Auditor and client commitment to audit preparation in a quality audit process

By

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Abstract

Reflecting on the growing interest from scholars and practitioners and their awareness of the necessity to appreciate the involvement of the client in an audit process (Canning, Malsch & O'Dwyer, 2017), the aim of this study is to explore the importance of audit client commitment to comprehensive audit preparation, to improve the quality of a UK financial statements audit. This research is based on a qualitative approach employing semi structured interviews as a research method. Accordingly, interviews were undertaken with audit engagement leaders from a range of auditing firms as well as with finance directors from a range of audited clients. The perspectives as to the levels of preparedness for the first day of the financial statements audit commencing from each participant group were examined and were shown to reveal interesting results.

The study unveiled the differences between what auditors and their clients perceived to be 'ready' for the financial statements audit. The availability of a completed set of financial statements when the auditors commence their audit has been identified as an issue that causes a significant amount of time pressures on the auditors. Additionally, the thematic analysis of data revealed that as a result of such pressures auditors were adopting practices whereby insufficient/substandard work was completed, which could potentially not only have an adverse effect on the overall quality of the audit, but also contribute to an inappropriate audit opinion being signed. Amendments to current auditing practices and the periods between a reporting period end and the audit work commencing to enhance audit quality was found to underpin the pressures on auditors when forming a time pressured audit opinion. This study of the challenges faced by auditors to plan and complete their audit with conflicting

targets and time scales as well as the pressures felt by audit clients, provides audit preparedness specific, evidence based implications on which these may be surmounted to enable a quality, fully documented audit and supported audit opinion to be completed.

This study addresses the pressing need to overcome the lack of theoretical discussions on the auditees' perspectives on auditing practices, and their views on the specific factors enhancing audit quality. Based on the existing literature to date, no study has explored the "auditee" as a research object in scholarly discussions on the quality of a UK financial statements audit.

The findings of this study, along with subsequent recommendations have relevance for the key stakeholders of audit engagements and regulators concerned with the enhancement of the quality of a UK financial statements audit, and for scholars interested in broadening their understanding of the audit process as a two-sided relationship.

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Chapter 1

1.1.1 Introduction

The external audit of UK organisations' financial statements remains a key element of the financial reporting environment. The auditor's report tends to be one of the key disclosures within an organisation's annual report and financial statements upon which users of those reports (predominantly investors/providers of finance) usually place reliance and base their investment decisions upon. Indeed, after many financial scandals the first questions to be asked are normally where the auditors were and of what level of quality was the work completed by those auditors (Zeune,1999; Chetkovich,1977). Such scandals have called into question the amount of fees auditors charge and the services delivered (or the relevance of those services), whereas auditors time pressures, workloads and stresses appear to be ignored.

There continues to be ongoing debates surrounding the purpose, usefulness and quality of financial statement audits. Audit quality has been at the top of auditing firms' agendas over recent years and in particular has more recently been a focus of academic studies. There have been numerous academic studies that have investigated differing aspects of what is deemed to be quality in terms of audit; mainly those studies have focused on topics which include: relationships between the audit team characteristics and financial reporting quality (audit inputs), industry expertise, the role of the industry structure, rules and regulations and the consequences of the outcomes arising as a result of the audit. Less importantly audit fees and the hours attributed towards completing an audit by the staff employed to complete audit procedures (Laitinen and Laitinen, 2015). Such hours and fee pressures impact on the stresses and time pressures laid upon auditors and as a result impact on the quality of the audit work performed, and the quality of the final audit opinion within the financial statements.

Historically the perceptions of audit quality differ between individuals and organisations, Francis states that "audit quality can be conceptualised as a theoretical continuum ranging from very low to very high quality" (Francis, 2004, p346) and these varying levels of quality could be dependent upon the workloads and pressures experienced by auditors at various times of a year (Lopez and Peters, 2012). Reisch (2000) argues that there are potentially two major divisions of audit quality, there are those who believe a 'supply' of a quality audit is paramount in their requirements from an auditor, alternatively there are those individuals and organisations that 'demand' a quality audit as a result of (amongst other requirements) the fees that they are paying.

To avoid the threat of familiarity (whereby the auditor and client become closer and as a result issues may not be reported to the relevant stakeholders of the organisation being audited) an organisations’ auditors change. Abbott and Parker (1999) are of the opinion that a change in auditor (normally as a result of mandatory auditor rotation or change in company management/ownership) constitutes a demand from the auditors to deliver a quality audit. From experience, a new audit appointment normally results in that auditor attempting to provide something new (more commonly referred to as 'added value') in the attempt to justify the decision to appoint them as successor auditors. However, an argument exists that it could take a number of audits before the auditor understands its client in order to deliver a true quality audit, thus in essence only the latter audits of an auditor’s tenure could be described as ‘quality audits’.

As noted by DeZoort et al (2002), external audit is a fundamental element of the corporate governance framework and as such is to some extent monitored by the Audit Committee (essentially a group of non-executive directors whom the larger listed companies employ to monitor not only the board of executive directors, but also the auditors). The audit committee have very little involvement with an actual audit until the audit is near to completion and any issues are discussed and resolved. The effectiveness of such a 'removed' approach and the effectiveness of the audit committee within this area is questioned by Turley and Zamman (2007). With the involvement of this committee being at the conclusion of the audit and thus reflecting back upon the organisations' finance department and their head (usually the finance director), involving this committee prior to the commencement of the audit may ensure the finance department is fully prepared for their audit. As Smith (2003) notes, the audit committee (as per the Audit Committees Combined Code) should ensure that the external audit is prepared for, however this code lacks further detail as to how this should be achieved.

