary. (*In re London and General Bank* [1895] 2 Ch 673 at 683, emphasis added)

Lindley highlights how the extent of inquiry is dependent on engagement circumstances and the inquiry comes from the individual auditor, who must make sufficient enquiries to allow for an opinion to be formed (Chandler et al., 1993). While some inquiry was axiomatic, further inquiry depended on the context. There was also an emphasis on seeking confirmation or applying ‘reasonable care and skill’ to confirm what was presented. This suggested an expectation of inquiry, with this driven by the auditor’s judgment and being put on alert. This was supported in the *Kingston Cotton Mill* case, where Lopez, L.J. stated:

It is the duty of an auditor to bring to bear on the work he has to perform that **skill, care and caution which a reasonably competent, careful and cautious auditor** would use. An auditor is **not bound to be a detective, or, as was said, to approach his work with suspicion or with a foregone conclusion that there is something wrong**. He is a watch-dog, but not a bloodhound. He is **justified in believing tried servants of the company in whom confidence is placed by the company**. He is entitled to assume that they are honest, and to rely upon their representations, provided he takes reasonable care. If there is anything calculated to excite suspicion he should probe it to the bottom; but in the absence of anything of that kind he is only bound to be reasonably cautious and careful...**The duties of auditors must not be rendered too onerous**. Their work is responsible and laborious, and the remuneration moderate. (*In re Kingston Cotton Mill Company (No 2)* 2 Ch 279 at 288-290, emphasis added)

The metaphor of the watchdog and bloodhound signifies differing degrees attentiveness. In its context – an undetected inventory fraud – the message was that if reasonable care and skill did not arouse suspicion then further enquiry was not expected. The auditor-client relationship was positioned around trusting auditee representations, a dependence on the auditee similar to what Jones (1981) described earlier. There is also reference to the profession, noting the “responsible and laborious” tasks remunerated at “moderate” levels. This is, perhaps, a caveat on expectations, highlighting the extent of work required for a relatively moderate financial return. This tapped in to the other debates of the time, where many accountants made more from insolvency work than audit.⁶⁰

Both cases point to the auditor having a particular knowledge that is applied to the audit. This seemingly spoke to the call for professional auditors, with Dicksee (1900:266) describing the “inexpressible misery and distress that has been caused by [amateur auditors’] scandalous incompetency.” The first edition of his audit manual also remarked that “an incomplete investigation

⁶⁰ For an example of fee composition see Jones (1981:47,99) and the analysis of Ernst & Whinney, as well as Jones (1995) and the analysis of Price Waterhouse.

seems worse than useless.” (Dicksee, as quoted by Richardson (1966:707))
 Completeness of the audit was now linked to auditor training, with commentary in *Accountancy* making similar points:

It would seem almost unnecessary at this time of day to urge the desirability of all accounts being audited by properly qualified accountants and by them only...an auditor is bound to be careful, but not to be suspicious...(Terry, 1909:5)

It is also satisfactory to notice...the shareholder auditor is rapidly becoming a thing of the past. It is...astonishing what a number of highly respectable and otherwise intelligent people there are who, without training or knowledge, are still prepared to shoulder the onerous responsible duties of the auditor. (Pixley, 1909:4)

Both quotes highlight the qualifications, training, and knowledge in audit as a distinction between the lay and professional auditor. The professional bodies were lobbying for exclusive control of the audit function – a tremendous asset as audits increased in number and worth over the years – and were using their increasingly established knowledge base as a mean of doing so.

This ongoing battle for the profession ran in harmony with changes to the *Companies Act 1900* that aimed to further protect the public against “the arts of the promoter, who...has sometimes misled them by a suppression of the truth and a suggestion of the false.” (Anonymous, 1901:6) A push for a central register of accountants reached the UK parliament in 1911. Originally introduced in the House of Lords in 1909 (Anonymous, 1909a, 1909b, 1909c, 1909d, 1909e, 1909f, 1909g, 1909h), the *Professional Accountants Bill* aimed to structure “the profession of accountant along the same lines as the profession of solicitor, surgeon, or physician...by forming a register of qualified accountants” (Anonymous, 1909f:6). This would prohibit unlicensed individuals from calling themselves accountants, with the register to be independently managed by a body under the Board of Trade (Anonymous, 1910b). The ensuing parliamentary debate added some clarification to the understood role of the accountant, with the Earl of Chichester describing it as, firstly, auditing public companies. In conducting the audit:

[unqualified individuals] are bookkeepers... they have not the knowledge of practise...[accountants] have to deal with incomes that

amount to millions and to consider the interests of shareholders in the case of hundreds of thousands...[auditors'] labours have not been lightened by recent legislation. On the contrary their duties are more responsible now than they ever were before...he has to go beyond that and to himself make sure that the books themselves are likely to give the right position of that company. And it has been laid down that unless he does so his audit is a farce...We are asking for statutory powers in order that the discipline and control exercised by these great societies may be made effective...recent legislation has given new responsibilities to the profession...I do not think it is too much to ask that these accountants should be enabled to raise their profession, to set their house in order, and thus give a guarantee of high efficiency and integrity throughout the whole profession. (Hansard, 1911)

The Earl of Chichester highlighted the growing audience for audit and noted increasing demands that an auditor go beyond the books during the audit process. A contribution in *Financial Times* also noted that auditing was changing in complexity and execution, pointing to a mechanisation of the audit process that impacted the accuracy and efficiency of the audit.

Auditing was by no means an easy or simple task. It was work that required experience, judgment and the ability to discriminate between what it was necessary to do and what was unnecessary...it was important to guard against methods which so easily become mechanical and which are fatal to accurate and efficient auditing. (Anonymous, 1913)

The idea of efficiency was linked to the increased size of auditees, having implications for to the execution of “judgment”, “discrimination” of audit tasks, and the “accuracy” of the process. Others argued that audit was more than pure mechanics:

Chartered accountants are not mere checking machines...If they are, if such be the limit of their abilities, it is time that the public knew it, so that they may seek in other directions for financial experts.

(Anonymous, 1914)

These comments highlight how a central point in the debate for professional control of audit was the profession’s knowledge. There was a public benefit argument offered, with the trained professional seen to offer better audits, but this was not

prosecuted in a constant manner. For example, the profession at times backed away from expectations that had been built around concerns over fraud, with an ICAEW Autumn meeting noting that “misconceptions [about audit] existed...not only by a section of the public but by those who sought to influence opinion.” (Anonymous, 1910a:3) The misconceptions included how lay people interpreted a balance sheet compared to what it meant for the accountant, with goodwill an example cited to highlight the need to take management judgment as a base rather than second guessing. This positioned the auditor as somewhat aligned with client management, and reluctant to be adversarial:

An auditor taking up such a position...in antagonism to the carefully considered views of the board...would stray beyond his province...unless there were facts...which caused him to think their conclusions were obviously wrong, he must, with rare limitations, be content with the judgment of the directors. (Anonymous, 1910a:3)

Parliament continued to debate the merits of independent professional registration, again noting the problem of unqualified auditors of public companies (Anonymous, 1911:12). However, politics ensured that the Professional Accountant’s Bill would not become law, since it highlighted tensions between the professional bodies and did not have the unanimous support of all the professional bodies. As long as anyone could be appointed as auditor then the unique traits argued by the profession would always be contested.

Other changes to the Companies Act occurred during the first two decades of the twentieth century. In 1908 the law changed to require the appointment of the auditor at each AGM (Back, 1948), while also raising queries about auditor duties (Anonymous, 1908). Further changes in 1929 altered auditor certificate requirements, providing the auditor with “greater freedom” (Anonymous, 1930:25) when reporting on a client. According to Sir Walter Jenkinson, this provided “a sense of confidence to shareholders, debenture holders, and the general public.”(Anonymous, 1932) At the time, the Incorporated Accountants noted that “we must feel with a sense of responsibility and pride the increasing obligations which fall to us as members of the accountancy profession.” (Anonymous, 1930:25).

Such increased responsibility raised concerns about liability, with Sir Nicholas Waterhouse noting how “the damages and costs might be out of all

proportion to any compensation that he have ever received.” (Anonymous, 1934) Waterhouse particularly noted the significant reputational impact of legal action against a member of the profession. The discussion emphasised the individual auditor, calling for professionals to respond by “facing boldly” (Anonymous, 1934) any challenges, while also urging caution when offering “comment on matters outside his jurisdiction...[and] afford the directors an opportunity to shelter behind his meddling.” (Anonymous, 1930:25). In building up its position of business knowledge and expertise, the profession similarly stressed the importance of acting within its bounds. The underlying tone was that auditors who speak too broadly become targets for litigation.

The Royal Mail case rounded out this period, gaining considerable coverage and highlighting the issue of hidden reserves and the auditor’s role in their detection and reporting. Jones (1995), in his biography of Price Waterhouse, observes that colleagues of the partner involved regretted that he had not been “more forthright” (E. Jones, 1995:149) in his opinion of the group of companies. Citing a speech delivered to the Leicester Society of Chartered Accountants on 14 March 1930 and reported in *The Times* on 15 March 1930, it was commented that:

Auditors run grave risks if they do not take reasonable care to satisfy themselves that a balance sheet showed a true and correct view of the state of a company’s affairs as shown by the books and contained a correct record of the company’s transactions for the period covered by the audit. An auditor did not accept implicitly information...offered him by directors or officers. (E. Jones, 1995:150-151, quoting from *The Times* 15 March 1930)

The case highlighted several challenges, including the increased complexity of corporate structures and reserve accounts. The implication of this increased complexity was that the auditor’s role increased in significance and “his responsibilities followed accordingly.” (E. Jones, 1981:152) These responsibilities went beyond mere acceptance of what the auditee’s officers had provided. The shift in auditor responsibility evident in the commentary on the Royal Mail case suggests that the profession had acquired a position of developed standing, bringing with it higher expectations. While the *Kingston Cotton Mills* case had afforded the ability to trust management representations unless put on enquiry, and Waterhouse had urged

caution in commenting and others urged caution in being adversarial, the Royal Mail interpretation narrowed this position. It emphasised a need for the auditor to not implicitly accept information from management. In an increasingly complex environment the investor was entitled to “look for protection and guidance” (E. Jones, 1981:152) from the auditor, who had moved from someone initially resisted by directors to one who enjoyed a growing acceptance of their skills and experience, increasingly engaged for more than mere bookkeeping tasks. (E. Jones, 1981:161)

These shifts highlight the attempts in the early years to mark out a claim over audit. Notably, the focus is on the individual auditor, with their professional values, knowledge, and business experience the selling point for positioning audit. Independence, training, and experience drove the profession’s lobbying but they were unable to secure exclusive control of their title. We see changes in the position of the auditor, going from outsider to a resource of the audited organisation. At this point the legal system, political system, and profession seemingly agreed on the need for the audit, but there was an ongoing tension over the extent of responsibilities and who should be able to perform the audit. While the economic conditions, company growth, and fraud provided the basis for the profession existing, they would also be significant in shaping the expectations and operation of audit. It would be the failure of companies and the instance of fraud that would cause auditor roles to be re-examined. It is also notable that while there were partnerships in operation, the discussion in court cases and press commentary emphasised the individual.

3.2.2 Crisis of Auditor Role – Reconsidering Boundaries

This section explores the post-war period, where the legislative environment provided for changes in financial reporting and auditing requirements and the small audit firm was being problematized as an increased number of larger multi-partner partnerships appeared. Boundaries were an issue for both audit firm and auditee, as was managing quality and people within the growing firms. This would be an environment where in-firm methodologies and quests for control and efficiency materialised, with the rise of ‘big’ firms and their multi-expertise service lines having implications on the role of the individual and challenge within the audit.

*Auditors are the “real arbiter of morality in business”*⁶¹

Following World War II, the environment was one where most British accounting firms were small in size, with few partnerships exceeding ten partners. (E. Jones, 1981:199) The post-war years presented change on many fronts, as government relaxed its war-time control of industry (Leake, 1948) and embarked on a nationalization program that stimulated the growth of the bigger firms (E. Jones, 1981, 1995). The result, drawing on the Ernst & Whinney experience, was that accounting partnerships became increasingly attentive to global client demands:

Responding to the broadening needs of their expanding clients, by 1965 the largest accountancy firms had...formed international organizations of up to a hundred partners or more, who could call on a range of specialist departments...while offering their articled clerks wider training facilities and opportunities. The character of the profession altered accordingly. New organizational structures had to be devised to cope with these greatly extended and expanded services. (E. Jones, 1981:199)

Audit was impacted by the shifting boundaries of the audit firm. While not unheard of prior to WWII, the presence of global partnerships increased post-war, bringing the basis for the ‘big’ firm and an opportunity for expansion beyond conventional accounting/auditing service lines. A broadening base also shifted the partnership-profession relationship as the bigger firms offered greater opportunities for their articled clerks. Professional development and education was increasingly located within the firm, with this shift supporting the development of firm-wide methodologies that served the multiple masters of efficiency, consistency, and internal control.

The starting point was the impact of the war on accounting labour, with the labour market changing as those on active service returned to civilian life. Accountants returned to the profession, increasing labour availability and highlighting the need for retraining. An indication of this and its role in the rise of formalised methodology is evident in the discussions of Foss (1967) and the release of the *Manual of Auditing* (V. R. V. Cooper, 1966). The latter was developed to address the challenges for those returning to the profession, since “many of them were

⁶¹ Anonymous (1947b:147)

out of touch with current thinking in the profession.” (V. R. V. Cooper, 1966:vii) Firms codified audit principles and procedures (V. R. V. Cooper, 1966) to help communicate knowledge. Procedure templates and proformas offered a means of effectively retraining the accountant in both new professional knowledge and the methods of the firm (Foss, 1967; see also Anonymous, 1966b; Newman, 1966; Matthews, 2006a, 2006b).

*Need “to survey the probable future”*⁶²

The profession increasingly sought boundaries on their function, with commentary in *Accountancy* (Leake, 1948:5) attempting to place a boundary between the business world and the audit profession,

Provided that directors do not transgress the law, it is not the duty of auditors...to attempt to interfere with their discretion in the management of the business in any way (Leake, 1948:5)

Auditor responsibility was being bounded by the limits of the law and distinctions were being drawn for the basis of challenging management. Ideally, an auditor would only intervene when necessary – which was basically where the law was violated. This position sought to solidify the boundary of professional responsibilities.

By 1948 there was a noted “growing use of the holding company,” (Leake, 1948:5) and once again company size and spread highlighted a need for changes in reporting requirements. (E. Jones, 1981:203) For accounting and audit the issues were the visibility of earnings and performance. Mandatory consolidated reporting was introduced in 1948 to enhance corporate visibility, while all private companies were also brought under the Companies Act. These changes were well received by the profession, creating a demand stimulus that “meant much additional work for accountants.” (E. Jones, 1981:203). However, the most significant change of the time was the legal specification of auditor qualification requirements. Under the newly written S.161(4) of the *Companies Act*, only Board of Trade recognised entities could be company auditors, with the seven professional accounting bodies identified as offering the necessary background knowledge for auditors (Anonymous, 1948). This provided closure on the control over the audit function and made audit the jurisdiction

⁶² Anonymous (1966c:756)

of the professional accountant. Two decades after these changes were passed, they were still described as “a major landmark...the Act seemed to revolutionise much that was familiar...and the auditor’s rights and duties were re-thought.” (Anonymous, 1966c:756)

The fact that “for the first time it is provided that only a qualified person shall be appointed as auditor of a limited liability company” (Anonymous, 1947a) was generally supported in both houses of parliament, with one member commenting that “the real arbiter of morality in business to-day is the auditor or the accountant” (Anonymous, 1947b:147), while another pointed to the change as “an excellent reform...a matter of the highest possible consequence to investors.” (Anonymous, 1947b:147) Both of these quotes point to the auditor as a judge, a “real arbiter”, with this judgment significant for investors. The judgment was concerned with morality and to be in judgment on morality suggests a certain role for the auditor and their interaction with the auditee. This is perhaps aligned with the earlier observation about only intervening in instances of the law being violated. The auditor acted in a judgment role. This moral tone was also evident in the discussions about independence, with efforts to strengthen the auditor’s position and a reluctance to make it easier to dismiss the auditor. As Lord Latham commented,

it is of the highest importance that the auditor should be completely independent to do what he thinks is right. If I am told that the clause has the effect of making it difficult for a bad company to change its auditor, I say it is for that reason I strongly support it. (Anonymous, 1947c:52)

The use of “right” and “bad” similarly point to morals as a guiding impetus for the auditor. But they also point to a tension, with the auditor being protected and independent in their role and the previously observed position that the auditor should generally be reluctant to challenge management.

These changes are significant. Having gained control of the audit function, the debates in the late 1940s reasserted the qualities that the professional auditor brought to an engagement. There was also a statement by lawmakers of the expectations that came with such professional jurisdiction as legislative changes had formalised “the position of the auditors as persons expert in accounts” (Back, 1948:80). This occurred as audit and the economic setting underwent change, with

the capital markets an increasingly prominent influence over corporate activity. Yeabsley (1949:289), for example, commented:

Gone are the days when the preparation of the profit and loss account and balance sheet represented the acme of our performance...this summation of transactions providing a review of the past is now but one of the accounting contributions.

Yeabsley noted a wider presence of accountants beyond the profession. He also hinted at a need for audit to revitalise itself and the reconsideration of how the auditor interacts with and advises the auditee. Noting the issuance of advice by the auditor was sometimes resisted, he commented,

To matters of fundamental importance where the shareholders', management and workers' interest in the concern is vitally affected...it is here that a degree of insistence is justified.
(Yeabsley, 1949:290)

The advice of the auditor remained a theme as the economic environment generated new knowledge demands and the larger audit firms grew to offer diverse NAS. While NAS provision was recognised as far back as the 1930s, the sentiment was that it was best to be “quite conservative” (Schattke & Smith, 1966:387) about taking up such opportunities. The post-war environment presented a perfect storm for expansion. Change was aplenty - economic environment, nature of accounting, and computing technology all provided a possibility for firms to meet their clients' increasingly demanding needs (Swanson, 1990) beyond the financial statement audit. This was a “powerful impetus” (E. Jones, 1981:209) for the bigger firms in the demand-pull environment where client needs drove the offering of the accounting firms. The client became paramount among concerns and:

the needs of business management were not to be denied, and the public accountant who did not offer a wide range of activities was often faced with increasing client dissatisfaction. (Schattke & Smith, 1966:387)

As this occurred there was:

a mushroom-like growth of management services spearheaded by the large firms with American connections. (Schattke & Smith, 1966:387)

Schattke & Smith highlight the increased client primacy. No longer just the auditee, the use of the term ‘client’ in the audit setting arguably changed the auditor’s outlook. Hacking (2002) and Hopwood (1992) both recognise the significance of names and labels, with categories allowing things to be seen and treated in a certain manner and this then shaping subsequent actions. A shift was occurring in the relationship between the auditor and auditee and the changing label was one external indicator of that change. Compared to earlier periods where the professional auditor was initially resisted, then a source of dread, then a source of advice that was not necessarily wanted, Schattke and Smith show that the auditor was now of service to the client. This shifting of the dialogue to the ‘client’ brings with it a problematisation of who the audit serves. With that comes a question about the changed notion of the construction of challenge within the audit. There is a significant turn from trusting management unless put on enquiry to not taking things at face value, which was the narrative up until Royal Mail, to what we see here with the auditor attentive to management needs that “were not to be denied” (Schattke & Smith, 1966:387) for fear of “increasing client dissatisfaction.” (Schattke & Smith, 1966:387) There is a real tension between the parliamentary efforts that sought to assert the primacy of auditor independence and the moves by the audit firms driven by client management.

A critical factor in this reshaping is the increase in “conglomerate sectors” (Jacobson, 1969:27) and the rise of institutional investors and parent company structures, which were identified as an increased force on corporate activity. This produced a shift in the emphasis of commerce, with the focal point of value shifting from value in manufacturing and customer end product to value for investors and shareholders (Hanlon, 1994). Companies were acquired and brought in to the ‘conglomerates’ for reasons of shareholder value and market valuation benefits, as opposed to their productive potential. Accounting firms responded in an effort to satisfy client needs (E. Jones, 1981:199), engaging internal structures that branched out beyond the accounting only domain. Partner numbers in some UK firms went from ten or fewer to more than one hundred, while the expertise offered spread to include a broad range of areas. An example can be found in Price Waterhouse, who admitted partners in specialist areas like tax and management consultancy, as opposed to their more traditional generalist and audit backgrounds (E. Jones, 1995).

3.2.3 Crisis of Independence – The Growth Of Firms

From the late 1960s the issue of NAS is identified, with concerns for its impact on auditor independence. The discussion highlights a changed understanding of auditor independence that resulted from the movement from individual to firm-based emphases. Nuanced distinctions are made between firm independence and the mind of the individual auditor, as there was a need to develop constructs to try and evidence independence in action.

“The whole concept of audit has changed” ⁶³

Less than twenty years after the 1948 Companies Act was acclaimed for its changes, it was recognised that “the whole climate of public opinion is different, and the investing public has new needs, some of which are not being met.” (Anonymous, 1966c:756) Of particular concern was the need for the financial reports:

to reach not only backwards in time, so as to relate, discuss and explain past events; but forwards, to survey the probable future...a company has a duty to its shareholders, to its employees, to its customers, and to the public at large, to keep them informed of its progress.(Anonymous, 1966c:756)

These changes were noted for their impact on audit:

The past few years have witnessed dramatic changes in the manner in which industrial and commercial enterprises conduct their activities...almost every aspect of business life has been subjected to the pressures of change...The impact of these many changes has produced a not inconsiderable effect on the work of the professional accountant, as a result of which the whole concept of an audit has changed. (Harris, 1967:82)

One evident issue was independence, with a notable turning point in how it was discussed. Previously, legislators had shown concern towards external threats to independence, introducing laws to make it harder to remove an incumbent auditor. By the 1960s this had changed, with independence seen as an issue more likely to present from within the profession. This represents a mark where the attention turns to how audit appears to outsiders, with the profession called on to find ways to make

⁶³ Harris (1967:82)

independence visible. This discussion also raised questions about how the auditor engaged in the client setting.

Mautz and Sharaf (1961) theorised a philosophy of auditing that included a postulate on independence, which they described as “the essence of auditing.” (Mautz & Sharaf, 1961:58) The postulate stated, “An auditor acts exclusively as an auditor.” (Mautz & Sharaf, 1961:58) Later that decade Professor Stamp⁶⁴ saw that postulate as under threat, noting that the “auditor is expected to assume the role of judge while he lacks many important attributes of independence.” (Stamp, 1969:25) Stamp’s sentiments link back to the idea of an auditor as arbiter of truth and problematize its workability. His concerns were with how auditors carried out judgment, raising the question of who would audit the auditors and how audit could operate when “many auditors are involved with their clients in other capacities.” (Stamp, 1969:25) . There was a political and corporate backstory to Stamp’s comments, with publishing company Pergamon having recently failed, bringing audit into question and raising questions about the nature of auditor duties and responsibilities to stakeholders (O’Neil, 1973). Stamp criticised the lack of visibility of audit processes and the observability of independence:

It is extraordinary that a profession which believes in “full disclosure” reveals so little about what leads it to its belief in the truth and fairness of its clients’ accounts...It is simply not good enough for the auditor to answer this with the comment that “independence is a state of mind”. States of mind... ..cannot be measured objectively. (Stamp, 1969:25)

Auditor independence was seen as problematic as long as it was objectively unobservable. Stamp’s concerns brought the auditor’s mindset into play. This was just as problematic for others, who saw the audit as a routine where “they tend to arrive by appointment; they check the existing procedures of a company. They are not called upon to comment unless these are positively misleading.” (Lumsden, 1969:25) Lumsden’s description paints audit in a passive fashion, consistent with concerns about capture by the client. How auditors met their duties was open for challenge. For Stamp the issue was that such processes were invisible, while Lumsden suggests they were not there at all. Both highlight the (in)visibility of

⁶⁴ Professor Stamp was a former big-firm partner and then Accounting Department head at University of Edinburgh.

auditor actions. Lumsden suggested that the directors be required to report on auditor comments and criticisms arising during the engagement, creating “a kind of social pressure on auditors to think of (to put it crudely) some criticisms to make.” (Lumsden, 1969:25) The implication was that auditors would not raise objections unless triggered to by other sources.

In response to Stamp’s arguments, the ICAEW President referred to the post-war “takeover movement” (Leach, 1969:25) and the role of auditor judgment in assessing financial reporting. It was again presented as a rising challenge to audit, which faced “frontal assaults from industrialists dissatisfied with what they find in the companies they take over” (Lumsden, 1969:25). The call for transparency of process was also challenged, with “rigid rules” (Leach, 1969:25) in financial reporting criticised and extra details in the financial statements seen as obscuring “the salient features.” (Leach, 1969:25) For the ICAEW, less is more was seemingly the preferred position. When it came to the independence, Leach suggested that while the auditor may “be deceived or less vigilant,” (Leach, 1969:25) compromised independence was a rare to non-existent problem.

“A healthy skepticism”⁶⁵

In an October 1966 speech for the 79th Annual Meeting of the AICPA⁶⁶, SEC chief Manual Cohen described the SEC’s work in progress and the history of US audit regulation. As the big firms grew in size, Cohen offered “a word of caution” (Cohen, 1966:2) to auditors providing NAS:

An accountant who directs or assists in programs of this kind raises serious questions concerning his independence when it comes time to render to creditors, to investors and to the public his opinion...Public Accountants should carefully reconsider their participation in these activities lest their continuation and extension undermine the main function of the independent accountant -- auditing and the rendering of opinions on financial statements. (Cohen, 1966:2)

⁶⁵ Cohen, 1966:4

⁶⁶ The speech was attended by Sir Henry Benson (ICAEW President) and Mr C. A. Evan-Jones (ICAEW Secretary) (Anonymous, 1966d:843),

Cohen also elaborated on audit's role, explicitly distinguishing it from a mere check of arithmetic accuracy, questioning

whether auditors sometimes forget that a basic qualification of their calling is that they have a healthy skepticism and look at the business operation as a whole rather than as a series of isolated technical questions. (Cohen, 1966:4)

Cohen's speech was reported by *The New York Times*, which highlighted the perceived "incompetence, lack of supervision, disregard of recognised auditing standards and a too-willing acceptance of managements opinions." (Anonymous, 1966a:67) The speech provided an early explicit regulatory link between scepticism and audit. Cohen's argument was based on the growth in scope of the accounting firms, which he positioned as in tension with "the main function of the independent accountant." (Cohen, 1966:2) He was not the first to explicitly connect audit and scepticism. Mautz and Sharaf (1961) had previously described the application of scepticism as a negative tool⁶⁷ in evidence gathering, with the auditor being inclined to doubt and open to convincing on the reliability of what is put before him. This meant that the auditor "should be hard to convince" (Mautz & Sharaf, 1961) and that "all evidence should be examined critically." (Mautz & Sharaf, 1961) For Mautz and Sharaf, scepticism was part of the evidence gathering and evaluation process. Cohen's speech, therefore, represented a certain coming together of academic thought and regulatory reflection. Cohen also considered the overall picture, as opposed to the focus on the "isolated technical questions" (Cohen, 1966:4) throughout the audit process.

These discussions raise questions about the nature of independence. Stamp (1969) suggested independence was at least partially a state of mind. Cohen's idea of a "healthy skepticism" (Cohen, 1966:4) and having adequate doubt about what was encountered in the audit also called upon a mindset focus. Both of these still required a means of representation. As the debate about independence developed further changes to the Companies Act in 1967 were proposed, including the requirement that exempt private companies be required to have 'qualified' auditors (Gardner & Joll,

⁶⁷ Negative in the sense that while other described methods actively acquired evidence and were positive in that the evidence would be used to support beliefs, the application of scepticism questioned or challenged what presented until comfortable with its reliability.

1968). This was seen as the potential “death knell of the non-qualified layman company auditor.” (Anonymous, 1966b:840) Accounting and audit training and expertise were increasingly prioritised over general business expertise, with the law allowing for unqualified auditors to remain in some circumstances but it was observed that “if the BoT wants to get tough with part-time amateur accountants it now has the means to do so.” (Gardner & Joll, 1968:5)

“Pressures...are constantly increasing”⁶⁸

The framing of the discussion of independence as a mindset highlighted the individual auditor. It also brought to prominence the environment in which the individual auditor worked. For example, it was remarked that,

the pressures under which auditors have to work are constantly increasing. The pattern is one of higher standards to be attained in diminishing time against a background of rising costs. (Foss, 1967:312)

The suggested solution came in the form of optimisation and economisation, that would improve audit efficiency, including the use of PERT techniques⁶⁹ for planning the audit, particularly staff management (Waldron, 1967) - the engineering ideas of efficiency and resource management crossed into the audit setting. Operational efficiencies were also addressed through standard form audit programmes. Standardisation offered “much benefit” (Foss, 1967:312) for audit firms, with a “growing use by professional firms of standard layouts and design of annual audit working schedules.” (Foss, 1967:312) The division of labour and expertise that standardised audit programs allowed was a benefit, with the forms “prepared by highly trained audit staff” (Foss, 1967:312) and deployed for use by those in the lower ranks. This was seen to help with “marshalling and directing the efforts of less highly trained audit staff” (Foss, 1967:312)

Apparent within this section is the contest of two ideas. Independence was being pushed and problematized as audit was seen as a changed service and firms increasingly did more for their client. The firms were also developing techniques to

⁶⁸ Foss (1967:312)

⁶⁹ PERT – Programmed Evaluation and Review Techniques – statistical methods linked to critical path analysis that sought to optimise scheduling and project management.

aid their efficiency and standardisation across engagements, with this informing decisions about training requirements across the various levels and helping manage staff levels by being able to share personnel between audit firm offices (Stringer, 1973). Standardisation of audit allowed knowledge to be deployed efficiently, with the auditor's focus becoming the efficient application of the methodology within an engagement (Stringer, 1973), pointing to the check and tick idea – the importance of following prescribed procedure. At the lower levels at least, this would seem to oppose Cohen's call for the bigger picture perspectives that he linked to a 'healthy skepticism' (Cohen, 1966:4), with schedules and preformatted documents a means of controlling the performance of tasks. This discussion occurred in the late 1960s and early 1970s. It is interesting to note that less than ten years after Stringer's comments on standardisation such structural concerns would be raised in academic literature, with a machine-like metaphor informing understandings of audit design (Dirsmith & McAllister, 1982a, 1982b).

Standardised documentation helped the revenue/efficiency increase-cost decrease push by affording divisions and separations of expertise and labour (Larson, 1980). As Foss identified, standardised programs need only be prepared once by a suitably experienced auditor, or 'knowledge elite' (Freidson, 1984). Once established, these programmes can be distributed through the engagement team, providing a means of control over process and a way of constraining discretion and individual judgment (Freidson, 1984) of the so-called less experienced audit staff.

The economic environment of the late-1960s and early 1970s, with its inflationary pressures and corporate failures, also placed audit under increasing fire (R. Jones, 1970). One commentary observed that "the auditor sets the seal of approval on events which he has been powerless to influence, and whose presentation has been determined by those who pay his fee." (Shanks, 1971:21) The linking of auditor action to client position as fee payer casts a particular image of the ongoing independence issue. Auditors were under attack for "their lack of integrity and for being in effect the lapdogs of management rather than the watchdogs of the shareholders." (P. Godfrey, 1976:17) As these debates occurred the CCAB and APB issued auditing standards (Lafferty, 1976), in an attempt to allay concerns about the transparency of audit procedures. It was also intended to provide a view of best practice within the profession, something former ICAEW President Benson saw as needing "clearer definition" (R. Jones, 1970:27).

While standards may have codified best practice, the significance of the firms remained a concern. It was observed that processes for audit were largely defined within the firms, who had their own “sophisticated and well tested check systems in operation for what can be a highly complex task.”(Whitmore, 1976:19) Significantly, against the debate concerning revenues, independence, and the visibility of processes, there was one point where the individual auditor was recognised as key. In considering their role in investigations within the client it was noted how “a great deal depends on the astuteness and strength of character of the auditors...the relative strengths of character of the auditor and a dominant chief executive.” (Whitmore, 1976:19)

“Auditors are tied to their clients”⁷⁰

Market pressures persisted, as the late 1970s saw several companies look to switch to big-firms (Allen, 1977; Financial Editor, 1978; Prest, 1978), raising concerns about the big-firm domination. The push by companies towards globalisation led to increased demand for accounting firms with international reach. There was also a continued concern with independence, while the DTI experienced “considerable frustration at the perceived inefficiency of the audit profession” (D. Cooper et al., 1996:595) in areas of fraud, standard setting, and duplication of professional bodies. The latter group were also seen as structured to respond to complaints rather than be proactive in monitoring practice by members (Waller, 1989a). The wider regulatory context of the EC highlighted concerns with independence. A 1986 DTI discussion paper addressed the changing requirements of the EC company law directive (Barber, 1986), flagging greater state-based control over auditors (Beattie, Brandt, & Fearnley, 1999; D. Cooper et al., 1996), proposing the separation of audit and non-audit work, and audit rotation every five years (Anonymous, 1986a, 1986b; Barber, 1986). This came as public attitude to audit declined, with auditors seen as complicit in company failures and creative accounting and the professional bodies seen as failing self-regulators (Beattie et al., 1999; Puxty, Sikka, & Willmott, 1992; Sikka, Puxty, & Willmott, 1993).

Coopers and Lybrand’s head of audit attempted to invert the audit-NAS argument commenting, “it is because we have a large consultancy firm that we are

⁷⁰ Waller (1990a)

able to develop auditors with a greater understanding of business.” (Davis, 1992:33) This attempted to flip the independence argument on its head, with the benefit of NAS argued to be greater expertise and business knowledge within the audit practice. For Davis the onus was on the firms to “do better to convince the public of their independence.” (Davis, 1992:33) While it was argued that NAS may help develop business professionals with necessary business knowledge, the real contention was with the effective application of this knowledge in the audit.

Davis himself hit on that issue when he observed that the climate in which auditors operate has become more hostile to their resolve to stand up for their opinions...audit partners should be able to assert their opinions without fear of the consequences (Davis, 1992:33)

This is a telling pivot, arguing on the one hand that the multi-service line firm is beneficial and not compromising the role of the auditor while simultaneously arguing that the auditor’s resolve to challenge client wishes is clouded with fear and hostility. Davis portrays the auditor as “a voice in the wilderness” (Davis, 1992:33), up against the greater forces of the capital market, institutional investors, institutionalised industry practices, and a corporate board under pressure. Ultimately, Davis’ comments carried a tone suggesting that the auditor was reluctantly tied to the client and the pressures of their operation. Davis’s solution was that

auditors must reassert the traditional value of professionalism as part of a toughening of resolve...Several company directors have recently told me that they would welcome a tougher stance from auditors. (Davis, 1992:33)

Again, the choice of words is telling – a return to professionalism suggests that it had been departed from, while a “toughening of resolve” (Davis, 1992:33) suggests a malleable current resolve. Central to both of these was the individual – professionalism was about the professional and it was the professional who Davis called to take a stance. Once the locus of professionalism in the profession’s early years, the individual became the rallying point for Davis’s vision of restored audit credibility. Suddenly this was not about methodology design or standard operating procedures. The individual auditor had been shifted closer to the spotlight.

The failure of Maxwell and BCCI generated further audit scrutiny, with each

case strongly linked to undetected frauds and what were now publicly expressed concerns about auditor scepticism. BCCI collapsed amidst fraud, fake loans, unrecorded deposits, and unrecoverable loans (Waller, 1991a), increasing the calls for audit firm accountability and the disclosure of audit firm financial performance. The initial charges against BCCI's auditors asserted

shortcomings in both vigilance and diligence and a failure to achieve an appropriate degree of objectivity and scepticism (Anonymous, 1999:23).

Similarly, a review into the Maxwell failure found the audit firm “lacked objectivity and scepticism” (Kelly, 1999b) and “got too close to see what was going on.” (Kelly, 1999b) The Maxwell affair left a lasting impression, with a UK managing partner for PwC commenting,

If there is one word which has been rammed through this organisation since then, it is scepticism – don't take management at face value, and find corroborative evidence. (Kelly, 1999b:Page number not available)

Again, the relationship between auditor and client management foregrounded, with a reasserted need to question and challenge client management. This concern was consistent with wider worries that audit firm fee dependence and quests for revenue growth impacted independence. It was suggested that “auditors are tied to their clients to the point of servility” (Waller, 1990a) with firms expanding their consulting arms (Waller, 1990b; Waters, 1989) and pursuing growth through mergers (Waller, 1989b). This was a problem that went to the core of perceived independence, making it a challenge to convince the public of independence when auditor tenure, audit fees, and other revenue were dependent on the client (Anonymous, 1991:23) and largely unobservable to outsiders.

By 1998 The Hampel Report (Committee on Corporate Governance, 1998) addressed these concerns, suggesting “reducing from 10% the limit on the proportion of total income which an audit firm may earn from one audit client” (Committee on Corporate Governance, 1998:63) and that “the audit committee should keep under review the overall financial relationship between the company and its auditors, to ensure a balance between the maintenance of objectivity and value for money.” (Committee on Corporate Governance, 1998:63) This prompted a reflection on the boundary between audit and consulting (Jeppesen, 1998) amidst a redefinition of

audit models and the quest to add value to the client that, for some, meant that “The *auditor* cannot be independent because *auditing* is no longer an independent discipline.” (Jeppesen, 1998:531 emphasis in original)

“A sine qua non for auditing”⁷¹

It was amongst the BCCI discourse that early explicit UK references to professional scepticism appear. Press articles referred to expected audit performance and how “the audit ought to be conducted with a degree of professional scepticism.” (Waller, 1991b:25). Brian Jenkins (head of audit at Coopers and Lybrand Deloitte) wrote,

The strength of the UK accounting profession, it’s very high ethical standards, the independence and scepticism inculcated through the auditor’s training – and awareness of the public need – ensure that concerns over independence are of no practical significance except in the rarest of cases. (Jenkins, 1991:13)

As much as Waller highlighted the need for scepticism in the audit, Jenkins saw it as already there. Jenkins use of the conjunction ‘and’ suggested that independence naturally went with scepticism, however the idea of what scepticism meant was not really conveyed, beyond it being related to independence and able to be trained. Circumstances here are suggestive of scepticism as a term that is used in a defensive action to allay a failing public confidence and increased threats from the State and the legal system. The McFarlane Report on the future of audit disagreed with Jenkins, noting that “the colloquial use of the word client by auditors when referring to the company conveys the wrong relationship and adds confusion as to the role of the audit.” (McFarlane Report (1992) as quoted in Bruce, 1992, page number not available). Bruce adds that

a generation grew up which serviced rather than criticised the people they erroneously called clients. (Bruce, 1992: Page number not available)

The McFarlane report made explicit the individual auditor, drawing on the “enduring principle” (Bruce, 1992: Page number not available) of professional scepticism. McFarlane brought the individual auditor into focus and questioned the

⁷¹ Morris, 1993:32

impact of the audit firm environment on individual auditors. McFarlane was not alone in observing problems with audit execution, with Cadbury mentioning the importance of auditors being able “to apply their professional skills impartially and retain critical detachment.” (Cadbury, 1992:27) Comments from within the firms also reflected this, with the Chairman of the Professional Standards Committee at Arthur Andersen commenting,

most audit failure arises...from human failure...A key factor is the attitude and approach of partners. Greater scepticism, more willingness to challenge, and some shift from the presumption that all management is honest are needed. (Hinton, 1992, page number not available)

Again, the attitude to management was highlighted, with a need to question presumptions of honesty and be more willing to go against client management. In this case it was linked to the audit partners and their “attitude and approach” within an engagement. Collectively, McFarlane, Cadbury, and the earlier comments in the wake of BCCI and Maxwell, point to a sensitivity to the relationship between the auditor and the client. This attention continued as a draft of SAS 100 circulated that explicitly mentioned scepticism. In speaking to its contents, David Morris (National Director of Audit and Business Practice at Price Waterhouse) called for professional scepticism to be made mandatory.

The draft of SAS 100 required “an attitude of professional scepticism” (Morris, 1993:32), with Morris questioning why it would only be included in explanatory memoranda, as opposed to black letter standard content:

the case for scepticism in auditing is overwhelming. It may not always have been, but recent City scandals...show that professional scepticism is a *sine qua non* for auditing. The markets, individual investors and the public are entitled to assume that auditors will challenge and test what they are told...an auditor who sees professional scepticism as other than essential is more likely to fail [shareholders and end up in court].” (Morris, 1993:32)

There were differences in how the APB and the international setting referred to scepticism, with the IAPC’s 1994 version of IAS 200 stating,

“The auditor should plan and perform the audit with an attitude of professional scepticism recognising that circumstances may exist

which cause the financial statements to be materially misstated.”

(Dove, 1994:133)

Morris and Dove both reflected the position that scepticism should be mandated, with Dove seeing the case as “overwhelming” (Dove, 1994:133). This would be achieved, according to the IAPC, through standards on evidence, procedure, and documentation, allowing auditors to be “able to show that they have done more than just accept at face value what they are told.” (Dove, 1994:133) However the APB had concerns about how scepticism could be demonstrated, with SAS 100 commentary stating:

It is not considered appropriate to refer to "an attitude of professional scepticism" in an Auditing Standard because of the difficulties in determining how auditors can demonstrate that they have complied with a requirement which includes such a term.

(Dove, 1994:133)

There are different ideas about professional scepticism in this example. For the IAPC compliance with the standards would demonstrate scepticism, however the APB did not agree, suggesting it could not be formalised. The ICAEW also released a practice guide, *Towards Better Auditing*, that Tony Bingham⁷² described as having an “increased emphasis on the personal qualities auditors must have,” (Bingham, 1996a:126) emphasising the importance of scepticism in a chapter considering fraud, while also referring to a 1996 booklet titled *Taking Fraud Seriously*. These publications emphasised that audit was “not just good technical procedures but also individual auditors acting and thinking differently...[with this including a] healthy scepticism” (Bingham, 1996a:126), with Bingham having previously observed that “the auditor’s attitude and scepticism is the key” (Bingham, 1996b:30) for addressing issues of fraud.

The linking of fraud and scepticism, amidst the large corporate failures, the development of new audit standards, and the joint references to fraud and scepticism in professional documents, is telling for the understanding of both fraud and professional scepticism. It is an interesting comparison to the early Victorian days when the auditor was seen as the remedy for fraud. By the mid-1990s the profession

⁷² Partner at Coopers & Lybrand and Chairman of the Technical and Practical Auditing Committee of the ICAEW Audit Faculty.

had navigated the restructuring of the audit standards in such a way that identification of fraud was not to be seen as the primary goal of the audit, but it was still a concern and frequently linked to cases of audit failure. The emphasis also highlights the increased attention to the role of the individual, with standards, professional documents, and comments from practitioners highlighting a need to bring the individual back in to focus for audit. This became increasingly apparent when the joint disciplinary scheme commented,

Auditing standards and guidelines are a framework within which the auditor operates; they are not a substitute for the application of common sense and professional competence (including a reasonable degree of professional scepticism in evaluating the evidence available) and the exercise of judgment on specific matters under consideration. (Bruce, 1995:31)

Politicians also contributed to the debate, with Austin Mitchell, a Labour MP, critical of the regulation of the profession (Mitchell, 1997). Part of the developing critique highlighted the role of professional knowledge, with commentary pointing out “that the firm allocated low-grade staff to the audit...rather than the highly paid partners which might have been expected.” (Kelly, 1999a:15)

3.2.4 Crisis of Knowledge – “Auditing Has Had A Good Crisis”⁷³

To be able to adequately question and challenge the auditor needed a metacognitive view that allowed them to know what they do not know. While the early years of the profession had concerned explicit technical knowledge related to accounting, or the “intellectual routine” (Carr-Saunders & Wilson, 1933:378), the IFRS environment was different. Knowledge was still important, but it would extend beyond the technical and professional realm of the auditor (Martin et al., 2006; Smith-Lacroix et al., 2012). The problem of reliance on experts would re-present itself, with the potential that auditors would need to rely on the work of experts in order to challenge other experts. As opposed to being the arbiter of truth, the auditor would now have to focus on the unknown that could not be verified but had to be scrutinised.

⁷³ Christodoulou, M. (2010, 21 July). Audit: time for change. *AccountancyAge*. Retrieved from <https://www.accountancyage.com/aa/feature/1808577/audit-change>

This was evident as IFRS was introduced and in the post-credit crisis period, as the complexity of financial instruments became readily apparent and the challenges for getting comfortable with them grew.

“Our monitoring approach is intended to be more challenging”⁷⁴

In 2004 the profession’s self-regulation was acknowledged as “politically unacceptable” (Jopson, 2005:14) and the FRC assumed the role of standard setter and inspector. This separated the registration and professional membership of auditors from the review of audit work and disciplinary procedures,⁷⁵ removing a perceived conflict of having professional bodies both register and discipline auditors. Initial FRC audit firm reviews of 2005 (FRC, 2005) highlighted independence and commercialism, noting how “commercial goals were sometimes taking precedence over audit quality.” (Jopson, 2005) The FRC wanted to make individuals and their judgments the focus of regulatory reviews. In so doing they reframed inspections with a new monitoring approach:

...intended to be more challenging than in the past, focusing on judgments as well as audit processes. (FRC, 2005:1)

They also noted a limitation to its approach, commenting, Insufficient audit documentation both reduces the effectiveness of firms' own quality control processes and makes it more difficult to adopt a monitoring approach focusing on key audit judgments (rather than an approach characterised by some as "box ticking"). (FRC, 2005:1)

The weaknesses of monitoring through systems and processes that abstracted a level above where the action occurred (Power, 1996, 1997, 2004) was addressed, with firm methodology or prescribed procedures requiring evidence of their application within engagements. This provided a condition of possibility for scepticism to become a regulatory focus whose importance had historically been

⁷⁴ FRC, 2005:1

⁷⁵ It is noted that regulators within the FRC will typically have considerable experience in the profession and have reached high levels within audit firms. Some may argue (for example, Kwak (2014), J. M. Godfrey and Langfield-Smith (2005)) this raises the possibility of a regulatory capture argument against the independence of the FRC’s regulatory activities. This potential thesis is not pursued in this chapter.

acknowledged, but the difficulty in mandating it came from it being problematic to evidence. The FRC's attention to the individual and judgment also gave professional scepticism a point of manifestation. Both the outcome and the means of judgments were of concern, emphasising documentation. If judgments were made, on what basis? What evidence was used? How was it evaluated? The explicit mention of wanting more than just a tick-box approach pointed the demonstration of some form of process that would permit ex-post examination and scrutiny, since:

An important aspect of our work is assessing the appropriateness of the key audit judgments exercised in forming the audit opinion and challenging those judgments where appropriate. The appropriateness of the key audit judgments is central to the quality of an individual audit engagement. We therefore regard critical assessment of those judgments as an essential part of an effective audit quality inspection. (FRC, 2005:3)

This had been previously raised in the Swift report into the regulation of the accounting profession, which suggested the benefit of

taking monitoring into new areas and in particular... focusing on the judgments taken by audit partners. (FRC, 2005:6)

FRC inspection teams would “challenge audit partners...regarding the basis on which key audit judgments were made,” (FRC, 2005:10) and scepticism was explicitly referred to by the regulator as an input into engagement performance (FRC, 2005:8). Defending judgments would require backing through the accounting and auditing standards and the justification of their application. Such knowledge-based concerns tapped in to the previously suggested impact of firm-centric approaches and concerns about the dominance of firm-specific methodologies. This concern was evident early on when the FRC commented that:

knowledge of the requirements of certain Auditing Standards amongst audit teams appeared weak in some cases. This reflects, to some extent, the focus within the firms on their own audit methodologies. (FRC, 2005:16)

Merely knowing the firm way of doing things would not suffice. Where previously methodologies were a means of delegating tasks and distributing expertise, this was being broadened. Methodologies were still important and would still represent a resource for standardisation and quality control, but they would now need

to consider and demonstrate how individuals worked with these systems, as opposed to working for the systems.