For the purpose of this study it is essential to understand the differing perceptions of audit quality and the factors that contribute to/compromise the delivery of a UK financial statement audit including the roles and responsibilities of all parties involved in the audit process. In addition, during the literature review, the 'audit expectations gap' (Dewing and Russell, 2002) between the auditors and both the audit clients and the general public will be evaluated.

1.2 Aim and Objectives

Reflecting on the lack of theoretical and practical debates on the importance of audit clients' preparedness for their financial statements audit on overall audit quality, this study aims at exploring the importance of audit client commitment to comprehensive audit preparation to improve the quality of a UK financial statements audit. To support the main aim of this thesis, the following objectives were set:

- To provide a thorough critical literature review in order to identify and evaluate the concepts and factors impacting upon the improvement of the quality of the UK financial statements audit.

- To undertake qualitative research through the use of semi structured interviews, with a range of UK auditor partners (the registered ultimate auditor with sole responsibility for the audit) and UK finance directors (the ultimate audited body senior official responsible for ensuring auditors are supplied with high quality information).

- To develop a conceptual framework with links to professional practice for the contribution to enhance financial statements audit quality in the UK.

Chapter 2

2.1 Literature Review

"To know that we know what we know, and that we do not know what we do not know, that is true knowledge." - ***Henry David Thoreau***

2.1.1 Introduction

For the purpose of this thesis it is essential to understand the developments in the audit of financial statements and the pressures auditors face when time and budget pressures adversely affect the quality of the audit (Lopez and Peters, 2012).

The following literature review will initially focus on the relationships between the clients and their auditors, the levels of audit fees and their effect on the time constraints upon auditors and the ultimate quality of the audit (Houston, Peters and Pratt, 2005). Continuing with the fees and time pressures, the impacts of internal budgets and targets have on the reputation of an auditing firm and how reputation is perceived to impact on a quality audit (DeAngelo,1981). Additionally, pressures on auditors to potentially complete substandard audit tasks and prematurely sign off the audit (Raghunathan, 1991) in the attempt to complete tasks within a pre-determined budget is also reviewed. Concluding this literature review, the effect that the level of preparedness audit clients has on the quality of the reporting period end financial statements audit is also discussed.

2.1.2 Audit quality

There is no clear definition as to what constitutes a quality audit, “the problem of audit quality being in the ’eye of the beholder’ is reflected in the broad range of diverse, and sometimes divergent, definitions” (Knercel, et al, 2013, p4). Arens et al state that “Audit Quality is how well an audit process detects and reports material misstatements in the financial statements” (Arens, et al, 2011, p105). Garvin (1989) argues that the reliance on just one definition of quality could result in numerous issues and problems and the definition is not restricted to audits alone, but every product and service that is available in society today.

However alternative opinions such as those of DeAngelo (1981) implying that reputation is a key determinant of audit quality, whereas audit firm size (Francis and Yu, 2009; Monroe and Tan, 1997; Francis, 1984; ACCA, 2016; Kilgore, et al, 2014; Martinov-Bennie and Kilgore, 2015) plays a role in the perception of the provision of a quality audit.

Duff (2004) argues that audit quality can only be as good as the people delivering the audit. Duff bases such opinions on the levels of technical expertise, knowledge and interpersonal skills the auditors possess in the delivery of the best possible services to their clients.

2.1.3 Auditor Expertise / Engagement leader / Audit firm rotation and Audit Quality

Size of the auditing organisation has been alluded to be a determinant of audit quality (Section 2.1.2 above), Rusmin (2010) endorses such a definition acknowledging that industry specialisation has a significant role to play when arriving at a quality audit. Additionally, it is reported that it is more likely to be that the larger suppliers of audits (the Big 4) with larger reputations that will have the resources to not only invest in developing their staff, but also to attract 'better' staff with the skills perceived necessary to provide audit quality (Rusmin, 2010; Krishnan, 2003). Balsam, Krishnan and Yang state that "Specialized contracts and industry specific accounting can lead to a greater demand for, and greater returns from investment in, auditor industry specialization" (Balsom, Krishnan and Yang, 2003, p93). Supporting such views, Hogan and Jeter (1999) note that auditing firms that are classified to have specialisms, increase market share over relatively short periods of time as opposed to non-audit specialism organisations. Continuing with this theme Knechel, Naiker and Pacheco found that "firms switching between Big 4 auditors experience significant positive abnormal returns when the successor auditor is an industry specialist, and they experience significant negative abnormal returns when the successor auditor is not a specialist" (Knechel, Naiker and Pacheco, 2007, p1).

Audit partners are mandated to rotate from an audit client to either another partner within their own organisation, or to pass the client to another auditing provider every five years. Zerni is noted as finding that "both engagement partner industry specialization and specialization in large, public companies are viewed by financial statement users and/or by corporate insiders as differentiation strategies resulting in fee premiums within these engagements. Overall, the results of this study support the view that client firms infer audit quality at least to some extent from the characteristics of the individual audit partner in charge” (Zerni, 2012, p36). However, Chi, et al noted that “investors perceive mandatory audit partner rotation as enhancing audit quality, which, we conjecture, is due to improved auditor independence in appearance. Since perceptions are very important for audit services due to difficulty in directly observing audit quality” (Chi, et al, 2009, p36). Interestingly, there is little evidence to support changing the audit partner within the same auditing firm has any effect on the overall audit quality of an assignment (Chen, Lin and Lin, 2008). Supporting such findings Sengers (2017) noted that as a result of their research there was minimal effect on the quality of an audit by changing the audit partner every five years and suggests that a maximum of nineteen years is the cut-off point at which a long tenure could start to impact on audit quality. Concurring with such views Myers, Myers and Otley (2003) are of the opinion that the auditors place greater constraints on the financial performance which is affected by management decisions where a longer audit tenure exists, as a result current mandatory rotations time limits could be questionable.

2.1.4 The relationship between audit fees and audit quality

Historically there has been a socially accepted norm that the higher the price individuals pay for a product, brand or service, the greater the quality of that product, brand or service and a financial statements audit is not excluded from this hypothesis (Leavitt, 1954). The relationship between audit fees and quality (Teoh and Wong, 1993) has been the focus of many studies, who have been keen to study such relationships but also time constraints and workloads have also been noted as impacting on quality.

Gardner (1971) continues with the theme of price being a reflection of the quality of a product in a more 'general product' study, but interestingly expands the study to include the perception of brands also being a reflection of the quality of a product or service. In support of this argument (Leavitt, 1954) adds that a higher price can indeed be seen to be an indicator of better quality than those cheaper products. However this raises another question of what the people within the sample tested deem to be expensive and cheap, and thus leads back to Garvin's (1989) comments regarding the definitions of quality and interpretations thereof. An alternative study conducted by Lowensohn, et al (2007) interestingly found that although it was noted that specialist auditors increased market share as a result of perceived client satisfaction and audit quality, the level of fees was not an indicator of audit quality.

However, when purchasing a product or a service, quality is usually recognisable from the ultimate results, with an audit the outcome is an audit opinion and many clients are unaware as to how this was derived and the work conducted in arriving at any conclusions drawn, and as Akerlof (1970) notes, it can be difficult in distinguishing between a good and inferior quality product. As such, purchasers of audit could be in some cases ‘naive’ and have relative uncertainties in relation to the services they are purchasing, there could be incentives for auditors to over/under audit, and/or overcharge for the services provided and thus impact on the overall audit quality (Causholli and Knechel, 2012).

In any professional role, individuals will face certain pressures during their career and auditors are not excluded from such pressures. Auditors are faced with various pressures throughout an individual audit both internal (predominately meeting targets and budgets set by their own superiors/internal benchmarks) and external (those deadlines set by audit clients, financial markets and regulators). The results of aiming to meet all targets and deadlines could have an impact on the overall quality of the audit being delivered. However, foregoing the ever-increasing pressure on the auditors themselves to complete audits within their own internal budgets, there is always the potential for compromises to the audit work conducted and the quality of the work undertaken impaired. In light of such concerns, Asthana and Boone (2012) concluded that there is a notable decline in quality when audit fees reduce from those charged in earlier years. However, they continue to note that where the stewards (i.e. the directors) of an organisation exert pressures in the form of strong bargaining power and thus negotiate lower audit fees, independence may become an issue if the auditors succumb to such pressures. To some extent Francis (2004) can be seen to agree with these findings and notes that by including a fee structure within the engagement letter (essentially the contract between the auditor and its clients) at the commencement of an audit could potentially compliment such a continuum.

Fees continue to be one of the main benchmarks on which auditors base their assessment of risk, the higher the potential risk, the higher the proposed audit fee (Houston, Peters and Pratt 2005). Auditors spend the majority of their work on areas which they deem to be the most likely to consist of an element of potential misstatement or error. However, the quality of the work that is actually undertaken in such areas is no higher than the work completed on less risky areas, just more of it.

It has been noted that fees can be seen to reflect quality, Lopez and Peters (2012) argued that fees and recovery rates (the percentage of costs an auditor is challenged to recover from the overall audit fee) could adversely affect the quality, subsequent findings and outcomes at the conclusion of the audit work. Such time pressures could have an impact on the level and detail of work undertaken. One interesting paper by Otley and Pierce (1996) targeted (as was then) the 'Big Six' auditing firms and they concluded that the budgets in both financial terms and time spent were at impossible levels and also that significant consideration was given to the ‘importance of budget attainability’. They continue to report that "there is a need to recognise that audit quality may be increasingly threatened by behaviours which are motivated by the performance evaluation system" (Otley and Pierce, 1996, p55).

As competition for audit assignments increases, the pressures on those auditors bidding for such assignments to propose an acceptable fee also increases. However, DeAngelo (1981) notes that some auditors will propose a significantly reduced fee, which is attractive to the decision makers within an organisation who appoint the auditors on the shareholder’s behalf without disclosing their potential hidden intentions. 'Low balling' is the term which refers to the practice of proposing a low level of audit fee with the intention of selling additional products (for example consultancy or taxation services) which carry premium charges once the audit appointment has been secured (Humphrey, Moizer and Turley, 2006). However, Firth (1997) notes that the provision of lucrative non-audit services (i.e. consultancy), may have the impact of increasing the ‘economic bonding’ between the client and their auditor, and as a result such bonding could jeopardise the independence or the perceived appearance of independence of the auditors with their client’s financial statement audit.