A 2006 FRC discussion paper noted that “the quality of financial reporting and the effectiveness of the audit process have been the subject of unprecedented analysis, review and reform over recent years” (FRC, 2006:8), with the establishment of a stronger and more independent framework for audit regulation (FRC, 2006:11). But there were concerns about “the relationship between executive management and auditors,” “the lack of transparency of the work of auditors and the judgements made by them,” and “the effect of an increasingly prescriptive approach to audit.” (FRC, 2006:8) The paper later suggested, within a section referring to audit firm culture, that

Auditors must have regard to the public interest nature of an audit as well as reviewing evidence sceptically and exercising judgement objectively and robustly. The environment within which the audit team works can materially affect the mindset of the audit team and the way it discharges its responsibilities. (FRC, 2006:23)

The individual auditor was being recognised as part of a bigger context. In referring to their role and acting sceptically it is notable that traditional professional values like objectivity are included in partnership with acting sceptically. The individual, not the firm, was the focus. However, there was also a multi-layer construction emerging in the use of the term scepticism. While the individual was identified as critical there was also the recognition that they operate in a multiplicity of social relations both within the firm and within engagements. Team attributes, different personalities, and the environment would all potentially impact the mindset. This made it the job of the firm’s infrastructure– the “training, counselling, appraisal promotion, and remuneration structures” (FRC, 2006:24) to develop “integrity, objectivity, rigour, scepticism, perseverance, and robustness” (FRC, 2006:24) within those it employed.

This delineation between the firm-based infrastructure and personal characteristics highlights how the firm was expected to bring out the traits of the individual. The individual would operate in a setting where the methodology was not “so prescriptive that it inhibits the exercise of judgement or the exercise of scepticism, perseverance and robustness.” (FRC, 2006:34) While this was laid out in the FRC

documents, the question remaining was what vehicle would be used to make the individual accountable in audit inspections. It is the explicit magnification of professional judgment that came with IFRS and fair value accounting that is argued to have provided this wagon for regulatory progression.

Knowing the Unknowable

While the FRC shifts represented a changed focus for audit inspections, they can also be considered as the product of the wider global environment that produced international audit and financial reporting standards. The IFRS standards and the fair value approach applied to the UK from 1 January 2005, with these standards measuring assets in terms of their fair value, or exit price in an orderly market (Power, 2010). This raised concerns about

the subjectivity inherent when fair value estimates are not based on market prices, and the liquidity assumptions implicit even when they are.

(Ball, 2016:547)

It required auditors to make judgments about forecast-based valuations, pointing to a potentially problematic relationship between the auditor, their acquired expertise, and the demands of the new requirements (Humphrey, Loft, & Woods, 2009; Smith-Lacroix et al., 2012). Within the profession this was a source of concern. The ICAEW issued guidance (Anonymous, 2004), and the Chairman of the ICAEW Audit faculty, Mr Andrew Ratcliffe, wrote in the ICAEW journal *Accountancy* that auditors would be called to:

lose some of their old assumptions...put aside our knowledge of UK GAAP built up over many years, otherwise important issues may be missed...auditors will have to show that they are robust...that they use their professional judgment and professional scepticism. (Ratcliffe, 2004).

One consequence of the fair value approach was that accounting numbers would increasingly be the product of actuarial assumptions, probability distributions, discount tables, and management judgment, as opposed to verifiable historical events (Martin et al., 2006; Smith-Lacroix et al., 2012). Financial accounting academics described such fair value based items as “amounts that are conceived via hypothetical transactions,” (Ball, 2016:553)

representing a financial economics turn (Power, 2010). Increasingly, derivatives and other financial assets and liabilities needed to be recognised and included in the balance sheet, while fair value was also being used more generally across other assets (IAASB, 2008). This presented challenges for the auditor trying to obtain reliable information and evidence (IAASB, 2008; Martin et al., 2006) for “unobservable inputs” (Laux & Leuz, 2009:827). Conditions existed for the problematization of the reliability of accounting estimates, leading to its reconstruction in both the financial reporting and auditing context (Erb & Pelger, 2015; Power, 2010). With that reconstruction came a change in the way that the auditor would come to know the facts of the engagement.

The auditor was called to know the unknowable and provide assurance about its representation (Pentland, 1993; Smith-Lacroix et al., 2012). This raised professional concerns about auditors’ skills and training (Martin et al., 2006), the relevance of their expertise (Martin et al., 2006; Smith-Lacroix et al., 2012), and the overarching engagement concept of reasonable assurance (Maslen, 2006). The newly created ICAEW Audit Quality Forum was tasked with considering the meaning and composition of reasonable assurance. It concluded that “Objectivity, professional scepticism and judgement are integral to the concept...and are fundamental requirements of auditors when carrying out audits.” (Maslen, 2006:95)

This was reflected in an FRC Discussion Paper on Audit Quality which recognised that

the primary purpose of an audit has not changed since it was first established...[but] the business environment has evolved significantly...[and] the carrying amount of an increasing number of assets and liabilities carried at fair value, may be difficult to measure. (FRC, 2006:12)

As a result,

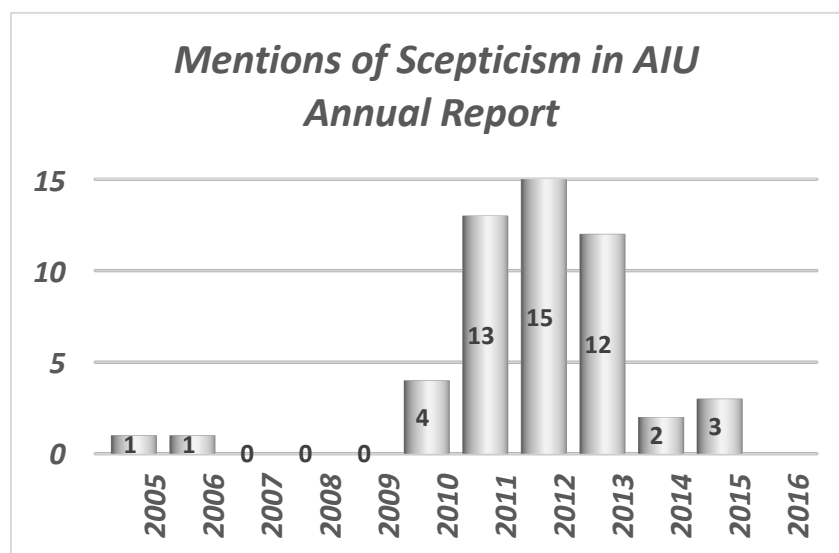
“the auditor’s judgement has become more important in relation to those assets and liabilities (including estimates) that are not capable of objective valuation...the degree of measurement uncertainty implicit in fair value valuations increases the risk that misstatements in financial statements will occur...it is inevitable that auditors will be expected to detect such misstatements.” (FRC, 2006:12)

What we see is a coming together of two dimensions, the standards that apply

to the UK setting and the regulatory mechanism that would apply to audits performed under those standards. Both emphasised the individual, with the FRC highlighting the nature of management judgment in financial statement preparation and auditor judgment in evaluating estimates and valuations (FRC, 2006:49). This is a shift from the early days of audit when there was a tendency to take management at face value unless put on alert or inquiry. The IFRS model and the FRC emphasis on audit quality meant that taking things at face value was not viable. Successfully navigating this new environment was contingent upon engagement team composition and experience and partner supervision of audit judgments (FRC, 2006:49).

These excerpts from the FRC highlight the coming together of international standards, their localised adoption, and the shifting focus for auditor inspections. The vehicle of the new standards and their judgment laden approach meant there was now a premise for scrutinising audit at the individual level. Further, the critique of the professional bodies for their lack of scrutiny beyond systems and procedures within the audit firms provided a further mandate for such accountability. It is from this basis that we start to see scepticism appear in audit inspection reports and FRC Annual Reports on audit quality after 2005. The early mentions in 2005 and 2006 represent the FRC planting the concept in its regulatory framework and pushing it out there (see). The apparent trigger for its direct attention would come in the wake of the GFC and a run on the bank in the UK.

Figure 2: Mentions of scepticism in AIU Annual Report (compiled by the author)



“Auditing has had a good crisis”⁷⁶

Following the GFC audit faced scrutiny as many viewed it as an inevitable point of regulatory focus, with questions concerning the profession’s regulation (Humphrey et al., 2009; Sikka, 2009) and auditing’s capabilities (Humphrey et al., 2009:810). Much of the criticism came from the circumstances of the crisis, which saw clean audit reports issued for the banks and finance companies that subsequently failed (Tonkiss, 2009).

The initial United Kingdom impact of the sub-prime crisis was seen through the run on the Northern Rock bank – the first run on a UK bank in over 140 years (House of Commons Treasury Committee, 2008a, 2008b). The House of Commons Treasury Committee commented on the role of auditors in banking regulation, noting that their temporal perspective limited the assurance they provide:

...the auditor can only provide an assurance of a snapshot of the past state of the company. We recommend that the accounting bodies consider what further assurance auditors should give to shareholders in respect of the risk management processes of a company, particularly where a company is regarded as an outlier. We are also concerned that there appears to be a particular conflict of interest between the statutory role of the auditor, and the other work it may undertake for a financial institution. (House of Commons Treasury Committee, 2008a:115)

In effect, it was the scope of audit and independence concerns that were questioned. In October 2008 Paul Boyle (then head of the FRC) stated that “so far, at least, auditing has had a good crisis” (Christodoulou, 2010). The idea of a “good crisis” was that,

the typical questioning in the aftermath of major banking collapses as to ‘where were the auditors?’ has been less prevalent...auditors have largely escaped critical comment and the apportionment of blame. (Humphrey et al., 2009:810)

The House of Commons similarly concluded that there was “very little evidence that auditors failed to fulfil their duties as currently stipulated” (House of Commons Treasury Committee, 2009b:§221). Audit was still scrutinised, with

⁷⁶ Christodoulou, M. (2010, 21 July). Audit: time for change. *AccountancyAge*. Retrieved from <https://www.accountancyage.com/aa/feature/1808577/audit-change>

concern for how it failed to produce red flags in the banking environment, but the overarching theme was the problematization of

“exactly how useful audit currently is. We are perturbed that the process results in 'tunnel vision', where the big picture that shareholders want to see is lost in a sea of detail and regulatory disclosures.” (House of Commons Treasury Committee, 2009b:§221)

While some were taking to the profession and criticising its performance (Sikka, 2009; Tonkiss, 2009) the Treasury Committee was not. The noted constraint on audit usefulness was the “tunnel vision” from regulatory requirements, with the assertion being that these restricted the ‘big picture’ that shareholders sought. What exactly was meant by ‘big picture’ is unclear in the quote alone. However, the discussion in the report mentioned the auditor acting in an overly procedural way that restricted judgment. There were also pushes for the audit scope to be broadened to include assessments of systemic risk management, placing new demands on the auditor’s skillset and knowledge. This suggestion and its implications for auditor knowledge highlighted that the audit was something to be scrutinised. Humphrey observed a similar trend in general commentary, noting “how the major sentiments still collate around a wish that auditors were more proactive in detecting major corporate frauds and failures.”(Humphrey et al., 2009:818)

Paul Boyle’s comments on “a good crisis” (Christodoulou, 2010) reflected a measure of good based on the absence of litigation. While the ratings agencies were criticised for their evaluation and assessment of new financial instruments (MacKenzie, 2011), traders criticised for their mob mentality and herding instincts (Turco & Zuckerman, 2014), and the government and regulatory setting criticised for blurring the boundaries between merchant and retail banking (Stiglitz, 2009), auditing generally remained below the parapet. However, as good as the crisis may have been, it highlighted the recurring presence of multiple understandings of audit’s nature and purpose and problematised how the auditor could operate in the new reporting environment where they had to give an opinion on the truth and fairness of a representation of an outcome that has not happened and may never happen.

3.3 PROFESSIONAL SCEPTICISM ARRIVES

The FRC's Audit Quality Framework (Financial Reporting Council, 2008) provided goals and indicators for audit quality, with an indicator for partners and staff being that they "exhibit professional scepticism in their work and are robust in dealing with issues identified during the audit." (Financial Reporting Council, 2008:4) This made the individual the focus and while there was uncertainty about what the indicators would look like, the FRC's early emphasis on judgment made scepticism a target for scrutiny.

An alignment emerged between the quality framework and the first public release of audit firm inspection reports, with the latter providing a means for the FRC to make its focus known and show direct links to the audit firms. In 2008 each audit firm had an inspection report publicly issued.⁷⁷ While this could be related to the lingering concerns about the audit market and how it was informed about audit providers, as well as the need for an informed capital market, it is hard to dispute that this narrowing down in the reports also provided a more direct means of targeting individual judgment and the application of scepticism by auditors. While individuals (clients, audit team members) were not identified and the reports represented a sample of the audit firms' activities, they still provided a more direct link between the regulator and their scrutiny of audits. The discussion of issues raised in the reports highlighted the detail within engagements, evidencing the FRC's original intent. The timing is also significant here, since the firm specific reports commenced in the immediate wake of the GFC and the proclamations of a good crisis for the profession.

There was also a coming together of the independence debates of the past and the reinvigorated focus on the individual in the early inspection reports. The *Financial Times* noted that recent scandals "raised questions of whether individual partners could remain sceptical when they worked on audits of the same companies year after year" (Hughes & Masters, 2008:19), pointing to outside concerns about independence and cognitive biases through extended tenure. The firms also demonstrated an awareness of the attention to scepticism, challenging its demonstrability. Richard Bennison, then-UK audit head for KPMG, was quoted as

⁷⁷ The firms that had publicly released inspection reports in 2008 were those with 10 or more audits under the AIU's scope of interest, with these being: Deloitte, EY, KPMG, PwC, a combined report for small firms, and PKF (See Table 16 in Appendices)

saying, “If they don’t get the balance right, we’ll end up with auditors ticking boxes instead of using their brains and scepticism.” (Hughes & Masters, 2008:19)

UK regulators were similarly focused on the profession’s conduct. The AIU more narrowly focused on the conduct of individuals within engagement teams and it was reported that “Audit inspectors are calling for a major shift in auditors’ behaviour if they are to seriously challenge their clients’ judgments.” (Anonymous, 2010d:5). While firm policies for independence and fee ratios and wider concerns about market concentration were raised in general discussion, these would be described as a “red herring”⁷⁸ in parliamentary enquiries, with the more pertinent concern being the impact of IFRS on accounting and how this created “a compliance-driven tick box kind of process where judgment has been lost.”⁷⁹

Addressing the elephant in the room

While the GFC manifested itself in many ways, including a House of Commons Treasury Committee report (House of Commons Treasury Committee, 2009a, 2009b, 2009c, 2009d), a UK parliamentary Select Committee, titled ‘Auditors: Market Concentration and their Role,’ (Select Committee on Economic Affairs, 2011a, 2011b, 2011c, 2011d), the FSA and FRC’s discussion paper and findings on the role of the auditor in prudential regulation (Financial Services Authority & Financial Reporting Council, 2011; FSA & FRC, 2010), and the EU’s Green Paper on the role of the audit (European Commission, 2010, 2011), it was the focus on individual and judgment that brought scepticism to the foreground.

The FSA and FRC were driven by the overall concern of “market confidence, financial stability and consumer protection” (FSA & FRC, 2010:12). This narrative of market confidence and sustainability was dominant, informing the ICAEW’s subsequent audit firm corporate governance code (ICAEW, 2010) that aimed to provide more transparent governance practices in the larger audit firms (those with more than 20 listed audit clients). Its motivation came from the audit market conditions and fears about audit market sustainability (ICAEW, 2010:2) Addressing

⁷⁸ Professor Beattie, 12 October 2010, Auditors Market Concentration and their Role: Evidence, p.14

⁷⁹ Professor Beattie, 12 October 2010, Auditors Market Concentration and their Role: Evidence, p.9

six broad areas⁸⁰, the ICAEW Code provided further evidence of a move to restore the role of the individual, with a firm's tone at the top seen as a key to creating the atmosphere for individual professional values to evolve and be demonstrated within the firm.

The EC green paper was more attentive to audit market issues. While audit process was questioned along the way, this was more in terms of how the “auditors could give clean audit reports to their clients” (European Commission, 2010:3) who would then fail. It employed the social mandate of auditors as a lever for prying at both auditor independence and audit value-add (European Commission, 2010:3), while highlighting potential audit market vulnerability. The EC also brought the risk-based approach in for questioning, concerned that compliance with standards became the focus of audits, as opposed to the overriding criteria of a true and fair view (European Commission, 2010:6). Explicit consideration of scepticism was contained in a section on auditor behaviour, with this referring back to FRC and FSA papers. Responses indicated support for strengthening scepticism, with options including more detailed explanations of audit approaches, partner rotation, NAS, and audit firm governance (European Commission, 2011). But it was the FRC/FSA papers that would carry the momentum for scepticism in the UK.

The issues and pressures within the profession were becoming clear as a January 2010 cover page of *Accountancy* carried the image of a chimpanzee hanging on a rope, captioned “Survival: top 60 firms hang in there.” (Anonymous, 2010c). By August, as the Parliamentary and EU debates took shape, it was apparent that the nature, role, and audience of audit needed to be addressed by the profession (Anonymous, 2010b). In August 2010 the FRC released a discussion paper, titled *Auditor Scepticism: Raising the Bar* (APB, 2010), with an explicit motivation being the banking crisis and the questions it had raised about audit's role.

The discussion paper assumed that professional scepticism was missing, or at least insufficient. The coverage at the time highlighted concerns about scepticism (Anonymous, 2010a, 2010d) and reflected the changing reporting environment, with FRC CEO Stephen Haddrill commenting:

⁸⁰ The areas were leadership, values, independent non-executives, operations, reporting, and dialogue.

The world is moving on quite significantly and the accounting standards themselves have moved a lot over recent years...we've moved from...an historic cost basis, where the numbers are the numbers, to accounts that are much more based upon market values...those market values may be there but they may also require some construction, some judgment, and the management has to exercise that judgment. Those judgments are crucial and the crucial thing is that the auditors have the ability to challenge the judgment of people who are very expert themselves, particularly in the banks. So that is an area where we think that the firms need to be very much up to speed and very current, and so on, for the future.⁸¹

Hadrill highlighted the international nature of accounting standards and the impact of IFRS and fair values. The comparison between a scenario where “numbers are numbers” and the scenario where “some construction” is required is dramatic, highlighting the extreme differences between the different financial reporting frameworks, while also possibly simplifying the judgment issues attached to historical cost. The scepticism debate was tightly linked to knowledge and expertise. These were a necessary condition for “the ability to challenge the judgment of people who are very expert themselves,” questioning how the “construction” of the numbers occurred. How this would be done was also a consideration, as challenging assumptions and judgments potentially placed the auditor in a situation where they were determining amounts for the client, rather than scrutinising client work. The early concerns about challenging management’s opinions and judgment that were expressed in audit’s formative years were seemingly reappearing. Hadrill elaborated on the knowledge implications:

...what the auditor is doing is looking at the judgments of management. They must be challenging those judgments and that requires them to be sceptical. They need to challenge them when the sky is still fairly blue and the cloud is quite a long way out on the horizon, not just when it has actually started raining. That

⁸¹ Stephen Hadrill, CEO of FRC, 9 November 2010, Auditors Market Concentration and their Role: Evidence, p.178

scepticism is something we want to see built more into the training and qualification process, particularly of the audit partners. There is very little formal qualification required after an auditor has been qualified as a partner to do public interest audits, but in the 25-year period after that has happened the world moves on. I'm not saying that they clearly don't try and keep up, but there isn't a formal process. Clearly the financial services regulation requirements have moved a lot in that period as well and need to be fully understood.⁸² (Stephen Haddrill, CEO of FRC)

There were issues concerning the knowledge required to challenge the client and the ability to overcome biases and “challenge when the sky is still fairly blue.” These dimensions were also recognised by Martin et al. (2006) and highlighted for their field implications by Smith-Lacroix et al. (2012). Consistent with the FRC's goals when they took over the regulation of the profession, we see a tight tethering of scepticism and judgment, with the questioning of judgments requiring scepticism. The judgements of client management would be challenged based on the judgment of the auditor and their thinking in terms of scenarios different to the status quo. Questioning needed to anticipate the potential changes in condition, as opposed to respond to them.

Responses to the discussion paper agreed that scepticism was important, however it was also common for it to not be seen as the big issue the regulator portrayed (Financial Reporting Council, 2011). KPMG's UK head of financial services was quoted as saying that professional scepticism

is an integral part of our DNA and remains one of our core strengths and differentiating features...Sometimes I almost think that each new review of auditors starts with the same premise – we don't trust you. (Sukhraj, 2010:25)

The KPMG quote highlights a profession that saw itself as a target for blame, always facing the starting point of “we don't trust you.” This is despite scepticism being seen as “part of our DNA” and “one of our core strengths and differentiating features.” The audit profession was portrayed as on the run and constantly under

⁸² Stephen Haddrill, CEO of FRC, Evidence given on 9 November 2010, Auditors Market Concentration and their Role: Evidence, p.176

attack, as was highlighted by the assistant director of capital markets at the Association of British Insurers, who referred to the impact of the audit environment and how it makes it difficult for auditors to be sceptical:

The way the accounting standards are written, for example, has moved away from exercising appropriate prudence. This all comes back to what makes a good audit judgment. What professional mindset are they bringing to bear? (Sukhraj, 2010:26)

The discussion paper came at a time when there was also a notable rise in the mentions of scepticism in audit firm inspection reports (See Figure 3 on page 131 and Table 17 in Appendices), with it first appearing in three inspection reports in 2010. Between 2010 and 2012 the mentions of scepticism increased and, with the exception of 2014, it has remained a point of constant reference. Between 2008 and 2018 seventy-five audit inspection reports were identified, with 47 of these containing a mention of scepticism.⁸³ The explicit mention of the term, its use as a heading in sections of inspection reports, and the way it was used to highlight issues and frame actions by audit firms pointed to professional scepticism having become an object of explicit regulatory attention, with examples of these presented in Table 7 (pages 132-133).⁸⁴ Several comments addressed a lack of evidenced scepticism, with this reflecting the tone of the FRC/FSA reports and the earlier comments from Stephen Haddrill. The sample comments in Table 7 evidence the role of the individual in questioning the client (e.g., challenging assumptions) as well as pointing to the significance of the firm environment and how it creates a basis for sceptical action (e.g., references to training and communications).

⁸³ Audit inspection reports and mentions of scepticism analysed by the author.

⁸⁴ A breakdown of the use of the word in the inspection reports is available in Table 17 and Table 18. These were self-compiled based on a reading of the reports with attention to where the word 'scepticism' was used and the context in which it was applied.



Figure 3: Scepticism mentions in inspection reports - big v other firms (compiled by the author)

Regulatory Attention and Beyond

While generally acknowledging the issue and the attention it received from the EC, parliamentary, and regulatory investigations (Bowman, 2011), the profession called for an “evidence-based approach” (Anonymous, 2011:87), doubting the suggested evidence of its widespread absence. More generally, and consistent with a suggestion from the APB in 2011 (Financial Reporting Council, 2011), the ICAEW suggested an evidencing strategy:

when there is a significant matter, the act of developing a document which sets out the evidence obtained independently of management, the counter-evidence and the rationale, can help identify things that don’t make sense, areas that require more work, and when to say no. (ICAEW, 2012a:6-7,13)

Table 7: Examples of Mentions of Scepticism in Inspection Reports

YEAR	MENTION TYPE	REPORT TEXT
2011	Specific Deficiency	“However, on six audits, there was insufficient evidence of the work performed by the audit teams in assessing either the reasonableness of the growth rates or of the other assumptions, source data and methodologies used by management in their projections to assess the potential for impairment of goodwill. In three of these audits the audit teams did not apply sufficient professional scepticism in reaching their conclusion in this area.” (EY Report, 2011, p.7)
2012	Specific Deficiency	“On three audits we had concerns relating to the adequacy of audit work in connection with the carrying value of goodwill. This included insufficient consideration of the reasonableness of the growth rates and other assumptions, source data and methodologies used by management in considering the potential for impairment of goodwill and other assets. Additional sensitivity analysis should have been considered in some of these cases and a greater level of scepticism applied to the growth rate assumptions used.” (KPMG 2012 Inspection Report, P.7)
2011	Firm Response	“We are also pleased to note the AIU’s recognition of actions we have taken to ensure appropriate professional scepticism is exercised on audits.” (EY Report 2011. P.17)
2012	Summary Point	“Ensure an appropriate level of professional scepticism is exercised in the audit of goodwill and other intangible assets and plant, property and equipment.” (PwC 2012 Inspection Report, p.4)

YEAR	MENTION TYPE	REPORT TEXT
2012	Overall Firm Procedures	“The firm took a number of initiatives in the year to reinforce the importance of professional scepticism. These included the roll out of KPMG’s Professional Judgement Framework to all staff and a number of workshops and presentations highlighting the importance of professional scepticism. The firm should continue to implement initiatives that will help to further embed the concept of professional scepticism into the culture of the audit practice.” (KPMG 2012 Inspection Report, p.11)
2012	Heading Overall Firm Procedures	<u>“Professional scepticism</u> The firm introduced a requirement for audit teams responsible for the firm’s higher profile audits to demonstrate how professional scepticism was applied on those audits. In addition, the firm provided training on professional scepticism for partners and staff responsible for the audit of such entities. The firm should continue to implement initiatives that will help embed the application of professional scepticism into the culture of the audit practice.” (PwC 2012 Inspection Report, p.10)
2012	Heading Overall Firm Procedures	<u>“Professional scepticism</u> The firm issued a number of communications to audit personnel on the importance of professional scepticism, included the subject in its mandatory audit training and encouraged its consideration in the performance evaluation process.” (Deloitte 2012 Inspection Report, p.11)

Some pushback occurred concerning the demands the regulatory attention placed on audit and the evidencing of audit procedures. The Chairman of the ICAEW Audit Faculty referred to the House of Lords (Select Committee on Economic Affairs, 2011b) finding that increased IFRS demands had created an environment driven by checklists and a “culture of box ticking.” (Bowman, 2011:92) Woolf⁸⁵ referred to widespread “lack of inquisitive scrutiny” (Woolf, 2011:16) and the loss of a “spontaneous recognition that what you are looking at does not make much practical

⁸⁵ Independent forensic consultant and Director

sense,” (Woolf, 2011:16) with this attributed to a “checklist audit” (Woolf, 2011:16). Martyn Jones, then Vice President of the ICAEW, made a similar observation in 2012:

Rather than approaching audit work in an unthinking box-ticking way, the auditor should always be challenging information he or she is given and the evidence he or she obtains. We need to step back, look at the wider context, and ask “does that make sense?” (ICAEW, 2012a)

Woolf was also critical of the auditor’s tendency to “blind themselves to reality by preferring to trust the directors.” (Woolf, 2011:16) Woolf was a regular critic of auditing practices, noting that sometimes “the unforeseeable was blindingly obvious if you knew how and where to look.” (Woolf, 2012b:73) His overall argument emphasised a need for auditors to start questioning more, wondering if:

Maybe it’s time to question everything. There are no safe assumptions and it’s your head on the block. (Woolf, 2012a:79).

Woolf’s comments reflected a need to ask questions in an environment of judgment and uncertainty, highlighting the role of knowledge (knowing where to look), context and bigger picture (“spontaneous recognition”) and putting management and directors to task, rather than taking their word. These resonated with the issues raised in the Northern Rock failure, the GFC, and the subsequent regulatory discussions.

Regulators saw scepticism as “fundamental” (George, 2011:86) to the audit, as evidenced by the attention it received in firm inspection reports after 2010. It remained a “key audit issue” (ICAEW, 2012b), with the ICAEW releasing videos related to scepticism. John Kellas, the Chairman of the POB at the time, referred to a need for “a healthy scepticism,” (ICAEW, 2012a:5) with this “fundamental” (ICAEW, 2012a:5) to audit and something the regulators “need to see more of.” (ICAEW, 2012a:5) A distinction was made between finding out what has been done by the client and auditing the client, with the latter requiring assumptions to be tested. Kellas stated that:

the AIU expects to see not only a record of what the assumptions are, but also some indication that the auditor has challenged them and understood how they affect the conclusions the client has come to. Too often it seems that the auditor is looking for reasons

why assumptions can be supported, without also considering facts that might suggest they are not appropriate - too optimistic, for example. (ICAEW, 2012a:5)

This positions scepticism as not only identifying and assessing assumptions, but also considering how they may not apply. It points towards a more presumptive doubt approach (M. W. Nelson, 2009; Quadackers et al., 2014) and the need to consider alternatives to what the client presents, echoing the blue skies analogy of Haddrill. It is also a big shift from earlier attitudes that sought to not upset the client and not question their business expertise. But debate remained about the boundaries for scepticism and what it meant for the assumptions behind audit approaches. Some were concerned that the emphasis on challenge and questioning could lead to the distrust of the client, problematising distinctions between what was referred to as a neutral and presumptive doubt approach. These would be further considered in an FRC position paper described as “ambitious” (P. Smith, 2012:73) and “highbrow” (P. Smith, 2012:73). The paper employed positivistic scientific comparisons to analyse professional scepticism, further highlighting the challenges of evidencing scepticism.⁸⁶

More recent discussion suggested that scepticism can inform wider topics in the regulatory and professional environment. The FRC highlighted this with their consideration of audit committees and how the non-executive directors can play a role in creating conditions for professional scepticism through their own challenge and interaction with the auditors as part of their stewardship role (FRC, 2011a, 2011b). Both the ICAEW and FRC considered professional scepticism and data analytics (Financial Reporting Council, 2017; ICAEW, 2016a, 2017), along with internal quality control and review procedures (Financial Reporting Council, 2016a), fraud concerns (Financial Reporting Council, 2014a), and audit firm culture (Financial Reporting Council, 2018). Similarly, the IAASB has linked scepticism to data analytics (IAASB, 2016), as well as audit quality more generally (IAASB, 2014, 2015a, 2015b, 2017). While some of these cross-references are short single-sentence references that leave the implications and extensions of the links unexplored, they do position scepticism as a transportable idea that can inform perspectives across the professional and regulatory environment.

⁸⁶ Considered in more detail in chapter four.

3.4 DISCUSSION AND CONCLUSION

There are three threads that are evident in the genealogical analysis the treatment of management by the auditor, the rewriting of the role of the individual auditor, and the evidence challenge.

3.4.1 *Bringing The Individual Back In*

The early positioning of the auditor emphasised the individual, with Chandler and Edwards (1996) suggesting that this was a deliberate strategy by the professional bodies who were more interested in education and disciplinary matters, rather than providing guidance for collective practice. A review of the quotes up until the 1930s highlights this, with frequent usage of singular personal pronouns when describing auditors and the conduct of audit procedures. Even as accounting firm partnerships were established this emphasis remained, with Nicholas Waterhouse's concerns about liability and costs of legal action in 1934 still referring to the singular personal pronoun 'he'. The references change as the firms grow in size, and by the 1990s, the discussion of reactions within the firm to legal liabilities and audit failure is through the collective pronoun of 'we' and the UK managing partner talking in terms of what was happening 'within this organisation'.

The growth of the firms is one possible factor for this, but so too is what was happening as a result of the growth of the firms. The references to the impact of methodology design within the firms highlight a certain removal of the auditor from the audit. While they were still physically present and completing tasks, the control exerted by the prescribed processes meant that the audit work became more about following the firm's way, and as Foss describes it, "marshalling and directing the efforts of less highly trained staff." (Foss 1967:312). These pointed to a construction of those within the audit firms in a certain way, with identity and progress within the firm based around firm systems and structures (Anderson-Gough et al., 1998) and an emphasis on the client (Anderson-Gough, Grey, & Robson, 2000). These are also seen as shaping the audit task in a particular manner – compliance with procedure. The comments from Woolf in 2011 and 2012, as well as the regulator's observations about tick-box mentalities, are part of this big-firm narrative. For the individual, the challenge and question came from what was on the list, with this seen to portray scepticism as a compliance-based process rather than one involving thinking outside the square.

While the audit firms may have consisted of numerous individuals, the evidence suggests that their understanding of challenging the client was limited to methodology. The firms were a significant site for auditor opportunities and training. However, as the firms grew and as issues in the profession arose, these would be addressed as matters for the firm and pushed down to the individual through “sophisticated and well tested check systems.” (Whitmore 1976:19). The evidence of this also extended to the early FRC reviews that questioned the knowledge of audit standards possessed by members of engagement teams (FRC 2005:16). This highlights the intent behind the reindividualising the audit under the FRC. The construction and emphasis of professional scepticism essentially provided a reset mechanism to reposition the focus within the audit engagement. This progression broadly maps to the locations of professionalism (D. J. Cooper & Robson, 2006), but also goes a step further and illustrates how the change in regulator (from professional bodies to FRC) provided the conditions for a re-focus on those within the firms.

D. J. Cooper et al. (1994) identified a series of episodes that changed the nature of the relation between the profession and the state, their story ending with the profession battling to preserve self-regulation and an observed erosion of “cohesiveness and ‘professional’ identity of the membership.” They point to a changing relationship between the state and the profession as one way forward. The path of the auditor described in this chapter reflects this, as auditors went from individuals to members of large firms and largely hidden by the standardised procedures that prescribed their actions. The FRC assuming control of audit extends their view, highlighting how “the boundaries between regulator and regulated have changed and the location of these changes have major effects.” (D. J. Cooper & Robson, 2006:436) Specifically, the regulatory attention to individual judgment and the application of scepticism provided a basis for focusing on the individual and restating their key role in the exercise of professional judgment and challenge. While the commentary suggests that there is still much going on around the individual, with firm policies and procedures, engagement pressures and other dimensions also an influence, there are means of highlighting the individual.

3.4.2 Interacting With Management - Changing Ideas Of Challenge

The idea of challenging the auditee is evident and noticeable for how it changes. The accountant’s lever into the audit through their acquired business

knowledge and their ability to sell their services in the market place meant that in the early stages the auditor was not independent in conventional terms (Maltby, 1999). However, the accumulated knowledge that the accountant brought with them from their various business experiences meant that they soon became a recognised resource for performing the audit. Even so, the nature of their role was open to interpretation and in the early days of audit there was the view of audit as being concerned with mathematical accuracy and little more, evident in the auditor completing books for clients and checking that totals and transferred amounts agreed. Under this early view the idea of challenging management was minimal, with the audit combined with accounting services and business services, as opposed to being independent of them.

This view evolved, evidenced by the early twentieth century position that “Chartered accountants are not mere checking machines” (Anonymous, 1914) and that unqualified auditors “are bookkeepers...they have not the knowledge of practice.” (Hansard, 1911) It was also supported by Dicksee, who noted the key role of the auditor in identifying and addressing fraud within the auditee. It is here that we also see a distinction between the lay auditor and the professional auditor emerging. For Dicksee the distinction came through the “scandalous incompetency” (Dicksee 1990:266) and “incomplete investigation” (Dicksee, as quoted by Richardson (1966:707)) of the non-professional auditor. Others linked it to the “onerous responsible duties of the auditor” (Pixley, 1909:4) and the auditor being “bound to be careful.” (Terry, 1909:5) Others pointed to the questionable business’s “dread [of] submitting its accounts to the keen eyes of a trained investigator” (The Accountant, 8 May 1875, p.2-3, reproduced in (Chandler & Edwards, 2014b:location 462-487) and the “dread of independent examination.” (The Accountant, 8 May 1875, p.2-3, reproduced in (Chandler & Edwards, 2014b:location 462-487) Each of these points to a different type of audit coming from the professional auditor, with an expected attention to detail and rigour. These were positioned as a product of the training, knowledge, and professional experience the qualified auditor possessed. Across these descriptions is the expectation of questioning and scrutiny that would come from having the accountant as an auditor. While there is the suggestion that these positions were adopted as marketing device, with the attention to fraud one example, there is also evidence in the tone of legal pronouncements and parliamentary discussions that there was a growing expectation for the auditor to be alert to the

possibility of fraud and misstatement, with this evident in terms like ‘being put on inquiry’ that appear in early legal cases.

The distinction between lay and professional auditors in those early days was consistent with the professionalisation program that was present as the professional bodies formed, working to gain control over the term accountant and the exclusive right to perform an audit, culminating in the “death knell” (Anonymous, 1966b:840) for amateur auditors in the 1960s. The greater detail and focus of the professional auditor was tied to the auditor’s specific accounting knowledge base. Although not explicitly labelled as such, the auditor was positioned as having a basis for challenging the auditee, with their attention to detail guided by their knowledge of their professional domain of accounting. Such business knowledge and accounting knowledge was used as a point of distinction from the early days of the profession and meant that a basis of differentiation for the professional auditor was their ability to speak the language of business – accounting.

Yet even though these distinctions between the professional and lay auditor emerged, with the professional auditor seen as more demanding, the idea of the nature of challenge was still expected only when put on alert, with court cases asserting a right of the auditor to trust management representations. Later comments highlighted how an auditor’s “antagonism to the carefully considered views of the board... would stray beyond his province... he must, with rare limitations, be content with the judgment of the directors.” (Anonymous, 1910a:3) The tone changes in the 1960s, as reference is made to auditors acting on a client-based schedule. There is a seemingly inconsistent position with audit arguing itself as a fraud detection and prevention tool while also being content to take management at their word. They are setting “the seal of approval on events which he has been powerless to influence and whose presentation has been determined by those who pay his fee,” (Shanks 1971:21), while also being seen as “the lapdogs of management.” (P. Godfrey, 1976:17). These point to the perception that the auditor had little inclination to challenge, highlighting the shift in positioning of the relationship with management from questioning when put on inquiry to taking at their word and not upsetting the status quo.

Use of the word scepticism in the UK setting arose amidst corporate failures. However, it was not immediately labelled as ‘professional’. These labels are significant, since they do point to expectations of the source and nature of scepticism. Earlier, Cohen had used the term ‘healthy skepticism’ (Cohen, 1966:4), with this also

used by Bingham in reference to ICAEW publications in 1996. Having a healthy scepticism can be seen as somewhat different to what is now labelled professional scepticism. Healthy scepticism suggests an optimum level, with research putting it somewhere between complete doubt and disbelief (cynicism) and total acceptance of what is said (Harding et al., 2016; Quadackers et al., 2014). Alternatively, professional scepticism is more suggestive of a link to an established professional discipline and its associated body of knowledge. Seemingly, this progression in labelling made it more tightly linked to the audit profession. Anyone can cast doubt and ask questions, but the nature of such doubt and questioning has a specific context when couched in the professional label. So, for the auditor to be professionally sceptical would infer that their questions and challenges come from within the professional knowledge base of accounting and auditing. The early mentions of the term in the UK press pointed to this, with Waller (1991) linking it to how audits are conducted and Jenkins linking it to auditor training. Comments from Davis (1992:33) pointed to a need to “reassert the value of professionalism as part of a toughening of resolve” in companies that would “welcome a tougher stance from auditors.” The taking of a tougher stance points towards a need for an increased challenge from the auditor. This tougher stance was progressively expanded to “don’t take management at face value, and find corroborative evidence.” (Kelly 1999b).

These suggestions highlight the closeness between the client and auditor and suggest links between independence and scepticism. This was evident in discussions that suggested auditors acted for management rather than in contest to them and that there was a reluctance to annoy client management. Even the positioning of the auditee as a client was suggestive of a service mentality rather than a challenging mentality. Chiang (2016) problematises a link between the two concepts suggested by Hurtt et al. (2013). Chiang doubts the auditor’s ability to be sceptical given an argued lack of independence that comes from the audit model behind auditor appointment, as well as the experiences of the auditor in the field (Guénin-Paracini et al., 2015) and the presence of both conscious and unconscious biases that impact auditors (for example, ACCA (2017)). Chiang positions independence as a necessary pre-condition for professional scepticism, commenting that independence is “impossible due to auditor self-interest and conflicts of interest as a consequence of the auditor-client structure.” (Chiang, 2016:193) The early discussions on

independence hinted at this relationship as the link between auditor-client relations was positioned as a factor that diminished the likelihood of challenge.

3.4.3 The Problem Of Evidencing

The genealogy contains several instances where the ability to evidence things is flagged as an issue. Stamp argued “that “independence is a state of mind” (Stamp, 1969:25). States of mind...cannot be measured objectively.” (Stamp, 1969:25) A few decades later, as the draft for SAS 100 was circulated, the APB noted a similar problem with scepticism. The difficulty in mandating and evidencing a mindset was their argument for not making the evidencing of scepticism a mandatory requirement in the proposed standard. Even as the FRC commenced its regulation of the profession and in the process bringing the judgment of auditors under scrutiny, there was still no clear guidance on what scepticism should look like. Suggestions were offered in the APB discussion document (APB, 2010), but these were contested by several respondents (Financial Reporting Council, 2011).

Discussion about audits in the time of fair values and the problems in auditing estimates highlighted the issue of evidence. It problematised the ability to create evidence since auditors faced knowledge gaps that restricted their ability to audit and question the complex estimates that they encountered (Smith-Lacroix et al., 2012), meaning that they were required to rely on specialists (Griffith, Hammersley, & Kadous, 2015). This highlights the problem of evidencing scepticism, as well as the related problem of knowledge that is important to its operation (Gill, 2009). The APB suggestion that a “summary memoranda” (Financial Reporting Council, 2011:10) of key audit judgments be prepared was one example of a suggested means of evidencing scepticism. The ICAEW similarly raised the possibility of preparing documentation for significant matters that arose in the engagement (ICAEW, 2012a). Even such a move can be open to question based on the gap between discourse and practice (Megill, 1994). This presents a continuing problem for audit – the challenge of making things visible so that they can be made auditable, versus related concerns about legal risk, competition in the market place, and protection of proprietary approaches. The audience to whom visibility is afforded is also relevant in this discussion, with what regulators, investors, audit committee members, and other parties see of the audit process and the operation of professional scepticism potentially varying.

Within the genealogy part of the way to get scepticism was to bring the individual back into the inspection process and subject their judgments to review. However, in so doing the question remains, what does/should scepticism look like? How is the mindset of the auditor to be made visible? What constitutes evidence of being sceptical? These questions are not resolved in the considerations of this genealogy. Rather, their continued presence highlights an issue that is considered in chapter four, where the auditability (Power, 1996) of professional scepticism is given more attention. Suffice to say that the issue of evidencing has implications for what is done in the firms and what the regulators see/expect to see in their inspections.

3.5 CONCLUSION

The genealogy offers a sense that the problems of yesterday remain the problems of today (Chandler & Edwards, 1996). Independence, the scope of the audit, the role of the auditor, and being able to provide suitable evidence have all been linked to audit concerns in the past are identified as part of the development and emphasis on professional scepticism. It also provides an example of how the issues have been reconsidered through different focus points, with scepticism providing a way of highlighting the individual. However, the attention to the individual does not divorce the individual from the context in which they operate. The firm setting and the interaction with the client are important for the understanding of professional scepticism. The regulatory concerns with being able to see professional scepticism raise for consideration the question of its auditability. The push to make scepticism auditable brings with it the possibility that scepticism could change, becoming what it never was. The latter discussions where check lists and other documentary tools in the audit are critiqued highlight the potential for such evidencing techniques to change the way things operate. This consideration of auditability is further pursued in chapter four.

The firm setting also provides a shaping force on how the individual acts in a sceptical manner. Firm methodologies were problematised in the early years of the FRC's regulation, seen as inhibiting knowledge of wider professional standards and issues. However, the firms point to a need for such methodologies in order to meet the complexity and extent of regulatory requirements. What this points to is the role of the audit firm environment and how it shapes, constructs, and captures professional scepticism. The concern with checklists highlights a concern about the role of

artefacts in the audit process, but it views them solely from the view of their structural influence. Chapter five considers this in more detail, using field access within an audit firm as a basis for exploring how different artefacts operate in the creation and capturing of scepticism.

4 THE AUDITABILITY OF SCEPTICISM

“The AIU’s findings continue to identify the need for firms to ensure that both partners and staff exercise appropriate professional scepticism, particularly in respect of key areas of audit judgment” (Audit Inspection Unit 2010-11 Annual Report, p. 6)

“When practitioners complain that an organization or area is unauditably they are usually referring to the quality of record keeping.” (Power, 1997:87)

4.0 INTRODUCTION

This chapter argues that the regulatory attention to making scepticism auditable and visible may actually be making it harder to see. The nature of the regulatory inspections – essentially an audit of an audit – is seen as distinct from previous studies that have examined the construction of auditability (Arnaboldi & Lapsley, 2008; Free et al., 2009; Hohnen & Hasle, 2011; Radcliffe, 1998, 1999; Skærbæk, 2009), with a key difference being that audit inspections see the logic of audit imposed upon itself. This is a perspective that distinguishes this chapter from the prior work. It also represents a scenario where there is a potentially adversarial relationship between auditor and auditee, a relationship type where audit has been described as “self defeating.” (Pentland, 2000:310) This problematises the idea of co-construction that comes from the process of making things auditable (Power, 1996) and also points towards issues in the operation of auditability.

Part of this self-defeat is seen to come from the intentions behind the emphasis on professional scepticism. As argued in chapter three, regulator attention to professional scepticism was seen as a way of resetting audit. It brought the individual back in to the scrutiny of audit procedures, operating as a means of disrupting what was the existing status quo in audit execution. However, applying audit approaches to this disruptive mechanism is argued to change professional scepticism from a disruptive force to something that becomes enshrined in audit approaches and looked for by inspectors. Prior research has examined the construction of auditability in settings where the audit represented a new logic for the auditee. This idea of the audit

of audit is a significant point, highlighting the problem of trying to make auditable something that was designed to make others auditable.

Auditability is seen here as being receptive to the process of an audit. This receptiveness comes from an environment constructed around a consensus on what counts as an auditable fact, as well as the process of generating such facts (Power, 1996). Auditability is dependent on a system of traceability, which is defined as the unique identification systems that allow for a credible and verifiable chain (audit trail) to be established, allowing for the recording and subsequent inspection of activities. Traceability requires material traces, with these traces being the agreed upon 'facts' that are created as evidence at a point in the audit trail (Power, 1996).

Starting from the need for a consensus between auditor and auditee and progressing to the issue of traceability, this chapter argues that auditability of professional scepticism is problematic. Amongst the issues for the auditability of scepticism are its distributed nature, its changing form and understanding, and its basis being built upon tacit knowledge. Power (1996, 1997) refers to some of the challenges of auditability, including the agreement on its operation and potentially unintended outcomes. Challenges for the traceability of professional scepticism arise due to both the contested understanding of what scepticism is and the contested ideas about material traces.

What also emerges is the amorphous nature of professional scepticism, limiting its evidencing in systems of traceability, as well as a question about whether audit records represent actuarial accounts that allow for traceability (Garfinkel, 1967; Power, 2003; Van Maanen & Pentland, 1994). Systems of traceability need to be able to anticipate the material traces in order that they can be captured in the audit trail. Lezaun (2006) problematised the operation of such systems in the genetically manufactured organism setting, showing how transformation events become a necessary part of traceability where the object being traced keeps changing. However, this was in a setting where what was being traced could generally be determined at each stage, with genetic analysis allowing for each transformation event to be identified and recorded. It is argued that the operation of professional scepticism does not necessarily afford such traceable events, with the changing nature of scepticism meaning that it is not fully understood until the end of the engagement when the preceding actions can be considered and made understandable in light of later events (Garfinkel, 1967). In addition, the ability to evidence scepticism is seen

to be challenged by the increased use of experts, with this helping to make things auditable but limiting the ability for them to be challenged.

The auditability of professional scepticism is also questioned based on the legalistic impact of making things auditable (Power, 2007), with this being a key factor in arguments about the nature of material traces in the audit process and pointing to auditability as a defensive mechanism. The significance of what is written down for the creation of traces of scepticism is contrasted with the impact this has on those within the audit team, providing an example of how making things auditable can also turn things into what they were not (Mennicken, 2008; Pentland, 2000; Power, 1996). Specifically, the creation of accountability and transparency of audit processes through material traces is problematised and positioned as a potential closing down of scepticism. This highlights a potential paradox in that the more traces are constructed and the more the regulator calls for scepticism to be evidenced the less it may actually be seen. This idea can be understood through its link to the literature on auditor fear (Guénin-Paracini et al., 2014) and safe spaces (Etienne, 2015). These lead to the suggestion that there will necessarily be a ‘backstage’ (Goffman, 1990) element to scepticism and that some things work better when they are not fully documented. This is noted for its contradiction with the regulator emphasis on documenting everything.

Finally, the suggestion from the professional bodies and the regulator that root cause analysis be applied is analysed as an alternative form of auditability. This potentially recognises the amorphous nature of scepticism and facilitates audit team reflection on what was done and how things came to be understood. This approach also recognises the problems that come from specified material traces and suggests an answer to the safety and fear impacts that auditability of scepticism could present.

4.1 DATA AND CODING

Data for this chapter is drawn from 24 semi-structured interviews with practitioners, professional body representatives, audit committee members, and regulators.⁸⁷ This was a “cohesive sample” (Morse, 1995:149) of participants from a similar background, with the theoretical sampling employed as a way of aiding potential saturation in the interview data. The semi-structured interviews focused on

⁸⁷ A summary of the participants is contained in APPENDIX 3 - Table 15 in the Appendices.

the participant's conception of professional scepticism, inviting them to offer their own definition of what it meant and examples of how it was seen to operate. This provided a basis considering the described examples, with attention given to how scepticism was seen to be done and evidenced.

A range of archival resources were also referenced. A primary point in the discourse was the FRC's discussions between 2010 and 2012, when a discussion paper was released, submissions were received, and a position paper was published on professional scepticism (APB, 2010, 2012). Subsequent FRC discussions on the topic included thematic reviews on issues arising from audit inspections (Financial Reporting Council, 2014a, 2014b, 2016a, 2017, 2018), as well as material from the professional bodies (ACCA, 2017; ICAEW, 2012a, 2015, 2016a, 2016b, 2017). IAASB discussions were also included, with a discussion paper on scepticism released and submissions received (IAASB, 2015a, 2015b).

FRC Audit firm inspection reports from 2008 to 2018 were also reviewed, with attention to appearances of the word 'scepticism' in the reports and the context in which the word was used. These helped to identify the concerns and issues that inspectors were reporting, providing a basis for considering the issues concerning auditability. Across the 75 publicly available inspection reports between 2008 and 2018 there were 47 that contained an explicit mention of scepticism. These generally highlighted a need for greater evidencing of scepticism and several suggestions that firms embed scepticism into their firm structure and operations.⁸⁸

4.1.1 Coding

The main issues in interviews related to the idea of scepticism and how it could be evidenced. These provided a starting point for coding, with the initial coding guide reflecting these different dimensions shown in Table 8. This coding came from the initial reading of the interviews, reflecting the interaction between the theoretical dimensions that informed the chapter's positioning (auditability) and the discussion and contributions provided by participants (Schmidt, 2004).

Interviews were read to identify the issues and themes that participants referred to, with the initial reading paying attention to the terms and examples provided by respondents. Emphasis was given to what was said rather than the frequency with which things were said (Morse, 1995), with this allowing for any

⁸⁸ The analysis of these reports is summarised in Table 17 and Table 18.

“infrequent gem that puts other data into perspective.” (Morse, 1995:148) An example of this was when IR19 spoke of fear in their description of engagement procedures and when a submission to the FRC from PwC mentioned the need for activities occurring outside the formal documentation. More generally, respondents gave examples of individual activities (IR13, IR05, IR18, IR19, IR14), creating documents to evidence scepticism (IR14, IR18, IR19), regulatory inspections and the attention to scepticism (IR12, IR15, IR16, IR17, IR 22, IR24), standard procedures (IR13, IR18), engagement level factors like style of reviews and team management (IR05, IR18, IR14, IR19), and firm level elements like training and development (IR19), and the impact of technology design (IR06, IR23) in relation to scepticism.

When reading how participants referred to scepticism the focus was on how the activity was described by the participant, with attention to circumstances, activities, and examples that were provided. For example, different ideas were present at different levels in the engagement team (IR10, IR13, IR18, IR19) – ranging from dealing with invoices and direct client evidence to stepping back and piecing different elements of the audit together. Both spoke of activities in the context of scepticism, but they also referred to activities of a different nature and focus. This varying nature of the examples spoke to structural layers of scepticism, for example, individual and engagement specific examples and wider firm-level examples (e.g., training and skills development). There was also a distinction in the submission to the FRC and IAASB, as well as in the webcasts, about the nature of scepticism (for example presumptive or neutral in regulatory response submissions). These differences in how activities were spoken of and how they were linked to scepticism provided the basis for the breakdown of professional scepticism shown in Table 8 (pages 150-152).

Participants spoke of creating documents to evidence scepticism, with these suggesting the theoretical construct of auditability. When considering auditability both participants and archival documents referred to several issues. Material traces was one such element, with sub elements including how they mapped into accepted understandings and knowledge, and debates about durability and boundaries of the material trace. For example, participants spoke of reports, documents, working papers, and review notes in terms of how they evidenced scepticism, with this link leading to the reference being classified as a material trace.

Participants also referred to creating documents (IR05, IR13, IR18), removing review comments (IR05, IR13), and trying to take activities outside the formal documentation system (IR14).⁸⁹ From these it was apparent that references were made to professional scepticism in terms of the activities that it involved and the way it was seen to operate for the individual. In these descriptions there would also be references to challenges in creating or capturing evidence relating to scepticism. For example, one respondent talked about the possibility of creating a memo for everything (a way of demonstrating scepticism) and then went on to critique this approach for its lack of value to audit goals (IR18), thus questioning the usefulness or value in evidencing activities.

Initial categories from interviews were based around terms as used by respondents (for example different documents, different technologies). These were then analysed in terms of the dimensions of auditability from the auditability literature, leading to the auditability dimensions in Table 8 (pages 150-152). This highlighted the process of creating agreed upon definitions of auditable objects, the creation of material traces, and the potential for changes in auditability based on accepted knowledge and understandings. Guidance was also taken from debates that had occurred in both professional and academic literature, with this providing a basis for the distinction between types of professional scepticism (presumptive doubt /neutral approach) (Quadackers et al., 2014). Literature also pointed to an increased attention to professional judgment as part of the operation of professional scepticism (Hurt et al., 2013; Martin et al., 2006; M. W. Nelson, 2009; Popova, 2013).

In the subsequent sections the empirical data is described based on the coding described in this section. This includes a discussion of the auditability literature, where the conditions for auditability are reviewed in relation to professional scepticism. This leads to the first of the empirical elements, the debate over the meaning of professional scepticism, with interviews and other documents used to highlight the different understandings. Subsequent sections further break down the ideas by highlighting the location of scepticism (level of the individual, place in the audit process), and various efforts to build a system of auditability.

⁸⁹ These examples refer to interview data, a similar process was used for other documents and sources of data.

Table 8: Initial coding categories

	Component	Sub-Component	Meaning / Ideas in concept
Professional scepticism	Presumptive or Neutral		Comments on the applicability of the presumptive and neutral approaches to scepticism
	Firm	Embedded	Refers to processes and structures operating firm wide that include scepticism
		Training	Describes or refers to firm-level training programs built around scepticism
		Risk-based approaches	Links firm-based methodology and risk-based approaches to the operation of scepticism
	Engagement	Use of tools	Refers to the impact of technologies and aids
		Ongoing	Addresses scepticism as a continuous presence in the engagement
		Extent	Considers the extent of scepticism within an engagement and factors that may influence the level.
		Challenge	Refers to the idea of challenge within an engagement, including what it is and where it comes from.
		Evidencing	Discusses evidencing approaches or challenges to evidencing scepticism
		Team	Refers to team traits / composition etc as influencing scepticism
		Leadership and Supervision	Role of partners and senior team members in the operation of scepticism within an engagement team
		Forming expectations	Role of knowing what to expect in order to be able to ask questions and challenge
		Risk	Refers to understandings of risk at engagement level and their link to scepticism
	Individual	Asking questions	Describes the role of asking questions and challenging assumptions
		Attitude / Mindset	Refers to the individual and their mindset and potential challenges from a mindset perspective
		Behaviours	Refers to individual actions, factors that influence them, and
		Biases	

Component	Sub-Component	Meaning / Ideas in concept
	Building PS	Refers to strategies and approaches that can be used to develop individual scepticism
	Process / Client knowledge	Highlights the role of individual knowledge of client and processes in order to be able to challenge and question
	Learned	Suggestions that scepticism could be 'learned'
	Soft Skills	Highlights non-technical/soft skills in the operation of individual scepticism
Audit standards		References to how the audit standards have addressed professional scepticism requirements and its emphasis
Ability to challenge	Expertise	Refers to the complexity of reporting and the use of experts and its implications for scepticism
Technology	Challenges	Addresses limitations or negative consequences of technology on scepticism
	Advantages	Addresses potential advantages of technology on scepticism
Material Traces	Evidencing scepticism	Describes process and importance of evidencing scepticism
	Evidencing judgment	Describes process and importance of evidencing judgment and links it to scepticism
	Survival	Highlights the challenges of durable material traces that come from the social nature of scepticism and the existing audit ideas of working papers and evidence
Audit Documentation	Role	Discusses or challenges the role of audit documentation and its intended function
Changing concept	Putting pieces together	Refers to scepticism as a concept that changes in nature and operation as (i) the engagement progresses, and (ii) the level of the auditor changes.
Constructions	Scientific Approach	Consideration of alternative models that argue for a certain understanding of auditability based on natural sciences
	Judgment frameworks	Refers to the design and use of judgment frameworks as part of a way of evidencing processes attached to scepticism
Root cause analysis		Refers to root cause analysis, its application, and benefits

Auditability

Component	Sub-Component	Meaning / Ideas in concept
Defining the object		Refers to definitions of scepticism and contention concerning definitions

4.2 AUDITING THE AUDITORS

This chapter examines the FRC’s inspections of PIE audits.⁹⁰ Both the FRC and international regulatory bodies (IFIAR, 2012, 2014, 2015, 2016, 2017, 2018) have expressed concerns about the lack of observable auditor professional scepticism in completed audits. Most recently, the UK Parliament, through a joint committee of the House of Commons reporting on the Carillion failure, made a direct observation about the need for evident professional scepticism (House of Commons Committee, 2018), while the FRC also noted an “unacceptable deterioration” (Shoib, 2018) in audit quality that was linked to professional scepticism.

As the UK’s competent authority for audit, the FRC is responsible for the “public oversight of statutory auditors,”⁹¹ including the “monitoring (by means of inspections) of statutory auditors and audit work.”⁹² These inspections operate at two levels, with the FRC inspecting PIE audits and Recognised Supervisory Bodies⁹³ delegated the responsibility of monitoring non-PIE audits.⁹⁴ Each FTSE 350 company will be inspected “on average every five years, with each individual engagement inspected at least every seven years.”⁹⁵ An indication of the sampling

⁹⁰ A PIE (Public Interest Entity) is defined as (a) an entity whose shares are traded on a regulated market, (b) a credit institution, or (c) an insurance undertaking. FRC (2018), Glossary of Terms – Ethics and Auditing, sourced from https://www.frc.org.uk/getattachment/09c8b439-0018-4e46-b249-a0b54540ff70/Glossary-of-Terms-Ethics-and-Auditing_Updated-January-2018.pdf

⁹¹ Department for Business, Energy & Industrial Strategy (2016), “Direction on delegation of audit regulatory tasks”, from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/543790/beis-16-4-ministerial-direction-on-delegation-of-audit-regulatory-tasks.pdf

⁹² Department for Business, Energy & Industrial Strategy (2016), “Direction on delegation of audit regulatory tasks”, from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/543790/beis-16-4-ministerial-direction-on-delegation-of-audit-regulatory-tasks.pdf

⁹³ Bodies who have been delegated responsibilities by the FRC, for example the ICAEW

⁹⁴ Department for Business, Energy & Industrial Strategy (2016), “Direction on delegation of audit regulatory tasks”, from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/543790/beis-16-4-ministerial-direction-on-delegation-of-audit-regulatory-tasks.pdf; and FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

⁹⁵ FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

involved in inspections, as well as the extent of inspection activity, is shown in Table 9 (page 155), which summarises recent FRC inspection activity.⁹⁶

The FRC's inspection process arguably resembles an audit. While reviews are labelled as "inspections"⁹⁷, their structure and execution are similar to an audit. Inspections are conducted on "a sample of audits."⁹⁸ The sample is selected based on "assessed risk in relation to the entity and particular priority sectors we wish to focus on."⁹⁹ Inspections are designed to assess "the appropriateness of key audit judgments made in reaching the audit opinion and the sufficiency and appropriateness of the audit evidence obtained."¹⁰⁰ As described by one interview respondent,

we do our own risk assessment...there are certain things we look at; a bit like in an audit. An audit doesn't look at absolutely everything, and our inspections don't look at absolutely everything. We choose what we look at, and then they determine how much work they want to do on that.¹⁰¹ (IR12 – Regulator, 24/6/2016)

Attention is given to compliance with applicable ISAs, Ethical Standards, and Quality Control Standards.¹⁰² The inspections "identify areas where improvements are required to safeguard or enhance audit quality"¹⁰³ and any necessary "action plans"¹⁰⁴ will be devised by the FRC and the audit firm, with progress on these plans tracked over time. The tangible public output from inspections are the audit firm

⁹⁶ Sourced from <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

⁹⁷ FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

⁹⁸ FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

⁹⁹ FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

¹⁰⁰ FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

¹⁰¹ Interview Transcript, IR12 – Regulator, 24/6/2016

¹⁰² FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

¹⁰³ FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

¹⁰⁴ FRC (2018), Audit Quality Review, from <https://www.frc.org.uk/auditors/audit-quality-review>

specific inspection reports, which are available from the FRC website.¹⁰⁵ These summarise the inspection results for an audit firm but do not identify specific engagements. Private feedback is also communicated to the audit firm and the audit committee of the company whose audit was inspected. These reports include a grading of the reviewed engagement.¹⁰⁶

SUMMARY OF 2017 INSPECTION ACTIVITY*				
Audit Firm	Inspected	Scope of Inspection	FTSE 250	FTSE 100
BDO	8	117	5	0
Deloitte	25	413	66	22
Ernst Young	18	347	41	14
Grant Thornton	8	76	3	0
KPMG	24	537	59	24
Mazars	5	36	0	0
Moore Stephens	5	24	0	0
PwC	28	586	65	33
TOTAL	121	2136	239	93

*Data based on details in the firm-specific inspection reports released in June 2018

Inspected = number of audit engagements inspected for the year

Scope of Inspection = number of firm engagements potentially subject to inspection

FTSE250 = Number of FTSE 250 engagements for the audit firm

FTSE100 = Number of FTSE 100 engagements for the audit firm

Table 9: Summary of FRC Inspection Activity for 2017

There is a considerable similarity between the inspections and the audit system. To borrow from Dunn (2007), who was writing in a different setting, the inspection process has “sampling, documenting, partial inspection of records...[it is] an *audit system*.” (Dunn, 2007:39, emphasis in original) This is significant, since it

¹⁰⁵ <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

¹⁰⁶ Possible audit grades are Good (1), Limited improvements required (2A), Improvements required (2B), and Significant improvements required (3). (Source: <https://www.frc.org.uk/auditors/audit-quality-review>)

points to the audit being made auditable in the inspections, with those in the business of making things auditable being called to make themselves auditable.

4.3 AUDITABILITY

The regulatory concerns about the auditability of professional scepticism (the ability to see it in completed engagements) reflect several elements that are at stake for audit. Regulators have had an ongoing concern with market confidence in financial statement audits as the banking crisis triggered concerns about whether “sufficient” (APB, 2010:3) professional scepticism was applied. This was also linked to audit being “essential to public and investor confidence in companies.” (APB, 2010:3) The APB took the view that:

Unless auditors are prepared to challenge management’s assertions they will not act as a deterrence to fraud nor be able to confirm, with confidence, that a company’s financial statements give a true and fair view (APB, 2010:3)

This represents a questioning of audit effectiveness and highlights a dimension of risk within the financial statement audit process, with risk for the auditor from the audit conduct and a reputational risk for the regulator. The attention to lacking professional scepticism highlighted how investors and other stakeholders are potentially at risk. Specifically, professional scepticism was framed as a risk object and the auditor was emplaced (Hilgartner, 1992) deep within the risk network. This led to the calls for greater visibility and evidencing of professional scepticism. Behind these calls was an assumption that scepticism could be controlled, tracked, monitored, and evidenced in a way that allowed for its preservation beyond the audit engagement. In other words, it could be made auditable. The regulator was also self-described as being “professionally sceptical so if we can't see written evidence, then we're sceptical about whether there was scepticism.” (IR16, Regulator, 19/10/2016) This points to an assumption that there are ways of building an audit trail that allows for professional scepticism to be stimulated and captured.

Initial suggestions point to the audit working papers as a means of demonstrating such activity, although past work (Power, 2003; Van Maanen & Pentland, 1994) highlights that working papers are highly considered documents that act as a record of decisions with potentially multiple uses and are not “an actuarial

reflection of what has happened.” (Power, 2003:386). Garfinkel also presents an interpretation of record keeping that challenges the actuarial assumptions often taken to medical records, highlighting how these records gain meaning when read by a particular user in a particular way. Under this reading meaning is established after the fact, and there can be sound organisational reasons for what may initially seem to be ‘bad records’. (Garfinkel, 1967) This highlights a particular problematization for the auditability of professional scepticism, since the primary documentary sources are not necessarily intended to be the chronological accounts that auditability and audit trails would typically command.

Auditability within the accounting literature can be traced back to Mike Power, whose book *The Audit Society* (Power, 1997) theorises the role of audit and its increased usage. As Humphrey and Owen (2000) noted, *The Audit Society* collects and develops Power’s research on audit, including the ‘audit explosion’ (Power, 1994) and the consequence of the audit explosion, the necessity of *Making Things Auditable* (Power, 1996). Subsequent to *The Audit Society*, Power still described auditability as a “deeply held” (Power, 2007:153) value, although it had changed as a result of new understandings of its impact and implications, as legalistic and compliance driven approaches became an increased part of being auditable.

‘Making Things Auditable’ argues that auditability is negotiated between the auditor and auditee (Power, 1996), with audit seen to “do as much to construct definitions of [criteria and objectives]... as to monitor them.” (Power, 1994:25) Audit, therefore, plays a dual role of monitoring performance and constructing the definitions of concepts that become the basis for monitoring. Both the auditor and auditee are party to a process whose “techniques are part of a system of knowledge which is driven by the imperative of “making things auditable”.”(Power, 1996:292) The audit will effectively audit an image of its own creation. It is a means of independent assurance that constitutes and constructs its own environment.

The first essential element within this understanding of auditability is the construction of a shared meaning of the auditable object by auditor and auditee. This makes the system of knowledge important, since it is the basis for how things are viewed and understood, with auditability “a function not of things but of agreement within a specialist community which learns to observe and verify in a certain way.” (Power, 1997:80). The auditability of professional scepticism thus calls for a learned means of observation and verification and with that comes a (re)constitution of the

audit object. Audit's system of knowledge consists of knowledge (standards, regulations), education (formal professional qualifications, learning within the firm, informal learning), practice (applying the audit process), and control (quality control) (Power, 1996:292). It is through agreement within this system on how things are to be seen that auditability becomes possible.

The ability to gain such a consensus can be problematised based on the relationship between auditor and inspector. The FRC is the standard setter, effectively creating the definition of professional scepticism that is to be made auditable.¹¹² The definition of the auditable object is somewhat fixed and imposed through the standards, although nuance in its interpretation within the firms could create a basis for contest. In contrast to prior research where the auditable object was up for construction and negotiated between auditor and auditee (Free et al., 2009; Radcliffe, 1999; Skærbæk, 2009) and “dynamic interactions” (Skærbæk, 2009:971) were possible, the auditability of professional scepticism is built around the regulatory definition of professional scepticism that comes from the audit standards.¹¹³ This definition has typically been broad in nature, offering scope for interpretation and negotiation of its meaning and the FRC has raised concerns about the evidence of scepticism in completed engagements. This points to the consideration of how the meaning of the standards is constructed and applied in making professional scepticism an auditable object.

There is a particular regulatory concern that any comments made could become constitutive forces on how audit procedures are designed. This presents the possibility that within firms the attention to professional scepticism will be more concerned about how it is represented in engagement working papers, as opposed to how it is actually perceived and actioned within the audit team. In other words, the “administrative ideal” (Power, 2007:168) could dominate its representation and operation. This places the regulator in a delicate position, since their deliberations could actively constitute the audit firm environment, raising the prospect that “quality

¹¹² While the FRC largely adopts ISAs from the IAASB, so they do not technically create the definitions on their own, they are able to make localised modifications and additions. This was done, for example, with an add on to ISA 200 relating to professional scepticism.

¹¹³ See ISA (UK) 200 paragraph 15 and A20-A24.

control procedures [such as inspections] may function less to make quality observable and more to construct and define quality itself.” (Power, 1996:293).

At this point the first challenge to auditability is the creation of consensus on the auditable object. This leads to the first issue for consideration, what were the contested dimension in the construction of professional scepticism as an auditable object? The issues that follow the construction of the auditable object relate to how an audit trail is built up, with this requiring a system of traceability as well as an agreement on the material traces that will make up the audit trail.

4.4 TRACEABILITY

There is the possibility that professional scepticism is problematic to audit as a discrete entity in its own right because it is so embedded in the audit setting and the reason for existence of audit itself. This raises the issue of where and how scepticism can be located and made evident, with this calling in to consideration the system of traceability.

Traceability has been defined in various ways (Lewis & Boyle, 2017; Lezaun, 2006; Mattevi & Jones, 2016; McKean, 2001; Opara, 2003; Organisation Internationale de Normalisation, 2015). Table 10 (page 160) provides a summary of some of the definitions, with these emphasising an ability to construct an audit trail of some form. This trail should allow for the forward and backward following of the events, with this enabled by the creation of a series of related material traces (Power, 1996). These material traces provide the manifestation of the ‘facts’ that are the basis of the audit. For the auditability of professional scepticism the issue of material traces is a key consideration, since scepticism is frequently linked to professional judgment and concerns have been raised about the ability to make judgments auditable (Power, 1997) and consequences of doing so (Hatherly, 1999, 2009). This raises the possibility that the determination of traces potentially alters the understanding and way of seeing attached to the auditable object.

TRACEABILITY IN THE LITERATURE

Source	Traceability definition
ISO 9000	“ability to trace the history, application, or location of an object”
Opara (2003:102)	“the collection, documentation, maintenance, and application of information related to all processes in the supply chain in a manner that provides guarantee to the consumer and other stakeholders on the origin, location and life history of a product as well as assisting in crises management in the event of a safety and quality breach.”
Mattevi and Jones (2016:1108)	“part of logistics management that captures, stores, and transmits adequate information about a food, feed, food-producing animals or substances at all stages in the food supply chain so that the product can be checked for safety and quality control, traced upward, and tracked downward at any time” (Mattevi and Jones (2016:1108) as quoted from Bosona and Gebresenbet (2013))
Stranieri, Cavaliere, and Banterle (2016)	“the identification of both economic agents part of the traced supply chain and product flows movements among the sectors involved...[providing the ability] to reconstruct the history of the product from retailing to farming.”
Cavanaugh (2016)	“elements...whose indexical specificity...make the labour processes done that day traceable long afterward...it spans time and space to produce the possibility of continually reactivating these indexical entailments and enabling surveillance by non-copresent actors.”
EU GMO Regulation (cited by Lezaun, 2006:503)	“the ability to trace GMOs and products produced from GMOs at all stages of the placing on the market throughout the production and distribution chains, facilitating quality control and also the possibility to withdraw products”
McKean (2001:363, 364)	<p>“the ability to maintain a credible custody of identification for animals or animal products through various steps within the food chain from the farm to the retailer.” (p.363)</p> <p>“Traceability of a product requires a transparent chain of custody to achieve credibility and to complete the desired information transfer functions. Product traceability has two components, as follows:</p> <ul style="list-style-type: none"> a) unique animal or product identification systems b) a credible and verifiable chain of custody or identity.” <p>(p.364)</p>

Table 10: Definitions of Traceability

Constructing a material trace involves decisions about what will represent the ‘facts’ that are subject to audit. Considerations necessarily include the boundaries within which the trace will operate, with this influenced by the ability of the trace to survive beyond the point of its creation. Food safety, for example, has sought to create traceability from the farm to the plate (Lewis & Boyle, 2017; McKean, 2001; Opara, 2003). This required decisions about what to capture as part of the trace, highlighting how material traces are “created” (Power, 2007:163) based on the specific phenomena to be made auditable. This means that "the nature of the traces which make auditability possible can be very varied and there is nothing necessarily 'natural' or obvious about them."(Power, 2007:163)

Lezaun (2006) highlights this issue in the Genetically Modified Organism (“GMO”) context, where EU regulations required “full traceability” (Lezaun, 2006:501).¹¹⁴ What became apparent was that the auditable object changed as it went through different stages of production - a consistently repeated process of adding one substance to another on multiple occasions – and different genetic structures could result. EU regulations required that each these had to be traced, with the requirements for traceability forcing a technical consideration of how it could be implemented in practice. This more granular analysis of GMOs led to the construction of new entities and new ways of looking at GMOs. The audit trail for tracing GMOs became driven by events that led to changes in the auditable object, referred to as “Transformation Events.” (Lezaun, 2006:501)

The awareness and application of transformation events produced new ways of looking at the GMO and highlighted new issues for consideration, such as boundaries of containment for GMOs and tracing their movement beyond controlled settings (laboratories and trial sites). The routine release of GMOs into the wider environment through international manufacturing and agricultural activities provided conditions that “intensified the debate over the forms of governmental oversight and

¹¹⁴ Power (1996) suggests three means of making things auditable – traceability and a system of material traces, systems-based approaches, and bringing in outside expertise. This chapter uses traceability and the creation of material traces as its approach based on the position identified in chapter three, which highlighted the attention to the auditor and their decisions, Systems based or expertise-based approaches are abstracted from the direct actions of the auditor in the engagement and argued to be inconsistent with regulatory perspectives during inspections that were observed in chapter three.

the mechanisms of control that should accompany GMOs at large and keep them under regulatory supervision.” (Lezaun, 2006:500) This brought about a reconstitution of the auditable object, with GMOs being identified “on the basis of the transformation event from which it was developed.” (Lezaun, 2006:503)

This reconstitution points to the impact of making things traceable and subject to audit, with “the very process of performing the “audit”...[rendering] a construction of performance as much as a measurement of it.” (Free et al., 2009:138) To make things auditable is to change things, since,

for environments to be auditable, a consensus about the form of audit knowledge and about a domain of facts relevant for audit purposes must exist or must be created, since all techniques demand the environments in which they work. (Power, 1996:310-311)

Reconstituting scepticism?

The audit standards specify that professional scepticism is necessary throughout the audit process,¹¹⁵ meaning that it is an ongoing thing rather than a discrete event. However, while it is ongoing there is the potential for it to undergo changes in form and nature as different circumstances come to light. This, along with it not having an observable physical presence (as was the case in the GMO setting from (Lezaun, 2006)), problematises the creation of traces a source of challenge. In particular, professional scepticism is not the objective of the financial statement audit. Rather, it is an input to the audit (Financial Reporting Council, 2009, 2016b). This presents a question of where the professional scepticism is seen to commence, how its input can be tracked across the engagement, what traces are employed, and how they influenced the final audit outcome. While issues of how and where to trace were a focus for Lezaun (2006), scepticism presents a slightly different challenge. As opposed to the GMO, where inputs could be specifically identified, measured, and quantified, audit is a social activity based on people acting individually and in team environments. It is also a setting that is reliant on professional judgment.¹¹⁶ These potentially create problems for tracing scepticism, since the nature and form of what

¹¹⁵ ISA (UK) 200 paragraph 15

¹¹⁶ ISA (UK) 200

is considered scepticism could vary across the engagement and with the experience and level of the auditor.

Callon (2006) uses the idea of frames as a way of dealing with cognitive constraints and providing boundaries on what can and cannot be considered in an environment of infinite possibility and sources of data. Anything outside the prescribed frames is an overflow, beyond the scope of the performed actions. This is instructive for considering auditor professional scepticism. Within the more junior levels of the engagement team the more routine elements of the audit process occur. At this level, where tasks are often referred to as ‘ticking and bashing’, the audit program dominates procedure. The tools used to capture traces of activity at these stages are largely standardized and easily adaptable, affording them a degree of reproducibility across engagements (Qu & Cooper, 2011). They also provide a basis for capturing traces of actions to enable their auditability. These systems, then, are operating as a means of prescribing actions to be performed as well as allowing for the creation of a record of activities that are performed. However, the question that arises with such systems is how they allow the tracing of professional scepticism across the engagement process. Specifically, as the information progresses to higher levels and the nature of the task shifts to increasingly judgment-based activities, how is professional scepticism able to be made auditable? What are the key traces that can be identified and how are they represented?

4.5 DEFINING THE AUDITABLE OBJECT

Auditability requires a consensus on what is being audited, making the construction of professional scepticism as an auditable object the first key issue. The backstory in this construction begins in 2008, when the FRC publicly released individual audit firm inspection reports for the first time. Much of the FRC’s early positioning reflected an effort to bring the individual back into audit quality monitoring, emphasising a desire to increase partner accountability for decision making within an engagement. An earlier discussion paper¹¹⁸ had raised the broader issue of audit quality, with concerns that

¹¹⁸ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>

some commentators have questioned whether the existing regime is capable of meeting the needs of users and other stakeholders in the current business and investment environment.¹¹⁹

Amongst the issues that “may affect confidence in the audit process”¹²⁰ were “the lack of transparency of the work of auditors and the judgements made by them”¹²¹ and “the increasingly prescriptive approach to audit.”¹²² This was a problem since “the auditor’s judgement has become more important in relation to those assets and liabilities...that are not capable of objective valuation.”¹²³ The report identified four drivers of audit quality, (i) audit firm culture, (ii) Skills and personal qualities of partners and staff; (iii) audit process effectiveness; and (iv) reliability and usefulness of audit reporting.¹²⁴ Each of these was linked to its respective impact on the auditor, including the firm level training and mentoring systems and individual “skills and personal qualities of audit personnel”¹²⁵ and their competency in “reviewing audit evidence sceptically and exercising judgment objectively and robustly.”¹²⁶

Part of the apparent challenge in the APB’s early considerations was determining an appropriate evidence base for identifying scepticism. This meant that

¹¹⁹ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.5

¹²⁰ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.8

¹²¹ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.8

¹²² Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.8

¹²³ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.13

¹²⁴ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.20

¹²⁵ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.27

¹²⁶ Financial Reporting Council. (2006). Discussion Paper: Promoting Audit Quality. Retrieved from <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Discussion-Paper-Promoting-Audit-Quality.pdf>, p.23

much of the initial discussion concerned what would/could evidence scepticism in completed engagements. This battle over the establishment of institutionally acceptable knowledge bases (Power, 1996) saw profession and regulator in tension over the creation of traces and what professional scepticism meant

4.5.1 Raising The Bar

A 2010 APB discussion paper titled “Raising the Bar”¹²⁷ focused on professional scepticism, arguing from the premise that professional scepticism was at inadequate levels. The title alone hinted at this and the report positioned audit as “essential to public and investor confidence in companies,”¹²⁸ highlighting the regulatory view that much was at stake. The document was the product of a particular time, with its motivation coming from

the wake of the banking crisis, [where] regulators have challenged firms on whether sufficient scepticism was demonstrated and the need for firms to exercise greater professional scepticism.¹²⁹

Professional scepticism was described as “a crucial skill for auditors,”¹³⁰ and linked to fraud deterrence and wider confidence in the final audit opinion.¹³¹ References to the ISA definition were also made, emphasising that “a sceptical attitude of mind is essential if an audit is to be rigorous and performed with due professional care.”¹³² The APB offered two categories of professional scepticism - neutral and presumptive doubt,¹³³ reflecting a distinction drawn in earlier work (M. W. Nelson, 2009). The APB argued that the auditor’s initial mindset could be one with no assumption about misstatements or management integrity (neutrality), or one

¹²⁷ Auditing Practices Board. (2010). Discussion Paper - Auditor Scepticism: Raising the Bar. London: Financial Reporting Council.

¹²⁸ Auditing Practices Board. (2010). Discussion Paper - Auditor Scepticism: Raising the bar. London: Financial Reporting Council, p.3.

¹²⁹ Auditing Practices Board. (2010). Discussion Paper - Auditor Scepticism: Raising the bar. London: Financial Reporting Council, p.3.

¹³⁰ Auditing Practices Board. (2010). Discussion Paper - Auditor Scepticism: Raising the bar. London: Financial Reporting Council, p.3.

¹³¹ Auditing Practices Board. (2010). Discussion Paper - Auditor Scepticism: Raising the bar. London: Financial Reporting Council, p.3.

¹³² Auditing Practices Board. (2010). Discussion Paper - Auditor Scepticism: Raising the bar. London: Financial Reporting Council, p.5.

¹³³ Auditing Practices Board. (2010). Discussion Paper - Auditor Scepticism: Raising the bar. London: Financial Reporting Council, p.6.

with a more questioning starting point (presumptive doubt). The basis for the presumptive approach was drawn from ISA 200 and ISA 240. Section 15 of ISA (UK and Ireland) 200 (2009 version) required that:

The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.¹³⁴

Paragraph 12 of ISA (UK and Ireland) 240 (2009 version) required that:

In accordance with ISA (UK and Ireland) 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.¹³⁵

The APB argued that the ISA 240 mention of "the possibility" of fraud was a basis for a presumptive doubt approach.¹³⁶ Submissions received disagreed, pointing out the implications for audit approaches. A presumptive approach was seen to emphasise doubt and require more testing and evidence gathering. Respondents pointed out that it would require more audit effort and changed the nature of questions asked during the engagement. Some even suggested that its presumption of something being wrong changed the audit,

it is not the auditor's job to develop alternative views and then try to persuade management to adopt them in preference to theirs. (PwC submission, 2010:1)¹³⁷

It would also impact the determination of sufficient and appropriate audit evidence, with an expectation that the auditor would look for evidence contradicting management assertions. This contrasted the more corroborative nature of the neutral approach.

¹³⁴ ISA 200 (UK) para 15 (2009 version)

¹³⁵ ISA 240 (UK) para 12 (2009 version)

¹³⁶ The 2016 version of ISA 200 (UK) brings in para 12 from ISA 240 (2009) and adds it to the ISA 200 (2009) para 15 – it combines the requirement of scepticism in planning and performing the audit and the maintenance of scepticism across the engagement.

¹³⁷ PwC (2010, 29 October), Submission to FRC - "APB Discussion paper 'Auditor Scepticism: Raising the Bar', p.1

We disagree with the view... that the clarified ISAs can be characterised as reflecting a more questioning "presumptive doubt" approach... this is an example of the discussion paper's attempt at "Raising the bar" for auditors to a level above what is required by the recently clarified ISAs and in our view is wholly inappropriate. (Baker Tilly submission, 2010:1)¹³⁸

Similarly, the ICAEW commented,

Where auditors seek to corroborate evidence provided to them, they do this in accordance with the requirements of the relevant ISAs...in the context of their risk assessments and the need to maintain a sceptical mindset throughout... it would be inappropriate to introduce a general requirement for auditors to seek out evidence that contradicts the assertions presented for audit. (ICAEW Submission, 2010:7)¹³⁹

The ICAEW made the implications of the presumptive doubt approach clear by mentioning a need to “seek out evidence that contradicts the assertions presented for audit.”¹⁴⁰ This changed the idea of auditor knowledge. Being told something and confirming its validity by referring to other evidence (neutral approach) bounds the nature of audit enquiry. What they look for and consider is based on what the client presents. A presumptive doubt approach shifts this, with a need to gather evidence that could indicate a *possible* misstatement. The scope of the search expands as a result since testing is about proving misstatements do not exist, in contrast to testing what management says is not misstated.

Presumptive doubt was also seen to conflict with the risk-based approach of audit standards and firm-based methodologies. Evidence gathering decisions were typically linked to assessed risks. Imposing presumptive doubt as a starting point was seen to conflict with these approaches, with Deloitte and KPMG commenting:

¹³⁸ Baker Tilly (2010, 21 October), Submission to FRC – “Discussion Paper – “Auditor Scepticism: Raising the Bar”, p.1

¹³⁹ ICAEW (2010, 20 October), Submission to FRC – “ICAEW response to APB Discussion Paper Auditor Scepticism: Raising the bar”, p.7

¹⁴⁰ ICAEW (2010, 20 October), Submission to FRC – “ICAEW response to APB Discussion Paper Auditor Scepticism: Raising the bar”, p.7

We challenge the use of the term “presumptive doubt” which goes much further than the established concept of an “enquiring mind”...[it] would significantly increase business costs and runs contrary to a risk-based approach...[which] emphasises the need for the application of further procedures only where significant risks are identified” (Deloitte submission, 2010:1) ¹⁴¹

...it is not appropriate to have the starting presumption that management judgements are likely to be wrong or even biased; this would logically entail the need to obtain positive evidence to disprove this presumption. Having an enquiring and challenging mindset is more neutral than this. An auditor has to be alert to the "possibility" and ISA 240 for example requires an auditor to "review accounting estimates for biases", but this is different from presuming such bias exists from the outset irrespective of the circumstances. (KPMG submission, 2010:3)¹⁴²

Both Deloitte and KPMG rejected the presumptive doubt approach on a mix of economic and methodological concerns. Deloitte explicitly refer to the risk-based approach and take the view that its design means that greater attention is given to areas of higher assessed risk, with risk being a shaping force for subsequent evidence gathering. KPMG also noted the presence of the enquiring mind as a constant influence and that this changes with a “need to obtain positive evidence to disprove this presumption.” This is a significant point, since it places a much greater onus on the evidence gathering procedures. Being required to corroborate what is provided (neutral) requires less effort than disproving that misrepresentation exists, and also positions professional scepticism in a particular way. The economic concerns noted by Deloitte were also noted by business lobby group CBI:

“... "presumptive doubt" seems to require auditors to dig much deeper, than merely to exercise an "enquiring mind" ...[it] would seem to envisage and result in the need for significant additional

¹⁴¹ Deloitte (2010, 13 September), Submission to FRC – “Discussion paper – Auditor scepticism: raising the bar”, p.1

¹⁴² KPMG (2010, 28 October), Submission to FRC – “Discussion Paper: Auditor scepticism: Raising the bar”, p.3

work...which in turn would significantly increase audit costs for business... a move to a test of presumptive doubt does not seem consistent with the FRC's and APB' s risk-based approach to audit regulation, and the requirement for auditors to carry out additional work only where significant risks are identified.” CBI Submission, 2010:2)¹⁴³

Deloitte made the implications clear, comparing the presumption of the presumptive doubt approach to one where clients are lying:

“We believe that a “presumptive doubt” approach which assumes that everything that is being communicated is a lie would have huge impact on the cost of an audit and of the client management time required. It is worth the APB bearing in mind that sampling tables typically have a substantial increment where a significant risk of material misstatement is presumed. Under Deloitte’s sampling methodology, this would frequently result in a sample size 90% larger than where there is no significant risk identified. (Deloitte submission, 2010:7)¹⁴⁴

Overall, responses rejected the presumptive doubt approach because of the way it changed audit approaches and audit process design. The FRC, in putting forward the proposed presumptive doubt, was arguably looking to challenge the audit and the approaches of the profession. In the process they became caught up in a battle with the profession that looks like a profession reacting to a challenge to its power and determination of professional procedure. The FRC later noted a “strong negative reaction” (FRC Submission to IAASB, 2016) to the idea, stating that the breakdown into presumptive or neutral approaches was not achievable, while also highlighting their concerns about a neutral approach,

The FRC was concerned that a ‘neutral’ attitude would be seen as too passive and would imply that the auditor’s role could be limited to ensuring that management have appropriate evidence to support its assertions. The FRC did not accept this if it meant accepting the evidence management presents without subjecting it

¹⁴³ CBI (2010, 29 October), Submission to FRC – “Discussion Paper – Auditor scepticism: raising the bar”, p.2

¹⁴⁴ Deloitte (2010, 13 September), Submission to FRC – “Discussion paper – Auditor scepticism: raising the bar”, p.7

to robust challenge and comparison to alternative sources of evidence. (FRC Submission to IAASB, 2016:13)¹⁴⁵

The FRC comments offered some clarification on how to evidence scepticism, pointing to the need for a “robust challenge”¹⁴⁶ and the “comparison to alternative sources of evidence.”¹⁴⁷ While the latter of these points can be pictured in practical terms, the former offers little practical assistance. Exactly what “robust challenge”¹⁴⁸ looks like or how it can be demonstrated is left unspoken, highlighting some of the challenges when it comes to evidencing scepticism as part of making it auditable.

Debate on the topic survives, with more recent discussions highlighting a continued uncertainty about the presumptive and neutral approaches.

We need to ask the right questions and we need to validate the answers. I am not in the camp that says we should look for the contrary thing and try and prove its right...That doesn't help anyone. (2018 ICAEW Webinar)¹⁴⁹

The current attention comes amidst a concern about whether alternative contradictory evidence is sought out by auditors

I think it is probably fair to say that, where this has been picked up recently is one or two things that have been said by the FRC and indeed some other regulators internationally have made the same sort of comment. So, I think they have been looking for auditors to do more in terms of seeking out contrary evidence. (Professional body representative, 2018 ICAEW Webinar, 12/6/2018)¹⁵⁰

¹⁴⁵ FRC (2016, 18 May), Submission to IAASB “Invitation to Comment – Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Auditors (ITC)”, p.13

¹⁴⁶ FRC (2016, 18 May), Submission to IAASB “Invitation to Comment – Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Auditors (ITC)”, p.13

¹⁴⁷ FRC (2016, 18 May), Submission to IAASB “Invitation to Comment – Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Auditors (ITC)”, p.13

¹⁴⁸ FRC (2016, 18 May), Submission to IAASB “Invitation to Comment – Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Auditors (ITC)”, p.13

¹⁴⁹ ICAEW (2018, 12 June), “When audits go wrong – and right: The importance of being sceptical”, Webinar

¹⁵⁰ ICAEW (2018, 12 June), “When audits go wrong – and right: The importance of being sceptical”, Webinar

However, no easy solution was apparent

I don't think it is clear cut about an auditor looking for contrary evidence...Management make an assertion and, yes, we have to obtain evidence to support the assertion that management have made, but I think we are constantly, at the very least vigilant, highly vigilant, for contrary information...whether we sit down and go on a whole different process looking for contrary evidence is different, but of course we do the design of all our testing with a reasonable chance of spotting frauds or errors. I think that, necessarily, will involve looking for contrary evidence, so I think that the whole question is quite complicated, as most things are with scepticism. (Former auditor, professional trainer, 2018 ICAEW Webinar, 12/6/2018)¹⁵¹

This quote from the ICAEW webinar highlights the point that contrary evidence is part of audit design and that explicitly requiring the seeking of alternative evidence because of presumptive doubt is not necessarily a clear-cut answer. A critical reading may also suggest that the presumptive approach makes the relationship between auditor and auditee less comfortable. One interview respondent, in reference to management judgments, hinted at the nature of the auditor-auditee interaction, commenting,

professional scepticism runs across the whole piece...you need to do more than sometimes have a cosy fireside chat at the end of the audit with the FD to satisfy yourself that management has made the right judgment. (IR12 – Regulator 24/6/2016)¹⁵²

Another interview respondent acknowledged they were probably in the minority and supported presumptive doubt, although this was done while also recognising the benefits of the neutral approach:

I would probably be unusual in this that I think presumptive doubt is a good approach...Having said that, I'm also a fan of neutrality...presumptive doubt means that you're more likely to

¹⁵¹ ICAEW (2018, 12 June), “When audits go wrong – and right: The importance of being sceptical”, Webinar

¹⁵² IR12 (2016, 24 June) Interview transcript, Regulator

raise the right questions because you're aware of things like pressures, external pressures or internal pressures from targets...to meet targets. I don't think presumptive doubt means bias. (IR08 – Consultancy, 13/6/2016)¹⁵³

Presumptive doubt was viewed as a way of identifying the type of questions to ask and the salient risk factors, as opposed to the earlier contention that it biased audit inquiry towards certain views of client management:

I think to get there you need presumptive doubt. In order to check that the managements got there, on a sincere credible, rigorous way, the auditor should start with some doubt about what might stop them from doing that. I don't want to see those two as being either or. (IR08 - Consultancy, 13/6/2016)¹⁵⁴

This section highlights the dispute over what professional scepticism means, with particular attention to the expectations that it carries for the mindset that the auditor takes in to an engagement. Across the discussion the need for professional scepticism is universally agreed. It is not the idea but the definition and its implications that are under contest. The debate points to an initial challenge in making professional scepticism auditable, that of establishing consensus on what professional consensus is. The discussion of definitions and meanings highlighted the role of the accepted audit knowledge base with risk, risk-based approaches, and methodology designs frequently mentioned. Their usage highlighted how a neutral perspective of scepticism was appropriate and emphasised the need for scepticism to be constructed in terms that were consistent with existing audit knowledge. However, this was not necessarily consistent with the APB intentions when they proposed presumptive doubt.

While the APB saw presumptive doubt as consistent with the ISAs of the time, the firms resisted this idea. Presumptive doubt was seen to change the starting point for the audit and impact the operation of risk-based approaches. For the profession, their recourse was to argue that risk was constitutive of scepticism and, therefore, an indicative material trace towards the evidencing of scepticism. This overall resistance by the profession could be seen as an exercise of power to preserve its position in

¹⁵³ IR08 (2016, 13 June), Interview transcript, Consultancy

¹⁵⁴ IR08 (2016, 13 June), Interview transcript, Consultancy

shaping practice. The FRC position also reflected a concern about auditor-auditee relations, with their comments in the 2016 IAASB submission highlighting a concern about how management assertions were challenged and whether it was in a robust manner. This makes apparent the regulatory attempt to reset the idea of challenge in the audit.