Krishnan, Krishnan and Song (2011) reported that within the USA, Auditing Standard Number Five (AS No5) was implemented during 2007, although not directly mandatory regarding audit fees, the main objective of the standard was to identify those organisations with weak internal control systems and as a result higher fees would be incurred. With improvements in subsequent years it was envisaged that revisions to internal controls (as weaknesses will have been reported during the audit) would result in reduced fees (i.e. less risky areas to be audited). However, in the UK the professional bodies that set auditing standards (The Auditing Practices Board (APB), which is part of the Financial Reporting Council (FRC)) do not have a standard directly representative of AS No5, but have the International Standard on Auditing (ISA) number 210 (Agreeing the terms of auditing engagements). This standard highlight that within the terms of an audit engagement, the audit fee should form part of those terms and all parties should ensure that they adhere to those terms to avoid any ambiguity or disputes, as well as providing a basis upon which any unforeseen additional work outside of the control of the auditor may be charged.

As there is an absence of any regulation surrounding the fees charged, Asthana and Boone's (2012) previous findings regarding the link between reduced fees can thus equate to reduced quality, which to some extent supports those arguments with regard to 'lowballing' as put forward by Humphrey, Moizer and Turley (2006).

2.1.5 Budgets and time pressures and audit quality

It is common practice in the business world that to maintain a competitive advantage, organisations need to ensure that their products and services are competitively priced. Within the auditing organisations this is no exception, and with potentially reducing fees, the pressures to maintain a budget recovery rate (the internal target percentage rate at which the costs incurred by the audit firm must be recovered) increase. This recovery rate is also an unofficial key performance benchmark rendered on the audit staff on the assignment, at which the achievement of this recovery rate potentially results in rewards for those audit staff assigned to this client in terms of both financial remuneration or promotion within the organisation. The study conducted by Lopez and Peters (2012) focused on what is generally perceived to be the busiest three-month period of the audit profession. A large number of companies work to a financial reporting year to coincide with the calendar year (i.e. a 31 December year end date). With this in mind there are pressures to complete as many audit assignments as possible within the three-month period of January to March (commonly referred to as the 'busy season' within the profession). This is acknowledged in the report from the Cohen Commission, whereby time pressures on financial statements audits led to audits that were sub-standard (Cohen Commission, 1978).

Indeed, DeAngelo (1981) noted that the quality of any audit cannot (under the majority of circumstances) be verified by those who use financial statements. Therefore, any deemed 'value' was thus based upon those reputations of the auditing firm. As noted above, time pressures may affect quality. In order to build a reputation an organisation needs to be perceived to deliver goods or services at an acceptable level of 'quality' and price. Lower fees are regarded as a potential issue due to auditors delivering their audits within ever decreasing timescales in the attempt to deter potential competitors from gaining market share. Market share will increase as a result of the auditing firm building their reputations, albeit built on price or quality (Kreps and Wilson, 1982).

Timescales are the time allocations (time budgets) that form the basis of the initial audit plan. All audits are conducted by an 'audit team' which consists of a number of accountants with varying levels of experience and qualifications, the hourly rates at which these individuals are charged to clients and form the basis for the calculation of the total audit fee. Those junior members of the audit team with the least experience and qualifications focus on the information gathering element of the audit; it is these junior members of staff who follow the work plans as directed by more senior members of the audit team (Willett and Page, 1996). Turley and Cooper (1991) observed that although junior staff members are deemed to do the more menial and less risky areas of an audit, it is indeed their work that provides the foundations to support the concluding audit opinion, should such work be substandard; this could lead to the resultant failure of the audit.

Time pressures on the audit staff has continued to be a significant discussion within the audit profession, as a result, little attention has been paid to this element of the audit process by those within the profession, however it is an area that has resulted is several studies being undertaken. During the evidence collection phase of the audit each junior (once they are deemed to have collected sufficient evidence) is required to conclude on individual tasks which are then subsequently reviewed and signed off by a more senior member of the audit team. There has been a notable increase on the pressures faced by auditors predominantly due to the time pressures to meet budgets, Raghunathan (1991) suggests that there is potentially a relationship between the premature signing off (basically the auditor marks an area of work as being completed, when in reality insufficient work has been carried out and/or documents/evidence collected) of an audit procedure (an audit test), and audit failure. Acknowledging the previous study conducted via the Cohen Commission in relation to substandard audits potentially affected by time pressures (Cohen Commission, 1978), Raghunathan notes that this previous study reported that 58% of respondents had at some time prematurely signed off an audit procedure, and of these four fifths were due to the fact that the auditor was satisfied that sufficient work had been completed. This appears to be a potentially flawed response, as any audit programme test has a sample computed and executed in accordance with International Standards on auditing (ISA 530 Audit Sampling), therefore it could be argued that the sample was incorrectly computed during the planning phase of the audit and therefore planned inaccurately as opposed to being signed off prematurely.

As there is potentially an emerging link to audit quality and the premature signing off of audit working papers (the area within an auditors file whereby all tests and results are stored), and utilising and building upon the Cohen Commissions study, Alderman and Deitrick (1982) attempted to extend previous studies conducted by Rhode (the Rhode study: Rhode, 1978) by extending their questionnaire to cover the area of premature sign off of audit tests/procedures. In this instance Raghunathan (1991) identifies that the findings of Alderman and Deitrick reported the perceptions of the individuals surveyed as opposed to their actual own behaviours. Raghunathan continues by noting that 85% of the sample selected was identified as having signed off an audit programme test prematurely either rarely or never at all. One matter identified during this study was that the respondents indicated that they were more likely to sign off an audit programme test prematurely during the initial planning phase of the audit (this is the period of time when the auditors prepare their audit plan and identify any perceived key risk areas in which to focus their audit work prior to completing the actual year-end financial statements audit), as opposed to during the audit of the financial statements.

It is quite a relevant point that was made during this survey that some 85% of the respondents indicated that it was unlikely that premature sign off occurred, with professionally qualified individuals taking part of the survey who are required by their professional bodies to act professionally and ethically. Using the Institute of Chartered Accountants in England and Wales (ICAEW) as an example, it could be argued that by breaching the regulations and ethical codes set by such institutions, as a result of their membership and threat thereon, the respondents may not have been entirely truthful in their answers to the survey questions posed. Another potential issue with this approach is that the employers of these auditors within the survey will have developed their own 'in house' quality systems, processes and protocols. Although surveys are ‘allegedly’ conducted in an anonymous manner Morrel-Samuels (2002) has reported that there remains an element of caution when surveys on employees are conducted (Morrel-Samuels, 2002), as a result of these qualified auditors taking part in the surveys the findings should be interpreted with caution, as an element of bias towards answering how their professional body would expect them to answer may exist within the results.

Whilst considering the links between time pressures and the impact on audit quality, those findings by Raghunathan appear to be in some part contradictory to those of Willett and Page whose study focussed on the time pressures being greater during the actual final stages of the audit when time budgets start to run out. As a result, compromises appear to be required/made, thus leading towards 'irregular auditing' (those practices which are not conventional audit procedures and would not be approved as widespread practice). In the attempt to overcome such irregular practices, the ICAEW introduced guidelines whereby each member of staff who completes any form of audit work should have that work reviewed by a more senior member of the audit team with the intention being to improve quality. As observed by Willett and Page (1996) to some extent work should even be re-performed by the audit senior member in order to substantiate the conclusions drawn from testing and that sufficient evidence has been gathered in support of those conclusions. However due to pressures on each individual’s time this is not always the case. Reperformance has been incorporated into some auditing firms audit approach. However, there is no evidence to support that such a process has actually been completed, and is therefore open to potential manipulation and thus a premature sign off occurs. As noted by Raghunathan (1991), such practice is thus potentially exposing the audit firm to the risk of litigation, or forming an inappropriate audit opinion.

As identified above, risks exist as a result of each individual auditor’s actions, within the research conducted by Willett and Page (2006) it is acknowledged that premature sign off and irregular auditing practices would indeed be a breach of regulations/ethical guidelines. As a result, the participants (to ensure they were not in breach of their employment contracts) may have taken the view that safeguarding their employment took priority over providing their true attitudes and actions whilst completing the questionnaires. Unlike the questionnaires in Alderman and Deitrick's (1982) study which was targeted at all levels of auditing staff, Willett and Page targeted accountancy students (trainees), completing (or nearing) their final level professional accountancy examinations. Although within this study, such 'trainees' are deemed to have been a more suitable sample, as Turley and Cooper (1991) noted, these trainees do focus on the less risky areas of an audit and the results from Willett and Page (1996) suggest that there were some 88% of the sample answering that time pressures had increased over their training period. From this it could be concluded that reducing fees and targeted recovery rates increase these pressures. However, it cannot be overlooked that it may be that any irregular auditing practices undertaken by this 88% (who will have completed less risk focussed tests), would not have an adverse impact on the overall quality of the total audit work undertaken and subsequent reports issues.

Auditing firms place an internal emphasis on the targeted recovery rates, as with any professional services organisation, fees are derived from the amount of time staff members spend on a client project. With audit being one of such projects, a time budget is arrived at by allocating the total hours envisaged to complete various tasks by audit staff at various levels of qualifications and expertise. The amount in financial terms that such individuals are charged to a client depends upon those levels of qualification and expertise. It is customary practice that once the original audit time budget has been prepared by one of the more junior members of staff, the audit partner who will take overall responsibility for the audit and subsequent sign off/approval of the audit report will then reduce the budget to an amount that they themselves are monitored by the other partners within their auditing practice. The result from this exercise is an increased amount of pressure for the more junior members of the team, thus to some extent substantiating the claims of and verifying the target sample made by Willett and Page in their 1996 study in relation to less senior staff members.

It is recognised by Emmanuel et al (1990) that targets form part of effective control systems for management. However, such targets need to be realistic and achievable. In reality, as opposed to unachievable and thus potentially un-motivational targets, staff realise that regardless of their efforts, the target may not be achieved and therefore little effort is made to meet the target, which in some way contradicts Tosi's argument that performance could improve when targets are set (Tosi, 1975). This gives rise to two potential issues, one being that the work may not be finished on time and deadlines missed, or more importantly, corners cut or time not recorded accurately.