4.6 DETERMINING THE MATERIAL TRACE

Despite not having a consensus on the definition of scepticism there still remained an attention to its evidencing. This was consistently seen as a challenge for auditors:

it is difficult for a single definition to capture fully the meaning of professional skepticism. Further, there is no single way in which professional skepticism can be demonstrated. (IAASB, 2012a:12)

This position immediately raises interest in the establishment of auditability for professional scepticism, with it having been observed that:

for environments to be auditable, a consensus about the form of audit knowledge and about a domain of facts relevant for audit purposes must exist or must be created, since all techniques demand the environments in which they work. (Power, 1996:310-311)

The observed difficulty in both fully defining professional scepticism was observed in the discussion about the establishment of the auditable object. The IAASB quote points to a potential second challenge, the lack of a consistent and agreed way of demonstrating scepticism. The sought after ‘consensus’ on the ‘facts’ did not exist on their own, meaning that they had to be created. This section considers the debate about this creation process and explores examples of material traces that were discussed. In making these observations about the material traces there is a link to a conflict between the role of the audit and the evidencing of scepticism, with this linked to ideas of process transparency. Through the examples that are discussed the highlighted contention is that an attention to evidencing scepticism could lead to it being harder to observe by regulators after an engagement is complete. There is also the potential that by making scepticism auditable through material traces it potentially becomes something that it was not, as it changes in response to the demands of auditability and the material traces that are put in place.

4.6.1 Making Challenge Visible and the Traces that Disappear

The consideration of material traces in the auditability of professional scepticism has two dimensions. First among these is the role of review notes as a material trace evidencing professional scepticism. This was an area of contest between practitioners and regulators and also carried with it a certain understanding of how scepticism is revealed. The second area is the idea of an embedded scepticism, with this also problematising scepticism but in the opposite manner to review notes. Both of these highlight the challenge of traceability for professional scepticism, with the former raising the issue of the permanence of a trace and the latter pointing to the perceived difficulty of specific traces in an audit process that is seen as having scepticism embedded throughout its operations.

Evidence in review notes

Central to the debate about evidencing scepticism was the nature of the audit trail that would be needed:

...the challenge that we come across is how do audit teams demonstrate to us... that they've applied that professional scepticism? Some of that comes down to documentation, how do you write that down on an audit file? It's not easy, because actually you could have a dozen different alternatives. Do you have to write all of those down and say why you've dismissed most of those, and how you've been left with the couple that you're then debating? It is a real challenge for auditors to know. I think some of the times when we're looking at audit files, if you can't see any of that challenge and the alternatives, then there is almost an assumption that that just hasn't taken place. It does come down to degrees.¹⁵⁵ (IR15 – Regulator, 19/10/2016)

The challenge highlighted by IR15 is one of writing, and the decision on what to write down and ways of making challenge visible. This picks up an external element of challenge and question to the client and how alternatives were considered and raised for discussion.

if the whole thing is about the mindset then it should be absolutely clear from the planning document, from how they're communicating with the

¹⁵⁵ IR15 (2016, 19 October) Interview transcript, Regulator

audit committee. What the areas of risk were, and therefore where they were going to have to demonstrate scepticism...it should just be all pervasive, it's not that we're testing for professional scepticism in a particular area, or in respect to a particular estimate. Often our findings are that an auditor has not pushed hard enough, challenged hard enough, in a particular area.¹⁵⁶ (IR16 – Regulator, 19/10/2016)

This evidence of ‘pushing back’ could come in several forms and be present at various stages of the engagement. As a way of catching this, review notes were one avenue suggested for evidencing challenge and thought process across the engagement. The issues and questions raised in these notes was seen as a trace of the auditor’s thought process and the APB wondered “why review notes are not usually retained once the audit has been completed.”(APB, 2010:13) Their argument was that they were a direct link to thought processes

The problem of evaluating the degree of sceptical thinking within an audit team is exacerbated by the removal... of review notes on completion of the audit (APB, 2010:15)

The APB saw review notes as a trace pointing to “the degree of sceptical thinking” (APB, 2010:15) within the audit team. Alternatively, the review notes could be seen as evidencing processes of challenge that occur within the engagement team. Either way, the regulator was considering the prospect of making the review note, widely seen as a mutable object with a life constrained to the duration of the open engagement, an immutable object that survives beyond the completed engagement. This attention to their removal and deletion highlighted the issue of trace durability.

Some saw the preservation of such traces as necessary. Mazars’s submission commented:

...we have always retained such notes and on balance felt it was right to maintain this policy...the notes helped demonstrate the challenging of the audit findings, the resolution of queries and supported the final conclusions. We preferred to maintain this record as a demonstration of the auditor's thought process but have always been conscious that the

¹⁵⁶ IR16 (2016, 19 October) Interview transcript, Regulator

record potentially could be used against the firm should anyone ever question our judgement. (Mazars submission, 2010:2)¹⁵⁷

The idea of review notes helping “demonstrate the challenging of the audit findings”¹⁵⁸ and “the auditor’s thought process”¹⁵⁹ highlights the opening up of the obscurity of professional judgment Power (1997). Mazars, along with some other submissions, did not object to the idea that review notes were a trace of thought process. Baker Tilly also remarked that they

retain review comments on file to enable an understanding of the auditor’s thought processes when dealing with issues. (Baker Tilly submission, 2010:11).¹⁶⁰

Both Mazars and Baker Tilly link the auditor’s thought process to review notes, making the notes an important material trace of queries and their resolution. It should also be recognised that Mazars acknowledged that preserving this trace does not come cost free and “could be used against the firm,”¹⁶¹ but “on balance...it was right.”¹⁶² These responses highlight a particular understanding of the function of review notes in the engagement, pointing to them as a way to highlight gaps or areas of further attention within the audit work and capture the thoughts of the auditor at a point in time. They offer a trace of internal challenge, showing how the audit team raised and addressed issues. Their creation triggers actions and follow up by other team members. Removing the notes could mean that “the trail of thinking is lost” (CIIA submission, 2010). Similarly, the IMA note that

... mainly due to litigation fears, auditors now remove their review notes from audit files. We consider this makes it difficult for a third

¹⁵⁷ Mazars (2010, 25 October), Submission to FRC – “Discussion Paper ‘Auditor Scepticism: Raising the Bar’”, p.2

¹⁵⁸ Mazars (2010, 25 October), Submission to FRC – “Discussion Paper ‘Auditor Scepticism: Raising the Bar’”, p.2

¹⁵⁹ Mazars (2010, 25 October), Submission to FRC – “Discussion Paper ‘Auditor Scepticism: Raising the Bar’”, p.2

¹⁶⁰ Baker Tilly (2010, 21 October), Submission to FRC – “Discussion Paper – “Auditor Scepticism: Raising the Bar”, p.11

¹⁶¹ Mazars (2010, 25 October), Submission to FRC – “Discussion Paper ‘Auditor Scepticism: Raising the Bar’”, p.2

¹⁶² Mazars (2010, 25 October), Submission to FRC – “Discussion Paper ‘Auditor Scepticism: Raising the Bar’”, p.2

party, such as the AIU, to see if and how the auditor has exercised scepticism and questioned management. (IMA submission, 2010:5)¹⁶³

For the submissions described so far, the review notes are accepted as an insight into the thought process during the audit. But this was not unanimous.

I don't always see it as areas of challenge. It's usually areas where...I suppose it is challenge in a sense. You've got documentation saying there are certain gaps but you can only really close off a review comment once you've satisfied the reviewer that you've done what they've asked. I'm not saying there's no point in keeping it. If you raise a comment to someone that says "do this" and they've done it. You don't need the comment again.¹⁶⁴ (IR05, Audit Manager, 16/2/2016)

IR05 reflects the view that the final opinion is what matters, noting that “you don't need the comment again” once it has been addressed. Review notes serve their purpose, highlighting what needs to be addressed, and they are durable up until they have been addressed, at which point they are closed off. Durability is still an issue for the notes, but only in terms of the resolution of the questions that they raise and not in the context of the bigger picture of life beyond the engagement. While the review notes may not be durable for IR05, this is not to suggest that they are ineffectual, with IR05 highlighting that they cannot be removed until the reviewer is satisfied. IR13 also commented,

I can't remove them, so I would respond, and then, if the manager is happy with my response, he would clear it out. (IR13, Audit Senior, 12/7/2016)¹⁶⁵

The durability of the trace, for both IR05 and IR13, is an important issue. While earlier examples suggested infinite durability, IR05 and IR13 suggest a finite life, with the boundary of its existence being the time until the issue is resolved. So IR05 presents a mixed idea of review notes as traces of scepticism. On the one hand they are needed as a way of getting issues addressed. However, once these issues are resolved the notes are no longer needed – their role is both temporary and specific. This highlights the competing boundaries on the life of the review note. At

¹⁶³ Investment Management Association (2010, 2 November), Submission to FRC – “Discussion Paper – Auditor Scepticism: Raising the Bar”, p.5

¹⁶⁴ IR05 (2016, 16 February) Interview transcript, Auditor

¹⁶⁵ IR13 (2016, 12 July) Interview transcript, Auditor

issue is whether they are specific to issues and finite in their presence, or whether they are relevant beyond the circumstance of their creation and should have an infinite life, with this significant for their role as material traces of professional scepticism. The bigger audit firms also raised issue with the retention of review notes.

We disagree with the need to retain review notes on the audit file.

Review notes are prepared to identify open, incomplete or insufficiently completed audit procedures and as such, once the issue is resolved to the reviewer's satisfaction, the review notes are removed from the working papers as these notes do not constitute audit evidence. (EY submission, 2010:3)¹⁶⁶

EY highlight the finite durability of the review note and, in the process, raise a point of consideration about the possible distinction between audit evidence and evidence of scepticism. Their comment clearly states that they do not see the review note as audit evidence. This is, perhaps, different to evidence of professional scepticism. The evidence of professional scepticism is almost meta-evidence, in that it sits above the audit evidence and refers to how the audit evidence was evaluated and subjected to critique within the audit. It is the evidence of the “pushback” (IR16, Regulator 19/10/2016) that was applied to the audit evidence. This idea suggests that evidence of professional scepticism is not necessarily self-evident from the evidence gathered. Rather, its traces need to be created in addition to the gathering of audit evidence.

Other responses resisting the retention of review notes were from KPMG and PwC:

It is important that the audit working papers clearly articulate the steps the auditor has taken in challenging management's judgments although we are not convinced that this is best satisfied by the wholesale retention of review notes (KPMG submission, 2010, p.7)¹⁶⁷

¹⁶⁶ EY (2010, 28 October), Submission to FRC – “Auditor Scepticism: Raising the Bar”, p.3

¹⁶⁷ KPMG (2010, 28 October), Submission to FRC – “Discussion Paper: Auditor scepticism: Raising the bar”, p.7

We do not believe that retention of review notes will lead to more scepticism being applied. Written schedules of review notes have not been common on audit files for over a decade. It is also contrary to the suggestion reviews should be undertaken in person, which means less written review notes being made. (PwC submission, 2010, p.11)¹⁶⁸

These comments collectively challenge review notes as a durable trace. EY emphasises the “open, incomplete, or insufficiently completed”¹⁶⁹ events that notes relate to, implying that once a review note is addressed the event is closed, complete, and has been sufficiently attended to. None of these firms refute the need to describe how processes are performed, but they do indicate that review notes are not part of that explanation. KPMG, for example, frames this in terms of evidencing challenge to management, rather than challenge within the audit team, while EY make suggestions that problematise a distinction between audit evidence and evidence of professional scepticism. Review notes seemingly emphasise the internal challenge that is the basis for challenging and following up with management, but these comments highlight how there is a considerable debate about exactly what evidences scepticism in the first place.

The APB, Mazars, and Baker Tilly all spoke of the traceability of the thought process within the engagement, suggesting some proximity to the ‘mindset’ that is spoken of in definitions of scepticism. Others saw this as an over-reading of review notes, noting that they were situation specific and did “not constitute audit evidence.”¹⁷⁰ These show different conceptions of the form that scepticism takes, as well as unresolved tension about how this is best evidenced. What the situation-specific nature of the review notes mentioned in some responses could point to is the possibility that scepticism changes across the audit process and that in some instances it is better off undocumented.

¹⁶⁸ PwC (2010, 29 October), Submission to FRC – “APB discussion paper ‘Auditor Scepticism: Raising the Bar’”, p.11

¹⁶⁹ EY (2010, 28 October), Submission to FRC – “Auditor Scepticism: Raising the Bar”, p.3

¹⁷⁰ EY (2010, 28 October), Submission to FRC – “Auditor Scepticism: Raising the Bar”, p.3

Specifically, the PwC comment suggested a choice between review notes and face to face reviews. This further problematises scepticism's traceability since it suggests that what is said in a face-to-face review will not necessarily be documented. There are developmental reasons for preferring face-to-face reviews, which the APB document and submissions acknowledged. On the surface, the PwC comment could be seen to suggest that face to face is a way of avoiding writing things down. This does not help in attempts to make scepticism traceable. However, moving scepticism 'off the record' as such could also aid in making it operable. Face to face interaction with reviewers and within the team allows for ideas to be discussed and thrown around for consideration. One respondent remarked that they

never let the partners look at a piece of working papers and just start making comments. I like them to sit down and go through it with the person who made it...the discussion is key, not doing that face-to-face discussion means you miss out on some very important nuances which I think goes a long way to encourage professional scepticism. (IR14 – Audit manager, 14/11/2017)¹⁷¹

This led to a criticism of the practice of remote reviewing:

I do not like remote reviewing at all – it goes nowhere. If you were a junior and you have done this work and then suddenly the next day there is this bunch of comments, you have no context for the comments, you do not know what mindset your reviewer was going through, or perhaps the comments aren't clear...It is always important to do a review face-to-face, and then you can, you can show where you are coming from. (IR14 – Audit manager, 14/11/2017)¹⁷²

Similarly, IR18 notes the importance of building a shared understanding in the audit team:

“So, just making sure that everyone is understanding where the key areas of risk are...really just making people stop doing working paper

¹⁷¹ IR14 (2017, 14 November), Interview transcript, Auditor

¹⁷² IR14 (2017, 14 November), Interview transcript, Auditor

audits is what I see as a key...a key point for being more sceptical.”
(IR18 Audit Manager, 15/11/2016)¹⁷³

These considerations of interaction raised by PwC and spoken of by IR14 and IR18 point to the traces of scepticism being problematic. The emphasis on personal communication and interaction points towards a safety away from the formalities of paper. Away from the discussion notes and documented processes the “very important nuances” (IR14) can be discussed and unpacked. It allows the auditor to communicate with the reviewer, rather than their words on a page being the sole basis for review. This provides the opportunity to “show where you are coming from” (IR14) and build a mutual understanding between the auditor and the reviewer. The face to face environment overcomes the limitations of textual communication in a way that suggests a certain safety in its operation. Review notes mean that the work completed and documented must stand on its own and that is what will be reviewed and noted. The face to face environment allows for a more discursive process.

The reduced emphasis on notes suggests that scepticism operates outside the formal system of documentation. The in-person discussion and communication provide safety for exploring what was done. A partner noted how this relies on skills beyond the easier to document technical and procedural elements:

The team discussion, and the openness of that, and the fact that people can say what they want without the fear of being shut down or someone saying well that's stupid...That's very good. That's really encouraged. In fact, we've had training on that, as well...As partners, as managers, we've all been told you've got to engage with the team. You've got to let them say what they think. You've got to get them thinking, as well. At the end of the day, they're the ones out there. (IR19, Audit Partner, 19/11/2016)¹⁷⁴

Similarly, when talking of risk identification, IR18 noted a fear that comes asking for risks to be considered, with formal phrasings and terms creating blocks for the auditor:

Some people get a bit touchy when you say what is the key risk because they don't want to articulate the risk, so I just go, 'what

¹⁷³ IR18 (2016, 11 November), Interview transcript, Auditor

¹⁷⁴ IR19 (2016, 19 November), Interview transcript, Auditor

could go wrong?...If you look at model risks – you look at them and you think, ‘I could never come up with that myself.’ But, I think what people need to understand is that this thing called the audit system has a library of risks, and I think people get scared and think, ‘Oh God, I could never come up with ten risks for this one balance.’ (IR18 - Auditor – Manager, 15/11/2016)¹⁷⁵

There is an element of safety that comes from offering ideas and reviewing work in a setting where there is no compulsion to document everything and formal terms and concepts are put in everyday terms. While scepticism may be traceable through review notes, the opposing views highlight that this is not necessarily desirable. Their main point of contention being that much of being sceptical happens outside the formal documentation system. These sentiments raise the idea that for scepticism to work there needs to be a safety in its operation. Talk of overcoming the fear of being shutdown highlight a need for the discussion within the engagement team to occur in a safe space where ideas and questions can be raised (Etienne, 2015). Preserving evidence of such doubt is seen here as being unsafe for the firm and the legal risks that it presents as well as for the individual and their feeling within the engagement team setting.

It's embedded into everything

In 2009, in an attempt to improve the understandability and readability of audit standards,¹⁷⁶ the IAASB launched the clarity ISAs. This revised suite of standards made ISA 200 the core standard. It would establish “the conventions followed in the standards and the obligations of the auditors who follow them.”¹⁷⁷ The clarity project was referred to by interviewees, with attention to how it changed the positioning of professional scepticism. In particular, their reflections highlight a more embedded and pervasive approach to professional scepticism. Talk of a more embedded and pervasive approach to scepticism is significant for its implications on the understanding of what scepticism is and how it operates. Such phrasing is suggestive

¹⁷⁵ IR18 (2016, 15 November), Interview transcript, Auditor

¹⁷⁶ IAASB (2008) Annual Report 2008 – The Clarity Standards, IAASB:New York, NY; IAASB (2008), IAASB Clarity Project Update – October 2008, IAASB: New York, NY

¹⁷⁷ IAASB (2008), IAASB Clarity Project Update – October 2008, IAASB: New York, NY, p.4

of a decentred nature of professional scepticism, an understanding of scepticism that shifts it beyond the focus on the individual auditor to the relation between the auditor, the engagement team, the resources in the engagement, and the client. These present implications for auditability since it is no longer just about what one person does.

The shift in the standards came from the increased role of ISA 200 and the impact this had on the content of other standards. IR22 recalls that the clarity standards:

removed a lot of the references to [professional scepticism]. So, we tried not to scatter it. (IR22, Regulator, 28/6/2017)¹⁷⁸

The reduced use of the term ‘professional scepticism’, was also observed by IR16:

One of the things that happened with the clarity ISAs was that the word professional scepticism was sort of taken out from each and every standard, because they were felt to be too liberally sprinkled through...the feedback they're getting with the last invitation to comment, is perhaps they've gone too far. Should the words 'professional scepticism' be put back in? (IR16, Regulator, 19/10/2016)¹⁷⁹

The change in design meant that professional scepticism went from being specifically highlighted, in terms of its application and addressing its requirements in each standard, to a concept that was detailed in ISA200 and then included by reference in other standards. The details in standards other than ISA 200 were reduced as a result. This reinforced the overall framework in ISA 200 and highlighted how those concepts applied across all other standards, but the nature of the application was left to the auditor’s consideration, with IAASB guidance commenting:

Professional skepticism is relevant and necessary throughout the audit, even though reference to it is not repeated within each ISA. (IAASB, 2012a:7)

The implication was that professional scepticism shifted from being explicit and part of the individual auditor following the black type of the audit standards to something more pervasive and embedded in the application and interpretation of the wider body of audit standards. Again, this emphasised a push to decentre

¹⁷⁸ IR22 (2017, 28 June), Interview Transcript, Regulator

¹⁷⁹ IR16 (2016, 19 October), Interview Transcript, Regulator

scepticism from the individual auditor and the specifics of a particular standard to a broader approach that means it is across the whole audit process. Auditors explained their conception of scepticism and its link to evidence in a similar matter. IR18, when asked about how they provide evidence of scepticism, replied:

That's a good question...I don't know...I mean...You know when we want to show it I mean, 'Should we write a memo saying, 'Professional scepticism. Professional scepticism is x, we have therefore done this...' I think half of it is like what, what, if I did the memo and I put, 'I challenged management on their actuarial assumption setting process. I challenged management on their modelling of discounted cash flows for fair value bonds. I challenged...' You know, I mean, for me, what value is that added in the audit, creating that long list? I think it is inherent in what you are doing most of the time." (IR18 – Auditor – Manager, 15/11/2016)¹⁸⁰

This 'inherent' nature and the reduced explicit references to scepticism in the standards means that the trigger for the creation of the material trace is no longer explicit. This makes the link between what was done and scepticism expectations harder to show, since the ability to cross reference 'being sceptical' to specific sections of various audit standards is reduced. However, there is a counter point to this that comes from the regulator's obligations and concerns about over-prescribing and providing too much guidance on what professional scepticism is and what it should look like in the audit. IR07 made the following observation:

people have to be professional, they have to understand the principles and work out for themselves how to apply them, the FRC doesn't want to create too much, in terms of examples... if you create example text, next thing you know, you'll see that example text coming up all over the place as boiler plates... The FRC does put some examples out, but it tries to limit them...it does everything it can to avoid boiler plate." (IR07 – Non-Executive Director, 13/6/2016)¹⁸¹

¹⁸⁰ IR18 (2016, 15 November), Interview Transcript, Auditor

¹⁸¹ IR07 (2016, 13 June), Interview Transcript, Non-Executive Director

While IR07 was referring to their NED experience, they highlight a concern about being over-specific in requirements and standards. The observation is also consistent with other examples of the FRC being reluctant to provide examples, or templates when it comes to reporting (Financial Reporting Council, 2015).¹⁸² This highlights a position that being professionally sceptical requires you to understand principles and work out the application for yourself based on your knowledge, training, and experience, as well as encouraging innovation.

An evident concern about shutting down thinking, as opposed to providing a basis for thinking and subsequent actions is also evident. In this light, the regulator is somewhat reflexive in nature, attuned to their role and their potential influence on what is done within the firms. Acting as standard setter and inspector sees them creating the guidelines for professional scepticism but at the same time avoiding an iron cage that becomes binding, restrictive, and compliance driven. Their concern is providing a basis for professional behaviour, as opposed to prescribing action. This means that professional scepticism goes from a distinct explicit requirement to a broad concept that becomes pervasive in nature. This has implications for material traces, since making it pervasive and embedded into other standards and procedures also means that scepticism changes from a discreet object to something more amorphous and harder to isolate. Scepticism takes on a new form, one that further challenges its auditability of scepticism. IR 22 picks up the story:

So, what have we done in there with professional scepticism? We have not listed the words professional scepticism through the standards. We wrote it once at the beginning, in a little section in the beginning that says, key concepts in this ISA...Professional scepticism is only mentioned 56 times in all of the ISA's, that's interesting. That includes all of the titles and everything. (IR22, Regulator, 28/6/2017)¹⁸³

¹⁸² An FRC Review of Transparency Reporting by audit firms made a similar point, noting that the FRC “do not wish to discourage firms from developing innovative formats...firms should not feel obliged to follow a set template.” (Financial Reporting Council. (2015). Transparency Reporting by Auditors of Public Interest Entities. London, UK:FRC, p.2)

¹⁸³ IR22 (2017, 28 June), Interview Transcript, Regulator

The reduced explicit mentions of professional scepticism in the audit standards was similarly noted by the ACCA (2017:19-20), with their review noting the bulk of the discussion on scepticism being contained in ISA 200 and the concept then referred to in twelve of the other standards. This embedded nature of scepticism points to auditability challenges. The ICAEW identified this in their 2010 submission to the APB, noting that :

the ISA 200 paragraph 15 requirement relates to all planning and performing of the audit, i.e. *it pervades throughout*. There are many requirements in the ISAs where the term ‘professional scepticism’ is not used specifically but where *the IAASB perceived the need for auditors to take a risk-based approach and apply scepticism, for example in the new requirements* in ISAs 540 and 550 on accounting estimates and related parties. (ICAEW submission 2010:7, emphasis added)¹⁸⁴

This approach also had support from interview participants, who noted that:

And what we don’t want is a standard on professional scepticism, and people having to include in their conclusion that they demonstrated professional scepticism, so it’s almost like we are having to make up ways, inventive ways, of how you adapt and adapted and applied professional scepticism. It should just be inherent in your psyche and what you do. It should always be there in the back of your mind, you know... (IR06 – Professional body, 17/4/2017)¹⁸⁵

The evident concern for IR06 is that compelled comment on scepticism through standards creates a manufactured account of its operation and a certain forced element to its evidencing, where the auditor is “having to make up ways” that reflect their scepticism.

This was evident in IR22’s further reflections:

¹⁸⁴ ICAEW (2010, 20 October), Submission to FRC – “ICAEW response to the APB Discussion Paper Auditor Scepticism: Raising the bar”, p.7

¹⁸⁵ IR06 (2017, 17 April), Interview Transcript, Professional body

What we actually need to do is craft the requirements that would create the auditor performing those procedures that would be inclined to be more sceptical. (IR22, Regulator, 28/6/2017)¹⁸⁶

This points to the audit standard constructing auditor behaviours and scepticism, but in a style that is less explicit than black type specifications. IR22 pointed to the difference between explicit instructions on action and constructing action so that it can become the basis of scepticism:

Embed it within the requirements...If you say to the auditor, 'Understand what management does,' the auditor says, 'Well what did you do?' And they document it. A good auditor would say, 'What should they have done? Have they done the things we'd expect them to do?' So, if you phrase the question in a different way the auditor who wouldn't have thought of doing that, which you want them to do if they're sceptical. You would write it to say, develop your own expectation about...(IR22 – Regulator)

Under this view guidance and structures for the possibility of scepticism are laid out and they create the conditions for being sceptical. Even though it is not explicitly labelled scepticism, the process of question and challenge is made apparent as a result of the triggered behaviours. The problematic of the mindset is somewhat overcome by the behaviour triggering cues, with these grounded in the audit knowledge base. For example, IR22's suggestions draw upon knowledge of the client and their industry, with these being a basis for forming expectations and evaluating actual conduct. There is a consequence that comes from this embedded approach. Specifically, as a result of it being pervasive and embedded, scepticism is also prone to change.

4.6.2 Scepticism Changes

The hierarchical nature of the audit team means that tasks are delegated. With that comes a delegation of judgment as well as a reliance on review processes. This means there is a need for

calibration...not one person is going to have all these skills. You have got a team with the various skills to be able to understand, you know,

¹⁸⁶ IR22 (2017, 28 June), Interview Transcript, Regulator

‘I cover this bit, you cover that bit’ and then work with those people.
(IR23, Professional body – Course development, 29/8/2017).¹⁸⁷

For those at the junior level, the audit procedures are a big part of their experience. Managers and partners noted that the junior team members are the ones who spend the most time at the client, making their activities significant for the engagement. An audit Senior described their experience as follows:

There's a process in place. I have to do step one, step two, step three. I'm happy. If you say step one was done, the results are satisfactory, no material issues, or no issues were noted, you're good. Step two was done, no issues were noted, okay, we're done. Step three was done, and then you always have to have this overview, like okay, step one, two, three were good, but let's check your one-year. Is there something unusual? That's when you need this general overview. Is there something that doesn't make sense? Like they got a new investment but they didn't take out a loan. Where did they get the cash? You always just have this general outlook. Does it make sense? Okay, then you can sign off. It's also like steps that gets everyone's work, not just one person's work.¹⁸⁸ (IR13 – Audit Senior, 12/7/2016)

Even though there was a “step one, step two, step three” approach described by IR13, there was an evident need for a “general overview” and constantly asking, “Does it make sense?” Making sense of what is being seen at the Senior level was a strong theme in IR13’s description – it happened after the ‘steps’ were complete and involved a series of questions that drew on a broader knowledge and overview and what they were seeing – for example the reference to the investment and the questions that arise about financing. As much as it was the individual having this “general overview” in their work, there was also a necessary collaboration with engagement team members – it is “everyone’s work, not just one person’s work.” (IR13) Evidencing the work through the steps is relatively simple, since these come from the firm methodology and the activities would be recorded as part of the working papers. But the consideration of “the overview” and the “unusual” draws on the individual’s

¹⁸⁷ IR23 (2017, 29 August), Interview Transcript, Regulator

¹⁸⁸ IR13 (2016, 12 July) Interview transcript, Auditor

understanding of things and how they relate to what they are seeing.¹⁸⁹ This points to a need to make explicit the tacit knowledge that informed the work of the individual, something seen as a challenge (Tsoukas, 2002).

IR13's example was a response to a discussion of their experiences within their firm, with IR13 noting that firm "culture" (IR13) meant that

You have this responsibility that you need to report properly whatever you do...Everything should have an explanation. You learn it from day one. It's the first step that you take, you always have to check for the supporting document...I guess it's a culture, because your senior would expect it, your manager would expect it, your partner would ask for it. (IR13 – Audit Senior, 12/7/2016)¹⁹⁰

Checking, questioning, and developing explanations are part of the job, an expectation based on what is done by those at higher levels. To act contrary to that goes against what you are told "from day one." This was not the only time IR13 used the phrase "from day one", with each usage highlighting that

"you're expected to have professional scepticism. Of course, it's hard. With time it gets easier to tell, okay, this is the grey area. But also, because you know that these are the procedures." (IR13 – Audit Senior, 12/7/2016)¹⁹¹

Building up the supporting documents was part what it meant to be sceptical, with this creating a material trace tied to risks, assertions, and the need for suitable audit evidence. Other interviewees spoke in a similar way about the use of risks in the evidencing of scepticism:

So, I just think, if you ask the question, 'What could go wrong?' from an FR perspective, that normally will lead you to a degree of

¹⁸⁹ A similar instance was described by IR 12 (Regulator, 24/6/2016). They recalled an instance on an engagement in which they were relatively senior and "a very junior member of the team" rang them about an invoice. "This just looks wrong. There's tip-ex all over this invoice, that can't be right!" The manager didn't find that, the partner didn't find it, it was some good old-fashioned grunt work that found it. Sometimes, the grunt work finds it and the team that escalated up the line, the more senior people say, "What's this all about? Should I be worried?"

¹⁹⁰ IR13 (2016, 12 July) Interview transcript, Auditor

¹⁹¹ IR13 (2016, 12 July) Interview transcript, Auditor

scepticism that you should assert. (IR18 – Audit manager, 15/11/2016)¹⁹²

Risk was the springboard to more extended thought processes and deliberations, with these being a way of forcing thought:

The first question to ask your juniors is ok, based on your understanding of the business and the balance you are testing, what is the risk? Not ‘How are you going to test it?’. Or, ‘What could go wrong?’ And that is what forces them to think. (IR14 – Audit Manager, 14/11/2017)¹⁹³

This thinking is prompted by more senior members within the engagement team. Questions are posed for juniors to address, rather than being told specific procedures and tests. This requires further elaboration and evidencing, that will highlight the consideration of the type of questions IR13 previously referred to:

I always make them put a summary tab in their Excel workbook explaining each of these [risks, assertions, tests], so that they can always refer back to what could go wrong... I hate it when juniors just add a column and just say, “this is correct classification and tick.” I never allow that. Because that is identified as the biggest risk, I expect some sort of commentary that says why... something about the nature, something about how it links into the risk, something about how often it is recurring or non-recurring, and that’s how I ask them to sort of demonstrate their professional scepticism (IR14 – Audit Manager 14/11/2017)¹⁹⁴

For IR13 and the questions during evidence gathering and the descriptions of IR18 and IR14, scepticism requires an awareness of what may not be right in the evidence collected. Gathering the evidence is one thing, being able to process it and interpret it is another, and it is this latter dimension that presents traceability challenges, and once again the distinction between audit evidence and evidence of scepticism becomes apparent. The challenges come in generating that reflection in junior auditors, but they also come in the uncertainty as to how scepticism itself is

¹⁹² IR18 (2016, 15 November) Interview transcript, Auditor

¹⁹³ IR14 (2017, 14 November) Interview transcript, Auditor

¹⁹⁴ IR14 (2017, 14 November) Interview transcript, Auditor

evidenced, with IR14 noting that it is a way to “sort of” evidence scepticism. However, there is an expectation to ask questions and reflect on evidence “from day one,” as well as anticipating the type of questions that may be posed by a reviewer, as “You would answer the question before it is being asked [by a reviewer].” (IR13)

These are products of firm culture and choices to embed scepticism across the process, making it a joint product of the social setting and the technical knowledge. Linking the asking of questions and thinking to wider firm culture highlights how audit firms have attempted to make challenge part of the normal way of business. It is also consistent with the approach built in to professional training, with IR23 referring to the embedded nature of scepticism across various units in the professional qualification, with it being an overarching expectation for how students will address the course material, rather than an explicit question on the final paper.¹⁹⁵ So within professional training and in-firm experiences, two dimensions of the knowledge system for auditability (Power, 1996), there is an embedded approach. In addition, on at least four occasions the FRC Inspection Reports have noted a need to “further embed the concept of professional scepticism into the culture of the audit practice” (KPMG 2011-12 Report, p.11), or to “Take further action to embed the proper application of professional scepticism and challenge of management in the firm’s audits.” (Grant Thornton Inspection Report 2014-15, p3)¹⁹⁶ Most recently, an FRC Thematic Review highlighted the role that the culture of the firm plays in shaping audit quality (Financial Reporting Council, 2018), with this also linked to scepticism.

Embedding scepticism in culture also means that it becomes increasingly defined by the cultural and social processes of the firm, as well as the dimensions of the distribution of knowledge, tasks, and the operation of review procedures. The Senior may ask, “Does it make sense? Okay, then you can sign off.” (IR13) But they are also aware of the possibility of further questioning down the track. What makes sense now for IR13 may change and “in order for the investigator to decide what he (sic) is now looking at he (sic) must wait for future developments.” (Garfinkel, 1967:77) An audit partner highlighted the traceability issues that stem from this:

¹⁹⁵ Professional body course structure, past exam, and examination grid as supporting evidence

¹⁹⁶ Other examples where this was mentioned in inspection reports include BDO (2014-15), PwC (2011-12)

we try and instil to the team...you have to keep standing back...is it actually right? Okay we formed an expectation that seems to be right...does it stack up?...Is someone doing something wrong?...All of that I think is scepticism...It's not documented as that. It's just part of...what you must keep doing...it hasn't got a section saying scepticism covering those things and that's why I think it's so difficult...being flippant, you could almost take, I don't know, a third of the audit process, I guess and say, 'Hey this is all scepticism.' Because that's what you're doing. (IR19 – Audit partner 17/11/2016)¹⁹⁷

Task delegation of the type spoken of by IR13, IR14, and IR18 meant that the auditor saw one part of a bigger audit picture. The bigger picture was also something that more junior staff were encouraged to consider (IR19). These various instances highlight how the talk of embedding scepticism in culture is significant for the firms. It is also significant for its impact on traceability and the ability to construct material traces since it makes direct identification and specification of traces of scepticism harder to identify. The FRC defined culture as “a combination of values, attitudes and behaviors manifested by an organisation in its operations and relations with stakeholders.” (Financial Reporting Council, 2018:2) The values and attitudes within the firm are emphasised “from day one”, as IR13 mentioned. Their operation is taken as a given and an expected norm, as previous research has described (Anderson-Gough et al., 1998; Grey, 1998). By embedding scepticism within culture there is the potentially desirable impact that it does become the norm. However, by making it a norm it also becomes harder to specifically identify since it is an accepted understanding between firm members and an assumed basis for operation (Garfinkel, 1967). So, by making scepticism more pervasive through its embedded presence, as IR19 referred to, it actually becomes harder to specifically identify and trace.

The identification challenge also appears as a product of distributed tasks and the flow-up nature of audit work. As junior staff’s work moves up the team hierarchy the nature of the questions being asked changes, since the understanding of the component parts and the perspective available will also alter. What seems correct or incorrect in isolation may be flipped on its head when combined with other pieces of

¹⁹⁷ IR19 (2016, 17 November) Interview transcript, Auditor

information. IR12 described this as “Sometimes, the grunt work finds it [issues for attention] and...the more senior people say, "What's this all about? Should I be worried?" (IR12 – Regulator, 24/6/2016).¹⁹⁸ The bringing together of data from different parts of the engagement will address these individual instances. But they also highlight how the nature and understanding of scepticism changes. Where the juniors had steps that guided what evidence to get and how to engage with it, at higher levels the story changes, becoming a question of how the different pieces of evidence fit together. With this question comes a further implication for material traces, since judgment is made increasingly prominent.

Piecing the Parts Together

At manager level and beyond the audit task changes, with an attention to broader questions about the adequacy and reasonableness of conclusions (Van Maanen & Pentland, 1994). At this point it is assumed “that the mechanics are right” (Van Maanen & Pentland, 1994:66), with the evidence from the mechanics now being combined to form an overall judgment. For scepticism to be traceable at this point it requires that judgment also be made observable, which has been a noted challenge (Hatherly, 1999, 2009; Power, 1997).

IR19 previously referred to a need for all team members to “keep standing back” and asking questions. At manager level and beyond this emerges as a key to being sceptical. Reflections from two interview participants illustrate this point:

For me, the evidence of challenge comes less at that granular level, and comes more when you piece all the parts together. For me, anyway, I tend to think that the aspects of the audit that normally needs some real challenge is when you take the sum of the audit work, and you start to put it together in a particular area or a particular aspect of that, and things just aren't quite tying up, or they're not looking like you'd expect, or there's multiple issues, but it's not quite clear why. I think a lot of the criticism about there being insufficient challenge is more at that level...less about the junior person's work, but now that you've seen the results of the test work, and you've seen the findings from that, the

¹⁹⁸ IR12 (2016, 24 June) Interview transcript, Auditor

conclusions that you're drawing, are they sufficiently challenging...?¹⁹⁹

(IR10 – NED, Former auditor, 16/6/2016)

Within IR10's comment is the essential aspect of putting the audit work together, drawing in the details from the various areas of the audit and seeing how these fit together, as well as how they map to expectations formed during planning or as the engagement progressed. Evidence at this stage needs to point to the "sufficiently challenging" nature of such piecework, with there being a need to step back and observe the whole setting. Similarly, IR05 commented:

It comes back to the manager or the senior manager...Because they're the ones that are responsible for stepping back and taking the whole picture. Because they start, like you've said, to be working up to each section, but only someone that is reviewing all the sections will understand the complete implications of it. And that's where your experience comes in.²⁰⁰ (IR05 – Auditor – Manager, 16/2/2016)

There are two aspects that IR05 and IR10 mention that are crucial to the ability to evidence and make auditable the application of professional scepticism, these being the role of professional judgment and the role of experience. In putting all of the pieces together, "that's where your experience comes in", making individual judgment a key factor for consideration. Much less prescribed than the formal tests and procedures related to line items and assertions, this overall judgment will have elements of challenge and questioning built in to its operation, but the ability to make that explicit is the challenge. The strength of the professional – their ability to exercise and operate within an environment that commands professional judgment – suddenly becomes their greatest avenue for challenge, since it is the least transparent and least explicit in terms of its operation. The idea of putting the pieces together again points to the role of tacit knowledge in the audit process. At the manager and above level, the attention is on both the traces created in exercising judgment and the willingness to go beyond the quantifiable and easily evidenced dimensions when putting the pieces together.

I think when auditors nowadays, thankfully, look at incidents, and do their own back tests, and say, given this incident, what have we

¹⁹⁹ IR10 (2016, 16 June), Interview transcript NED

²⁰⁰ IR05 (2016, 16 February), Interview transcript, Auditor

learned? What would we have seen if we had looked at this? Normally, there is, there's red flags that, pieced together, should have started to say something's not right there. I think that is where the audit functions are coming under their most criticisms, that they're not piecing together the parts enough, and thinking about a bigger risk that might exist beyond the quantifiable things, beyond the things we've tested, things we've evidenced... sometimes there's a bigger issue there, and that bigger issue isn't as quantifiable. Maybe, you can't evidence it at all, but it's still there, and you probably know it, and other people probably know it, but somehow you, as the auditor, need to be able to get that across.²⁰¹ (IR10 – NED, former auditor, 16/6/2016)²⁰²

Piecing things together, highlighted by IR10, emphasises scepticism as a judgment based on the consistency and inconsistency in the story told by the audit work. An ICAEW webinar highlighted a similar point, with one speaker commenting:

I think the important thing is for auditors to demonstrate scepticism that they have taken into account the stuff that necessarily isn't in line with their final conclusion, that the auditor might have said, 'Yes, that disclosure on going concern is okay.' But even though it is okay they did find some contrary evidence and obviously it was outweighed by the other evidence (ICAEW Webinar, 12/6/2018)

Evidencing judgment and scepticism in this case comes down to showing that conflicting evidence may have been encountered and presenting the reasoning behind the judgment that was made. Such processes of judgment were more apparent as the level of the auditor increased:

often where you are needed to be the most sceptical is something that the more senior members of the audit team are involved in. It is often the engagement partner who has had some contact with this, and it is the engagement partner who always has that last contact with the documentation before the file is signed off. I think

²⁰¹ IR10 (2016, 16 June) Interview transcript, NED

²⁰² IR14 (2017, 14 November) Interview transcript, Auditor

the engagement partner in their review has to think about whether the documentation really displays the challenges that they and the other senior members of the team made. (ICAEW Webinar, 12/6/2018)

If the ability to evidence judgment in the operation of scepticism is the challenge to its audibility, then perhaps the answer to the problem is located within views of the audit process overall and the nature of professional judgment itself.

4.6.3 Creating Processes

In March 2012 the APB released a position paper that aimed to promote a “common understanding” of professional scepticism.²⁰³ It drew from the scientific method, noting how it “has developed a sceptical approach that now commands respect.”²⁰⁴ It went on to note that:

There are many parallels between the scientific method and the audit and, whilst this analogy should, of course, not be taken too far, at a certain level there is much to learn from a consideration of the nature of scientific scepticism and the role it plays in the conduct of the scientific method. Scientific scepticism is the backbone of the scientific method, influencing every judgment in the process of learning and ultimately supporting the whole body of scientific knowledge.²⁰⁵

As if echoing the sentiment that “For the world to become knowable, it must become a laboratory” (Latour, 1999:43), empirical observation, falsifiable hypotheses, and transparency and repeatability were taken from the natural science environment and applied to the audit generally and professional scepticism in particular. It was commented that

²⁰³ Auditing Practices Board. (2012). *Professional Scepticism - Establishing a common understanding and reaffirming its central role in delivering audit quality*. London, UK: Financial Reporting Council.

²⁰⁴ Auditing Practices Board. (2012). *Professional Scepticism - Establishing a common understanding and reaffirming its central role in delivering audit quality*. London, UK: Financial Reporting Council., p.2

²⁰⁵ Auditing Practices Board. (2012). *Professional Scepticism - Establishing a common understanding and reaffirming its central role in delivering audit quality*. London, UK: Financial Reporting Council., p.7

transparency and repeatability *suggest* the importance of documentation in underpinning transparency and repeatability of the audit work to internal reviewers and to external inspectors.²⁰⁶

This scientific model invoked two key dimensions, with documentation pointing to the role of evidence and its durability, while repeatability was suggestive of something that could be recreated in a time and space different to its origin. We have already seen the challenges that come from a lack of durable traces, the embedded and pervasive nature of scepticism, and challenge of transparency in judgment processes. These point to a problem of trying allow the audit to travel. In the genealogy chapter it was observed that the FRC aimed to bring the individual and their judgments under scrutiny as part of their regulatory emphasis. Professional judgment was linked with the application of scepticism, as the previous section highlighted. This means that for the audit to travel it needs a way of allowing the judgments to travel.

IR22 expanded on this, beginning with the idea of evidence as part of the audit process. Their explanation linked back to a wider conception of professions and that

what a professional produces for people is...judgements about the information to enable people to make...judgments. (IR22 – Regulator, 28/6/2017)²⁰⁷

Within this view:

everything a professional does is evidence-based... people don't want a professional to give them a random opinion. They expect it to be based in the evidence and in the knowledge base. (IR22 – Regulator, 28/6/2017)²⁰⁸

But it is here that a problem arises for evidencing professional scepticism, since for it to be observable and traceable there needs to be traces of action, judgment, and mindset, as well as the contextual setting. As described by IR22:

It comprises a mindset of some sort, an attitude at least, and a set of behaviours that go with that...I truly believe that if we want to

²⁰⁶ Auditing Practices Board. (2012). Professional Scepticism - Establishing a common understanding and reaffirming its central role in delivering audit quality. London, UK: Financial Reporting Council., p.7, emphasis in original

²⁰⁷ IR22 (2017, 28 July), Interview transcript, Regulator

²⁰⁸ IR22 (2017, 28 July), Interview transcript, Regulator

get people doing the right things, then we're talking about behaviour, and so what does it mean to be professionally sceptical in this situation?... what behaviour would I expect you to have or what behaviour did I expect you to have that you didn't show. And I can say it's a behaviour, and I can question why you didn't do that, then we can start to have a dialogue about it. (IR22 - Regulator, 28/6/2017)²⁰⁹

The comments from IR22 can be considered in light of their earlier comments on the clarified standards, where they spoke about designing standards to induce behaviours that are sceptical in nature. The operation of scepticism is about observed behaviours, since these are the actions that evidence scepticism. But it is also about the structures that are in place that facilitate these actions. IR22 mentioned the role of standards in producing scepticism, while other participants highlighted the role of the interaction within the audit team as part of the facilitation of scepticism. These observations were based on team members in specific settings reacting to these settings. So, as much as behaviour is observable and documentable, the context in which that behaviour occurred is not as readily captured and preserved. As a result, the ability of the audit's original context to transcend the time and space of its original occurrence is a source of problematisation. It also links back to the issue of traces, with the durable trace from the engagement being the recorded behaviours that are reflected in the working papers.

However, the audit firms embraced the scientific comparison, with EY commenting:

...we think the audit could actually be viewed as an application of the scientific method, which involves an orderly and rational investigation to determine the validity of a hypothesis (i.e., in an audit, the "hypothesis" consists of management's assertions and the "investigation" is the auditor's gathering and evaluation of audit evidence). If auditors view the process of the audit in this manner, this could help in identifying and overcoming biases.²¹⁰ (EY Submission to IAASB 2016, p.6)

²⁰⁹ IR22 (2017, 28 July), Interview transcript, Regulator

²¹⁰ EY (2016, 16 May), Submission to IAASB Invitation to Comment, p.6

In this instance the scientific method was seen as a frame for viewing the audit process. EY's suggestion points towards a more scientific process that offers a more 'orderly and rational investigation.' Their explanation was based on the progression from assertions to risk assessments for the assertion, and how this guides evidence gathering and assessment. The structure and process of the risk-based audit approach was used as an idea of 'order and rationality', with professional scepticism involving the process or method of obtaining evidence, applying reason and critical thinking in an unbiased manner to determine the validity of the assertions. (EY Submission to IAASB 2016, p.6)²¹¹

This led to the position that:

... the scientific method can be viewed as a "professional application of skepticism" in that skepticism plays a critical role in determining the data to gather, in evaluating the data gathered and in making judgments about whether that data proves or disproves the hypothesis. In essence, an audit requires this same "professional application of skepticism" beginning with the risk assessment and design of audit procedures, but especially in determining whether the outcome of those procedures provides sufficient appropriate audit evidence, and, if not, what additional procedures or evidence are necessary in order to form a conclusion on the validity of management's assertions.²¹² (EY Submission to IAASB 2016)

Based on this explanation, EY would tend to suggest that the audit process is in itself evidence of scepticism. Decisions on risk, evidence gathering, and the interpretation of such evidence are all positioned as part of being sceptical. The unaddressed issue in the quote is how these can be made auditable, as well as the impact of applying a scientific analogy on the operation of scepticism. While EY may assert that the processes in themselves evidence scepticism, the question of how the judgment process can be evidenced still remains unanswered. It is here that the suggestion of judgment framework becomes of interest.

²¹¹ EY (2016, 16 May), Submission to IAASB Invitation to Comment, p.6

²¹² EY (2016, 16 May) Submission to IAASB Invitation to Comment, p.6

4.6.4 *Calling for Judgment Frameworks*

The IAASB Invitation to Comment on Audit Quality, which had a particular emphasis on professional scepticism, provided a model that linked scepticism to judgment and audit outcomes.²¹³ In referring to their model, the IAASB commented:

Documentation of professional judgments and actions provides evidence that professional scepticism was applied... We have heard that additional reporting requirements in the new and revised Auditor Reporting Standards... may serve to improve documentation of professional judgments made during the audit, thereby better evidencing the application of professional scepticism.²¹⁴

The IAASB position is that the documentation of judgments and actions is the way to evidence scepticism. But there is a potential for this to lead to the documentation of judgment processes, as opposed to the details within the judgment, with auditability then becoming process/system based, as opposed to reflecting the actions that actually occurred (Power, 1996, 1997, 2004). Practitioner interviews highlighted judgment as an issue for evidencing scepticism, drawing on the complex nature of valuations that make up the financial statement and the need to defer judgment to other related experts:

You know, and there's all these difficult things going on, and nobody claims it's easy to make these right judgements and be questioning enough, especially when your own specialists inhouse are telling you something's all right, you know it's hard to stand back and say, "Well is it? Why is it? How are you comfortable with that?" You know, and that's a hard thing to do I'm guessing.²¹⁵
(IR12 – Regulator 24/6/2016)

In this instance the ability of the auditor to evidence scepticism is constrained by the nature of the technical domain and the auditor's own technical expertise. Scepticism is evidenced through the referral to inhouse or external experts for

²¹³ IAASB (2016), Invitation to Comment – Enhancing Audit Quality in the Public Interest, p.13

²¹⁴ IAASB (2016), Invitation to Comment – Enhancing Audit Quality in the Public Interest, p.13

²¹⁵ IR12 (2016, 24 June) Interview transcript, Regulator

valuation assessments and reports. However, herein comes a further challenge to auditability of scepticism since the trace of the process becomes obscured, hidden within the black box of the expert who sits outside the auditor's primary domain. IR18 provided an illustrative example of this:

I think a lot of the time as well it's the areas where you need to assert additional professional scepticism we as an auditor may not be the person performing the work, it might be an expert. So, take the example of BREXIT...At the moment a big area of risk that I see in the market from investment managers is around their property portfolios and fair value adjustments...are we as the auditor who are not real estate experts the person to define that this is materially wrong? Probably not – we should be engaging with our real estate specialists...which is what we do. Are real estate specialists trained auditors? No. Is professional scepticism ingrained as an imperative for them? Is it in their exams which they have taken? Probably not. So, I think one gap which is potentially in the profession is that you engage all these specialists but have they been given the same level of training or upbringing in the area of professional scepticism as you? Probably not. (IR18, Audit manager, 15/11/2016)²¹⁶

Power (1996) analysed the role of expertise in creating auditability for the valuation of intangibles, highlighting the need to bring in the knowledge of the area of expertise into the auditing fold. When it comes to the operation of professional scepticism this is something that IR18 is directly problematising. We see here a distinction between the creation of auditability by bringing in outside experts and the creation of auditability for the challenge of those experts. Much of the use of experts is based around an assessment of their appropriateness and a trust in their expertise. As IR18 highlights, the auditor does not have the expertise, which is why they are using the experts in the first place. However, the expert is not coming to the problem from the same background and with the same concerns. As a result, scepticism becomes a product of the trust and confidence that the auditor has in the expert, as opposed to the product of the auditor's own direct inquiry. In effect, the use of the

²¹⁶ IR18 (2016, 15 November) Interview transcript, Auditor

experts – necessary for the audit to be completed – creates a natural limitation of scope on the ability for challenge to be evidenced.

A consequence of this increased complexity of the financial statement audit, as well as the explicit linking of judgment and scepticism, was for the profession to call for guidance on how professional judgment should be evidenced. KPMG mentioned that they had developed a professional judgment framework and set of guidelines that audit team members were following.

We note that some Firms, including KPMG, have developed models or frameworks to guide the critical thinking of their professionals....in 2011, KPMG published “Elevating Professional Judgment in Auditing and Accounting: The KPMG Professional Judgment”...We believe that the KPMG publication provides auditors with a helpful framework²¹⁷ (KPMG Submission to IAASB, 2016:3)

The KPMG model (Ranzilla, Chevalier, Herrmann, Glover, & Prawitt, 2011) – which won a AAA award in 2013 (KPMG, 2015) - consists of five stages.²¹⁸ It views professional scepticism as “an important component or subset of professional judgment.”(Ranzilla et al., 2011:6) It considers the relationship between scepticism and judgment, highlighting how mindsets can be framed for different scenarios and tasks. It also drew attention the frames that individuals may have and suggested approaches for resetting these, in order to see things differently. This led to chapters that covered biases (what they are, identifying and reducing them), group judgments, and leadership and coaching approaches as part of the judgment process. The framework made the overall judgment process auditable but does hide the challenge of evidencing scepticism by placing scepticism as a subset of judgment.

EY also have a judgment framework (Ernst & Young, 2014), with it containing an “overarching consideration” (Ernst & Young, 2014) towards the maintenance of professional scepticism across its five stages.

Other firms also called for guidelines from the IAASB, with a common feature of these being a need for guidance on what professional scepticism looks like:

²¹⁷ KPMG (2016, 16 May) Submission to IAASB 2016, p.3

²¹⁸ The five stages are 1. Clarify issues and objectives; 2. Consider Alternatives; 3. Gather and Evaluate Information; 4. Reach Conclusion; 5. Articulate and Document Rationale” (Ranzilla et al., 2011:5)

It is important that the IAASB...also provides examples of how outcomes indicate professional skepticism has been appropriately exercised. (BDO Submission to IAASB, 2016:8)²¹⁹

In relation to key judgments in areas that are more complex and where more subjectivity is involved, more examples should be given on what the application of appropriate skepticism looks like during audit execution (Deloitte submission to IAASB, 2016:8)²²⁰

...we believe it may be useful to explore a professional skepticism framework (of which a judgment framework may be an important component) that demonstrates the process of application throughout the audit. (EY submission, 2016:7)²²¹

These quotes evidence a consistent call for the IAASB to provide guidelines on what professional judgment should look like and how the judgment is linked with the execution of professional scepticism. The calls are for a suggested thought process (BDO submission 2016) that firms could follow, offering a total view (EY submission 2016) of how professional scepticism operates and is evidenced.

The call from the professional firms for such guidelines represents a turn in the idea of what professions are and the basis for their operation and wider social sanction. Power (1997) refers to an essential epistemic obscurity that is integral to professions and their execution of judgment. It is essentially the blackbox within which they execute the application of their own acquired expertise. The development of the judgment frameworks in this section points to these blackboxes being opened up as a result professional scepticism being made auditable. In calling for such frameworks and structures for professional scepticism there is an attempt to unpack and make explicit the judgment process. However, such moves are not without potential implications, including their becoming standardised frames for action that

²¹⁹ BDO (2016, 13 May), "Invitation to Comment: Enhancing Audit Quality in the Public Interest", p.8

²²⁰ Deloitte (16, 16 May), Submission to IAASB, p.8

²²¹ EY (2016, 16 May), Submission to IAASB Invitation to Comment, p.7

EY also have a judgment framework (Ernst & Young, 2014), with it containing an "overarching consideration" towards the maintenance of professional scepticism across its five stages of 1. Define the issue, 2. Gather the facts, 3. Perform the analysis, 4. Make the judgment, and 5. Document the judgment.

standards require and, in the process, inhibiting the consideration of potential evidence and issues outside the frame.

4.6.5 Auditability in Reverse?

Root cause analysis is

a process for identifying the causes of problems or events in order to prevent them from recurring. It is based on the idea that effective management requires more than putting out fires for problems that develop, but finding a way to prevent them. RCA can also be a means of identifying good practice as part of continuous improvement. (Financial Reporting Council, 2016a:5)

It came to prominence in an effort to understand identified deficiencies within inspected audits. IR24 described its role as a response to repeated findings and recurring themes in the inspections, meaning that,

there is a feeling, ‘Well, we’ve got so far, but wouldn’t it be good for the firms to dig a bit deeper as to what is going on behind this and why those sort of findings are recurring?’ (IR24, Professional body, 1/9/2017)²²²

IR12 made similar comments,

Well, you're having read the reports, you'll see that professional scepticism just keeps coming up, year on year... It's still there, and I would be surprised if it ever went away... This year for the first time, we've asked the firms to conduct root cause analysis... What we asked the firms to do for the first time this year, on a formal basis, is to say, "Well go away and for our 2B and 3 inspections, do your own root cause analysis to determine why these things happened. You know, why did the audit team get it wrong?" And you end up with a variety of causes which come back to you. (IR12 – Regulator, 24/6/2016)²²³

This is a hindsight-oriented procedure that takes an identified issue and works backwards to identify the key causes of the problem. Rather than taking a short-term

²²² IR24 (2017, 1 September), Interview Transcript, Professional body

²²³ IR12 (2016, 24 June), Interview Transcript, Professional body

spot-fire approach, it is seen as a more proactive way of reshaping actions so that the errors can be prevented in the future.²²⁴ This approach can lead back to factors that relate to the individual, the engagement team, firm-based processes, and guidance provided during the engagement. While it has no specific trajectory that is followed during its execution, with variation in who is involved and who conducts the analysis,²²⁵ it does point to an auditability of sorts within the audit process. However, it is distinguishable from the idea of auditability offered by Power (1996). Power sees auditability as a negotiated and pre-agreed between auditor and auditee, with the establishment of what is to be audited, the determination of the appropriate material traces, and the construction of these within the auditee setting. Under that view auditability is about constructing the system of traceability in advance so as verification can occur at a later time. The root cause analysis differs from this in its temporality and its formality.

As both IR24 and IR12 noted, it is an approach used in response to issues, being almost forensic in nature and working back from the problem to the contributing factors. This highlights an ex-post construction of auditability, making sense of the events after the fact and building up an explanation of what happened. For professional scepticism, the use of root cause analysis is seen as a response to the repeated claims that scepticism is not present in engagements. As one participant in an ICAEW webinar commented:

in a way, scepticism is always an old-fashioned type of term, with regulators saying, ‘Oh, the auditors weren’t sceptical enough’, in a way how helpful is that? Now I would say that just saying the word sceptical enough is one thing, but really you need to unpick that and find out what is behind it, and that is where root-cause analysis comes in (ICAEW Webinar, 12/6/2018)²²⁶

²²⁴ Financial Reporting Council. (2016). Audit Quality Thematic Review - Root Cause Analysis. London, UK: FRC

²²⁵ Financial Reporting Council. (2016). Audit Quality Thematic Review - Root Cause Analysis. London, UK: FRC, pp.11-16

²²⁶ ICAEW (2018, 12 June), “When audits go wrong – and right: The importance of being sceptical”, Webinar

While the making things auditable thesis presumes an established knowledge base that is present in advance, thus providing the basis for auditability to be constructed within an operating environment such that audit can be made to work, the root-cause analysis takes a different approach. A concern from the auditability thesis is that the specification of traces can lead to a constraining or shaping influence on what is actually done, with the traces determining what is done. The reflective nature of root-cause analysis makes this less of an issue, since it is not so much about anticipating what needs to be done in order to demonstrate scepticism, but looking back at what was done and asking how have we applied and demonstrated scepticism. This can serve as a way of constructing a hindsight narrative, but it can also serve a role in learning and development as the FRC definition refers to when it refers to building up knowledge from problems experienced. While the root-cause analysis at regulator request is performed after the engagement is completed, its application within the engagement did have some support from practitioners. IR10, for example, suggests how it can be used to problematize the evidence and experiences within an engagement. As described by IR10, it is a technique that:

auditors deploy to make sure you've actually got to the thing that's caused the issue. When they're looking at a control breakdown, for instance, trying to understand why did it breakdown... There's an element of judgment that comes in there, as well, and also an element of professional scepticism... you could be very quickly lead to believe that you've reached the root cause, unless you continue to question. Again, it takes experience and knowledge, and a bit of confidence, I would say, to continue to ask the question when everyone's telling you they gave you the answer and you're still saying, "Why? Why?" That can quickly become very hard, but the best auditors do it. They will continue to say, "Why," when everyone has told you the conversation's over, and it's normally incredibly powerful when someone continues to challenge beyond where everyone else draws the line... The end line is normally something that makes everyone quite uncomfortable.²²⁷ (IR10)

²²⁷ IR10 (2016, 16 June), Interview transcript, NED

The distinction between root-cause as envisaged by the regulator and by IR10 is that IR10 sees root-cause considerations as the basis for further challenge and inquiry within the engagement setting. The process of working backwards from what is seen and continuing to ask, “Why? Why” is seen as a way of forcing the consideration of what was done and the adequacy of challenge that occurred. Being able to generate traces of scepticism in flight may produce a certain comfort for the auditor. But, as the preceding discussion has noted, scepticism changes and the bigger picture is not recognisable until the late stages of the engagement. Root cause analysis within the engagement, as part of ‘stepping back’, could be a way of considering the bigger picture and asking why and how it was reached.

4.7 DISCUSSION AND ANALYSIS

The two themes that emerge from the preceding discussion concern the role and construction of material traces and the impact of an increased visibility of scepticism. The first of these has implications for the knowledge that is part of scepticism, particularly its location and coordination, while the second raises implications for the ‘safety’ of the audit process as a result of an increased attention to the visibility of scepticism.

4.7.1 Determining Scepticism and its Traces

Much of the early discussion on scepticism was attentive to what scepticism meant for the practitioner, with the neutral and presumptive doubt approaches highlighting potentially different understandings and applications of the term. These discussions highlighted the programmatic element of scepticism – the task of setting up what it means and what it represents for the audit. The implications of being able to determine scepticism were more evident in the discussion with participants, as they highlighted the challenges for scepticism being evidenced. One common theme across these was that professional scepticism changes. More specifically, scepticism changes (1) as a result of the design of audit standards, (2) as a result of pushes for it to be embedded within firm cultures and processes, and (3) as part of the progression of the audit. Each of these points raise implications for the consideration of scepticism.

The changing nature of professional scepticism within the engagement highlights the impact of experience and time. It is an economically determined

paradox that those with the least experience are the ones who spend the most time at the client's premises gathering evidence. The recalled experiences from IR12, IR13, IR14, IR18, and IR19 highlighted how efforts are made to encourage scepticism from day one. Being able to ask questions, mapping audit work within accepted risk-based frameworks, being questioned in a way that encourages the generation of procedures were all identified as ways that scepticism was created amongst the more junior staff. At these levels the culture of the firm is being learnt and embedded in the individual, with IR13 in particular making mention of the expectations that come under the banner of firm culture. As much as these junior staff are encouraged to question what is done, there is also an implicit sentiment that the issues and questions they may raise as part of being sceptical will alter. The review process and the hierarchy are a big part of this, with distance and perspective being key influencers.

Hearing managers and partners talk of stepping back and gaining perspective as a part of being sceptical is perhaps both reflexive and instructive. These are the levels who have a physical distance from the client site, making occasional visits as needed and relying on the juniors who are there consistently. Their mention of stepping back is more than just a metaphor, it is the nature of their role. Being sceptical for these higher levels was more about perspective and piecing things together, reflecting on the bigger picture. It is this process of reflection that creates the conditions of change for the operation of scepticism. It is such reflection that also pints to a challenge in auditability. By definition these higher-ranked engagement team members have a greater experience to draw upon. Their stepping back and piecing together will involve an element of tacit knowledge, as was evidenced in some of the quotations cited earlier.

Making the tacit dimensions of how the pieces are put together explicit could be part of the challenge in making the operation of scepticism more evident. Leonard and Sensiper (1998:113) define tacit knowledge as "information that is relevant, actionable, and based at least partially on experience...shared through a socialization process" and as having traits that make difficult to totally articulate, since it can reside in feelings and the unconscious or semiconscious aspect of cognitive performance. Past audit research has drawn on this 'feeling' dimension, with Guénin-Paracini et al. (2014) finding examples in their own work and also referring to work that highlighted the role of such things as "gut feeling" for determining the necessary extent of work (Humphrey & Moizer, 1990:225) and comfort (which also referred to the gut-feel

description) (Pentland, 1993). The socialisation that occurs within audit firms provides for a “collective tacit knowledge...[that] exists more or less complete in the head of each group member who has been completely socialized into the group.” (Leonard & Sensiper, 1998:121) It is taken as a given and has no need to be formally explicated amongst group members. At higher levels, the piecing together of the engagement puzzle calls on the experience of those who may “fear trying to express the inexpressible – and failing” (Leonard & Sensiper, 1998:123) since others do not have such experiences and cannot appreciate them.

As the different elements of the engagement come together and they are reviewed for consistency and their ‘big picture’ story, scepticism undergoes a change. While the juniors may have identified issues and flagged questions, the full meaning and understanding of these only becomes apparent as the bigger picture is constructed. This means that there is a real challenge of capturing traces of scepticism in flight since it is somewhat nebulous. Garfinkel offers the following explanation:

it frequently happens that in order for the investigator to decide what he is now looking at he must wait for future developments, only to find that these futures in turn are informed by their history and future. By waiting to see what will have happened he learns what it was that he previously saw. (Garfinkel, 1967:77)

Essentially, the early work of the engagement can only be understood as it is assembled over time. As more work is completed the understandings of previous events and findings change, and new questions will be asked and followed up. The comment from the ICAEW webinar that it comes to the partner as the critical final point emphasises this – they have the complete picture in the final engagement file. They are also the most removed, having the perspective and bigger picture. This changing understanding of what constitutes professional scepticism throughout the engagement raises a challenge for traceability. While Lezaun (2006) identified the significance of transformation events for any system of traceability, the idea of a transformation event to trace the changing nature of professional scepticism is not quite as neat. Creating an infrastructure to generate and capture traces carries requires some anticipation of what those traces will be. The transformation of professional scepticism across the engagement is not so neat, with the stepping back and assessing the bigger picture like the repeated assembly of a jigsaw puzzle where the pieces are subject to change and the final picture is not known. This means that any system of

traceability will not be finalised until after the final opinion is issued and the conclusion is known, for it is only then that there is an ability for the auditor to “learn what it is that he previously saw.” (Garfinkel, 1967:77)

In this scenario the audit trail potentially becomes something like how the root-cause analysis was described, a rationalisation of the past based on the known outcome. While audit may be concerned with the creation and verification of facts, the auditability of this process faces a challenge. The ‘fact’ of being sceptical is not known until the later stages of the engagement are complete. This also raises a question about the examples of material traces that have been considered.

More generally, the problem in generating material traces highlights the distributed nature of professional scepticism. What is apparent in the descriptions is that scepticism varies based on the rank of the auditor (junior to partner and an increased ability to put pieces together and see the bigger picture). It also varied based on the stage of the audit (the understanding as evidence is gathered versus the understanding of old evidence in light of new evidence). It is also distributed through an increased emphasis on it being ‘embedded’. Such embeddedness can include the culture and firm-wide processes. It is also evident in the audit standards and their requirement for scepticism across all audit stages and in the application of numerous standards without specifying how. This creates a distribution of scepticism across people, time, organisational structures, and technical resources. This contrasts the conventional view of scepticism that saw it residing in the judgment and action of an individual. The lack of a single point of control for the operation of scepticism means that auditors “do not, they cannot, know what they need to know” (Tsoukas, 1996) in advance.

4.7.2 Safety in Being Unauditable

References to review notes, the construction of judgment frameworks, and attempts to link scepticism to risk reflect the different ways that audit acts to conceal the inner challenge and contest that is part of the audit process. There are two elements to challenge that are apparent, the challenge directed to the client and the challenge that occurs within the audit team. These challenges are distinguished, highlighting the different stances that become apparent on the ability to create traces of scepticism and make the process of scepticism auditable.

It was mentioned that auditors face internal demands to tidy up working papers and clear out signs of internal challenge and contest. While it was noted that the views on the maintenance of review notes were mixed, the consensus from three of the Big 4 firms, as well as those interview respondents who referred to review notes, was that there was little to be gained from their preservation. Where traces of the internal deliberation and the processes used were to be preserved, it was through stylised judgment frameworks that the firms developed, with these couched in analogies with the scientific method that afforded an appearance of rigour, reliability, and neutrality (Dunn, 2007). Producing these frameworks to guide judgment and help make scepticism visible shows an anticipated expectation of transparency about audit procedures. In the case of the judgment framework, audit has typically relied on the expert judgment of the auditor as a self-evident proof that procedures were followed scepticism was applied, with this being a product of the nature of audit and its production of assurance - an inherently unobservable thing (Power, 1997). Making review notes a permanent trace introduces evidence of doubt, with this potentially seen by the firms as undermining the assurance that provided by the audit.

The reflection on review notes versus face to face meetings tapped in to this idea of safety and its link to scepticism. Recall that the observation was that review notes were “contrary to the suggestion that reviews should be undertaken in person, which means less written review notes being made.” (PwC Submission 2010) Interview respondents showed a similar preference for face-to-face reviews. These comments highlight an increased role of soft skills in the operation of scepticism, with review processes and manager and partner training described in terms of people skills, with these seen as essential to scepticism. This was linked to creating environments where team members can interact and question and have access to more experienced team members. But this is potentially more than just a story of interpersonal communication preferences. If we reflect on why the interpersonal dimension is preferred we see an answer that points to a limiting consequence of constructing auditability.

Comparing communicating in person and communicating through review notes highlights the impact of material traces. This comes from an apparent distinction between what is said and what is written, with this impacting auditor safety. Writing things down is significant – it creates a trace of activity and makes the author party to accountability and review. So written review notes are

performative in the sense that they make the auditor and the reviewer part of a wider chain of audit accountability, making actions “visible and traceable to actors in distant institutions who may one day look upon this sheet as evidence that these tasks were completed or completed correctly.” (Cavanaugh, 2016:694) For the operation of scepticism within the audit team this points to a reduced safety that comes from preserving review notes. Transparency and accountability are thus seen to be in tension, with writing things down preserving a process of internal deliberation and in the process removing the safety that firms want to create within the engagement team. The safe space of the audit room for internal discussion and question is made challengeable by the preservation of traces that refer back to the internal process (Etienne, 2015). This presents the idea that professional scepticism is perhaps best left unseen in parts, for it is in these dark spaces that ideas and challenges within the team can be explored, meaning that what is **not** documented about professional scepticism is just as important as what is documented. These undocumented “interactions, exterior to but occurring alongside documentation, allow participants a flexibility in ways that documents do not, and are essential for balancing out the constraints of audit culture.” (Cavanaugh, 2016:694)

Even when challenge is directed outwards, to the client, the evidencing and trace comes through crafted judgment templates that reflect a process built around a rationalised judgment process, although not necessarily the specifics of what occurred. Again, there is a safety in this approach. The backroom negotiations and “pushback” between the auditor and the client are not intended to be preserved. Respondents spoke of meetings with clients that would be minuted to capture their substance and issues, but specifics would not be committed to formal engagement memory. In this situation, as in the mention of review notes earlier, we see the tension between, on the one hand, the transparency of the audit process and the visibility of scepticism and, on the other, the need for a safe space where the audit can operate.

The audit task is already seen as combative and hostile in some situations (Guénin-Paracini et al., 2015). Removing the off the record space for elements of auditor-client and within-audit team discussion could exacerbate this, making the financial statement audit increasingly combative, potentially inhibiting the ability of the auditor to constructively challenge as a result. As noted by Etienne (2015, 19),

In the absence of any safe space, as organization theorists might argue, organizations would address these demands with secrecy, releasing information only strategically.

It is potentially conceivable that an auditee confronted with the possibility that all discussions and debates with the auditor would be fully captured and represented as evidence of auditor scepticism would be less forthcoming in their deliberations with the auditor. This highlights a potential threat to the safety of the audit engagement on several levels, including the firm and litigation risk and the individual and their reputation/career development risks from the traces that might be preserved. Relations between auditor and client could also be stretched were such safe spaces to be removed from auditor-client negotiations and discussions. Broadly, the audit could potentially lose a safe space where there was scope for cultivating doubt and questioning and engagement with client issues and working with the client, rather than against the client (Etienne, 2015).

Both of these examples point to the significance of material traces. When material traces are created the attention turns to how they look and how others could interpret them, with a legalistic focus inevitably coming to the fore (Power, 2007). They also reduce the space in which actions can occur outside the scope of the documentation process. Whether reviewing work or discussing issues with clients, the significance of what is on the paper and what is not on the paper cannot be understated. By pushing for an increased traceability of scepticism we see how the groundwork for scepticism to be operable could actually be eroded as a result.

4.8 CONCLUSION

This chapter has taken the auditability literature and considered its application to professional scepticism, highlighting the practical ramifications of making professional scepticism auditable. In particular, the issue of material traces of scepticism was a focus point. What is apparent from the analysis is that the creation of material traces is a significant act, since it creates accountability and responsibility, with writers on the topic seeing this as a product of the audit society (Cavanaugh, 2016) and legalistic outlooks (Power, 2007; Van Maanen & Pentland, 1994). In creating material traces there are related issues that present for analysis, including the impact on the 'safety' of participants in the process. By making scepticism explicitly traceable the safety is potentially removed. This highlights a paradoxical situation

for audit regulators, as their increased attention to scepticism and their looking for it in engagements could foster the conditions for its vanishing. This highlights for consideration the way that audits are performed and the way that artefacts operate within engagements, with this considered in the next chapter.

This chapter also presents some opportunities for further investigation into the auditability of professional scepticism. In particular, the FRC has made concerted efforts to make scepticism the product of a network, with this including the audit committee and a concern about their assessment of how the audit was performed and the extent of challenge that was exhibited. This broadens the net for the potential sites and sources that influence scepticism and the different ways that traces can be created to evidence scepticism. However, it also shows the problem of audit – the more it is applied and doesn't find something the more it will continue to be applied in broader contexts (Dunn, 2007). The impact of technology on scepticism is also another area for consideration. The IAASB's Data Analysis Working Group (2016) recently raised the question of how data analytics could influence professional scepticism. The FRC and the ICAEW have also conducted their own analysis (Financial Reporting Council, 2017; ICAEW, 2016a, 2017). The auditability of professional scepticism remains an issue, but there are questions about if/how scepticism changes as a result of these technologies. The reports also suggest that data analytics could help improve professional scepticism, but little empirical work has considered how such improvements manifest themselves.

5 THE ARTEFACTUALISATION OF SCEPTICISM

“...the rules, as Garfinkel puts it, are always applied for another first time’.” (Heritage, 1984:122)

“Rather than requiring auditors to perform predefined audit tasks and complete checklists, professional scepticism might be better fostered by methodologies encouraging auditors to ask management relatively open questions and follow up on responses.” (APB, 2010:12)

5.0 INTRODUCTION

This chapter considers the role of artefacts in audit, looking at how they are employed in constructing and capturing auditor professional scepticism. Artefacts are defined as the things created in the process of the audit that serve as a means of representing and inscribing the activities within the audit engagement. These can be of various forms (paper/electronic, textual/graphic) and are seen as having the potential to both reflect and mediate activities in the engagement (Power, 2016). The consideration of the role of artefacts draws on a long-standing tension in the audit literature, which has tended to dichotomise audit process design as emphasising *either* structure or judgment²²⁸ (Dirsmith et al., 1985; Dirsmith & McAllister, 1982a, 1982b; M. Smith, Fiedler, Brown, & Kestel, 2001). Porter (2009:319), using Espeland and Stevens (1998), observes “a dynamic tension between expert judgement and more standardized forms of knowledge and action,” and it is in that dynamic tension that the consideration of artefacts of professional scepticism resides.

Considering artefacts in more detail, this chapter proposes an ‘artefactualisation of scepticism,’ describing how artefacts, generally described as a “useful or decorative man-made object” (OED), are operationalised. In so doing the mechanistic conception of audit through artefacts is problematised and things come to be seen in a different light. This highlights an intra-action relation between user and artefact, with each shaping the other, that challenges ideas of a dominant artefactual agency. This understanding means that agents are not only just as active

²²⁸ Dirsmith and McAllister (1982a, 1982b) use the descriptors of mechanistic and organic, but in essence these are similar to the structure/judgment duality.

as the artefacts in shaping views and understandings of the world, but they work together with the artefacts and shape each other. This interpretation is significant since it points to artefacts taking on new forms each time they are invoked, highlighting the possibility of the artefact, its affordances, and the social setting allowing for things to be seen again as if for the first time (Garfinkel, 1967; Heritage, 1984), as opposed to seen again as per the last time. In other words, they force a new look at things even if the things are familiar to the observer, suggesting a way of overcoming familiarity biases.

This artefactual role challenges the structured/mechanistic conception of audit tools that has led to their criticism for what is seen as a potentially inhibiting impact on auditor thought processes (for example, APB (2010:12))²²⁹ With the domain of professional judgement increasingly emphasised in the contemporary audit setting, seen as an integral part of the operation of professional scepticism, this insight points towards certain contexts where artefacts are a constitutive basis for professional scepticism. It has been noted that “techniques such as standard operating procedures...[become] taken for granted for auditors” (Dirsmith et al., 2015:192), suggesting a decreasing indetermination/technicality ratio (Larson, 1977:41). The idea of the decreasing ratio, which captures the distinction between what occurs as part of tacit knowledge and non-transferable skills, in contrast to what is formalised in rules and procedures, is suggestive of increased routinisation and structure being imposed within an audit (technicality), less tacit knowledge and awareness being applied, or both of these together. Artefacts are typically associated with trends, being seen as the embodiment of formalised rules and procedures (for example checklists in research on audit decision making, or the common reference to tick-box mentalities in regulator discussions). This highlights a central issue for audit - the impact of standardisation on audit quality in general and professional scepticism in particular. Standardisation through artefacts suggests consistency, compliance, and uniformity - a sameness in the way things are done. In contrast, tacit knowledge points to a more variable and flexible application of individual knowledge. It is in this space that the tension is located for professional scepticism, and it is in this space that this chapter contributes to the understanding of artefacts in audit.

²²⁹ Recall that this was a concern in chapters three and four, particularly for the regulators.

This chapter contests the position that artefacts are constraining on the operation of professional scepticism, as reflected in the quote from the APB at the start of the chapter. Instead, it offers an argument that is built around a conception of the audit infrastructure and its relation to artefacts of the audit process. This infrastructure-artefact perspective highlights the relational nature of the audit and provides the basis for considering the audit artefacts from a sociomateriality perspective, which sees the artefacts and the social setting of their operation as “constitutively entangled.” (Orlikowski, 2007:1437) The conceptual implication of this is that “there is no social that is not also material and no material that is not also social.” (Orlikowski, 2007:1437) It points to a need to evaluate both the artefact and the social setting of its use as one combined pairing, an intra-action, rather than each as discrete entities acting between each other. Applying this to professional scepticism results in the consideration of the nature of this entanglement, with the argument that artefacts do not necessarily represent a form of constraining standardisation. In putting this position forward the critical dimension for consideration becomes the artefactual design and its relation with the social setting where it is employed (Gawande, 2010).

This chapter engages with these theoretical understandings of artefacts through the empirical setting of the audit firm, looking at how scepticism is constructed and operationalised within the firm. It employs the idea of the wider audit infrastructure, looking at how artefacts operate within the infrastructure to support the operation of professional scepticism. For professional scepticism and the audit methodology this translates to considering the social and material conditions under which artefacts are employed and how these create conditions of possibility for the operation of professional scepticism.

This chapter uses a field placement with an audit firm as its empirical setting, with the journey into the field described in chapter two. The following section describes the field, mobilising the idea of an audit infrastructure and audit artefacts. The use of the term infrastructure refers to “the basic physical and organizational structures...needed for the operation of a society or enterprise.” (OED) In this case, the physical and organisational structures that are part of the making of scepticism. This infrastructural view provides an understanding of professional scepticism beyond the auditor in the engagement, recognising that what happens in the engagement is influenced by various parts of the firm. This view reinforces that

behind each audit engagement are multiple structures and relationships. Within the individual engagement the infrastructure will provide for various artefacts, with this chapter looking at three specific examples and highlighting their role and operation. Sociomateriality and affordances guide the artefactual analysis, the link to the audit infrastructure, and how they relate to the operation of professional scepticism. Examples of artefacts under consideration are (1) the whiteboard at a planning meeting; (2) the audit steps followed during the substantive phases; and (3) the concluding engagement report as part of the audit wrap-up. These reflect the temporal progression of the audit and highlight a changing nature of scepticism across the engagement as well as a corresponding change in the nature of the artefacts employed. The artefactual analysis highlights their role in the operation of professional scepticism and how they are co-constructed with the social setting.

5.1 THE AUDIT INFRASTRUCTURE AND THE ROLE OF ARTEFACTS

There is a conceptual positioning of the audit infrastructure that needs to be established before considering the specific examples of the audit artefacts. The necessity of this consideration reflects the point that the artefacts employed within the audit do not exist of their own accord. Quite the contrary, they are inherently relational. This is suggested by the idea of sociomateriality (Orlikowski, 2007), which talks of the idea of the entanglement of the material and the social and there being no exclusively material and no exclusively social scenario. But it extends beyond this as well. The artefacts that are to be considered are the result of the coming together of a range of elements – for example technical standards, in-house methodology, ICT that enables the Engagement Management System (“EMS”) and computerised procedures, and firm-based audit manuals, to name just a few elements. These elements combine, their links creating the conditions of possibility for the artefacts to be designed and implemented. Such elements are conceived as a type of infrastructure, a base or frame that supports the operations and activities within the audit firm. This is elaborated in the following section, along with the development of a conceptual link between the wider infrastructure and the instances of artefact usage.

5.1.1 Considering an Audit Infrastructure

In everyday usage the term infrastructure refers to “the basic physical and organizational structures...needed for the operation of a society or enterprise.” (OED). The idea of an infrastructure, as well as techniques for empirically investigating the design and operation of infrastructures, is considered in various pieces of existing work (Power, 2015; Slota & Bowker, 2017; Star, 1999, 2010; Star & Lampland, 2008; Star & Ruhleder, 1996). Collectively, these works highlight some common dimensions for thinking about the audit infrastructure, with a simple definition of the concept offered as

the prior work (be it building, organization, agreement on standards, and so forth) that supports and enables the activity we are really engaged in doing...those systems, technologies, organizations, and built artefacts that do not need to be reconsidered at the start of a new venture. (Slota & Bowker, 2017:529).

Power (2015:44) highlights the dimensions of infrastructure, referring to “roles, oversight structures, and data collection processes.” It is also noted that infrastructure is “the often invisible and neglected ground of visible accounting practices.” (Power, 2015:45) It only becomes visible when components fail. Despite this apparent invisibility, the infrastructure plays a key role in shaping what happens in the individual engagement.

In research work this has been operationalised within the settings of systems development for worm researchers (Star & Ruhleder, 1996). In their work the infrastructure included the technical dimensions (design options, data communication standards, operating system choices, accessibility options) and how these came together for researchers who were users of the system. The salient point of the discussion being that what is significant in the infrastructure depends on the perspective you take, with the visibility of infrastructural components apparent in cases of failure or breakdown. The crucial issues in data transfer standards, for example, may be highly significant and prominent for the telecommunications personnel but are largely invisible to the end users, for whom data transfer is a given and outside their specific functional jurisdiction. The wider implication of the breakdown of the infrastructural elements presented by Star & Ruhleder (1996) is that they become constitutive of practice within the organisation.

Schatzki (2001:2) offers an analysis of practice theory, noting how theorists typically view “practices as embodied, materially mediated arrays of human activity centrally organized around shared practical understanding.” A critical point from this definition is that activity depends on shared understandings and skills. These understandings and skills may be human based, but they may also be represented in non-human forms, making the various material configurations of the infrastructure just as significant as the human dimensions. As is noted by Schatzki (2001:3):

because human activity is beholden to the milieus of non-humans amid which it proceeds, understanding specific practices always involved apprehending material configurations.

These understandings can come in a range of forms, from the setting in which activity occurs to the wider interaction between human and non-human entities in the execution of practice, to how the stability of practices within a community is achieved.

The examination of credit information and failure by Kurunmaki and Miller (2013) refers to a ‘calculative infrastructure’, described as

the relatively stabilised chain of accounting calculations and associated narratives, the ensemble of calculative technologies and rationales that has come to appear necessary for the assessment of both failing and failure. (Kurunmaki & Miller, 2013:1101)

The crucial element of their story is the establishment of an information infrastructure built around networks of people providing information for a team of clerks who would process the information and also answer queries. This came to involve standardised report formats and benefitted from developments in communication technologies, including typewriters, carbon paper and, later on, the ideas of financial statement analysis and financial ratios as a means of assessment. The infrastructure was “a constantly proliferating assemblage of actors, agents, practices, tools, instruments and ideas.” (Kurunmaki & Miller, 2013:1109)

The idea of an infrastructure growing or forming in a process of coalescence was considered by Power (2015), who wrote of an “accretion of infrastructure” (Power 2015, 52) within the higher education setting. Drawing on the infrastructural traits from Star (2010), Power (2015) analysed the construction of an accounting system for impact in research. From the building of the infrastructure it is posited that there are impacts in terms of calculation, subjectivisation, and temporality. Its

focus on the artefact that is created within the infrastructure of the university reporting system highlights the significance of infrastructure and the significance of stability in its structure, components, and operation in order that it is able to self-reproduce in an unseen manner.

This idea of stability of the infrastructure and consistency in operation and reproduction can be extended to the audit setting, where the firms increasingly emphasise their standardisation and consistency. Such a representation is important for the larger firms, who want to be able to argue for consistent quality within their global networks, making the idea of an audit infrastructure an important dimension for reflecting on auditor scepticism. This infrastructural idea of Power (2015) suggests the importance of the processes that are followed within the infrastructure and how these lead to artefacts being created. The nature and type of artefact has been the problem for regulators and others, yet focusing on the artefact alone ignores the infrastructure that brought the artefact into existence in the first place. Checklists as an artefact, for example, may be a regulatory concern for their perceived imposition of structure and ticking and bashing. But there is a need to consider the relations that led to the creation of the checklist, the knowledge, power relations, accountabilities, technicalities and other dimensions of the wider infrastructure that have been brought together in creating the artefact.

Relating to the audit, Dirsmith et al. (2015) refer to an engagement infrastructure as “such techniques as standard operating procedures” (Dirsmith et al., 2015:192) with audit teams taking “them for granted as what audits should entail.” (Dirsmith et al., 2015:192) This phrasing from Dirsmith et al. (2015) is telling when taken to the consideration of scepticism, suggesting that a set of structures are taken as given. This is not necessarily a problem for scepticism, but it depends on how the procedures are designed and represented, for example do the rigidly structure processes or is there flexibility that incorporates space for judgment and reflection. (Such issues manifest themselves in the design of the artefacts within the audit, which is consider in the next section.)

The Dirsmith et al. (2015) idea of the infrastructure also points to the physical, organizational, and informational structures that make the audit possible. Considered in such a way, the infrastructure of scepticism becomes broad in its scope, including policies (recruitment, career progression, review, client acceptance), procedures (methodology), technologies (computer systems, engagement software, analytical

tools), resources (knowledge bases accumulated over time), control systems, and the relationships that link these components to each other, as well as to the actors inside and outside the firm. Viewed in such a way, the relational nature of the infrastructure for scepticism means that scepticism is more than just the individual auditor in an engagement. Scepticism is now seen as conditionally possible, based on the coming together of the individual and the audit firm structures applied within the client setting.

These various items on their own are of little empirical interest. Rather, the focus is on how they come together and relate to each other and those within the firm. Through these relations the basis for the artefacts used in individual engagements are created. In this light, the focus becomes the “the backstage elements of work practice” (Star, 1999:380) as they are made frontstage in an “infrastructural inversion.” (Star, 1999:380). The story of how artefacts are created becomes just as significant as the artefact itself and how

Things only exist in relation to each other...[they] have no inherent properties, but acquire form, attributes, and capabilities through their interpenetration. (Orlikowski & Scott, 2008:455-456)

This becomes apparent in the discussion of audit methodology with the firm, where the overview provides me with an outline of procedures and approaches that are applied and how these are seen to relate to the audit standards and professional scepticism.²³⁰ On their own, these are policy documents and procedure manuals. But, through their link to engagements, engagement teams, clients, data systems, and other dimensions of professional life, they become a shaping element for life and living in the firm environment. Further, to represent the relations and, in effect, make the infrastructure visible in an invisible way,²³¹ there is a need for artefacts.

This manifestation of the infrastructure through artefacts is crucial in the ability to frame how things are both done and seen. It is argued that this occurs through the various artefactual instances that exist within the firm. In this case artefactual instances are the set of artefacts created and used within a specific engagement. Borrowing from Power (2016:275), things “can only be made real and

²³⁰ Field Journal 8 May 2017; Material from audit manual provided within meeting.

²³¹ This is referring to the idea that the artefacts are the manifestation of the infrastructure so the artefactual existence represents the underlying infrastructure, but not to the point that the various components and relations are evident.

actionable in the present by being somehow captured and represented.” It is the creation of the artefact in a specific engagement that is seen as the means for this capturing and representation. The artefact is the combination of infrastructural elements (for example, communication technology, professional standards, firm methodologies, staff skills) and making them representations of “modern knowledge practices.” (Riles, 2006:7) This capturing and representation is made possible through the engagement specific nature of the artefacts.

5.1.2 Artefactual Sociomateriality

As was previously noted, the OED defines artefacts as a “useful or decorative man-made object.” (OED) The academic consideration of artefacts reflects this idea of purpose or functionality, as well as their being man-made. For empirical work, the artefact is also “what the ethnographer looks for in the field.” (Riles, 2006:17) The link between the wider audit infrastructure and the artefacts of the audit is here conceived of and related through these ideas of manifestation and instantiation. In understanding the role and position of artefacts in the audit infrastructure, conceive of the audit infrastructure as the various elements that were previously mentioned (people, policies, methods, technologies etc). Under this conception of artefacts, the audit working papers for engagements represent an example of an artefactual instance, since they are created for each engagement and, as inscriptions of audit activity, aim to document the work carried out and the basis for the audit conclusion. The working papers consist of a series of artefacts created and applied to the different accounts, risks, and other aspects of the engagement. The artefacts are a localised (engagement specific) manifestation of the infrastructure at work, specific instances of more generalised templates, structures, and guidelines. How these artefacts operate is the empirical interest, with questions addressing how they are employed in the engagement to create professional scepticism and how the artefacts travel through the audit process.

The structure-judgment tension manifests itself through competing demands in audit, with firms looking for a demonstrable consistency in quality, as evidenced by standardisation and quality control procedures (Bedard, Deis, Curtis, & Jenkins, 2008; Pierce & Sweeney, 2005; Sweeney & Pierce, 2004). The depiction of the engagement in the working papers and documentation is constructed to demonstrate

compliance with procedures and regulations and provide a view of audit as a process of sanitisation (Pentland, 1993), it is a rationalised account built around the support of the audit opinion. As procedures become standardised they become a way of seeing, an accepted norm that is taken for granted. The basis of the regulatory concern towards artefacts stems from this point, with artefacts being seen as a representation of accepted knowledge (Riles, 2006) and practice and potentially closing down alternative thought. Essentially, part of the regulatory argument is that an over-reliance on checklists and other structured decision aids means that auditors audit to the checklists and lose the sense of the periphery (APB, 2010). Similar concerns were raised about the use of artefacts as a means of altering the distribution of labour in order to enable the use of less-experienced staff (Prawitt, 1995). These positions are suggestive of a technological determinacy that shapes procedure and constrains action and the space for judgment. For example, as was noted at the start of the chapter, the APB suggested that:

Rather than requiring auditors to perform predefined audit tasks and complete checklists, professional scepticism might be better fostered by methodologies encouraging auditors to ask management relatively open questions and follow up on responses. (APB, 2010:12)

But suggesting it is the artefacts alone that constrain views is perhaps misleading. The emphasis on judgment in audit, in light of fair value estimates and the complexity of the financial reporting domain (Martin et al., 2006; M. Nelson & Tan, 2005; Smith-Lacroix et al., 2012) has highlighted the mixed demands of the current audit environment. The uncertainty attached to estimates and their variable audit demands means that artefacts alone are not a solution for audit, requiring interactions across various areas of expertise. However, artefacts are also argued by those within the profession as necessary in order to keep track of compliance with various regulatory requirements in an increasingly complex setting.²³² This suggests that it is not so much an issue of artefacts constraining judgment, but more a question about how they shape action that is of relevance. Since all technological artefacts are

²³² Various submissions to the APB's 2010 discussion paper on scepticism made the point that the increasingly technical and complex reporting environment was the driving force for the increased presence of checklists and other structured devices.

a product of social interaction, the impacts of artefacts are also product of social interaction, meaning that “all action that constitutes organization is no more or less social than it is material.” (Leonardi, 2013:65)

It is from this perceived shutting down of judgment or a space for open thought that concerns for professional scepticism arise. With professional scepticism defined in the standards as a mindset that is present across the engagement and considering possibilities of errors and misstatements,²³³ the perception is that structured and binding routines embedded in artefacts do not provide a space for this mindset to operate. Essentially, the suggestion is that the mindset becomes one of compliance under such an artefactual design. Regulatory discussions have highlighted such concerns, as well as the potential impact of the environment of the audit, where time pressures, compliance pressures, firm culture, and other social influence can also play at how the individual auditor and the team of auditors is/are able to operate with scepticism as a constant possibility (APB, 2010).

The mention of both the technical and social dynamics of the audit engagement setting moves the consideration of artefacts from a perspective that sees them as sole determinants of auditor activity to one where they are a co-factor, along with the social traits referred to earlier. In so doing there arises a consideration of both the material artefact and the social setting in which it is employed. Under this view, we are able to challenge the idea that technology is a largely exogenous influence and raise the possibility that it is more endogenous in nature (Bijker, 1995; Orlikowski, 2010; Orlikowski & Scott, 2008). Artefacts impact on human action, shaping behaviours and the way that things come to be known and seen, providing a representation of the knowledge practices for a particular community (Riles, 2006:17). Equally, humans impact on artefacts. Suggestions of one-way agency are limited in what they describe, as is argued by Riles (2006), who comments “we are interested in how diverse types of agency are produced, stretched, or abbreviated through the medium of the document; in short, in the responses, human and non-human, that documents demand or offer up.” (Riles, 2006:21) Under this conception the artefact and its engaged parties are neither exclusively active or passive. Rather,

²³³ See, for example, FRC (2016), ISA(UK) 200, from [https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-\(UK\)-200-Revised-June-2016.pdf](https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/ISA-(UK)-200-Revised-June-2016.pdf)

responses and actions can be a product of both the artefact and the user. This is suggestive of a tighter coupling between the two, with this leading to a sociomaterial consideration of artefactual operation.

When the technological artefacts shift from an exogenous, stable, predictable, and autonomous influence acting on the social setting to a part of the dynamics of the social setting the understanding of their operation changes accordingly. What eventuates from this repositioning is the possibility that the artefacts operate and need to be considered based on “how meanings and materialities are enacted together in everyday life.” (Orlikowski, 2010:135) This leads to the consideration of what has been termed sociomateriality, which is based on the premise that “*every* organizational practice is *always* bound with materiality. Materiality is not an incidental or intermittent aspect of organizational life; it is integral to it.” (Orlikowski, 2007:1436, emphasis in original) Under this approach the technology is not treated functionally, nor is it diminished by an emphasis on the human side of activity. Rather, a sociomaterial perspective “allows us to explicitly signify, through our language, the constitutive entanglement of the social and the material in everyday organizational life.” (Orlikowski, 2007:1438) This view brings to the foreground the relational nature of the social and material, “with human actions constituted through relations of materiality [like the devices and tools used in the audit]...[which] in turn is produced through human practices.” (Orlikowski, 2007:1438)

Sociomateriality sees the material artefacts and the social settings in which they operate as a “constitutive entanglement” (Orlikowski, 2007:1438) (further discussed by Mutch (2013) and critiqued by (Leonardi, 2013)). This has been the theme of the work that considers the idea of sociomateriality (Orlikowski, 2007, 2010; Orlikowski & Scott, 2008). With materiality having been typically underemphasised or treated as a ‘special case’ in instances of technological change, rather than as an ongoing presence and influence (Orlikowski, 2007), while also having either a techno-centric or human centric perspective. The first of these results in the reification of technology, while the latter tends to hide the role of technology (Orlikowski, 2007).