During the study conducted by Otley and Pierce, their investigation consisted of the following two hypotheses: "H1: As budget tightness increases, audit quality reduction behaviour by audit seniors will initially increase, reach a maximum point then fall. H2: As budget tightness increases, under reporting of time by audit seniors will initially increase, reach a maximum point and then fall" (Otley and Pierce, 1996, p37). In contrast to the argument raised by Tosi (1975) whereby targets act as a motivator, Otley and Pierce pose a further hypothesis, "H3: As the perceived influence of clients over audit time budgets increases, the perceived attainability of those budgets will decrease" (Otley and Pierce, 1996, p37). This study also built on a previous study that had gathered empirical evidence to support the findings in relation to not only time budgeted pressures but also the pressures faced by impending deadlines (Kermis and Mahaptra, 1985), in addition to taking into account the stresses faced by auditors in meeting such targets.

As reported by Kelley and Seller (1982) stress is now considered to be embedded within the accounting profession and it is a well-known fact that the more senior a professional becomes within an organisation the higher the levels of stress. Considering this prior research, Otley and Pierce targeted the largest accounting firms within the auditing profession, focussing their questionnaires on audit seniors (similar target sample to that of Willett and Page). The difference between the two studies was that Otley and Pierce focussed their study specifically on Irish large auditing organisations as opposed to Willett and Page who drew their sample from a wide range of organisations selecting students from a professional body examination listing.

Although these two studies have similarities in terms of target populations, the questions within the questionnaires (although the intention of both studies revolves around the ultimate quality of an audit as a result of the impact of budget and time pressures) are distinctly different. Interestingly, the response rate of 73% to the questionnaires sent by Otley and Pierce is not significantly dissimilar to the 61% of respondents from the large audit firms to Willett and Page's survey. This could potentially suggest that due to the size of these apparently 'dominant' organisations it would be expected that there would be more students available to complete the survey.

From an alternate perspective, it could also be interpreted that such organisations 'sweat their assets' (work their employees hard) and as a result to such a demanding employer, students' motives in responding to these surveys could be seen to be as anonymous venting of one's anger / frustrations in the attempt to publicise these heavy work load practices.

Although as noted earlier, there could potentially be an element of bias within the respondents who are bound by their professional body rules and ethical requirements, Otley and Piece's study reported that 45% of respondents felt that time budgets were either practically unattainable or impossible to achieve. In comparison to Willett and Page who reported that in response to a similar question (albeit with the question presented as using irregular audit practices which is arguably the same question) approximately 33% of the respondents had either frequently or occasionally been engaged in irregular audit practices (for example speeding up an audit test in the attempt to save time on the budget). In an equivalent manner Raghunathan's (1991) results found that 55% of his respondents had engaged in premature sign off of audit programme steps/tests.

These three studies found that there was a problem with time budgets and pressures having adverse effects on the actual auditing procedures being conducted by the more junior members of the audit team. Interestingly, the comparison between Otley and Pierce together with Willett and Page (whose studies were reported in 1996 although an 11% difference exists between their findings) there remains a notable reduction since the 1991 study conducted by Raghunathan.

Prior research (as in the studies referred to above) focussed on the larger auditing firms which can be attributed to the fact that they tend to be the auditors of the larger companies which are listed on the stock exchanges across the world and appear in the media, normally when a crisis or significant event happens and are therefore more likely to be familiar to society as a whole. Rhode (1978) is of the opinion that the auditors who are most likely to be guilty of signing off audit steps and procedures prematurely are more likely to be practices within smaller firms. As a result, in the event that the quality of the audit work within those smaller firms be subject to scrutiny, they would be unlikely to suffer any significant adverse publicity.

As there appears to be evidence to suggest that there is a correlation between the audit fee, the budget derived from the audit fee and the potential short cuts, premature audit programme test sign offs and irregular audit practices that take place, audit quality would appear to be flawed. Turley and Cooper (1991) found that junior staff members were predominantly tasked with completing work on what was deemed to be less risky audit areas and the studies by Willett and Page (1996) and Otley and Pierce (1996) suggests that these are the members of the audit team that are the most likely to avoid challenging tests and potentially conduct some form of irregular audit practice or premature sign off of procedure, thus exposing an auditing firm to potential litigation. In the attempt to avoid such malpractices, the ICAEW recommends that a senior member of the audit team reviews the work completed by juniors, Alderman and Deltrick (1982) proposed that for only those tests that were deemed to have been identified as a 'risky' or 'vulnerable' element of the audit, the audit supervisor (usually the auditor classed as an audit senior and either close to professional qualification or recently qualified) should make specific reference to ascertain if all the relevant information and audit work has been gathered and completed.

However, Lightener, Adams and Lightener (1982) argue that during the review process it is actually the reviewer who has encouraged junior staff members to perform irregular audit practices or cut short audit tests and reviews of that junior's work, thus undermining the whole review process and the quality enhancement that this exercise/control is there to provide.

In such an event it could be argued that this part of the review process should be conducted by someone who is not a member of the actual audit team, but independent thereof. However, including such an experienced individual in this process will add additional resource, time and subsequent costs to the overall audit budget and could have the opposite effect of enhancing quality by being independent and inadvertently increasing the pressures on the original time and financial budgets could result in alternative irregular audit practices.