This idea of a “constitutive entanglement” indicates a togetherness of the social and material. If we think of the application of this idea to professional scepticism, it raises some possibilities that extend beyond the closing down of thought through the functional determinism mentioned earlier. It posits that the artefacts of

the audit process are not just a product of technology, but a product of the time and place in which they are called upon. Constitutive entanglement, in this light, is suggestive of variability in artefactual design, with this coming about through both the material influencing the social and the social influencing the material. Taken to its next step, this posits the possibility of artefacts operating as a way of creating spaces for judgment, questioning, and doubt – those behaviours typically linked to professional scepticism. In such a setting, the constitutive entanglement could actually operate to open up spaces for unstructured and open-ended considerations, as opposed to closing it down. The artefacts in this light may still operate in a routine manner, but the nature of the routine that they trigger could be open ended. It is the conditions of the social and material that make this possible that are the interest in this chapter.

This raises the need to consider artefactual functioning within the audit setting. Specifically, how and when artefacts operate to promoting and constituting professional scepticism. It is here that insights from ethnomethodology can be drawn, with Garfinkel (1967) offering for consideration the way that norms can be shaken up or reset in order that they appear new, even if carried out on a frequent basis. This idea of seeing things again as if for the first time (Garfinkel, 1967; Heritage, 1984), presents the instance of a forced new look at seemingly familiar things. For the operation of scepticism this could be the way that knowledge about a continuing client is refreshed and questioned each year or how cognitive biases or autopilot approaches that diminish attention to detail are triggered (see, for example, the discussion in ACCA, 2017).

This refreshed view that comes from artefacts points to the importance of context, and also carries with it a suggestion of artefactual indexicality (Garfinkel, 1967) – the idea that the artefacts are a product of a unique time and space and combination of their materiality and social dimension. Such openness and the ability to promote conflict as well as close it down also points to variability in artefactual affordance. This alternative view of artefacts is the result of considering both the materiality of the artefact and the social conditions under which it is employed (Orlikowski, 2007, 2010; Orlikowski & Scott, 2008). It is not only the existence of the material artefact, but also its affordances and its relation to social settings that bears consideration. This repositions the structure-judgement debate, for while it suggests an answer at the extremes of totally structured or totally social,

sociomateriality recognises the importance of both the artefactual structure and its social use. While the design of the modern audit process may indicate a tendency for standardisation and potential automation through information technology, with this impacting audit performance and auditor professionalism (Dirsmith et al., 2015), these conclusions also need to consider the nature of the technology and problematize the idea of automation.

5.1.3 Artefactual Affordances

The preceding discussion raises for consideration the idea of affordances (Gibson, 1986; Hutchby, 2001). Originally developed by Gibson (1986) in the ecological setting, considering how animals process their environment, affordances of the environment were described as what the environment offered the animal (Gibson, 1986:127), with these offerings being fixed, since “the object offers what it does because it is what it is.” (Gibson, 1986:139). The perceived offerings of objects can be understood by considering their context, with Gibson using the example of a mailbox to illustrate how it only affords sending mail in contexts where there are also people who write letters and some mail system that facilitates the distribution of the letters. Affordances in this explanation are properties of things viewed from the perspective of the observer, with their view shaped by their extent of socialisation. For audit artefacts the social element plays a role, with the affordances shaped by both the nature of the artefact and the interactions with the artefact.

Hutchby (2001) applied this idea to the setting of technology, in an effort to overcome the duality of realism and constructivism for understanding the function of objects, or the question of whether technology determines or is determined by the social. Hutchby comments that:

affordances are functional and relational aspects which frame, while not determining, the possibilities for agentic action in relation to an object... technologies can be understood as artefacts which may be both shaped by and shaping of the practices humans use in interaction with, around and through them (Hutchby, 2001:444)

Under the Hutchby interpretation, affordances are a product of the relation between people, artefact, and setting, suggesting that contextual relationships that arise in specific settings or events play a role in this artefactual shaping of and shaping

by humans. The nature and demands of the context will provide the basis upon which this shaping occurs:

When people interact through, around or with technologies, it is necessary for them to find ways of managing the constraints on their possibilities for action that emerge from those artefacts' affordances. (Hutchby, 2001:450)

This process of managing the constraints and possibilities leads to technological artefacts that are at the intersection of what the person wants to achieve and what the artefact will allow them to achieve:

technological artefacts do not amount simply to what their users make of them; what is made of them is accomplished in the interface between human aims and the artefact's affordances. (Hutchby, 2001:453)

This is suggestive of the entanglement between social and material that arises in the sociomateriality perspective offered by (Orlikowski, 2007, 2010; Orlikowski & Scott, 2008). Applying this to auditor professional scepticism raises for consideration how the affordances in the technological artefacts that are part of the audit lead to the conditions that create the possibility for scepticism to be triggered or applied.

Regulators and standards require “an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.”²³⁵ Further, there is the requirement that “the auditor shall plan and perform an audit with professional scepticism recognizing circumstances may exist that cause the financial statements to be materially misstated,”²³⁶ with this to be maintained across the duration of the engagement. With this comes the consideration of the systems in place within audit. With the role of technology in the audit documented, and seen to be increasing in its impact on a range of tasks and wider logistics of the audit process (Dowling & Leech, 2007, 2014; Griffin & Wright, 2015; Janvrin, Bierstaker, & Lowe, 2008), and tools like checklists have attracted attention (Boritz & Timoshenko, 2014), as has the environment in which the audit occurs and its impact on practitioners (Gill, 2009; Guénin-Paracini et

²³⁵ ISA (UK) 200, para 13(1)

²³⁶ ISA (UK) 200, para 15

al., 2014; Guénin-Paracini et al., 2015) the consideration of how these various artefacts impact professional scepticism is pertinent. The affordances of the various technologies and their artefacts and how these are seen and used by auditors in the field provides an angle on professional scepticism that recognises how the technology and the user operate together. In the case of professional scepticism, the attention turns to how the artefacts of technology create possibilities for scepticism and also the opportunity for it to be captured in the engagement records. It is this which forms the focus of the following sections, which observe the artefacts of a firm's audit technologies in action.

5.2 DATA AND CODING

The empirical data for this chapter comes from the field placement with an audit firm. The placement involved periodic meetings and interviews, focus groups, and participant observation between March 2017 and May 2018. During the placement data was gathered in four ways, (1) materials provided by the firm, (2) semi-structured interviews with representatives from the various areas of the firm, (3) focus groups with Managers/Senior Managers and Directors/Partners, and (4) participant observation of an audit engagement. Data coding was performed in an iterative manner and was based around the theoretical aspects of interest, with these being professional scepticism, sociomateriality, infrastructure, artefacts, and affordances. The starting point for the coding was a review of the field journal. Raw coding initially focussed on what was mentioned by participants – for example, mentions of review comments were tagged as an example of an artefact, their usage and format were captured (electronic, process of review), and aspects relating to their operation (for example, what events they provided for and how they were kept). These descriptions were mapped to the concepts of artefacts, affordances, infrastructure, scepticism, and sociomateriality using the guidelines in Table 11 (see page 233). As I read through my field notes I annotated the margin of the page with words or phrases that reflected particular theoretical elements of interest – for example “Review comment - Artefact”.

Table 11 provided the starting point for the coding, mapping out the different theoretical concepts and the aspects that were looked for and the types of points annotated in the journal. These aspects came from the research question for the

chapter, which specified an interest in how artefacts were used in the construction and operation of professional scepticism. References to artefacts, their design, usage, and related matters were of interest. When coding descriptions as an artefact the emphasis was on the reference to a specific audit instance or engagement. For example, a template or standard profile is a resource available from the firm wide resources and is seen as infrastructure – so discussion in general terms about audit steps and templates were part of infrastructure. They would be classified as an artefact when an example was provided that showed how it applied to a specific engagement and was completed within the context of a specific engagement setting (for example, a completed workpaper – once it is completed it goes from being an infrastructure item (a template or audit step) to an artefact from a specific engagement. So, with reference to the firm's resource of template procedures and audit steps contained in the audit steps data store, these are not considered an artefact until they are brought in to a specific engagement and applied to the engagement setting.

Sociomateriality was reflected in the coding through an attention to both the material form of the artefacts as well as the interaction that took place around them. This included references to how auditors engaged with an artefact or how a group of auditors would engage in the presence of an artefact, with attention to how the engagement occurred and how the material and the social were operating. So, at the base level, aspects like individual or group use, the nature of the interaction between the user and the artefact (for example, directed and prescriptive or open ended), and links between the artefact being used and other artefacts or stages of the engagement were considered.

Affordances were identified based on descriptions and examples of what the different artefacts provided for or allowed to happen. For example, paper based working papers meant that teams had to come together more frequently, while electronic working papers provided flexibility and remote access. A further example is that a space in a spreadsheet invited comments to be made on a particular matter.

Infrastructure was coded with reference to the idea of a supporting framework for the conduct of the engagement. This meant that references to audit standards, audit manuals, audit steps, analytics technology, firm culture, training, and technology were identified. These operated across the firm and provided the basis for artefacts to be created in specific engagements (for example, audit steps, technology,

and audit standards come together in the creation of working papers in the engagement management system).

From the initial coding groups specified in Table 11, examples and references from the field notes and other data sources were reviewed, with attention to what was happening for the different artefacts that were mentioned. This went beyond their physical reality to conceptual dimensions of what was happening with the artefact. A finer thematic coding was then developed based on patterns in the initial coding groupings. These picked up the artefact type, audit stage, and the different ways that they related to scepticism. This led to five thematic groupings, with these being durability, conflict and closure, conflict and possibility, artefacts and infrastructure, entanglement of the social and material (see Table 12, page 234).

The initial coding highlighted some differences in artefacts, particularly regarding their life within the audit process. Examination of these differences further led to the conceptual coding of opening scepticism, closing scepticism, and conflict. The opening of scepticism captured artefacts that were temporary in nature and through their operation afforded an open space for questioning and challenge. Closing scepticism referred to artefacts that were the result of a process of questioning and challenging. The key link between these two is the idea of conflict, which was seen as the contestation of ideas and different positions. The opening artefacts afforded the space for this conflict which, once resolved, led to a closed artefact being generated. These are conceptually linked to the idea of working through issues (opening) in order to gain comfort (closing).

These are summarised in Table 12. Each of these groupings reflects a different aspect of how the artefacts were employed and how this related to professional scepticism.

Table 11: Initial coding categories - Chapter 5

Concept:	Look for:
Sociomateriality	Use of technologies? Creation of artefacts?
The entanglement of both people and technologies	How are artefacts used? What is the nature of the engagement with the artefact? How do the artefact and the user interact? In what setting?
Artefacts	Artefact Examples:
Items created, completed, or used during a specific audit engagement. For example, documents, checklists, spreadsheets.	<ul style="list-style-type: none"> - Checklists? - Spreadsheets? - Completed Templates? - Documents? <ul style="list-style-type: none"> o Different examples of documents individually identified - Whiteboard
	How are they used? When / Where are they used? Who uses them? What is their format? (Paper/electronic)
Affordances	How are the artefacts used?
What do the artefacts allow?	What behaviours do the artefacts allow? How does the behaviour allow the behaviour?
Infrastructure	Elements of infrastructure Examples
The physical and organisational structures necessary for operations	What are they doing? Who sees them?
Professional Scepticism	Where is it referred to? How is it defined? Examples of operation Examples of conception / meaning Examples through actions Challenges to its operation

Table 12: Analytical Groupings

Concept	Description	Examples referred to
Durability	Covers the life of the artefacts within the engagement, with consideration of which artefacts survive and which are temporary.	Review notes are closed (deleted) Whiteboard markings are erased Audit steps are permanent and the basis of the file
Conflict and Closure	Artefacts create and resolve conflict in a particular stage, providing a boundary on scepticism	Resolution of review comments leads to finalised audit steps Finalised planning leads to a planning memo
Conflict and Possibility	The preparation of an artefact in the future encourages certain behaviour in the present	Completed engagement report and knowledge of its preparation encouraging sceptical action
Artefacts and Infrastructure	Bringing the infrastructural elements into the artefacts	Team specific metrics and links to firm culture External references from engagement leader
Entanglement of Social and Material	Addresses the linking of affordances, social, and material in scepticism	Changing format of audit steps and impact on how engagements are run

5.3 CONSIDERING THE ROLE OF ARTEFACTS

5.3.1 *Context of the Firm*

The participating firm was a professional service firm with offices in multiple locations and a client portfolio across a range of industries. The sections of the firm that were involved in the field work included Human Resources (Recruitment, Performance Appraisal/Promotion), Assurance Methodology and Risk Management, Learning Function, Assurance Development, and various audit practitioners.

In considering these different elements of the firm there was a common thing that seemingly united them all, the engagement management system. As a result, this will be used as a way of reflecting on the infrastructural elements and highlighting how these elements come together through the artefacts that are encountered in the engagement setting. The engagement management system was referred to by the Assurance Development representative as a “tool of the auditor” that can “help prompt you to do the right thing” and “keep you safe.”²³⁷ The idea of keeping you safe was elaborated, with the description referring to the system’s role as a documentation tool. It captured documentation from the engagement and also provided a basis for documentation to be created. An audit Partner referred to the system as an example of smart documentation that aims to set you up to pass not fail in the engagement. This meant that the relevant documents and working paper sections that needed to be completed for an engagement were created by the system based on initial client details and settings.²³⁸

Central to the engagement management system is the technical knowledge underpinning the audit, with this broadly grouped into two types, In-Firm Guidance materials and manuals and the ISAs.²³⁹ These are accessible within the different sections of the system and are also linked to the audit steps that are selected by the system as the engagement file is created. This is done through the combination of the database of audit steps and a set of rules for audit step selection,²⁴⁰ with their combination producing a set of required areas of attention for an engagement. The rules and selection process behind audit steps being included in an engagement file

²³⁷ Field notes 19 January 2018

²³⁸ Field notes - 4 December 2017 – Partner Follow Up Meeting

²³⁹ Field notes 19 January 2018, 8 May 2017

²⁴⁰ Field notes 19 January 2018

was not seen as extremely high-end machine intelligence, described more as a set of if-then rules that populated the audit file with certain procedures based on particular client characteristics or risk settings.²⁴¹ These are reflected in the engagement file, which is a specific instance created within the engagement management system for a particular engagement. This engagement file is accessible to all engagement team members, whether they are working on-site, in the firm's offices, or from a remote location. It is also visible to certain members of Assurance Methodology and Risk Management and those inhouse who provide advice and clarification on issues as the engagement progresses.²⁴² Underlying this is a communications layer that handles data transmission and storage, managing versions of the engagement file where multiple users are working at once, and other such issues. The engagement file is the critical nexus for the engagement.

The system is also linked to a data analytics tool, which takes dumps of client data and produces analytics of revenue and journal entries. The operation of this requires a background technology that is able to capture client data, format it to appropriate styles and make it usable in the analytics system. Much of this will be invisible to the auditor in the field. For the auditor on an engagement they will see the various analytic outputs, which can include summaries of data sets that were analysed (for example, the number of journal entries) and a breakdown of transactions based on various criteria (for example, time of transaction, who entered the transaction). A diagram of the Engagement Management System is shown in Figure 4 (page 238).

The system as it appears to the auditor is dominated by a timeline representation of the key audit stages or phases, with these being (1) Understand and Plan, (2) Risk and Response, (3) Execute, (4) Complete, and (5) Review. Each of these stages is linked to more detailed information and they drive the content displayed in the other frames within the screen. This means that when a particular phase is selected the relevant items for execution and the detail of these change accordingly.²⁴³ The system also uses a range of traffic light indicators to show

²⁴¹ Field notes 19 January 2018, 4 December 2017 – Partner Follow Up Meeting

²⁴² Field Notes 24 January 2018, 11 May 2018

²⁴³ Fieldnotes 4 May 2018

progress²⁴⁴ and risk assessments.²⁴⁵ Progress on each aspect of audit work is visible, as is the person working on the area, and the stage (i.e. work being done, reviewed etc). This means that there is a visibility within the engagement team.

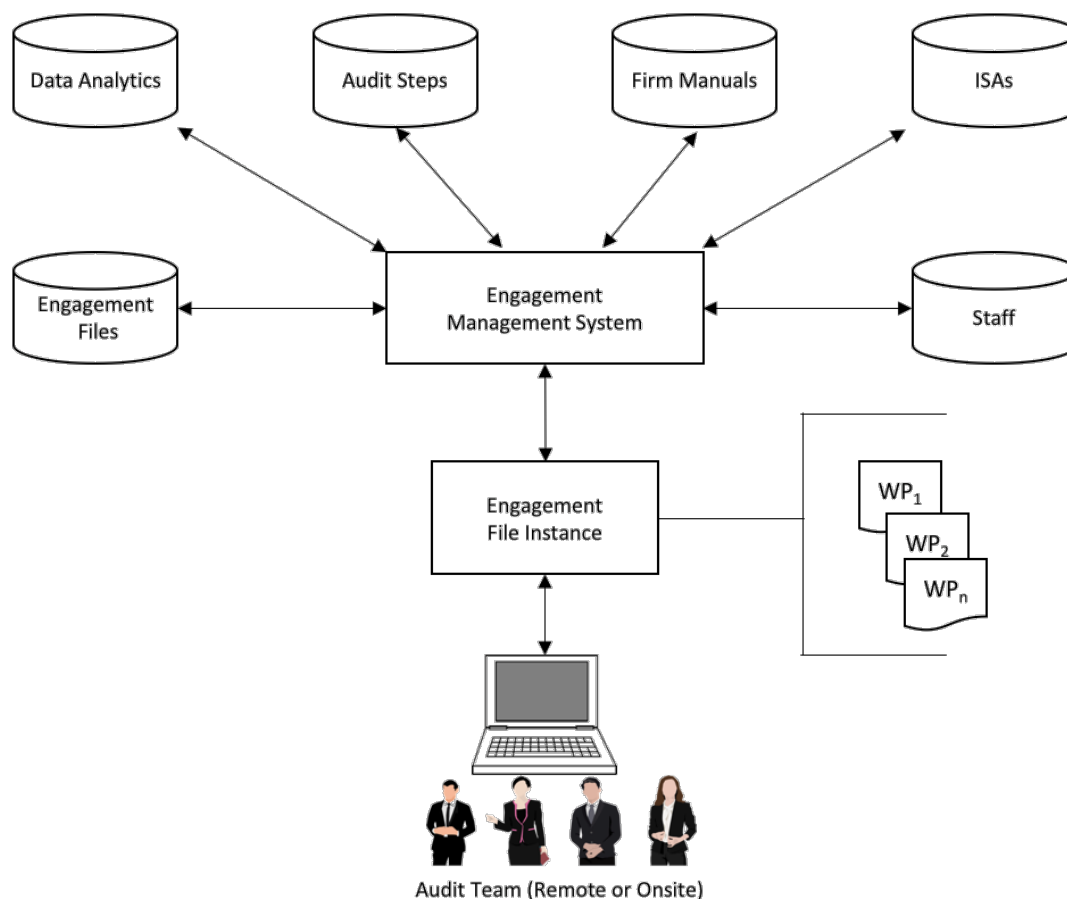
Within this system we see the elements of the firm's infrastructure coming together. Relationships between client details, risk and audit step requirements and the database of audit steps drive the content and structure of the engagement file but are largely invisible to the auditor in front of the computer. Within that the audit step procedures and other elements in the file are linked to relevant in-house guidance and profession-wide ISA requirements. The infrastructure acts to bring together professional and legal requirements (audit standards, legislated requirements), in house requirements (manuals and guidance on procedures and audit issues), and client specifics together within the audit file. As an example, the firm manual contains an entry on professional scepticism that provides guidance on how the audit standards and other requirements can be addressed and examples of how professional scepticism could be applied at various stages in the engagement.²⁴⁶ The manual was also referred to during the participant observation, where it was suggested as a guide for some of the audit issues that were being discussed.²⁴⁷ The range of relationships (regulatory, legal, professional, client) encompassed in this coming together in the audit file is broad. These will then have their own specific artefactual representation, as working papers that are created within the engagement file. It is to these that we now turn our attention as we consider how different artefacts are employed across the stages of the audit engagement.

²⁴⁴ For example, one engagement team member referred to the dark red colour that comes up when progress is behind schedule (Field notes 4 May 2018)

²⁴⁵ Field notes 4 May 2018

²⁴⁶ Extract from manual provided 8 May 2017 - Meeting with Assurance Methodology and Risk Management

²⁴⁷ Field notes 4 May 2018



ELEMENTS OF THE ENGAGEMENT MANAGEMENT SYSTEM

Element	Explanation
Engagement Files	Store of files created for audit engagements. Each engagement will have one file, which becomes the ENGAGEMENT FILE INSTANCE.
Data Analytics	The tools and results from data analytics applied to a client's transaction dataset
Audit Steps	A database of audit procedures that are selected for an engagement based on the client profile and risks
Firm Manuals	Resources developed by the firm to guide auditors through the application of audit steps and compliance with ISAs
ISAs	International Standards of Auditing
STAFF	Staff details and schedules
Engagement File Instance	The specific file for an engagement
WP ₁ ...WP _n	The collection of individual work papers attached to a particular engagement – the completed audit steps for a specific client.

Figure 4: Engagement Management System

5.3.2 *Planning - Seeing the Client as New*

There are a range of artefacts that come in to play, with these highlighting a contrast in the durability and formality of the early stage artefacts. The actions associated with the artefacts also provide insight into the planning process and how there is an attempt to both see things again as if for the first time and to provide an enduring trace of activities and outcomes for subsequent stages of the engagement. There are two key artefacts that were mentioned in this stage, the formal minutes of a planning meeting and the mind mapping of client risks and challenges during the planning stage. In considering these two artefacts, descriptions of their operation will be provided, based on focus group discussions, interviews, and comments from those in the field. The firm infrastructure will be referenced, pointing to how it provides a frame for the exercise of these activities and how the design of these activities reflects two particular aspects of artefactual operation, these being (i) the opening and temporary closure of scepticism, and (ii) the durability of the inscriptions generated in the planning stage.

The Whiteboard

The planning meeting, held at the engagement ‘kick-off’ represents a chance for the for the engagement team to consider the client and the risks and issues that may need to be addressed during the audit. This stage was referred to during the focus groups that were held, with references that suggested an open-ended possibility for ideas and questions about the client. Two managers,²⁴⁸ for example, described the physical act of their conduct in these planning meetings.

“...we do kick off meetings same year on year...these are [to identify] the significant risks...[I would typically] stand in front of the white board [and proceed] to explain the [client] company...[This process] helps you build up a picture and where it fits into the business and how it fits in. Putting the manager on the spot, getting them engaged, came up with good questions: Why does it take 6 weeks to get from there from there....kind of building up a conversation to get a memorable and relatable view. If you

²⁴⁸ Fieldnotes Focus Group 2, 11 July 2017

don't understand how a business operates, you can't be Professionally Sceptical."²⁴⁹

"completely agree, had kick off meeting yesterday...I can't draw, but I do like doing visuals, really helps understand."²⁵⁰

These two managers spoke consecutively in the focus group and referred to the process of them standing in front of the team and mapping out the sources of revenue and other aspects of the client processes on a board. In so doing a range of questions about the client would be fielded and represented in the accumulating collective memory of the whiteboard.

This use of the whiteboard is an example of artefactual agency in the process of planning and constructing a basis for scepticism. Its literal clean slate physicality means that it literally allows for the client to be seen again as if for the first time (Garfinkel, 1967; Heritage, 1984). The open space of the board provides a basis for mapping out ideas and concerns as if freshly envisaged and contains no pre-required format or structure. The board allows them to build up their collective understanding, as well form their early expectations of what the client does look like (represented by the diagrams) and ideas of what the client should look like (represented by the questions and follow up points).

At the surface this is a brainstorming session that sets the scope for the engagement to come. However, beyond the artefact of the whiteboard exists an infrastructure that is apparent. For example, the mention by the manager of considering revenue and revenue sources for the client points to the bringing in of relevant ISAs and methodology guidelines that require the consideration of revenue and the potential for fraud or misrepresentation in revenue items.²⁵¹ The methodology guidelines also mention that there is no assumption that the risks for a client will be the same year on year,²⁵² with Audit Methodology and Risk Management raising the need to annually ask what happened in the client's business environment?²⁵³ Physical composition of engagement teams – and the rotation of team members – was seen as

²⁴⁹ Fieldnotes Focus Group 2, 11 July 2017 – Quote from the notetaker's account of the conversation

²⁵⁰ Fieldnotes Focus Group 2, 11 July 2017 – Quote from the notetaker's account of the conversation

²⁵¹ Field Notes 8 May 2017

²⁵² Field Notes 8 May 2017

²⁵³ Field Notes 8 May 2017

one way of working towards this fresh look²⁵⁴ - but so too was the imperative of considering the dual questions of (1) what do we know about the client? and (2) what has changed? The firm's infrastructure provides guidance on this, with the manual suggesting an element of "unpredictability" in the audit plan through changed procedures year on year, with these helping avoid predictability by the client while also encouraging the fresh reconsideration of risks and client factors within the audit team.^{255,256} These provide a starting point for the planning meeting.

The Minutes

The outcome of the planning process will be the meeting minutes, with the firm's infrastructure again suggesting that scepticism be documented in several ways. Meeting minutes and the capturing of the ideas about 'what can go wrong' are two specifically mentioned examples.²⁵⁷ The engagement manager made explicit mention of the minutes from such planning meetings, noting how they would be pervasive across subsequent stages of the engagement and inform audit execution.²⁵⁸ Their presence was never far away, with a Junior Auditor showing me how they were accessible through the engagement management system as part of a step within the planning activities.²⁵⁹

5.3.3 Audit Steps and Evidence Collection

The evidence collection is driven by the set of audit steps. The history of these audit steps provides an insight into how they came about and how they have changed over time. The initial collection of audit steps were developed based on a review of several engagements across the firm some years ago. The Engagement Manager was involved in the development of these, recounting how the process was carried out. As described, a sample of audits from across the firm were selected and a roundtable was held with the people involved in those sampled audits, asking them what they did when they were auditing a particular financial statement line item or area. The

²⁵⁴ Field Notes 8 May 2017

²⁵⁵ Field Notes 8 May 2017; Audit Manual extract on professional Scepticism.

²⁵⁶ Field Notes 4 December 2017 – Follow Up Interview – Manager Focus Group

²⁵⁷ Firm Audit Manual Extract

²⁵⁸ Field Notes 11 May 2018

²⁵⁹ Field Notes 4 May 2018

procedures used for the various risks and financial statement line items were then reviewed and discussed at a roundtable, in order to understand why the different procedures were used and how they were positioned in relation to the audit goals for that particular area. The Engagement Manager mentioned that this was not an exercise in saying what was good or bad procedure, rather it was about understanding the variability in practice at the time. The team involved in the audit step development then needed to consider why and how things were being done differently across engagements before the procedures were codified as standardised procedures. The intent behind this process was two-fold, with mention of a drive for consistency as well as a tool that would mean that audit “teams don’t have to reinvent the wheel.”²⁶⁰

Initially the procedures were made available in a book format, then an electronic booklet, before moving to its current format as built in procedures linked via rules and association to risks and financial statement line items, with the audit steps now built into the firm’s engagement management system. Their application to an engagement is determined by working through a series of questions that essentially profile the audit client.²⁶¹ Based on the answers provided the set of relevant audit steps is generated and these then populate the electronic engagement file in the engagement management system. Assurance Methodology and Risk Management first described these audit steps to me, presenting me with a printout of how they appear on the computer screen. I commented on their checklist type appearance, to be told that they were not checklists - a “checklist implies you just tick it and do nothing else.”²⁶² The explanation that followed explained how the audit steps were a basis for further action and not closed checklists, highlighting how the audit steps were viewed as a basis for action, rather than a specific list of procedures.²⁶³

As described by various participants, the audit steps provide the basis for an audit file where risks, procedures, financial statement line items, and supporting

²⁶⁰ Field Notes 11 May 2018, Discussion with Engagement Manager

²⁶¹ Field Notes 8 May 2017– Assurance Methodology and Risk Management; 4 December 2017 – Follow-up Interview – Partner, Follow-up Interview – Manager; Field Notes 4 May 2018; 11 May 2018 – Discussion with Engagement Manager

²⁶² Field Notes 8 May 2017

²⁶³ My initial observation was based on a paper printout of the screen appearance of the audit steps. This meant that affordances like the space for addressing the audit steps and their more detailed operation were not visible. These elements would become clearer as I saw the audit steps in operation in the field.

evidence are linked together, with it being the audit step that seemingly binds them. In the field, a Junior Auditor took me through the system. The display employed visualisation techniques, including a timeline across the top for the stages of the engagement and traffic light style buttons for the different levels of risk that could be applied to each of the financial statement line items. The engagement was essentially on display, with the different line items, their associated progress and work performed, details of who performed the work, reviews and other such details evident in the navigation area. Clicking on a particular element would then take you through to the underlying work that had been performed. It was here that the Junior Auditor provided an example of their work and how they had been sceptical in their efforts.

“You spend your life in spreadsheets”

The working papers on display were a series of spreadsheets, with each cascaded to show different levels of detail relating to the testing that had occurred. In this instance, the Junior Auditor was auditing some figures from the client that related to revenue amounts. This required data from the client, so the starting point in the file was the SQL²⁶⁴ code that was used by the client to generate the data and reports that would subsequently be forwarded to the auditor. They made mention of observing the generation of the reports by the client,²⁶⁵ as well as specifying details in a particular email format, in order to reduce the risk of data being falsified or manipulated. This led to the consideration of the sample that would be tested, with the engagement management system having a tool that calculates the sample based on details entered in by the Junior Auditor (for example, population size was entered in and sampling technique was selected from two options in a drop-down menu). This led to two further spreadsheets, one with the raw data from the client and a second one with the data sorted and highlighted to indicate the items that were included in the sample for testing. A subsequent spreadsheet demonstrated the testing of the sample items, with columns set out to highlight the audited amount, the client amount, any differences between the two amounts, and any comments on the differences.

²⁶⁴ SQL - Structured Query Language

²⁶⁵ This was a common topic, with multiple people mentioning the observation of report generation, while one team member left lunch early because they had to “go and watch the client produce some reports.” Field Notes – 4 May 2018

Below the comparison of audited and actual amounts was a section where narratives were provided to explain what had been done and why. In one instance, the Junior Auditor had initially discovered a difference for a particular test. Although immaterial, it was followed up and the Junior Auditor recounted how it had been resolved by sitting down with the client and going through what had been done and what was included in the report. This allowed them to identify that the client had included some dummy/test transactions, with these causing the difference. As a way of evidencing this process, the narrative section described the process followed in the initial work along with the actions taken when the difference was detected. This was seen by the Junior Auditor as an example of when they had been sceptical in the engagement, as well as how they were able to demonstrate it in the working papers. The space provided in the spreadsheet had allowed for the narrative to be constructed.

More generally, the observation was made that in most cases the working paper format would be based on what was done in the previous year, with a Partner referring to templates built in to the system to provide a “structure for the narrative.”²⁶⁶ The spreadsheet style meant that tables and templates could be copied from previous year engagement files and used as a basis for this year’s work. Both Junior Auditors I spoke to indicated that this was the norm, with the items typically being standard from year to year for most of the areas they were addressing.²⁶⁷ This was supported by earlier descriptions from Assurance Methodology and Risk Management, who noted a preference for consistency.²⁶⁸

There are some interesting positionings evident in the way the system and the auditor are engaging and producing the working papers. Notable as a starting point is that it is the system that is producing the audit steps that apply to the engagement. From the history of their development, it is evident that these have become increasingly determined by the system based on initial engagement details, raising the prospect of different affordances for auditor determination and decisions. However, Audit Methodology and Risk Management was keen to point out that the completion of the audit steps does not just stop at the tick in the box indicating that the process had been performed. Underlying the tick in the box was a detailed system of

²⁶⁶ Field Notes 4 December 2017 – Follow Up Interview with Partner

²⁶⁷ Field Notes 4 May 2018

²⁶⁸ Field Notes 8 May 2017

spreadsheets that the auditor would put together in addressing the audit step. In effect, while the system was setting out the audit steps that had to be addressed, how this was done was very much in the domain of the auditor. A Partner from Audit Methodology and Risk Management noted that such systems helped with compliance with audit standards. However, whether it helped with thinking about items depended on the design of the system. If it encouraged thought and engagement with evidence then it could help scepticism, but if it was simply a tick-box button-pressing design then it became problematic.²⁶⁹ As another of the Audit Methodology and Risk Management representatives commented,²⁷⁰

“[you] can’t communicate the extent of testing [through the Audit Steps, this] depended on the risk assessment and how much evidence is needed...[meaning that it] comes back to judgment...[the] basics of these [Audit Steps] are the things you need to do...the extent comes to professional judgment.”

Reinforcing this aspect of preserving judgment, which was a focus of the Audit Methodology and Risk Management description, it was commented that “a fool with a tool is still a fool.”²⁷¹ The evident sentiment was that scepticism could not be fully built in to the artefacts contained in the engagement management system. The system was there to support the auditor and provide a basis for their actions, but it was not the constitutor of scepticism. The quote highlights the role of both the artefacts within the system and the knowledge and experience of the auditor. Each on its own is seemingly a necessary but not sufficient condition for scepticism. The system supports the auditor’s knowledge and guides their scepticism and similarly the auditor needs to have the knowledge to work with the system.

There was evidence of this in the way the Junior Auditor described their work and the associated spreadsheets. While the audit step had specified the type of procedure and the sampling tool had determined the sample size, the Junior Auditor was called to execute judgment on follow up with the client when (1) details were provided in an inappropriate format, and (2) there were discrepancies. To the extent that there was a prescribed procedure, there was also an equally open means of

²⁶⁹ Field Notes, Meeting with Partner, Audit Methodology and Risk Management, 24/1/2018

²⁷⁰ Field Notes 8 May 2017

²⁷¹ Field Notes 8 May 2017

addressing that procedure. The options for addressing the matters would come from various sources. For example, the training processes and socialisation within the firm provided exposure to examples of past cases where various risks and approaches had both worked and not worked. These examples included all levels of the audit team, from Junior Auditor up.²⁷² They also highlighted the team aspect of the firm, with a message that no one makes a mistake on their own,²⁷³ encouraging communication and asking for advice when unsure.

The spreadsheets started blank and were populated by the auditor as they did their work. This work would also be reviewed, with focus group participants and interview respondents frequently mentioning the role of review comments as a form of feedback and a basis for revisions to working papers.²⁷⁴ These were comments that were raised on the working papers, with attention to any errors or further aspects that needed to be considered. As the review comments were addressed they were closed, with procedures at the end of the engagement ensuring that all review comments were removed from the engagement file.²⁷⁵

Even though there were opportunities to use templates and structures from prior engagements, it was apparent that there was also a collection of artefacts in place that worked to preserve a level of attention and scrutiny in the auditor's work. The review comments were one such example. The other means of doing this was linked to an informal artefact in the audit room.

“Do you know what the numbers mean?”

The observed audit team was based in one of the client's training rooms (see Figure 5, page 247). It had a whiteboard that covered three of the four walls in a U-shaped design. Scattered across the whiteboard were a mix of notes, written with a blue whiteboard marker, and paper documents affixed with a temporary adhesive. The paper documents were the client's and unrelated to the audit, while the writing and annotating on the board were the work of the audit team. At first glance the

²⁷² Field Notes Learning Function Meeting 2/3/2017; Audit Methodology and Risk Management Meeting 24/1/2018

²⁷³ Field Notes - Audit Methodology and Risk Management Meeting 24/1/2018

²⁷⁴ Field notes - Manager Follow up interview – 4/12/17; Managers Focus Group 11/7/17

²⁷⁵ Field notes - Manager Follow up interview – 4/12/17

writing on the whiteboard did not seem too extraordinary to me – a list of engagement team members with numbers written next to their name. To an outsider like myself the numbers could be anything, from internal phone extensions to hours worked or codes for accounts that they were addressing in their work. Their presence captured my attention, however, because after a day of observation on the engagement I was unable to form any speculative position as to what the numbers represented. The longer I was in the room the more curious I became about these numbers and how they fitted with the engagement and the individual team members. The rest of the board's content had been put into context - the map of the engagement structure and the flag for risks had been referred to in an earlier discussion, and the admin details of the WIFI access and password details were part of the life of the engagement, enablers for accessing the wider technical infrastructure. The names and numbers were more obscure, since no body referred to them, adjusted them, or spoke of them during my time in the audit room.

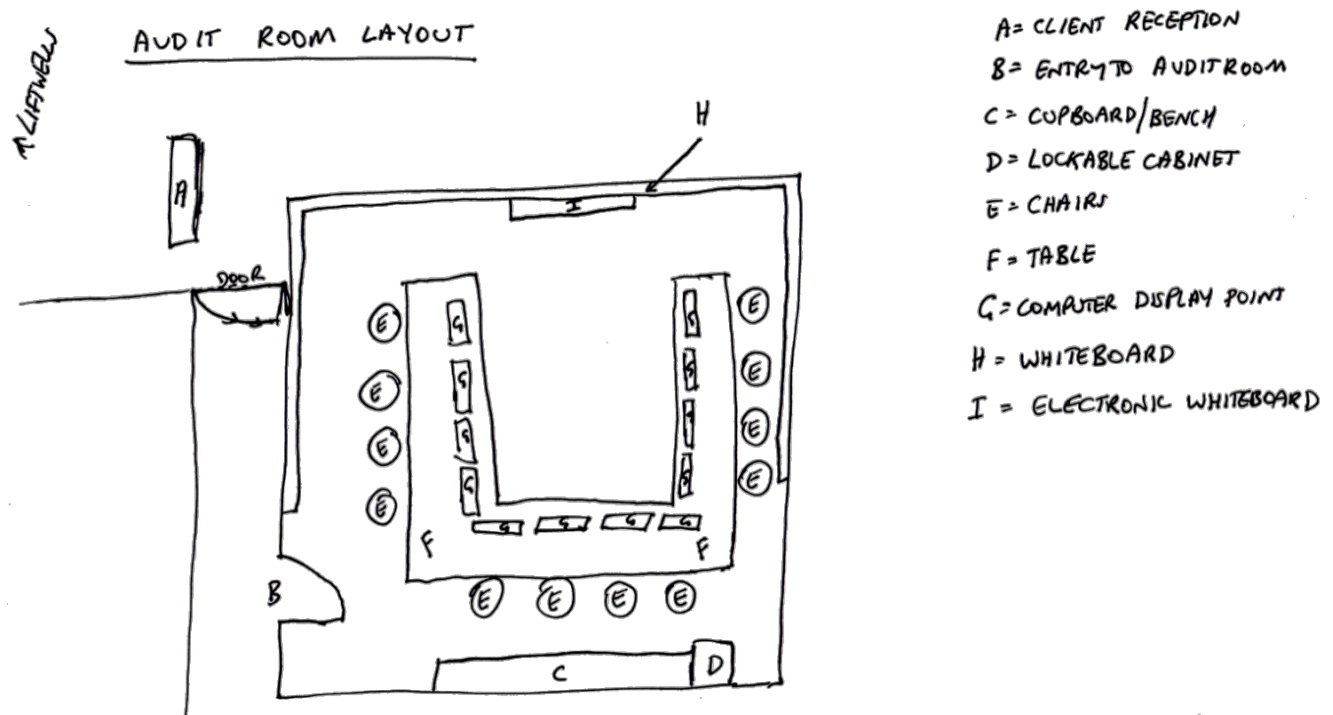


Figure 5: Layout of the audit room (Author's own, from field notes)

At the conclusion of my first day in the field I spoke with a Junior Auditor about these numbers, asking what they covered.²⁷⁶ These numbers were described as

²⁷⁶ Field notes 4 May 2018

an engagement team specific performance metric of individual performance within the engagement team. (This was something in use for this engagement team only, with other members of the firm subsequently confirming it was not a widespread practice.) Specifically, when a team member made a bad mistake or missed something they should have identified in their work,²⁷⁷ an addition to the number on the board would be made. These numbers had no life beyond the engagement and would not appear in the formal engagement documentation. But their operation captured a drive for high performance and the unique competitiveness that exists within the professional firms more broadly and individual engagement teams specifically (Gill, 2009). Despite their temporary nature, they seemed to be taken seriously by the team, with the pattern of the text on the board suggesting that other items had been added around the list of names and numbers. My conversation with the Engagement Manager the following week²⁷⁸ confirmed this explanation.

While the Engagement Manager and I were discussing the engagement and the operation of reviews of audit work, the Manager referred to the writing on the board. Having already stated that the manager considered themselves a thorough reviewer, they went on to ask, “Do you know what the numbers mean?”²⁷⁹ The Junior Auditor’s explanation was confirmed, as the Engagement Manager described it as “Professional Scepticism on the board.”²⁸⁰ Explanations from both the Junior Auditor and the Engagement Manager referred to these engagement team specific metrics as ways of promoting diligence and keeping members of the team alert as they completed their work. They linked to the importance of the team, team contributions and functioning.

I interpreted this as providing a link to the culture and positioning of the firm. Across meetings with representatives from HR^{281,282}, Assurance Methodology and

²⁷⁷ A specific example provided was failing to change dates in working paper templates that had been rolled forward from previous years, for example a 2017 paper that had not been updated for 2018.

²⁷⁸ Field notes 4 May 2018 and 11 May 2018

²⁷⁹ Field Notes – 11 May 2018 – Discussion with Engagement Manager

²⁸⁰ Field Notes – 11 May 2018 – Discussion with Engagement Manager

²⁸¹ Field notes – 1 March 2017

²⁸² Field notes – 3 May 2017

Risk Management,^{284, 285} focus groups²⁸⁶ and follow-up meetings,²⁸⁷ there were constant references to the expectations of performance, the team nature of the firm and the collaborative nature of the firm setting. This was also reflected in the firm's model of the professional person, which had a dimension labelled around team efforts and support.²⁸⁹ The engagement specific team metrics provided a way of representing these dimensions to the members of the team. As is noted by Gill (2009),

accounting is a team sport. Good players are team players...disciplined in pursuing team objectives. They all think in a similar way, and being on the team is an opportunity to learn that way of thinking. (Gill, 2009:86)

Building the list on the whiteboard reinforced these dimensions, highlighting the performance of team members. It could be interpreted as providing a potential means of averting potential distrust and distance among team members (Porter, 1992), encouraging collaboration and communication. It also linked to the mantra of the Assurance Methodology and Risk Management Partner, who informed me that “nobody makes a mistake on their own here” and that the “four eyes rule” is essential.²⁹⁰ These principles were built on the imperative of team work and collaboration and the importance of reviews and joint decisions and questioning.

Within the engagement team the metrics provided a basis for reflecting such a process in operation. The engagement team specific metrics on the board reinforced the role of the review process, which also made prominent the need for attention to detail and engaging with the finer details and points of working papers. The questioning mind started within the engagement team, with attention to detail in the work done within the team setting the tone for engaging with information from the client. The example from the Junior Auditor, forgetting to change a date in a rolled forward working paper, and the engagement manager referring to it as ‘professional scepticism on the board’ conveys a link between these metrics and the more formal and durable artefacts produced in the engagement. Under this interpretation, the

²⁸⁴ Fieldnotes - 21 January 2018

²⁸⁵ Field notes – 8 May 2017

²⁸⁶ Field notes – 10/11 July 2017

²⁸⁷ Fieldnotes – 4 December 2017

²⁸⁹ Materials provided by firm 1 March 2017, 3 May 2017

²⁹⁰ Field notes - 24 January 2018

engagement team specific metrics can be seen as both reflecting and constituting standards of performance and expectations within the team.

“I got comfort from his effort”

During my second day of participant observation the audit team was joined by an IT auditor from the firm. The IT auditor had been with the firm for several years and was on site to attend a meeting between the client and engagement team representatives. At around 12:30pm the engagement team members attending the meeting left the audit room for their meeting. This provided a moment for the rest of the team to get lunch. When we returned from lunch the Engagement Leader, Manager, and IT Auditor were engaged in discussion. A piece of A4 paper was holding their attention, providing a basis for their discussion and open deliberation. The Engagement Leader was thinking out loud in the group discussion, with questions that included, “If I could think like a fraudster...?” “How do we get happy that it is a secure feed?” “Maybe I’m asking a stupid question, but could you [description of an action that could impact client transactions]?” As each question was raised by the Engagement Leader, the IT auditor and others on the team would respond, offering descriptions of the client system and the design aspects that related to the concerns being raised.

Issues raised by the Engagement Leader related to a range of matters that could have impacted the integrity of transactions being processed in the client’s systems, including the potential for transaction data to be manipulated after the transaction event, the security of transmissions, and the location and sourcing of price data that formed the basis of transactions. Thinking out loud amongst themselves, with a mix of Engagement Leader questions and interaction with the other two participants, there were references to how different data items were stored, uniquely indexed, and how the system would handle attempts at transaction modification or manipulation. This was all occurring in the context of the piece of paper that would frequently be pointed to as topics were addressed.

A discussion with the Engagement Leader²⁹² provided a context for the piece of paper, which was described as a map of the client’s system that the IT auditor had prepared. The Engagement Leader said that the fact that the IT Auditor had prepared

²⁹² Field Notes 11 May 2018

this map was “reassuring”, with the reassurance coming on several fronts. The production of the map was a form of direct evidence and confirmation of how well the IT Auditor knew, understood, and was able to explain the client’s system. It also provided a representation that others in the team could refer to when thinking about the system and its operation.

In this example the artefact served several purposes. Primary among them, from the Engagement Partner’s conversation and description, is this evidencing of knowledge of the client and understanding their systems and processes. Focus groups and discussions with methodology had all similarly pointed to the significance of understanding the client. Discussions with members of the engagement team also emphasised this, with one manager level team member mentioning several times the importance of having expectations about what should be there, seeing this as critical for being effective in the application of scepticism. The Manager level team member was talking in terms of walkthroughs of the client system and observing transaction processing,²⁹³ with these an essential means to avoid just taking client descriptions at their word and without challenge. Similarly, in the focus groups there was talk of the idea of an audit based around what is not there, as opposed to auditing what is there.

This “fundamental” approach meant being questioning of numbers and thinking not only in terms of what has been included but also what has not been included.²⁹⁴ The success of such an approach was seen to “come down to how well you know your client”²⁹⁵ and being able to think in terms of “What do I think this should look like?”²⁹⁶ There is a link here to the activities at the planning stage, where some initial considerations were formed and recorded in the minutes of the planning minutes, with these available within the engagement system. In the case of the IT auditor and the system map, the preparation of the artefact provided a visualisation of understanding that, when combined with acquired experience, knowledge, and socialisation into the firm’s culture and way of doing things (Westermann, Bedard, & Earley, 2015), allowed for further scrutiny and questioning to occur.²⁹⁷ It also

²⁹³ Field Notes 4 May 2018

²⁹⁴ Field notes 10 July 2017

²⁹⁵ Field notes 10 July 2017

²⁹⁶ Field Notes 4 May 2017

²⁹⁷ Participants were manager level or above – they had been with the firm for some time and had experienced its training and socialisation.

facilitated a reference point for answering questions, as the IT Auditor referred to parts of the page when answering the questions from the engagement leader.