In the attempt to enhance audit quality at the review stage, Waggoner and Cashell (1991) suggest that the reviewer could re-perform the audit tests (or an element of thereof) to ascertain if the test has been completed in accordance with the planned programme, or if premature sign off has occurred. From this suggestion, a number of issues arise as to the practicalities of such a task. Firstly, there are the additional costs incurred in carrying out the task, also clients may feel that having to locate once again source documents to verify a financial balance or disclosure, is a repeat of audit work already completed and impeding on their day to day tasks (audit clients predominantly see auditors as a hindrance adding unnecessarily to their normal daily tasks). Audit documents should only need to be located once and as a result this should be reflected in less time being required on the audit, leading to a subsequent reduction in the audit fee, once again adding further time pressures to the auditors with a potential quality impact.

2.1.6 Audit review - Effects on audit quality

As Raghunathan (1991) suggests, there is an element of premature sign off that exists with the audit function. In an attempt to reduce the risks to such an occurrence, the auditing companies devise their own approaches on how to audit financial statements (ensuring any mandatory regulations are adhered to where applicable). In addition to these approaches and in the absence of mandatory regulations, these auditing companies are able to develop and adopt any form of review strategy that is deemed necessary to ensure that mandatory quality standards/regulations are met.

Asare (1999) argues that with the introduction of technology within the auditing process, the review of the audit working papers (the records the auditors prepare to record the work undertaken, the evidence obtained and the conclusions drawn) is taking place remotely away from the audit team more often than when paper based audits took place. Agoglia, Hatfield and Brazel (2009) noted that senior auditors when faced with impending deadlines would only perform a superficial review of work as opposed to adopting a review by interview style approach to review as suggested by Asare (1999). Tan and Shankar state that "both research and practice argue for the benefits that a reviewer, forming an opinion independent of the work paper preparer (invariably the subordinate) brings to the audit" (Tan and Shankar, 2010, p252). However as noted by Rich, Solomon and Trotman (1997) and more recently by Rich (2002) with the increased technological advancements within the audit process, reviewers may already have formed an initial opinion based on the documentation and audit evidence gathered prior to that task being completed, as a result there could be the potential for that senior (who takes responsibility for the time budget and is subsequently evaluated upon this target) to prematurely sign off that procedure and thus save time.

It could be argued that such premature audit testing working paper sign offs are not predominantly due to the saving of the time budget, but attributable to that individual senior auditor’s knowledge and experience (Gibbins and Newton, 1994). Again, this raises the issue that if the junior auditor was following the planned steps and a previously computed and justified testing sample, then the audit must not have been planned adequately during the planning phase of the audit, thus (to some extent) supporting those findings of Raghunathan (1991).

With the time pressures faced by audit teams (in particular during the 'busy season') unexpected issues may arise out of testing that were not anticipated, Kunda (1990) suggests that individuals may arrive at the conclusions previously anticipated (at the commencement of a task).

With a predetermined outcome anticipated, any sample selected from an audit test is open to manipulation should a selected item not meet the predetermined outcome, as a result such items may be replaced within a sample and as a result no issues would be noted. Although such acts question the integrity of the individual conducting the test, the quality review mechanisms that are put in place to maximise audit quality would be unlikely to identify such individual practices.

As overall audit quality could be derived at from the quality of the underlying techniques undertaken and evidence gathered, the quality of the review process is therefore subject to scrutiny. As identified, there could be underlying motives into the depth and quality of the review process, working papers can be prepared in a persuasive manner. During the study by Rich, Soloman and Trotman (1997) it was noted that prior research conducted by Roebuck and Trotman (1992) focussed on the review comments (notes made on an audit file as part of the review process whereby additional work/documentation is required) made by seniors. The limitations within this study was that the review was restricted to only one auditing firm and it is also extremely rare for any review comment to remain on an audit file as these are removed once the additional work has been completed and documented, internal quality control procedures should ensure all review comments are removed prior to the archive of an audit file.

The decision to either mark an audit test as completed and reviewed to a satisfactory conclusion or if additional work is required is at the discretion/decision of the reviewer. Ricchiute (1999) alludes to the fact that seniors reviewing and signing off working papers do so in such a way as to potentially persuade an audit manager or partner's ultimate decision. One interesting matter noted by Asare and McDaniel (1996) related to that of familiarity between the preparer and the reviewer of the audit working papers. More instances of errors occurring were noted where an element of familiarity existed between the audit junior and the audit senior.

Libby and Trotman (1993) allude to the fact that potentially in such cases there are inconsistencies within the actual working papers and the concluding comments within those working papers, reviewers may receive a verbal (undocumented) explanation behind the rationale supporting the conclusions. However, the documentation within the working paper is not written, hence the review comment to amend the working paper accordingly. Should the reviewer (via familiarity) place undue reliance on the work documented the quality of the audit is therefore jeopardised. To some extent these findings support the comments made by Lightener, Adams and Lightener (1982), whereby an independent reviewer could be a benefit in adding value to the review process to overcome such issues arising. In a similar sample selection as previous studies, the focus once again surrounds audit seniors (excludes audit partners and directors) who are either nearing professional qualification or newly qualified.