The artefact is positioned in two ways. From the description of the Engagement Leader there is a hint that it was not expected – it was something that the IT Auditor had done of their own accord for the meeting. It was not a standard document, as such, but something created along the way to support the consideration of system-based issues and concerns. At the time I did not know if this document ended up in the audit files, but the suggestion from the Engagement Leader pointed to it being a temporary²⁹⁸ and context specific artefact that allowed for the consideration of other issues and matters related to the key risk area of revenue and fraud potential. It also pointed to the entanglement of the social and the material, with both the material artefact and the socialisation of the discussion members combining to create the basis for questioning and enquiry.

5.3.4 The Concluding Engagement Report

In the final stage of the audit there is a requirement that each area of significant risk be summarised in a working paper that elaborates how the matter was addressed.²⁹⁹ Significant Risks were described as the “area with the greatest risk of going wrong.”³⁰⁰ Based on initial details and assessed risk levels³⁰¹ the engagement management system automatically generated the report space for the items requiring a concluding engagement report. For any particular significant risk the report conveyed its identification, actions taken in relation to it, evidence gathered, and the conclusions or any concerns.³⁰³

Professional scepticism was determined to be a significant risk and it had its own report. One of the Junior Auditors showed me through the audit documentation system and this included an example of the report for last year’s engagement. The document was set out based on the points mentioned in the previous paragraph, highlighting risks, actions, and conclusions relating to scepticism. By design, this document was an artefact created at the end of the engagement to convey how

²⁹⁸ This was confirmed in the debriefing meeting (Field notes 13/9/18)

²⁹⁹ For example, ISA (UK) 230 - A8-A11

³⁰⁰ Field Notes 4 December 2017 – Partner Follow Up Interview

³⁰¹ Field Notes 4 December 2017 – Partner Follow Up Interview

³⁰³ Field Notes 4 December 2017 – Partner Follow Up Interview

professional scepticism was addressed and applied across the audit process. It was an explicit attempt to communicate the occurrence of professional scepticism across the engagement. This created an interest in how the report was constructed.

The Engagement Leader offered insight into their view on the report. Speaking from personal opinion, the Engagement Leader³⁰⁴ referred to different ways that the report functions as a standalone artefact that evidences scepticism throughout the engagement. Noting that the regulators liked the report, its style, and its content, and how it conveyed scepticism across the engagement, they also saw it as offering benefits in other ways.³⁰⁵ For the Engagement Leader the report's benefit came from its representation of what happened – it was the bringing together of past events and (re)presenting them. The evidenced description points to a description created based on previous events. The report was an accumulation of previous indexical expressions.

Indexical expression refers to the idea that what is communicated can only be made sense of and understood by assuming or knowing of the particular circumstances that transpired in the original situations summarised by the report (Garfinkel, 1967:4-5). In other words, the summary was removed by time from the original circumstances it described. It was also reduced in content, since it was acting as a summary device for what had gone before. It was an artefact created based on the aggregation of preceding artefacts (the underlying working papers that documented the audit work completed) with the problematic that the underlying artefacts were not necessarily wholly quantitative in nature or similar in form, meaning that their aggregation and summary within the higher-level report became problematic (Latour, 1987; Robson, 1992). This raises for consideration the problematic of any audit artefact being able to convey what has gone before and highlights what was referred to as the idea of “stepping back” and taking in the bigger picture of the completed engagement.

The comments positioned the document as a summarised version of what went on during the audit - an effort by the engagement team to make sense of what had gone before and build up reasonings and explanations that fitted the identified risks and professional scepticism concerns (Garfinkel, 1967). The document was generally

³⁰⁴ Field notes 11 May 2018

³⁰⁵ Field Notes 11 May 2018

seen by a range of participants as a good chance to ask reflective questions along the lines of, “Where did I...?”³⁰⁶ or “Where have I challenged?”³⁰⁷ but such reflexivity was not necessarily easy to generate. One focus group participant in the manager group described the preparation of the report as:

“We went all around the room, [and asked], ‘how are you being professionally sceptical?’ and writing down [responses] in the [report], but people found it very hard to articulate”³⁰⁸

Both the Engagement Leader and the Focus Group comment point to the Concluding Engagement Report as a summary document. A Partner from the Focus Group also provided this positioning in a Follow Up Interview, describing it as a way for the engagement team to “bring the story together.”³⁰⁹

However, the Engagement Leader also saw a usefulness from the report’s creation, with this coming through an impact that can be best described as the product of an inverted temporality. Specifically, there was the suggestion that the knowledge that the report would be prepared in the future would influence what happened in the audit at the present. It was hoped that the prospect of the report being prepared would shape the way that those within the engagement team went about their tasks during the preceding stages of the audit process, with a future event shaping the present, where the possibility of future report preparation would shape the actuality of the current. Under such an interpretation, the role of the artefact shifts, from a representation of accountability and activity executed to a shaping device based on future possibility and scrutiny.

5.3.5 Team Communications

As much as artefacts were referred to in the context of the audit stages, there were also some that were seen to operate beyond such engagement divisions. These were typically related to technology and were in contrast to the previously mentioned examples for the way that they mapped beyond the specifics of the particular client engagement and provided a link to the wider audit infrastructure of the firm. The

³⁰⁶ Field Notes 11 May 2018

³⁰⁷ Field Notes 4 December 2017 – Partner Follow Up Interview

³⁰⁸ Field Notes 11 July 2017, discussion as captured by notetaker for the session

³⁰⁹ Field Notes 4 December 2017 – Partner Follow Up Interview

example of these considered in this section is the use of online instant messaging applications, with these referred to in several instances throughout the field work.

Examples of online instant messaging applications appeared on several occasions,³¹⁰ with their role being to facilitate communication between audit firm members. All levels within the firm had spoken of these online instant messaging applications, highlighting how they enabled remote communication through either text-based or real-time video calls. As I spoke with the Engagement Manager, for example, they had three chat windows open on their laptop as they waited for a reply on a matter being attended to in another location.³¹¹

The online instant messaging applications allowed for groups to be created, with an example of this being a group created for the engagement team that I observed.³¹² This allowed for informal communications between team members. At several points during the participant observation there would be a reference to the instant messaging group and the messages and updates that had been circulating. Several team members reinforced that such communications were not related to engagement specific client matters, but more general items that team members might or should be aware of. One of the proponents of these was the Engagement Leader, who on each day of the observation mentioned circulating links to articles that were in the press or links to issues that were currently impacting the profession. On one day of the observation it was an article in the *Financial Times* concerning the audit-NAS debate and the possibility of a forced carve up of firms offering both services. On another occasion it was the recently released FRC report into audit firm culture. Neither of these were engagement-specific items, but their focus tapped in to areas of debate about the audit function and role in both regulatory and wider public settings.

During a discussion with the Engagement Leader they mentioned that it was an aim to bring at least one piece of relevant outside news or reference material to the team each time they made a site visit.³¹³ This was seen as important for raising awareness of the wider issues confronting the profession (firm carve-ups of audit and

³¹⁰ Field notes – 10 July 2017 Focus Group 1; 11 July 2017 Focus Group 2; Field notes – Follow up interview Manager – 4 December 2017; Follow up interview Partner – 4 December 2017; 4 May 2018; 11 May 2018

³¹¹ Field notes – 11 May 2018

³¹² Field notes 4 May 2018; 11 May 2018.

³¹³ Field Notes 11 May 2018

non-audit and the audit expectations gap considerations were the prominent examples during my field time.). It would also be a source of conversation within the group, as a discussion built up on one occasion about the wider issues of who uses the audits, how outsiders perceive and understand the audit, and the challenges for the profession in communicating audit functions and objectives to a wider audience.

These were also referred to in wider discussion within the audit room, as the Engagement Leader frequently asked questions out loud, discussed matters, or referred to points of interest in their activities. On one occasion³¹⁴ the Engagement Leader was reviewing narrative disclosures and discussion in the client's financial report. This prompted open questions about potential exposures, how to audit various items, and the drawing of the knowledge from those who had been investigating closer to the field setting. While some of these queries were addressed to a particular person, the rest of the team was able to hear the discussion and were aware of what was being raised. Examples of topics that come up under this setting included the determination of a sample size that seemed too large for one part of testing, as well as the potential issues and challenges of auditing cryptocurrency. These discussions drew wider involvement beyond the initial participants and would often lead to points of reference within the firm's methodology and procedure manuals, as well as professional and regulatory standards.

In these examples the technology was seen to promote wider communication and awareness. However, it was also seen as changing the dynamics of the audit team. While there was a benefit of being able to work and communicate from remote locations, it also brought with it a change in the audit team environment. Prior to such technologies the audit team had to work closely together – the paper-based environment meant that the audit papers could only be in one place at one time. This forced the team to come together³¹⁵ and meant that everyone in the team generally knew what was going on.³¹⁶

The internet communication technologies used for team member communication, as well as for conducting remote reviews and other work in the engagement management system, mean that such coming together of the team was

³¹⁴ Field notes 4 May 2018

³¹⁵ Field Notes, Audit Methodology and Risk Management Meeting – 8/5/17

³¹⁶ Field Notes – Learning Function, 2/3/17

potentially reduced. As a result, engagement team members spoke of update meetings, when time would be booked for the team to get together and update on where things were at in the engagement.³¹⁷ This allowed for shared updates and supported the development of Junior Auditors in building a bigger picture of things, with a Focus Group participant from the Managers group commenting:

The thing with juniors, they may find something in their work but they do not understand how it impacts bigger picture but that's our role as managers....[we] almost need to upskill them so they understand how it impacts the rest of the work.³¹⁸

Technology was changing the nature of the audit. This was also seen to impact the development of scepticism, with concerns that “drones”³¹⁹ and “process junkies”³²⁰ were the outcome of ignoring the interpersonal and team-based interactions. Interactions could occur through same-place-same-time communications or through the online communications that were in place. The attention was to the nature of these interactions and how they were carried out. Having the team in the same room does not guarantee effective communications. It is the style of the leaders within the team that were important in shaping the communication, as the Engagement Leader demonstrated in the observed engagement. This intangible element shaped what was done and the type of interactions that occurred. While junior staff were described as driven by process in their early years, focus group participants linked this to the impact of technology on audit and the experience of new entrants into the profession. It was seen as a concern for the development of professional scepticism in future generations of auditors and it highlighted the need for attention to techniques to develop the bigger picture in junior auditors.

5.4 DISCUSSION AND ANALYSIS

Where does scepticism come from? Is it from the individual (judgment), the structures of the firm, or the artefacts that operate within the firm? Or is it a mix of

³¹⁷ Field notes – 4/5/17; Also mentioned by Learning Function (Field Notes – 2/3/17)

³¹⁸ Field Notes – Focus Group 2 – Managers, 11/7/17 – Extract from note taker's account

³¹⁹ Field Notes – Focus Group 1 – Partners, 10/7/17

³²⁰ Field Notes – Focus Group 1 – Partners, 10/7/17

all of these? The empirical data in the preceding section sections offers a basis for considering these issues and relating them back to the initial question concerning the potential artefactualisation of scepticism. The dimensions under consideration in this section are also summarised in Tables 13 and 14 (pages 268-270).

5.4.1 Durability

An initial observation is that the artefacts that came up for consideration in the field demonstrate different degrees of durability. For instance, the whiteboard representation of the process at planning, the metrics in the engagement room, the review comments in the engagement file all had a life that did not extend beyond the closure of the engagement. When we look at these artefacts we observe a commonality between them, in that they were all involved in the generation of cognitive conflict during the engagement process. They can be seen as providing the foundation for the operation of professional scepticism. Power (2016) poses the question of whether artefacts are kept or stored, with this relating to their role as either guidance points for action or a means of accountability. Shankar, Hakken, and Østerlund (2017:63) also identify this aspect, commenting that

the elements of a set of documents can often be arranged from highly permanent to the very temporary. Where a document lies on this continuum can be an important indication of its social uses. Permanence may be associated with relatively developed group structures...while ephemerality may be associated with social movements or waves of popular culture.

The comparison of the artefacts that endure beyond the engagement period and those that do not offers some insight into this question. In looking at these different durabilities it is apparent that the artefacts that do not survive are the ones that are the basis for generating questioning, challenge, doubt, and a basis for further clarification. The examples to support this are the whiteboard, the system map, and the review comments. In each case these artefacts were created and lead to a permanent artefact in a later stage. For example, the whiteboard at planning leads to the formalised minutes that endure across the engagement, while the review comments lead to updated audit steps that address any questions or follow-up matters. They act as a basis for generating and evidencing challenge and question in the audit

process. That they do not survive is suggestive of their role as a constitutive element in the finalised audit documentation.

What we are essentially seeing is the potential for artefacts to operate as a basis for cognitive conflict within the audit process. The auditor is called to exercise a sustained doubt across the engagement – essentially remaining in a state of conflict between their engagement encounters (what they see and hear) and their necessary conception of the possibility that there may be alternatives to these encounters. The end goal for the audit is the production of comfort. However, in getting to that position there will be a raising of doubt and discomfort (Pentland, 1993) and fear (Guénin-Paracini et al., 2014) in the audit process. This presents an interpretation of the audit as a process built on the ritual of conflict (Mills & Bettner, 1992).

This space for conflict afforded by the temporary artefacts is not necessarily destructive. Rather it is the precursor to the creation of the final comfort and certainty. This view is suggestive of a dual role for artefacts, acting both as sources of discomfort and being part of the constitution of scepticism, while also acting as a communication of comfort as the engagement concludes and opinions are furnished. The path of internal cognitive conflict is, under this explanation, a key part of attaining comfort. Building up the expectations of what might be seen, highlighted as important by several participants, with various ideas, questions and comments from participants alluded to in the description of the planning stage. Similarly, the review comments serve as a basis for reviewing work and highlighting further avenues of inquiry. The artefacts actively engaged the auditor in the process of questioning what was not there, whether it be controls in the client processes or scrutiny and attention to detail in the auditor's work. They made visible the doubt and questioning attached to being sceptical.

In the instance of both of these artefacts, once the conflict is resolved – the risks and areas of attention are agreed upon and formalised in the minutes, or the review comment is addressed, closed and deleted, the conflict no longer exists. The “conflict itself is the resolution of the tension between the contraries.” (Simmel, 1904:490)³²¹ In the process comfort is attained. This understanding of such temporary artefacts points to their key role in managing the scepticism across the engagement.

³²¹ Compare to discussions by Mills and Bettner (1992), who use arguments from Simmel (1904) to link conflict and its resolution.

The recognition that too much scepticism is as dangerous as not enough is apparent in how these artefacts operate. The closure of the temporary artefacts can thus be understood as a signal that the particular area has been adequately addressed and attention can be moved elsewhere. While this could be interpreted as helping manage scepticism, it also presents a seemingly paradoxical scenario where the things that potentially point to the creation of scepticism are not the things that endure.

That some artefacts do not endure beyond the circumstances of their instantiation is perhaps symptomatic of the wider mindset of the audit, that being the need to present an image of a rationalised account of the audit process (Power, 2003) and avoid signs of uncertainty or doubt within the process (Pentland, 1993; Van Maanen & Pentland, 1994). While the final version of the artefacts tells the story of how decisions were reached, the messiness in the process of getting to that end point is lost with the temporary artefacts.

5.4.2 Entanglement of Social and Material

Orlikowski (2007) speaks of a constitutive entanglement between the social and the material, with this conceptual phrasing making the consideration of the social and the material in isolation somewhat problematic, since it suggests that in order to see the entanglement the constitutive elements be separated. This is one of the criticisms of the agential realism perspective of Barad (2007) that is a significant formative idea in Orlikowski's concept of sociomateriality (Leonardi, 2013; Mutch, 2013). This does not mean that the sociomateriality concept is analytically inoperable, but it does call for an awareness of where and how boundaries are constructed in the analysis of a practice setting (Leonardi, 2013). Part of the issue with this is that analysis has typically focussed on material systems at a point in time, as opposed to considering their evolution over time as the interaction between the social and material progresses. Once formalised and in place, the material may appear set and deterministic in nature. But this ignores the interaction, social negotiation, and design efforts that preceded the final material representation. This is suggestive of the social shaping the material which in turn shapes the social, with Leonardi (2013) linking this to a variation on structuration theory (Giddens, 1984).

There were a few instances where the link and mutual constitution of the social and the material was more readily observable, with this more apparent when a longer

time frame was adopted in discussions with field participants and during meetings. A prime example of this emerged when referring to the development and implementation of the audit steps within the firm. As described by the Engagement Manager, the development of these was an effort to understand existing practices and develop structures for the standardisation of processes across the audit firm. This makes standardisation part of the story for understanding the development of these material artefacts. However, in this instance standardisation did not mean the pushing down of prescriptive step by step procedures, as would potentially be assumed when the term standardisation is used. Rather, the description of the development process by the Engagement Manager and the Assurance Methodology and Risk Management meeting participants is suggestive of a subtler and more nuanced idea to standardisation. A significant part of understanding this is the appreciation of the change in material form over time. With the change in material form comes a change in the affordances that are offered, as well as the way in which the artefact operates in the audit setting.

The Engagement Manager referred to the Audit Steps as having been developed and first compiled in a physical book format – a paper-based audit manual of sorts. This then changed to an electronic book. Finally, the audit steps were built in to the engagement management system. With these progressive shifts in format comes a change in the way the audit steps exert an influence on their setting. In their current form, built in to the engagement management system, these audit steps are selected through the enactment of a series of if-then rules that are triggered based on answers to profiling questions about the client at the creation of the engagement file. Under this conception there is a potential conclusion that, as a result, thought is diminished since the procedures are pushed down to the engagement level through automated rules, as opposed to requiring consultation with the manual and determining the procedures to apply.

However, as was noted by the Assurance Methodology and Risk Management representatives, this is not seen as the outcome. In fact, they were pointedly mentioning that this is not just a pre-created checklist, emphasising the preservation of the role for judgment and flexibility in how the procedures were applied in the individual engagement setting. Added to this was the mention that there was a reluctance to provide too detailed a description of procedures or what it meant to be sceptical, since such a move was seen as potentially creating a tick-box environment

and constraining the thought process of the individual. This was also related to the variability across engagement settings, with specific procedures and their application seen to vary based on client type, materiality levels, risk levels and other engagement traits.

With the preceding points in mind, the audit steps are setup in a relatively free-form manner. While the requirement of the audit is specified, the space for demonstrating how this was done is relatively open-ended. Templates may exist for some of the more standard items, but their operation is also influenced by other artefactual elements that encourage attention to detail and the maintenance of a sceptical mind (the team metrics and review comments). The reluctance to explicitly build in specified procedures and actions creates a wider set of affordances for the users of the system, while the related artefacts also reinforce certain traits in completed work.

5.4.3 Conflict and Closure

The idea of cognitive conflict is construed as creating an environment where ideas or items may be challenged to improve decisions and provide a basis for debate and discussion (Chenhall, 2004). When we look at the field observations and discussions with members of the firm it becomes apparent that artefacts are being used as a basis for conflict generation and sustainment across the audit process. Significant for these conflict-generating tools is the way that they operate, their materiality, and their durability within the process of the engagement. The examples identified where conflict was evidenced was in the planning stage with the use of the whiteboard, the substantive stage, where review comments, the whiteboard, and the system map were used, as well as the concluding stage with the completed engagement report.

Across these examples there is a notable difference in how these artefacts function in the generation of conflict, with this arguably connected to their position in the audit process and the aims at each stage. There is a similarity in the artefacts from planning and substantive testing in that their temporality is one that commands questioning in the here and now. Considering risks in the client processes and client setting, evaluating systems designs, following up on evidence. These are examples where the auditor needed to act in the present and, if anything, project to the future.

By this I refer to the idea of the speculation about client risks projecting to future stages where evidence collection and evaluation occurs. There is a multi-period element to the conflicts that are associated with these examples. We can also observe that the artefacts that are the basis for the conflict generation are largely created by the auditors themselves.

The whiteboard is an open space where risks can be mapped out, questions posed, and issues raised. The affordance offered by the whiteboard is arguably significant in the way it promotes a fresh consideration of things by the audit team – its blank space and non-permanent ink markings are metaphors for the potential to challenge and reconsider. The open space invites the generation of ideas and concerns, while the non-permanent ink means that things can be considered and reconsidered. Garfinkel (1967) exemplifies the use of breach experiments as a way of breaking the status quo or questioning the norms of a situation. The open space of the whiteboard arguably provides a similar trigger, since the team is required to reimagine the client and think anew about risks and areas of concern. Similarly, it is an unstructured space – there are no templates or structured forms. Even though some of the auditors may not be very good at drawing, the whiteboard presents a space where such a mapping out can occur. It represents an early attempt at catching scepticism in flight and forming ideas about how it applies to the engagement. This then transfers to the more formalised minutes, with these informing subsequent steps.

We see a similar idea in the way that the whiteboard is used with the construction of the engagement team specific performance metrics. This is a temporary construction that is set up as a means of internal communication. Its link to professional scepticism comes through the erroneous work that it represents and the higher quality work it tries to encourage through its operation. While this artefact is temporary and lost once the engagement team finish up at the client premises, during the time of the engagement it bears a direct link to the more permanent artefacts of the working papers within the engagement management system. It is errors in working papers that generate the numbers on the board and in return it is intended that this will lead to higher quality working papers as a result. So, what we have is an artefact that operates as a way of both reflecting and creating conditions for scepticism within the team. It is both an indicator and a constitutive force that shapes the focus to detail provided by the team members.

The engagement team specific metrics were tied to review comments, the more formal mechanism of feedback on work during the engagement. Described as the notes placed on the file for members of the team to address, these comments are intended as challenges to work performed and a direction attend to areas that need clarification or expansion. These are electronic in nature, linked to the work performed on the individual financial state line items and audit steps. Their electronic form is explainable by their direct relation to work performed and audit objectives, as well as the number of their instance. In comparison to the metrics, which were in effect an aggregated summary of performance, the review comments refer to the detailed issues that need further attention. So, we see a difference in the level to which they refer. However, there is no difference in their life span, with review comments cleared out at the end of each engagement before the engagement file is archived. Their life is contained to that of the engagement, with a need for the file to represent a clean and resolved audit process. So, while different in terms of what is reflected, both the metrics and the review comments are temporal specific, in that they relate solely to the engagement in motion. Their generation of conflict comes as work is being performed. By the end of the engagement the causes for conflict will have been resolved, so these artefacts are no longer required. The resolution of the conflict each of these reflects is necessary before the engagement can be closed off and archived. Both of these artefacts generate conflict in the present and do so through artefacts that are temporary in nature. This is different to the Completed Engagement Report, which generates conflict through possibility.

5.4.4 Conflict through Possibility

The importance of the Completed Engagement Report was highlighted by the Engagement Partner, the follow-up interviews, Focus Group participants, and others during the field work process. It was also an item that regulators examined. However, we see differences in the way this artefact functions, with it depicted as both a means of demonstrating performance and a means of inducing performance. The reflective element of this document is evident in the comments from subjects, as they talked about it provoking questions about what was done during the audit. In this sense it represents a construction of an account in order to demonstrate accountability for the responsibilities that the audit entails. It is an ex post account of what happened, a

summary of the past to stand as a defence of the process in the future. Under this approach the artefact has its significance in the process of its actual creation and its finalisation as the engagement closes. But this perspective of looking back on what was done is not the only one on display.

The Engagement Leader's comments highlighting the report as a prompt for sceptical behaviour in the engagement provides an inverted temporal influence of the artefact. In effect, the Engagement Leader is suggesting that the report acts as a primer for auditor behaviour even before it is prepared. This is a different story to that of the account of conduct explanation for the artefactual influence. It is the possibility of the report being prepared that is seen to influence what is done. This raises the possible interpretation of the report functioning in a manner like a management control system, highlighting what is expected and providing a means of learning and adapting from experience through the reflection and preparation of the report (Otley, 1999). It also appears as a rationalization tool for completed work. The completion of the engagement requires "a retrospective understanding of the emergence of action" (Burchell et al., 1980:18), the piecing together of what was done and how it related to scepticism. The linking of team composition to scepticism mentioned in the focus groups is one example of this "retrospective understanding" (Burchell et al., 1980:18) of the engagement conditions and piecing them together to provide an account of scepticism. In this we see the dual role of the completed engagement report.

5.4.5 Artefacts and Infrastructure

In a discussion of practices, Schatzki (2001) points to the interest in how the macro and micro order of things come to be related. We see an example of this in the role that the metrics play in the operation of the engagement team. In this case the numbers on the board represented a particular link to the act of writing up working papers that is performed by the auditor. The significance of writing things down and documenting in the audit process means that the seemingly simple act of writing up the names and numbers on the board conveys a degree of importance. At a broad level, it was an act of quantifying performance and making it visible, transforming the practice performance of the individual into something that became visible for the entire engagement team (Porter, 1992).

In a broader picture, the layer of wider audit standards, regulatory expectations, and feedback from regulators have found a means of representation in the practices that operate in the field. This has happened through the relation between regulatory and standard-based expectations, their linking in to the firm's methodology and audit steps, as well as the Engagement Manager bringing these together in their review activity and attention to what has and has not been done in the working papers. The creation of reflections of scepticism through the metrics provided a way for the Engagement Manager to communicate to all how these wider infrastructural elements were being met in the setting of the individual engagement.

5.5 CONCLUSION

This chapter set out to consider the role of artefacts in the generation and representation of professional scepticism in the audit process. It contested the position that artefacts are functionally deterministic in nature and sought to describe how artefacts are applied in the auditing context and put this observed practice against existing positions that see tensions in the nature of structure and routine in the audit process. This was accomplished through a field placement within an audit firm that involved meetings with representatives from various functional areas of the firm, focus groups with partners and managers, and a participant observation placement within an audit engagement team.

What emerged from the field data is that artefacts play a range of roles within the audit engagement. Some artefacts were seemingly designed as tools to record what was done, how, and by whom. Others operated more as a means of constituting scepticism through the provision of a space for cognitive conflict, with this creating the possibility of considering options, questioning what was being seen, and forming expectations. This latter group were not necessarily durable and had a life that was limited to the term of the engagement. The implication of this is that when working papers are reviewed after the engagement has been closed, those artefacts that seemingly operated to create the conditions for the operation of scepticism will not be evident. Rather, the neatly resolved conflicts will be on display in the finalised papers.

There is also a dimension to the operation of professional scepticism that is evident within the audit room but not conveyed in the formal documentation. Within

this is the social dynamics and interaction that occurs and the linking of matters to wider topics of relevance to the profession. While they may not be specific instances of professional scepticism within the engagement, they do serve to keep the engagement team up to date with issues and build their base experience and knowledge. These highlight the social dimension of professional scepticism and reinforce the sociomaterial understanding of artefacts of scepticism that has been presented. Such social dynamics are seen to provide an important dimension of the auditor's professional scepticism and are important for understanding how the artefacts of scepticism are constituted.

Table 13: Artefacts and their operation

ARTEFACTS AND THE NATURE OF THEIR FUNCTIONING						
Stage	Artefact	Scepticism Role	Open / Close Scepticism	Affordances	Conflict	Durability
PLANNING	Whiteboard	Consider questions about the client	Open – Offers a space for mapping out ideas, risks and questions about the engagement	Open space for free-form generation of ideas Invites ideas	Yes – Questioning what is known about the client	Temporary
	Minutes	Formalise risks and client issues	Close – Formalises the planning meeting and sets the minutes as confirmation of planning decisions and issues	Provide the memory of the issues and tasks from planning stage	No – closes down <i>current</i> discussions as part of planning Yes – a basis for <i>future conflict</i> in substantive phase	Permanent
SUBSTANTIVE	Audit Steps Listing	Procedures to be performed	Open – provides the base for what needs to be done, judgment of auditor in determining how addressed Closure – Once reviewed and approved matters in the step are settled	Allows for judgement on how to address steps Provides space for addressing each step, spreadsheet and space for explanation and demonstration	Yes – steps provide the basis for further judgments and questioning of client information	Permanent – these are the substance of the working papers and the record of what was done.
	Review Comments	Consider questions about audit work performed	Open – Raises issues that need to be addressed, a basis for discussion with team members	Basis for discussion and advice to junior staff	Highlights differences between what was done and what was expected to be done	Temporary – created based on reviews and closed once addressed. Their

ARTEFACTS AND THE NATURE OF THEIR FUNCTIONING						
Stage	Artefact	Scepticism Role	Open / Close Scepticism	Affordances	Conflict	Durability
						importance comes through the response they generate rather than the comment itself.
	Team Specific Metrics List	Highlight wider expectations of performance and team visibility and reflects wider firm culture and beliefs within the engagement team	Open – provides a running summary of team member performance	Provides for in-team response and visibility	Yes – Links back to expectations in completed work and what was done vs what should have been done	Temporary – removed before team leaves audit room
	System Map	Depicts client process and offers a basis for questioning process design	Opens – generates questions about what could go wrong, considers actual vs expected	Allows for questioning of procedures	Yes – What is depicted vs what could happen	Not maintained
COMPLETION	Concluding Engagement Report	Tell the story of how scepticism was applied across the engagement	Closes – Presents the completed account of how scepticism was applied	Provides for reflection on what was done Practitioner reflexivity	Yes – knowing it will be prepared encourages certain activities and behaviours in the engagement. Also questioning and discussion about what to include	Permanent – a required and preserved item that regulators look at during inspections

Table 14: The Artefacts of Professional Scepticism

The Artefacts of Professional Scepticism							
Artefact	Audit Stage	Format	Durability	Conflict		Closure	Temporal Impact
				Now	Future		
White board	Planning	Whiteboard	Temporary	Yes			Present
Planning Memo	Planning	Electronic	Permanent		Yes	Yes	Future
Audit Steps Listing	Substantive	Electronic	Permanent	Yes		Yes	Present/Future
System Map	Substantive	Paper	Temporary	Yes			Present
Review Comments	Substantive	Electronic	Temporary	Yes			Present
Team Specific Metrics List	Substantive	Whiteboard	Temporary	Yes			Present/Future
Concluding Engagement Report	Concluding	Electronic	Permanent	Yes		Yes	Present/Past
Electronic Messaging chats	Overall	Electronic	Temporary				Present/Future

6 DISCUSSION AND CONCLUSION

Professional scepticism offers an entry point into several debates in the audit literature. The ISAs generally refer to it as a questioning mindset³²³ and the existing literature has used this positioning to emphasise the role and judgment of the individual auditor. This thesis has problematised such an understanding, raising three questions concerning professional scepticism and the conditions of possibility attached to its existence and operation. These questions reflected a motivation to consider professional scepticism in its context, emphasising the importance of the audit firm and the engagement setting as a place of empirical interest (Hopwood, 1983; Power, 2003), with the backstage activities (Goffman, 1990; Power, 2003) of scepticism becoming the point of interest.

Considering the backstage of scepticism provided an entry point for considering dimensions of scepticism beyond the individual, including the auditability of scepticism and the artefactualisation of scepticism. The implications of both of these perspectives are significant for the understanding of scepticism, capturing the shaping influences associated with professional scepticism and highlighting the negotiated nature of scepticism in practice. They also emphasise a distributed element to the operation of professional scepticism, making it more than just the individual auditor. The process of rationalisation (Burchell et al., 1980) that is shown to be a part of scepticism presents a messier picture of its operation than the judgment models suggest.

This process of rationalisation was evident in the analysis of auditability and artefacts and highlighted tensions in how scepticism operates. For instance, chapter four problematised the understanding of scepticism by highlighting the balance between making things auditable through traceable processes and having spaces where scepticism can be applied in relative safety. This highlighted a tension for regulator and practitioner alike that brought to prominence the dilemma between an operable scepticism and an auditable scepticism. The tension between these two views suggests an inherent inauditability of scepticism.

³²³ For example, Financial Reporting Council (2016b)

Chapter five brought a similar process of rationalising to the fore as it considered how the audit infrastructure is involved in the operation of scepticism. This allowed for the consideration of various artefacts as part of scepticism in operation. The artefacts reflected accepted and known ways of doing things within the firm setting (Riles, 2006) and again highlighted a challenge to the understanding of scepticism as individual-based. Looking at the artefacts in action provided a basis for questioning the longstanding structure-judgment tension in the literature as well as offering an insight into what auditors do as part of being sceptical.

In bringing scepticism's context of operation to the foreground it was necessary to adopt a research design that allowed for insight into how practitioners and regulators made meaning of scepticism – a means of making the messiness and rationalisation visible. This resulted in a qualitative ethnographic approach that drew on the experiences of auditors, regulators, and professional bodies. The investigation emphasised how meaning was made in the professional context. As a result, this study does not purport generalisability across all auditors in all engagement teams and across all firms. The intent from the outset was to recognise the multiple divergent realities within various key sites of analysis and focus on these in developing our understanding of professional scepticism (Guba & Lincoln, 1982).

There is no single all-encompassing reality of the audit, its operation, and the functioning of professional scepticism that covers every engagement and can be modelled and presented in this thesis. Rather, this thesis contained a demonstrated sociological interest in the individual cases and how meaning was developed. The rare access to an audit firm allowed for the observation of such a social setting, with participant observation of an engagement team and insights into the audit infrastructure that support the engagements providing access to one setting where professional scepticism was in operation. This contextual dependency of scepticism highlighted how professional scepticism changes based on its location (person or artefact), the stage of the audit, and the experience of the individual involved in any given situation.

6.1 Contributions of the Chapters

6.1.1 Genealogy

Chapter three presented a genealogical analysis of professional scepticism. The genealogical approach allowed the present understanding of professional

scepticism to be explained through the events of the past, rather than presuming the current understanding of the term (Foucault, 1991a; Miller & Napier, 1993). The genealogical analysis highlighted a shift in the position of the individual auditor, arguing that the current regulatory attention to scepticism represented an effort to bring the focus back on the individual judgment after a period where firm-based methodologies were seen to be dominating the actions of auditors. It also highlighted how the ideas behind the role of audit changed across time, with this producing different degrees of emphasis on the role of the auditor as a source of challenge to the client. The 1960s were seen to highlight issues of independence that carried on for several decades and gained significant attention following Enron. Post-Enron the talk turned to professional scepticism. Both independence and scepticism were seen as being mindset or attitudinally based in regulatory eyes, but the shift to scepticism flagged an explicit attention to demonstrated competence in audit procedure that was not as apparent in the earlier independence discussions. Also apparent was the way that regulatory issues are framed and positioned, with these bringing with them constraints and limitations in how they are applied.

Across the genealogy there is a notable shift on the way challenge is produced and used in the audit process. In the early days of audit, the auditor was seen as a key weapon against fraud, suggesting their role of challenge and inquisition within the auditee setting. While motivated by wider aims of professionalisation, the profession actively positioned itself as a key player in efforts to deal with corporate fraud. In the more contemporary setting the auditor is still seen as a key source of challenge, with the attention on professional scepticism reflecting this position. However, it is notable that efforts to develop and demonstrate such challenge are coming as a result of regulatory attention and emphasis. The publicly visible source of auditor challenge could be seen to have changed as a result.

6.1.2 Auditability

Chapter four analysed the auditability of professional scepticism, with auditability offering an insight into the scepticism debate through the problematisation of what it means to be auditable. Specifically, consideration was given to the impact that audit has on how activities are performed and changed through being made auditable. For scepticism this is a significant point, as a change in its operation resulting from the demands of auditability is potentially counter-

productive to the intentions behind its emphasis that were identified in chapter three. Chapter four's interest was in the limits and restrictions of the auditability alternatives described in the existing research (Power, 1996). The chapter engaged with practicing professionals, regulators, and members of audit committees, as well as material from professional bodies and regulatory debates. In the process it set out to problematise the idea and ideal of professional scepticism being auditable.

Findings highlighted several challenges in making professional scepticism auditable, including its distributed nature across different levels of the engagement team and across the stages of the audit engagement. This distributed nature meant that the idea of what scepticism was or how it functioned changed with the progress of the audit engagement. As a result, what was understood as being sceptical became clearer in light of previous events (Garfinkel, 1967). The auditability discussion also highlighted issues attached to the operation of material traces, with difficulties in agreeing on their form, as well as audit firm process design highlighting issues in their survival.

Being made auditable can change how things are done, pointing to a concern that with auditability comes about performativity. Power (1996) alluded to this, noting that audit creates its own conditions and environment necessary for its success, a message that others also noted (Free et al., 2009; Pentland, 2000). With this in mind, chapter four evidences the intuition behind Pentland's concerns about audit being applied where there is an "adversarial aspect" (Pentland, 2000:310) to the auditor-auditee relations, highlighting the limitation of auditability in such a circumstance. With regulators reluctant to provide examples of what scepticism looks like and being content with standards that are more pervasive in their coverage of scepticism, there is an evident concern about any further detail leading to a checklist style compliance. The concern from firms about not knowing how they will be evaluated or what should be included highlights the other side of this debate. Auditability requires systems that can demonstrate what is being audited, but for regulators to make such specifications risks changing professional scepticism as a result. This highlights a limit to auditability, since it immediately challenges the idea of a co-construction between auditor and auditee of what the auditable environment should look like. Co-construction of auditability seems suited to an environment where the space exists for cooperation between auditor-auditee relations, rather than the accountability/adversarial nature of the regulator with the audit firms.

This highlights a tension for the regulators in their role and a concern for practitioners. It was apparent that as much as the regulator motioned towards an auditable operation of professional scepticism there was an equal resistance from within the profession. Such resistance was linked to the need within the audit process for some spaces that are not subject to regulatory audit, with these providing a safe space for auditors to operate. Etienne (2015:2) refers to safe spaces as a place that offers a “shield to business organizations from the risks of sharing potentially sensitive information with their peers and/or regulators.” This suggests that scepticism operates best in settings where it is outside the demands of formalised documentation and inspection. Making things auditable creates a visibility that makes the safe unobserved spaces visible and unsafe. With this awareness of observation potentially comes a change in how scepticism operates.

Such an impact, as well as the discussion concerning material traces and the retention of review notes, highlighted the significance of ‘backstage’ (Goffman, 1990) activity. Within this space “action occurs that is related to the performance but inconsistent with the appearance fostered by the performance.” (Goffman, 1990:135). Any move to make scepticism more auditable brings with it an encroachment upon the safe-space within which scepticism was seen to reside and the actors will change their performance as a result. The move to an increased auditability of scepticism was seen to open up the places of discomfort that are a part of the process of attaining comfort and make them visible. This was a continued theme in chapter five that was able to be understood through the operation of artefacts.

6.1.3 Artefactualisation

Chapter five considered how artefacts are used in the operation of professional scepticism. This question addressed the structure-judgment debate in the auditing research literature (Dirsmith & McAllister, 1982a, 1982b), with that research having established that audit execution was a choice between a mechanistic/structured approach or an organic/ judgment based approach. Against this backdrop was the position in existing research that scepticism was largely an individual trait (Hurt et al., 2013; M. W. Nelson, 2009). The structure judgment tension provided a basis for questioning interpretations of scepticism, with a particular attention to the role of artefacts in the audit process. The artefacts offer a manifestation of the audit

infrastructure and represent understood knowledge practices and procedures (Riles, 2006).

Sociomateriality (Leonardi, 2013; Orlikowski, 2007, 2010; Orlikowski & Scott, 2008) provided a direct basis for the reinterpretation of audit artefacts and their role in professional scepticism. Rather than presuming a one-way relation between artefact and user, the sociomateriality view allowed for material artefacts and social situation to be jointly considered - the artefact and the social in a process of co-construction. A further key to this understanding was the affordance (Hutchby, 2001) offered by the artefact, with differences in affordances being significant in shaping the operation of the artefact and the method in which professional scepticism was constructed and operated.

A field placement with an audit firm allowed for interviews, focus groups, and a participant observation. The results from chapter five problematised conventional understandings of audit artefacts, showing that artefacts were not about a definite choice between structure and judgment. Rather, the examination of the artefacts offered an insight into how judgment can reside within structure, leading to a distributed nature of professional scepticism. This understanding was possible through the application of sociomateriality.

The highlighted relations between the role of the artefact, the affordances of the artefact, and the operation of professional scepticism provide a more developed understanding of how scepticism is supported by artefacts. The observed link between the temporality of the artefact and its role in opening or closing of scepticism also offers a new understanding of the tension concerning the auditability of professional scepticism observed in chapter four. Specifically, the artefacts that survive the audit process are those that represent the positions of attained comfort. The backstage (Goffman, 1990) spaces where the debate and discomfort occurred, which were termed places of cognitive conflict, were those that were not preserved. But it was within those temporary artefacts that specific affordances permitted the co-construction of professional scepticism. Review notes, dissecting a process map, and open debate on a white board are some of the examples of artefacts that engaged with the auditors and provided space for questioning, challenging expectations, and experiencing doubt. The artefacts were a part of the construction of the conditions of possibility for the operation of professional scepticism.

This understanding of artefacts adds to the questioning of the significance of their durability raised by both Power (2016) and Shankar et al. (2017). This thesis has highlighted a relationship between the temporary and permanent artefacts, with the temporary artefacts playing a key role in reaching the developed and accepted audit position of assurance provision represented by the permanent artefact. The sequencing of the temporary and permanent artefacts was argued to represent a conflict creation-conflict closure progression. For our understanding of professional scepticism and the distributed nature of its construction this is a significant point. Through the artefacts a space was created for questioning, issues were raised, addressed, and resolved. The opening and closing of these temporary artefacts can be seen as a way of signalling and managing levels of scepticism within the engagement team.

Theoretical discussions on scepticism had previously emphasised procedures aimed at getting a 'better' scepticism. This was presumably the result of increased regulatory attention to its visibility. Such an ends-focus on scepticism ignored the necessary means to the end. However, with past research in audit presenting an understanding of the engagement as a place of fear and risk (Guénin-Paracini et al., 2014), the movement beyond normative prescriptions was a highlighted area for future research concern. This study contributes in that regard, examining how scepticism is constructed. In looking at the means of scepticism, as chapter five did, there are insights into how the artefacts potentially play a role in the management of the fear and risk in the audit process. Specifically, the temporary artefacts could be interpreted as signalling, through their affordances, where scepticism is needed.

The artefacts function as a means of internally managing the ISAs' requirement for professional scepticism across the engagement. Being sceptical about all things all the time is an unworkable proposition for the auditor, as the discussion of presumptive and normative doubt highlighted in chapter four. The temporary artefacts observed in chapter five are suggestive of triggers for certain levels of scepticism. Their closure and removal can be seen as being as significant as their existence, pointing to the resolution of an area of doubt. This interpretation provides a different understanding of the role of artefacts to that offered under the structure-judgment dichotomy. Rather than prescribing actions and procedures, the temporary artefacts highlight the distributed production of scepticism that involves the artefact

and its affordances along with the engagement team members and their knowledge and socialised means of approaching audit tasks.

6.2 AUDITABILITY V OPERABILITY OF SCEPTICISM

Taken together, chapters four and five highlight a paradox in the evidencing of scepticism. Specifically, chapter four referred to the issue of material traces being problematic for professional scepticism, with regulators looking for them and audit procedures not preserving them. Having rationalised the argument about things happening off the working papers in order to create safe environments for auditor speculation, chapter five disrupts this thought. Specifically, chapter five posits that the type of activities associated with scepticism are, in fact, created and played out through various artefacts. It is not that they aren't documented, but more that they aren't permanently documented.

The potential hint to this problem and a contribution that this thesis offers to the existing literature on both scepticism and artefacts can be found in what the temporary artefacts are interpreted as representing. Their significance as a space for working towards a position of comfort should not be underestimated. Chapter four found suggestions that fear was a part of the story behind professional scepticism being unauditible. This position becomes clearer when the temporary artefacts are considered. Specifically, the temporary artefacts afford a space where fear can be worked through and shut down. Each instance of a temporary artefact being removed (review notes, whiteboard space, for example), represents a progression from an uncertain space to one that is effectively resolved and no longer something to be feared. The destruction of the temporary artefact makes scepticism invisible, effectively purging the questioning and fear from the engagement memory and allowing focus to be placed on other unresolved areas. It is the management of the direction and intensity of that scepticism that the temporary artefacts could be seen as supporting. These also are key to the argued safe space for scepticism. The issue remains though, if these safe spaces endure, how can scepticism be made auditible?

While the process of making things auditible allows for assurance through systems-based approaches (Hohnen & Hasle, 2011; Power, 1996, 1997), the problem for regulators is that this is the very thing that they are trying to avoid. As the genealogy in chapter three noted, the FRC taking over regulation of the profession brought with it an effort to write the individual back in to assessments of audit quality.

As a result, attention was given to the judgments and actions of key individuals in the audit engagement. Moving to a systems-based approach may provide an auditable object more amenable to review and assessment, but it also moves the assessment to second-order dimensions that potentially hide the underlying actions. The accounts of how processes and systems work are rationalised constructions that are potentially decoupled from the actual audit activities (Meyer & Rowan, 1977).

Meyer and Rowan (1977) offer a potential means of understanding the evidencing of professional scepticism. Their discussion of decoupling mentions how organisations with ambiguous processes that are hard to appraise will revert to systems that promote confidence in outputs through a demonstration of an isomorphism with institutional rules. They observe that “decoupling enables organizations to maintain standardised, legitimating, formal structures while their activities vary in response to practical considerations.” (Meyer & Rowan, 1977:357) In a similar vein, Pentland (1993) refers to the need for the audit working papers to look clean, faultless, and structured towards the evidencing of comfort. His description highlights how errors, crossing out, or erasing would lead to working papers being re-drafted. There was a crucial symbolism that accompanied the working papers. They were required to signify comfort and assurance and that would be done by showing no signs of doubt, second thought, or change of mind in the process. This was consistent with the widely held expectations of the audit function. The back stage activities associated with working paper preparation was part of a bigger process of creating a rationalised account (Burchell et al., 1980; Power, 2003) with a particular purpose and the possibility of potential future legal exposure in mind.

These help to position the findings from this thesis regarding the operation of scepticism. Firstly, there is a suggestion that the operation of professional scepticism is necessarily decoupled from the formal representation of the audit process in the working papers. This decoupling is a necessary since it allows for the existence of the safe spaces that were observed as significant in chapter four. The implication of that is that the lack of evidence of professional scepticism does not mean it was not there. Rather it is suggestive of a decoupling of formal rationalised accounts of the audit from the procedures that occurred that could cast doubt or present a risk to that account. Suggestions in the comments from firms in chapter four pointed to this as a product of litigation and other areas of risk exposure. However, the contributions in chapters four and five also suggest that the undocumented spaces of the audit

engagement are significant for their role in providing a space for scepticism to operate. The interpretation offered is that these represent a safe space for the engagement team and they highlight that the invisible element of professional scepticism is just as significant as the visible element of scepticism.

This also highlights the theoretical importance of analysing professional scepticism from a broader perspective than the structure-judgment dimensions. Chapter five demonstrated the significance of affordances in artefactual design and how their combination with the materiality of the artefact and the social setting of the engagement team meant that judgment was located within the operation of the artefact, as opposed to discrete and separate. Not only was judgment attached to scepticism located within the artefact, it was also supported by other artefacts - the operation of the engagement team specific performance metrics - that promoted attitudes and attention consistent with scepticism. This highlights the role that the audit firm infrastructure plays in the operation of artefacts and creating conditions of possibility for professional scepticism. However, it was not all driven by the artefacts. While the artefacts often facilitated and promoted professional scepticism, equally important were the actions of the engagement leader and others in the audit room. These highlight a dimension of professional scepticism that is beyond auditability – the tone and feel in the audit room.

Professional and Regulatory Impacts

The distributed nature of scepticism and its apparent reliance on tacit knowledge and the social dynamics within the audit engagement team present challenges for firms that seek to demonstrate and govern professional scepticism. Capturing dimensions like the feel in the audit room or the nature of interaction – both key parts of what was observed in chapter five – is almost impossible. This can present challenges and opportunities for both the profession and the regulators.

The current regulatory position, as described by one interviewee, is that if scepticism cannot be seen in the working papers then it was not there. This places the onus on the auditor to demonstrate how professional scepticism was present in the completed engagement, despite not being provided with explicit guidance about what it ‘should’ look like. At the same time the regulator has a position of encouraging innovation within individual firms, being reluctant to specify what scepticism in an engagement ‘looks like’, for fear of creating standardised boiler-plate understandings

and representations of scepticism. The findings in this thesis regarding the construction of an auditable form for professional scepticism and the use of artefacts in the audit point towards some practical challenges.

Specifically, the safety that is sought in the audit process means that some dimensions of audit work will not be permanently documented and the backstage activities will be significant. The implication is that no matter how far documentation and auditability extend, there will always be the potential for new safe spaces to be created. In essence the operation of scepticism requires such safe spaces in order to preserve the public frontstage face of assurance that comes with an audit opinion. This reflects the tension between visibility and invisibility. A visible scepticism potentially creates doubt in the overall audit product, as problematic areas and concerns are highlighted. But so too does an invisible scepticism, which is taken to mean it was not there at all. It is a seemingly no-win situation for regulator and practitioner alike. Additionally, the social and tacit elements of professional scepticism make the production of material traces problematic. This highlights the difficulty that regulators have when it comes to scepticism, with their concern about its presence equally matched by the problem of imposing requirements for what scepticism should look like. Any effort to define what scepticism should look like would conceivably lead to a checklist style response from firms seeking to demonstrate compliance.

This raises for consideration the challenges associated with seeing scepticism in completed engagements. It is apparent that the completed working papers alone do not tell the full story. Temporary artefacts throughout the audit link back to and incorporate dimensions of firm culture. However, the ability to assess how firm culture is embedded within individual engagements is an equally difficult task.

6.3 FUTURE DIRECTIONS

Several future directions emerge from the investigation presented in this thesis. These areas point to changes in the understanding of the individual in the audit and the nature and extent of the network in which professional scepticism is seen to be created and accounted for.

6.3.1 Positioning of the Individual

The genealogy chapter highlighted certain ways of thinking and talking about the individual auditor. There was a regular reference to the individual and morals-based concepts of right and wrong and performing in a role of judgment. This raises the prospect of future work considering professional scepticism from an ethical perspective, considering how it links in with wider values of the accounting profession. In May 2018 the IESBA released a discussion paper (IESBA, 2018) raising the possibility of professional scepticism applying to all accountants.

Highlighting individual behaviour, the paper evidences a continued concern for professional scepticism, raising for debate who and what the requirements for scepticism should cover. The discussion paper observes that the codes of ethics for professional accountants have minimal references to professional scepticism, with mentions contained within discussions of audit and independence. Beyond that, “there is no requirement that all professionals exercise professional scepticism.” (IESBA, 2018:5) The discussion document emphasised the behavioural dimensions of professional scepticism for accountants, noting that the term had become a “catch all” term that is used inconsistently to capture the behaviours and actions that the public expects professional accountants to demonstrate when performing professional activities. (IESBA, 2018:6)

Applying ideas of professional scepticism to accounting functions beyond the provision of audit and assurance services does raise some interesting issues for consideration. The idea of professional scepticism in audit is tied to having a basis for providing an opinion of assurance. It reflects the fact that the auditor and the client are not aligned in objectives and that the auditor is there to scrutinise the assertions of management. While the audit firms talk of adding value to the client through their audit services, the underlying rationale for their existence is the verification of information provided by management.

As much as they may speak of adding to the client, there is an inescapable dimension of scrutiny that is part of their role. It could be worth considering how this changes in accounting services beyond the financial statement audit. In what ways is scepticism understood in the case of an accountant offering tax advice or financial advice to a client? The relationship in such instances is different to that of the auditor-auditee. How ideas of challenging the client and questioning the client operate in settings where the auditor is there for the benefit of the client point towards a possible

reinterpretation of what professional scepticism is and what it achieves. It also raises the consideration of how the concept could travel to other domains. For example, accountants providing tax advice and preparing tax lodgements for clients may be called upon to challenge and question what the client provides as the basis for their returns.

6.3.2 The Network of Scepticism

Within the UK setting the FRC has sought to extend the potential sites of auditor professional scepticism and their accountability, with audit committees becoming a frequently mentioned site of interest (FRC, 2011a, 2011b). Their role in reporting on the audit, as well as the regulatory view that they can help provide the necessary conditions for professional scepticism, raises a broader perspective on the conditions for professional scepticism. This positioning highlights and extends the distributed nature of professional scepticism that was identified in this thesis. Extending the boundary of scepticism beyond the audit firm, it highlights a potentially systemic nature of auditor professional scepticism. This positioning resonates with earlier regulatory attention to the role of auditors as systemic regulators (FSA & FRC, 2010). The further distribution that comes from this network model raises broader questions about the nature and operation of professional scepticism.

Research considering the role of audit committees as part of professional scepticism could consider interactions between the audit committee and engagement team and the nature of issues that are covered. While getting access to such a backstage environment is challenging, the insights are potentially fruitful. Gaining an understanding of how audit committees understand, position, value, and create conditions for auditor professional scepticism, combined with the audit firms and their processes, could add to the existing understanding of scepticism. Considering scepticism from a systemic perspective would also highlight the vulnerabilities attached to scepticism and raise questions about the nature of its regulation.

The audit committee also produces a report on the audit engagement, with this document also providing a potential point of analysis for how audit committees rationalise and describe what happened as part of the audit process. The regulatory response to such reporting is also of interest. The reporting mechanism is aimed at making scepticism clearer to those who use the financial reports. However, there is

also the possibility that the further the reach of systems of evidencing scepticism extends the more the systems will be called on to grow. In other words, the more things are looked for and made visible the more it becomes apparent that issues exist in other locations and the audit scope extends as a result (Dunn, 2007). Audit itself has this issue, with audit being a solution to the problems identified by audit. Such potential scope creep in the understanding of scepticism does potentially raise challenges for its evidencing.

6.3.3 Data Analytics

Technology has been identified as a significant factor on the professions (Susskind & Susskind, 2015) and also in changing the way audits are performed (Data Analysis Working Group, 2016; Deloitte, 2017; Earley, 2015; EY, 2015; Financial Reporting Council, 2017; IAASB, 2016; ICAEW, 2016a, 2017), providing automation and efficiency benefits for the performance of audit tasks. One part of the attention to technology has been the rise of data analytics. The discussion in the literature points to it as a way of testing all transactions in the client's system and offering new ways of analysing and filtering transactions. The FRC thematic review (Financial Reporting Council, 2017) also provided a brief mention of data analytics aiding the operation of professional scepticism. Interview participants and participating firm representatives recognised the benefits it offered but there were issues attached to its operation. The focus groups and participant observation highlighted the challenges of data analytics, with their operation experiencing the impact of conflicting boundaries and goals relating to data protection and analysis. Such debates connect with regulatory and legal issues attached to the technology. But there were also areas with a more prominent impact on the audit. In particular, the impact that data analytics had on the skillset and experience of the contemporary auditor and the understanding of how exceptions are defined and followed up.

The use of techniques that allow for the testing of all transactions is significant for audit, but it raises challenges about where and how the auditor executes challenge. As has been raised at several points in the preceding chapters, having tools is one thing, using and engaging with them is another. The rise of data analytics heightens the attention to debates about the skillset that auditors require (Turley et al., 2016).

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APPENDICES

APPENDIX 1 - Figure 6: Initial contact with Participating Firm
(Identifying information of individual and firm redacted)

Mr Brett Considine
MPhil/PhD Candidate
Department of Accounting
London School of Economics
and Political Science
London WC2A 2AE

Email: [REDACTED]

Phone: [REDACTED]

14 April 2016

[REDACTED]

[REDACTED]

This is a brief note to follow up on our recent conversation at the [REDACTED]
[REDACTED] function on [REDACTED]

Firstly, it was a pleasure to acquaint myself with such an impressive organisation that is so visibly committed to [REDACTED]. Further, I enjoyed meeting and talking with you and I thank you for your interest in my area of research, as well as your expressed willingness to communicate further.

As mentioned in our conversation, I am a second year PhD student in the Department of Accounting at the London School of Economics and Political Science. My area of research is the governance of audit firms and the operation of professional scepticism within audit. As requested, the following pages provide you with an overview of my research interest and some ideas for professional involvement. I would be most enthusiastic about any possible future meetings with yourself or your colleagues to further discuss my work.

Please feel free to circulate the following document to any interested members of your organisation who you feel may be able to assist.

I look forward to hearing back from you and discussing this further.

Yours sincerely,

[REDACTED]

Brett Considine

APPENDIX 2 - Outline of research project

OVERVIEW OF THE RESEARCH PROJECT			
Researcher's Name:	Brett Considine	Research for:	MPhil / PhD at LSE
Researcher's Email:		Phone:	
Project Title:	<i>The Operation of Auditor Professional Scepticism</i>		
Project Supervisors:	Associate Professor Dr Andrea Mennicken (Department of Accounting) Associate Professor Dr Matthew Hall (Department of Accounting)		
Basic Research Question:	How is professional scepticism operationalised in the audit firm? More specifically, how are the dimensions of the firm (people, culture, technologies, routines, structures) influenced by and able to influence the operation of professional scepticism?		
Overview and Motivation:	<ul style="list-style-type: none"> Recent regulatory debate has spoken of the key role that professional scepticism plays in the provision of quality audits. This positions scepticism as central to both the operation of the audit firm and regulatory attention. However, despite the advances in technology within the firms, audit inspectors frequently cite an absence of scepticism as an area of concern when reviewing completed audit engagements. Academic research has typically explored scepticism in an experimental setting and in doing so has eliminated the socially nuanced nature of the audit engagement. A motivation for this study is the ability to enter this setting in order to capture the practitioner experience and from that build a conception of scepticism that extends beyond the individual in a controlled task to one that considers a multi-dimensional nature and operation of scepticism in the audit setting. This raises questions about its nature, including how it is generated and applied. This includes whether it is structured or a product of the environment, and thus generated in response to triggers and stimuli from the social setting. This is a seemingly significant distinction. The former implies a predictability of scepticism that readily lends to documentation and evidencing, while the latter promotes a more contextual understanding of its generation and operation. Exploring these dimensions of the individual and their setting (including audit technologies) in shaping scepticism from within the practical setting of the audit firm helps to further understand the apparent gap between regulator conceptions of scepticism and what happens within the audit firms. It would also draw out the interaction between the individual, their social setting, and the culture and technologies of the firm in applying professional scepticism to the audit engagement. 		
How you can be involved:	<p>Further, [REDACTED] a lack of recent UK-based research exploring professional scepticism, while noting that scepticis [REDACTED]</p> <p>[REDACTED] It is such aspects of scepticism that are of particular interest to my research project.</p>		

	<p>I am keen to explore the potential for the involvement of you or your organisation, with several options available for discussion, including:</p> <ul style="list-style-type: none"> - Interviews with yourself and various members of the audit firm (across levels, as well as technology / methodology development, quality review functions etc.) - Interviews with those involved in developing and using audit methodology tools and systems, exploring the process of development and how scepticism is seen to be built into the operation of the systems and how this has changed over the different versions of the systems. - Participant observation of training sessions, allowing the content, structure, delivery, design, audience, and setting to be observed and analysed for how it conveys ideas about the role and operation of scepticism. - Participant observation within the firm through an extended placement / secondment whereby I work for the firm on engagements or in other audit related roles. Such an embedded participant experience allows my research to be informed by actual operations and provides an intimate experience of the operation of the firm and its dynamics [REDACTED].
Benefits for the firm:	<ul style="list-style-type: none"> • In recognition of the significant contribution that such undertakings would represent, I would happily report back to you with a summary of my findings and observations. This could include a written report, presentation, or other such means as deemed appropriate. • Much has been made of the apparent gap between academic work and professional practice in accounting and auditing. Your involvement in this research project would help in reducing this gap through the insights into the practice-based conceptualisation of scepticism that it would provide. • This project would also allow the opportunity to reflect on the operation of a topic of significant importance to practitioners and [REDACTED] perspectives of a researcher who has taught undergraduate auditing for over a decade and briefly worked in a Big-4 firm. These experiences afford a basis for informing your perceptions and practices in light of the heightened regulatory attention to the area.
Privacy Considerations	<ul style="list-style-type: none"> • Any data collected in the project would be anonymised with no individual, firm, or client organisation directly identifiable when the data is used in academic papers and the research thesis. • Data would be securely stored in accordance with LSE policies. • [REDACTED] • Further details of the ethical procedures followed at the London School of Economics and Political Science are available upon request. • My project supervisors are also available to discuss any queries you may have concerning this project.

APPENDIX 3 - Table 15: Interviews

SUMMARY OF INTERVIEW DATA						
CODE	ROLE	DATE	PAGES	TAPE	P/T	TIME
IR01	Auditor – Senior Manager	10/4/2015	14	YES	P	0:52:37
IR02	Former Auditor - Manager	22/4/2015	10	YES	T	0:34:34
IR03	Auditor – Manager	24/4/2015	9	YES	T	0:36:34
IR04	Partner	12/6/2015	9	YES	P	0:34:10
IR05	Auditor - Manager	16/2/2016	13	YES	P	0:34:38
IR06	Professional Body A	17/4/2017	19	YES	P	1:16:29
IR07	NED*	13/6/2016	27	YES	T	1:20:18
IR08	Consultancy	13/6/2016	12	YES	T	0:35:17
IR09	Former Auditor	14/6/2016	6	NO	T	0:53:00
IR10	NED*, Former Auditor	16/6/2016	32	YES	P	1:30:44
IR11	NED*, Former Auditor	21/6/2016	14	YES	T	0:50:38
IR12	Regulator	24/06/2016	32	YES	P	1:27:29
IR13	Auditor – Senior	12/7/2016	20	YES	P	0:43:53
IR14	Auditor – Manager	14/11/2017	11	YES	T	0:33:35
IR15	Regulator	19/10/2016	17	YES	P	0:53:41
IR16	Regulator	28/10/2016	20	YES	P	1:07:56
IR17	Regulator	15/11/2016	18	YES	P	0:50:46
IR18	Auditor – Manager	17/11/2016	27	YES	P	1:07:32
IR19	Auditor – Partner	19/5/2017	3	NO	T	0:52:00
IR20	Professional body B	6/6/2017	13	YES	T	0:40:15
IR21	Auditor – Senior Manager	28/6/2017	23	YES	P	1:19:43
IR22	Regulator	29/8/2017	23	YES	P	1:14:05
IR23	Professional Body B	1/9/2017	9	YES	P	0:33:57
IR24	Professional Body B					
TOTAL			381			21:03:51

*NED = Non-Executive Director – Audit Committee Member

Key to Table:

CODE – Code assigned to interview participant; **ROLE** – Position of interview respondent; **DATE** – Date interview occurred; **PAGES** – Length of interview notes; **TAPE** – Recorded interview? Yes / No; **P/T** – Interview conducted in person (P) or over telephone (T); **TIME** – Length of interview (h:mm:ss)

APPENDIX 4 - Follow-up Letter Sent to Interview Participants

Mr Brett Considine
 PhD Candidate
 Department of Accounting
 London School of Economics
 and Political Science
 Houghton Street
 London WC2A 2AE
 1 September 2018

Dear [PARTICIPANT NAME]

This letter follows up on a research interview that you participated in as part of my PhD research examining auditor professional scepticism.

Along with informing you of the nature of the research, I advised you that:

- Your participation in the interview was voluntary;
- The interview data would be used for the preparation of a thesis chapter and may be included in publications and conference papers;
- If data from the interview was used in the thesis it would be done so in a manner that protected the identity of you and your organisation;
- A draft copy of the chapter could be made available for your review; and
- A copy of the interview transcript could be provided.

In following up on these commitments, I can advise that I have a full version of the chapter available. If you wish to view a draft version of this chapter then I would ask that you please reply to this message indicating that this is the case and confirming that this email address can be used for sending the draft to you. **If I do not hear from you by 16 September 2018 I will assume that you do not wish to view a copy of the draft.**

Should you choose to review the draft and then wish to comment or discuss the findings and conclusions, I would be happy to follow this up with you. I am interested in hearing your responses to the research. Any such follow up would need to be done by mid-September, in order for me to be able to meet the thesis deadline of 30 September 2018.

Also, please be advised that the chapter version you would receive is the draft version, it has not been externally examined or reviewed and is still work in process. Accordingly, I ask that you please do not distribute, copy, quote, cite or otherwise circulate the chapter.

I thank you once again for your time and involvement in the research interview. Your contribution was significant in my being able to complete the dissertation.

Yours sincerely

Brett Considine

APPENDIX 5 – Table 16: FRC Audit Inspection Reports Consulted

FRC AUDIT INSPECTION REPORTS CONSULTED		
Year	Firms	Total
2008	Deloitte, EY, KPMG, PwC, PKF, BDO, Grant Thornton	7
2009	Deloitte, EY, KPMG, PwC, Baker Tilley, BDO, Grant Thornton, Horwath Clark Whitehill,	8
2010	Deloitte, EY, KPMG, PwC, Combined report for small firms, PKF	6
2011	Deloitte, EY, KPMG, PwC, Grant Thornton, BDO, Combined report for small firms	7
2012	Deloitte, EY, KPMG, PwC, Crowe Clark Whitehill, Mazars, Baker Tilley, PKF	8
2013	Deloitte, EY, KPMG, PwC, Grant Thornton, BDO	6
2014	Deloitte, EY, KPMG, PwC, Baker Tilley	5
2015	Deloitte, EY, KPMG, PwC, Crowe Clark Whitehall, Mazars, Grant Thornton, BDO	8
2016	Deloitte, EY, KPMG, PwC, Grant Thornton, BDO	6
2017	Deloitte, EY, KPMG, PwC, Grant Thornton, BDO	6
2018	Deloitte, EY, KPMG, PwC, BDO, Grant Thornton, Mazars, Moore Stephens	8
TOTAL REPORTS REVIEWED		75

Copies of these reports were sourced from the FRC website.

APPENDIX 6 – Table 17: Mentions of ‘Scepticism’ in Firm Specific Inspection Reports

Group	Firm	YEAR											Reports Included		
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		Total	
BIG 4	Deloitte				3	2				1	1	3	10	5/11	
	EY			2	2	6	3			3	3	4	23	7/11	
	KPMG				5	4	1	1	1	1	3	7	23	8/11	
	PWC			1	3	6	2	2		5	5	1	25	8/11	
Other	Crowe Clark Whitehill								4				4	1/2	
	Grant Thornton				2			5		7	2	1	3	20	6/8
	Mazars						1			1		3	5	3/3	
	BDO				2			4		5	1	1	13	5/8	
	Baker Tilly						3						3	1/3	
	PKF						2						2	1/3	
	Other			3	3								6	2/2	
	Horwath Clarke Whitehill													0/1	
	Moore Stephens													0/1	
	TOTAL		0	0	6	20	24	15	3	18	13	14	21	134	47/75
Big 4 Total		0	0	3	13	18	6	3	1	10	12	15	81	28/44	
Other Firms Total		0	0	3	7	6	9	0	17	3	2	6	53	19/31	

Group = Audit firm grouping - Big 4 or Other; Firm = Audit firm name; Year = Publication year of inspection report; Reports Included - Firm inspection reports using the word 'scepticism' - 1/2 means 1 of 2 available reports used the word scepticism

Data Source: Data drawn from 75 publicly released FRC Audit Firm Inspection Reports between 2008 and 2018

Table 18: Use of 'Scepticism' in Firm Specific Inspection Reports

Group	Firm	Year	Mention Type								Total		
			FRP	Hdg	Imp	InsM	OFP	PPU	SDef	SPt			
BIG 4	Deloitte	2011					1				2	3	
		2012		1			1					2	
		2016				1						1	
		2017				1						1	
		2018	2							1		3	
	EY	2010								1	1	2	
		2011									2	2	
		2012	2				3		1			6	
		2013					2		1			3	
		2016	2			1						3	
		2017	1			1			1			3	
	KPMG	2010	1										1
		2011			1		2				1		4
		2012					3		1				4
		2013							1				1
		2014					1						1
		2015							1				1
		2016				1				1			1
		2017				1				2			3
2018						1			6			7	

Group	Firm	Year	Mention Type								Total	
			FRP	Hdg	Imp	InsM	OFP	PPU	SDef	SPt		
	Mazars	2012								1		1
		2015								1		1
		2018	3									3
	PKF	2012		1						1		2
	Smaller firms	2010								3		3
		2011								2	1	3
TOTAL			22	9	9	12	20	3		43	16	134

Item	Data Name	Description
Group	<i>Group</i>	<i>Firm classification - Big 4 or Other</i>
Firm	<i>Firm</i>	<i>Audit firm name</i>
Year	<i>Year</i>	<i>Year Audit Inspection Report was published</i>
FRP	<i>Firm Response</i>	<i>Contents refers to a firm's response to an issue raised by the inspector</i>
Hdg	<i>Heading</i>	<i>Scepticism appears in a heading</i>
Imp	<i>Improvements</i>	<i>Refers to improvements that need to be made</i>
InsM	<i>Inspection Methodology</i>	<i>Refers to scepticism in the description of the inspection methodology</i>
OFP	<i>Overall firm procedures</i>	<i>Refers to overall firm procedures and policies and their link to scepticism</i>
PPU	<i>Prior problems unaddressed</i>	<i>Refers to previous issues relating to scepticism that have not been corrected</i>
SDef	<i>Specific deficiency</i>	<i>Refers to specific issues in engagements that are highlighted and linked to scepticism</i>
SPt	<i>Summary point</i>	<i>An overall discussion of matters that refer to scepticism</i>

Data Source: Data drawn from 75 publicly released Audit Firm Inspection Reports between 2008 and 2018

APPENDIX 7

Figure 7: Firm Meetings - Participant Information Form

PARTICIPANT SUMMARY INFORMATION

Please mark the appropriate box and fill in details where necessary.

AGE RANGE:	<input type="checkbox"/> 20-29	<input type="checkbox"/> 30-39	<input type="checkbox"/> 40-49	<input type="checkbox"/> 50-59	<input type="checkbox"/> 60-69	<input type="checkbox"/> 70+
GENDER:	MALE <input type="checkbox"/>	FEMALE <input type="checkbox"/>				

CURRENT POSITION:	<input type="checkbox"/>	Position labels redacted due to potential identifiability
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
AREA OF FIRM:	Text redacted due to identifiability	
TIME IN CURRENT POSITION:	_____ years	_____ months
TIME WITH FIRM:	_____ years	_____ months

EDUCATION:	
Highest level of education completed:	<input type="checkbox"/> Undergraduate (Bachelors) <input type="checkbox"/> Masters <input type="checkbox"/> MBA <input type="checkbox"/> PhD <input type="checkbox"/> Other: _____
Area of study: _____	(Eq: Accounting, Economics, Law, History)
PROFESSIONAL QUALIFICATIONS:	
<input type="checkbox"/> Institute of Chartered Accountants of England and Wales (ICAEW) <input type="checkbox"/> Institute of Chartered Accountants of Scotland (ICAS) <input type="checkbox"/> Association of Chartered Certified Accountants (ACCA) <input type="checkbox"/> Other (Please specify): _____	
This qualification is: <input type="checkbox"/> Complete <input type="checkbox"/> In progress	

MEETING DATE: _____ MEETING TIME: _____

APPENDIX 8

Figure 8: Focus Group Participant's Demographics Form

FOCUS GROUP PARTICIPANT SUMMARY DETAILS

The following details will be used to assist in the comparison across different focus groups. It will NOT be used to identify individual participants.

Please place a check mark in the appropriate box for each item.

<p>Gender: <input type="checkbox"/> Female <input type="checkbox"/> Male</p> <p>Age: <input type="checkbox"/> 20-29 <input type="checkbox"/> 30-39 <input type="checkbox"/> 40-49 <input type="checkbox"/> 50-59 <input type="checkbox"/> 60+</p> <p>Current Position: <div style="border: 1px solid black; padding: 2px;">Position labels redacted due to potential identifiability</div></p> <p>Area of audit specialisation: _____</p> <p>Time with the firm: _____ years _____ months</p> <p>Time in current position: _____ years _____ months</p>

<p>Highest completed tertiary qualification: <input type="checkbox"/> Bachelors <input type="checkbox"/> Masters <input type="checkbox"/> PhD</p> <p>Area of study in highest completed tertiary qualification: <input type="checkbox"/> Business / Accounting <input type="checkbox"/> Other (please specify): _____</p> <p>Professional qualification and membership: <input type="checkbox"/> Institute of Chartered Accountants of England and Wales <input type="checkbox"/> ACCA <input type="checkbox"/> Institute of Chartered Accountants of Scotland <input type="checkbox"/> Other (Please specify): _____</p> <p>Is this qualification complete? <input type="checkbox"/> Yes <input type="checkbox"/> No</p>

<p>Prior to meeting the other participants in today's focus group, how well did you previously know the other group members?</p> <p style="text-align: center;"> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 0 1 2 3 4 5 6 7 </p> <p>0 = did not know the other participants, 1 = minimal familiarity with other participants, 4 = Moderate familiarity with other participants 7 = Extremely familiar with other group members</p> <p>Have you previously worked on audit engagements with the other members of the focus group?</p> <p style="text-align: center;"> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 0 1 2 3 4 5 6 7 </p> <p>0 = have never worked with the other participants before; 1 = rarely worked with the other participants, 4 = Moderate frequency of working with some of the other participants 7 = Frequently work with several of the other participants</p>

APPENDIX 9

Table 19: Field Placement Details

PANEL 19A – ADMINISTRATIVE MEETINGS WITH FIRM					
Date	Overview				
17/5/16	Initial discussion of proposal				
21/7/16	Discussion of proposal				
20/12/16	Discussion of proposal				
16/1/17	Discussion of proposal				
23/1/17	Discussion of proposal and proposed outline of access				
15/2/17	Phone call - Discussion of proposed agreement documents				
12/6/17	Conference Call – Discussion of focus groups				
5/10/17	Conference Call - Discussion of engagement observation				
30/4/18	Conference Call - Discussion of observation				
13/8/2018	Conference call – Discussion of thesis draft				
11/9/18	Discussion of thesis document				
13/9/18	Discussion of thesis document				

PANEL 19B – FIELD MEETINGS WITH THE PARTICIPATING FIRM					
Date	Location	Start	Finish	Participants	
1 March 2017	London	10:30am	11:40am	Human Resources	
2 March 2017	London	2:30pm	4:00pm	Learning Function	
3 May 2017	London	3:15pm	4:00pm	Human Resources	
8 May 2017	London	11:30am	1:30pm	Assurance Methodology and Risk Management	
4 December 2017	London	1:30pm	2:00pm	Human Resources Follow-Up	
4 December 2017	London	2:00pm	3:00pm	Manager Focus Group Follow-Up	
4 December 2017	London	3:00pm	4:15pm	Partner Focus Group Follow-Up	
19 January 2018	London	9:15am	10:15am	Assurance Development	
24 January 2018	London	9:30am	10:45am	Assurance Methodology and Risk Management	

PANEL 19C - FOCUS GROUPS CONDUCTED					
Date	Location	Participants		Start	Finish
10 July 2017	London offices	Partners / Directors		10:00	12:00
11 July 2017	London offices	Managers / Senior Managers		11:00	13:00

PANEL 19D - ENGAGEMENT OBSERVATION					
Date	Location	Start	Finish	Participants	
4 May 2018	Client premises, London	10:00	18:00	Engagement team	
11 May 2018	Client premises, London	10:00	16:00	Engagement team	

APPENDIX 10

Table 20: Participants for firm-based meetings

SUMMARY OF MEETINGS		
MEETING DETAILS		PARTICIPANT SUMMARY
DATE	MEETING WITH	Level
1 March 2017	Human Resources	Manager Senior Manager
2 March 2017	Learning Function	Senior Manager
3 May 2017	Human Resources	Senior Manager
8 May 2017	Assurance Methodology and Risk Management	Director Senior Manager
4 December 2017	Human Resources (Follow-up)	Senior Manager
4 December 2017	Assurance (Follow-up)	Manager
4 December 2017	Assurance (Follow-up)	Partner
19 January 2018	Assurance Development	Partner
24 January 2018	Assurance Methodology and Risk Management	Partner

All meetings were conducted at the firm's London premises.

Demographic details about participants (age range, qualifications, time with firm, time in role) were also gathered and tabulated. In order to protect participant anonymity this data is not reported.

APPENDIX 11

Table 21: Focus Group Protocol

TIME	CONTENT
0:00:00	<p>INTRODUCTION AND OUTLINE</p> <p><u>INTRODUCTION</u></p> <p>Good morning (afternoon) and welcome to this focus group session. I am Brett Considine, a third year PhD student in the Accounting Department at the LSE. I am conducting research into auditor professional scepticism.</p> <p><u>MONDAY GROUP:</u></p> <p>I would like to introduce Associate Professor Andrea Mennicken, also from the Accounting Department at the LSE. Andrea is the main supervisor of my research project and is here today having kindly offered to assist as a note taker for the session.</p> <p><u>TUESDAY GROUPS:</u></p> <p>I would like to introduce Dr Dorothy Toh, a former colleague and now academic within the Accounting Department at King's College London. Dorothy is also a former auditor and she has kindly offered to assist as a note taker for the session.</p> <p><u>ETHICS AND PARTICIPATION</u></p> <p>You were invited to participate today because of the insights you can offer based on your professional experience. This study aims to build our understanding of scepticism for the practicing profession. As you know, this is a constant topic for practitioners like yourselves, with regulators constantly calling for more scepticism. Your insights are valuable in better understanding the topic, informing the regulatory and professional discussion, and providing insights that could inform and improve processes within the firm.</p> <p>You are all voluntarily participating in this session and your time is greatly appreciated. No comments made will be directly attributable to you - anonymity is provided for you, the firm, and your clients. I have also agreed to a non-disclosure and confidentiality agreement with the firm. My completed thesis will be reviewed by the firm to ensure that the confidentiality and identifiability of all participants, the firm, and its clients are protected.</p> <p>I may also take notes throughout the session. This is for my reference as moderator, so please do not let it distract you or deter you from contributing. These notes and those prepared by the note taker are also covered by the non-disclosure agreement.</p> <p><u>SETTING THE TONE FOR THE MEETING</u></p>

Please contribute based on what you think and have experienced and feel free to take the initiative with the discussion. If there is something that has not been raised, please offer it to the group. The questions I use are to start the discussion and you are able to build on and add to these. There are no right or wrong answers to the topics we will cover. You are all audit professionals with a range of experiences and backgrounds – your critical discussion, views, and questions about the topics covered are important. I am here to learn from these, since my own time in audit was several years ago, in another country. It goes back to a time when there was a Big 6 and electronic work papers were only just arriving on the scene. I have no doubt things have changed!

0:02:00 SETTING UP SCEPTICISM – ICE BREAKER

As a starting point, could you please introduce yourself. As a beginning topic, how is the appropriateness of your scepticism communicated / made evident to you?

What does it mean for you to be comfortable with the level of scepticism you have applied?

As a starting point, could you please introduce yourself. As a beginning topic, how do you know that you have been sceptical enough and how do you show it?

0:20:00 SCEPTICISM AND THE AUDIT

Based on your experience, what are your views on professional scepticism in the audit process?

Follow ups / Prompts:

What do you find challenging/problematic about scepticism?

Do you think that professional scepticism is something that will always be raised by regulators as not being there no matter what you do? Why?

Audit standards once suggested a need for trust in the client in order to be able to complete the audit. Now the standards suggest an audit cannot be effective unless there is some doubt towards the client. Can you audit a client you don't trust?

0:40:00 COMMUNICATION AND ENVIRONMENT

IF NOT COVERED IN THE DISCUSSION ABOVE

In your experience, what, if anything, encourages scepticism?

FOR PARTNERS: How do you know whether your team has been sceptical enough?

How do you let your team know scepticism is important?

FOR MANAGERS: How do you get the concept of professional scepticism across to people in your engagement teams?

FOR JUNIOR AUDITORS: How do others in the engagement team let you know scepticism is important?

FOR ALL: From your experience, what, if anything, restricts you from being sceptical?

1:00:00 PLANNING AND EXPECTATIONS ACROSS THE ENGAGEMENT

More than once, in the individual interviews I have conducted, there has been the comment that scepticism is an issue of concern because “too often the focus is on auditing what is there, as opposed to what isn’t there.”

What is your reaction to / thoughts on this suggestion?

Follow ups / Guidance:

How would you see it applying across the audit process?

What is done to bring scepticism in to the audit?

What things help you to be sceptical in an audit?

1:20:00 DATA ANALYTICS

An FRC Thematic review released earlier this year described data analytics as “aiding the exercise of professional scepticism.”

What are your thoughts on this quote? Why?

Follow up:

Based on your experiences, in what ways do you think DA could influence the exercise of professional scepticism?

What impact do you think DA has or could have on professional scepticism?

What other things help you to be sceptical?

1:40:00 WRAPUP

We have covered a fair bit of ground in this focus group session and I thank you for your comments and thoughts.

Across the course of this meeting we have discussed [summary of topics and main points from notes of meeting].

If you were to summarise the meeting, what would you change about that summary?

Finally, as a way of wrapping up the session, I would like to recap. I am investigating professional scepticism within audit. Given that, and what we have discussed, is there anything that we should have covered but have not mentioned? Have we missed anything?

1:55:00 CONCLUSION

Thank you for those concluding comments and thoughts. Once again, I want to thank you for your time and contributions to the focus group session. I have gained a great insight from your discussion and I value your giving of your experience and time when, no doubt, your schedules are already fairly busy.

I would also like to arrange individual follow-up meetings. Could you please indicate, through [Firm Contact Present], whether you would be happy to be contacted for a follow up meeting?

Thank you once again for your time and I would like to now formally conclude today's session by also thanking the note taker and the [Firm Contact Present] for their time and assistance.

FOCUS GROUP CONCLUDES

APPENDIX 12

Table 22: Conferences and Professional Functions Attended

Date	Location	Title	
5/5/2016 to 6/5/2016	Saïd Business School, University of Oxford	BAFA Audit Special Interest Group	
6/6/2016	London	FRC	Unlocking Healthy Corporate Culture
14/6/2016	London	ICAEW Audit Quality Forum	Tax: Is business paying its fair share?
23/1/2016	London	ICAS/ FRC Discussion Event	Auditor skills in a changing world
12/6/2017	London	ICAEW Audit Quality Forum	Believe Me I'm an Expert
9/5/2017	London	ACCA Seminar	Banishing Bias - Professional Scepticism Report
5/10/2017	London	ICAEW – Data Analytics	Online webcast
2/7/2017 to 5/7/2017	Quebec, Canada	Critical Perspectives of Accounting	<ul style="list-style-type: none"> • Doctoral Colloquium • Main Conference
28/11/2017	London	ICAEW Audit Quality Forum	Do we still need auditors?
May 2018	King's College London	Professions Fest 2018	Technology and the Professions
May 2018	Online	ICAEW Audit Futures	Online webcast
June 2018	Online	ICAEW	Professional Scepticism webinar

APPENDIX 13

Interview Protocol - Pilot

Covers IR1 to IR3

PRELIMINARY – EXPLAINING THE FRAMEWORK (KEEP BRIEF)

Introductions

- My details, position

Objectives

- Overall aim of the study:
 - o Interest in the professional firm setting and how audit firms operate and the ways that activities within the firm are controlled.

Confidentiality

- I am not interested in exposing particular audit firms;
- I have no need to disclose the names of particular audit firms
- Mention that anonymity is available if desired and can include:
 - o Identity of individual
 - o Identity of affiliated organization

Try to keep this section as short as possible - TIME MANAGEMENT

- I have a few avenues for discussion that I am interested in pursuing
- I am interested in your initial thoughts and ideas and personal experiences. There are no right or wrong responses, it's about your perspectives, experiences, and views.
- You are free to withdraw participation at any time should you wish to do so.
- The data from this interview may be used to generate a research report that could be published. As mentioned, no details directly identifying you will be present in that final report.
- You are welcome to a copy of the transcript of this interview and any final reports produced if you so desire.

TURN RECORDING EQUIPMENT ON

SCENE SETTING – THE INVITATION TO NARRATE AND OPEN UP

Gain a background of the person

Briefly, tell me about how you came to work for FIRM X...

- Look for mention of / follow up on:
 - o Time with firm
 - o Have they worked with other firms?
 - o Relevant tertiary / professional training
 - o Steps up the ranks within the firm
 - Levels
 - How long it took
 - Is that 'normal' time?
 - o Why they chose this firm?
 - o Why they chose audit as a profession?
 - o What skills do you think you need?
 - o Educational background - What did you study?

INDEPENDENTLY PRODUCED MAIN NARRATIVE

You mentioned that your current position is XXX. Take me through your most recent day out at the client's offices.

Does this reflect a typical day?

Can you give me examples of the tasks you describe?

- Look for / Enquire further when there is mention of
(INDICATIVE LIST, MAY NOT ADDRESS ALL POINTS)
 - o Tasks
 - What is done?
 - How is it done?
 - Who is involved?
 - o Clients
 - Pressures?
 - Serve client vs. other stakeholders?
 - o Interactions with colleagues, clients
 - o Nature of tasks performed
 - o Influence of firm structures on task performance
 - EG Budgets – time, financial
 - Who sets them?
 - Who accounts them?
 - Do you have a say?
 - EG Supervision
 - Who are you accountable to?
 - How often is your work reviewed?
 - How do you review those under you?
 - How is supervision carried out?
 - o Formal?
 - o Informal?
 - EG PERFORMANCE REVIEW
 - What criteria are used?
 - Can you give me an illustrative example?
 - How much input do you have in the criteria?
 - Has the working climate – overall governing structure
- of the firm changed over the past few years

NARRATIVE GENERATING ENQUIRIES

Can you tell me about your professional development in your time with the firm?

- Was it in firm / external?; Who initiated it?
- Relevance of the firm's training and procedures vs. the professional body
- How do they see the role and influence of the professional body?

Have there been any major changes that he/the firm experienced during his/her time there, sometimes that can be a useful trigger point for further enquiry

Can you tell me about the values or principles that you think your firm represents and how these are communicated to you and brought out in your role? (this is a very broad question; the below sub-question makes it more concrete)

-How does the firm monitor / measure/ keep track of these?

On an engagement, who are the groups of people you communicate with and could you give me an example of the types of issues you would cover?

Can you give me some examples of risk in your role and the strategies used to handle the risks?

- Where do these strategies come from?
- Can you provide some examples?

CONCLUSION

Is there anything else you would like to share or clarify based on our discussion?

Any other contacts who may be interested in speaking to me?

Any documents available?

Any possibility of an internship with the firm? – Possible ethnography approach

Thank you and wrap up.

APPENDIX 14

Interview Protocol from interviews for Ch 4 – Auditability

PRELIMINARY – EXPLAINING THE FRAMEWORK (KEEP BRIEF)

Introductions

- My details, position

Objectives

- Overall aim of the study:
 - o Interest in professional scepticism and how it operates and is created within the audit firm

Confidentiality

- I am not interested in exposing particular audit firms;
- I have no need to disclose the names of particular audit firms
- Mention that anonymity is available if desired and can include:
 - o Identity of individual
 - o Identity of affiliated organization

Try to keep this section as short as possible - TIME MANAGEMENT

- I have a few avenues for discussion that I am interested in pursuing
- I am interested in your initial thoughts and ideas and personal experiences. There are no right or wrong responses, it's about your perspectives, experiences, and views.
- You are free to withdraw participation at any time should you wish to do so.
- The data from this interview may be used to generate a research report that could be published. As mentioned, no details directly identifying you will be present in that final report.
- You are welcome to a copy of the transcript of this interview and any final reports produced if you so desire.

TURN RECORDING EQUIPMENT ON

SCENE SETTING – THE INVITATION TO NARRATE AND OPEN UP

Gain a background of the person

Briefly, tell me about how you came to work for FIRM X...

- Look for mention of / follow up on:
 - o Time with firm
 - o Have they worked with other firms?
 - o Relevant tertiary / professional training
 - o Steps up the ranks within the firm
 - Levels
 - How long it took
 - Is that 'normal' time?
 - o Why they chose this firm?
 - o Why they chose audit as a profession?
 - o What skills do you think you need?
 - o Educational background - What did you study?

What does professional scepticism mean to you?

- Definition?
- Examples?
- Significance?
- Links to other issues – eg audit quality, regulation

How do you see professional scepticism as part of your role?

- Supervision (of junior staff, by senior staff)
- Client factors
- Firm based factors/policies/emphasis
- Engagement reviews
- Performance appraisals

How is professional scepticism a part of the audit? **REFER TO EXAMPLES FROM EARLIER DESCRIPTION OF ROLE AND POSITION**

- Audit stages and emphasis?
- Use of tools – checklists?
- Past engagement experience?
- Reviews?
- Training – type? Approach (eg online/group sessions / informal)?
- Evidencing scepticism
 - Can it be evidenced?
 - How do you show that it was there / applied?
 - Documentation?
 - Specific steps?
- Is scepticism explicitly tracked? How?
 - Individual performance?
 - Engagement team level?
 - Firm level?
- How do you assess if:
 - o You have applied sufficient scepticism?
 - What does it look like? Feel like?
 - o A junior has applied sufficient scepticism?
 - What does it look like? Feel like?
- Relationship with client
 - o Trust v doubt – how does PS fit in relation to trusting/doubting clients?
 - o Attitudes in engagement – presume errors? Go in with a neutral mind?
- Possible avenues for consideration depending on the matters raised and examples provided:
 - o Inspections by regulators
 - o Verifying client assumptions v coming up with own assumptions
 - o Evidence and verification
 - o IFRS impacts – FV accounting
- Any other points you would like to add? Topics that we haven't covered that you would like to raise?
- Conclusion
 - o Remind of availability of paper / transcript
 - o Thank for time

APPENDIX 15

Interview Protocol – Human Resources

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Participant background

- Current role and position
- Description of typical tasks in current position

Recruitment

- General overview
 - o How often is recruiting carried out?
 - o Volume of applicants / appointments?
 - o Source of applicants?
- What is the process that is followed in recruitment?
 - o Stages?
 - o Activities?
 - o What traits/characteristics are looked for?
- Is scepticism part of the recruitment criteria?
 - o How?
 - o What are the things that you look for in recruits?
- Firm culture and wider positioning
 - o How does this inform recruitment?
 - o How is it communicated
 - Through firm
 - To recruits

Any other matters / areas of interest that you would like to address / follow up on?

APPENDIX 16

Interview Protocol – Learning Function

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Participant background

- Current role and position
- Description of typical tasks in current position

How is the learning function designed to address professional scepticism?

- Training programs?
- Communication approaches within firm?
- Development of junior staff?

Interaction / engagement with the professional bodies

- As part of training?
- ACA program?
- Other areas?

What is the structure of the training program that new recruits complete?

- Modules / topics
- Design
- Assessment

How do you position scepticism in the training programs within the firm?

Any other matters / areas of interest that you would like to address / follow up on?

APPENDIX 17

Interview Protocol – Assurance Methodology and Risk Management

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Participant background

- Current role and position
- Description of typical tasks in current position

Overview of methodology design

- Stages (of engagement)
- Changes over time (how has it changed? In what way? What influenced/motivated the change?)
- Role of technology

How is professional scepticism addressed in the methodology?

- In-house resources?
- Structure of audit procedures?
- Documentation techniques?
- What is / can be done to encourage a questioning look during engagements?

Role of technology in supporting scepticism

- Examples from the engagement management system operations?
- Examples from prior experience?

Any other matters / areas of interest that you would like to address / follow up on?

APPENDIX 18

Interview Protocol – Human Resources Follow-Up

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Participant background

- Current role and position
- Description of typical tasks in current position

Documentation as part of individual progression in firm

- How is progress documented?
- What elements of performance are reflected in documentation?

Processes attached to progression

- How is promotion determined?
- Who decides?

Any other matters / areas of interest that you would like to address / follow up on?

APPENDIX 19

Interview Protocol – Manager Follow Up

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Participant background

- Current role and position
- Description of typical tasks in current position

Follow-Up Aspects

- Engagement management system
 - o Operation – how does it work at different stages of engagement?
 - o What documents / resources does it contain / produce?
 - o What aspects of the system do you see as a strength / weakness generally?
 - o What aspects do you see as a strength / weakness for the operation and demonstration of professional scepticism?
- Team management
 - o How would you promote scepticism in your team?
 - What are the challenges?
 - Time?
 - Experience levels?
 - Competing pressures?
- Any other matters / areas of interest that you would like to address / follow up on?

APPENDIX 20

Interview Protocol – Partner Follow-Up

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Participant background

- Current role and position
- Description of typical tasks in current position

Follow-Up Aspects

- Engagement management system
 - o Operation – how does it work at different stages of engagement?
 - o What documents / resources does it contain / produce?
 - o How has the operation of the system changed in your time with the firm?
 - o What aspects of the system do you see as a strength / weakness generally?
 - o What aspects do you see as a strength / weakness for the operation and demonstration of professional scepticism?
- Client / Audit Committee interactions
 - o Examples? Nature of communications?
 - o What information?
- What are the pressures that influence professional scepticism?
 - o Time?
 - o Technology?
 - o Client?
 - o Regulatory?
- Role of trust in the engagement

Any other matters / areas of interest that you would like to address / follow up on?

APPENDIX 21

Interview Protocol – Assurance Development

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Participant background

- Current role and position
- Description of typical tasks in current position

What are some examples of technology use in the audit?

- How are they used?
- What benefits do they offer?
- How / when were they designed?
- Challenges in their application?

Engagement management system

- How do you see it relating to scepticism?
- What design considerations went into it?
 - o Integration across areas?
 - o Evidence requirements?
 - o Degree of structure?

How do you see these examples influencing / assisting scepticism?

- Structuring scepticism?
- Creating scepticism?
- Capturing scepticism?
- Can a technology help with scepticism?

Any other items / matters you would like to add?

Conclude and thank for time

APPENDIX 22

Interview Protocol – Assurance Methodology and Risk Management

Introduction

- Overview of project
- Inform of the NDA and confidentiality
- Inform of Review of work by firm before being submitted

Person and role:

- Background and path to current position
- What is your role?

Audit Reviews

- Nature of the audit reviews
 - o How?
 - o Who is involved?
 - o How are responses handled?
 - Firm level
 - Engagement level
 - o Individual
- Impact on methodology and other activities?
- Internal responses
 - o Communications
 - o Training etc
 - o Root Cause Analysis
- Inspection processes and emphasis [Draw on examples]
- Refer to judgmental and subjective areas – valuations, impairments etc [Draw on examples and own analysis]
 - o How do internal processes look for scepticism in the engagements?
 - o Can scepticism be made visible? [Examples?]
 - If so, what is it that makes scepticism visible?
 - o What is it that makes the evidencing of challenge to the client so problematic?
 - o Does challenge become an explicit checkpoint/box to tick in response?
- Any other items / matters you would like to add?
- Conclude and thank for time

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