The reviews of the audit work undertaken can be seen to be exposed to the inherent risks that lie within the integrity, motives and time pressures of the reviewer, but also the review of audit work relies upon the quality of the audit work documented. Audit files consist of the details of the evidence obtained by the junior members of the audit team. However, the recording of such documents within the audit files are dependent upon the individual audit companies audit approach and how the recording of audit evidence is retained.

Zuca (2015) identifies that International Standards on Auditing (ISA's) exist to define how appropriate and the level of quality of audit documentation should be. However, with the technology involved in modern auditing, the requirements to place actual copies of documents on the audit file no longer exist having been replaced by the recording of the identification numbers (for example sales invoice numbers) within the samples tested. It is therefore possible for an auditor to merely select a sample from a listing and then document that the work has been completed in accordance with the required testing programme. Tan and Shankar (2010) question the reviewer's evaluation of subordinates' work, the issue of an independent review could be raised once again by attempting to remove bias of judgement via familiarity as the reviewer may ask to see the documents recorded in the working paper as evidence that the testing has been carried out as planned thus removing the potential for an auditor to either just record the document without conducting the test or in extreme circumstances created fictitious document references. If the aim of the financial statements audit is to provide an 'Independent Audit Opinion', as O'Reilly et al (1998), and Yip-Ow and Tan (2000) infer, the review and subsequent opinion of the subordinate's work should be made independently and perhaps where possible the review by interview (discussing directly with the auditor the work they have undertaken along with an element of re-performance of the work undertaken).

2.1.7 Client Negotiations and Preparation for Audit

As noted above, time pressures could be perceived to be as a result of auditors striving to meet their own internal targets in terms of recovering their costs via the fees charged to their clients. However, the fee setting process will ultimately involve an element of negotiation, not only in terms of a financial agreement, but also in relation to the audit work being performed, the result of which could be increased pressures and subsequent quality of audit work issues as auditors strive to meet internal targets. Bame-Aldred and Kida (2007) note that during any negotiation process, including those involving clients and their auditors can encounter conflicts between both parties.

Gibbins, McCracken and Salterio, (2005) conducted interviews with the Chief Financial Officers (CFO's) of a small number of organisations and also the auditor partners responsible for those audits, this study focused on those negotiations involved in the resolution of conflict. Although not directly relevant to the nature of the authors research, Gibbins, McCracken and Salterio (2005) highlight that issues do arise between the auditors and their clients and it could potentially be perceived that some of the issues that result in conflict may have been avoided if the roles and responsibilities of both parties had been agreed (and documented) from the outset. Brown and Johnstone (2007) support those findings by Gibbins, McCracken and Salterio (2005), and they continue with the notion that (as noted earlier) the level of risk that an auditor is prepared to accept has a direct impact on the outcomes of any negotiations between both parties. It could potentially therefore be argued that such negotiations may have taken place prior to the commencement of the audit at the determination once more of each party's role and responsibility. Namely what each party is required to deliver/provide prior to, during and after the completion of the audit fieldwork (the gathering of financial statements supporting documentation and subsequent testing thereon) but before the financial statements are signed.

Many auditors attempt to reduce their exposure to risk by ensuring they have collected as much supporting documentation as possible. However, this can be a time consuming and tedious task for the auditors themselves and is usually a task for the more junior members of the audit team to carry out. One method auditors use in the attempt to reduce the amount of time taken to collect as much audit evidence as is deemed necessary is to provide a 'wish list' of items and documents that their clients should have available for them on the first day of the actual audit fieldwork (often referred to as a deliverables list).

As mentioned previously, audit fees and the negotiations of those fees reflect an element of the perceived risk that the auditor is prepared to accept and are a key element of the acceptance of an audit client or the continuance of a current audit appointment (Johnstone, 2000). Bame-Aldred and Kida (2007) continue with their study on conflict to note that there is a pre-negotiation phase and this could include the roles and responsibilities of both parties and incorporate the deliverables list. PwC (one of the large global auditing firms) make available to all clients (current and potential) and 'Audit Readiness Essentials' document (PwC, 2015), although a generic document, it acts as an aid in client preparation for an audit and it could be argued that better prepared clients for an audit could potentially benefit from the impact on the fee negotiation process.

The majority of literature in relation to audit negotiations relate to the negotiation of the audit findings and the effects on financial statements audit report which is considered to be the vital and most important factor of both the directors and shareholders of organisations. Spathis, Doumpos and Zopounidis, (2003) argue that one of the most important performance measures of an audit is the actual audit opinion being reported. An unqualified audit opinion is the opinion that demonstrates to external users of the financial statements that those statements are a true and fair (true: materially accurate and in accordance with the facts, fair: in accordance with relevant accounting reporting standards and relevant laws/regulations) representation of an organisation for a period and at a particular point in time (normally a twelve-month year-end date). As a result, the directors of any organisation will attempt (via negotiation, if applicable) to ensure any adverse findings on an audit are minimised in the attempt to achieve an unqualified audit opinion.

Sanitioso, Kunda and Fong (1990) note that there will always be some form of justification for those conclusions that individuals wish to draw and that such conclusions will be as a result of a search for any information deemed relevant and that such a search will actually include an amount of bias as the required conclusions will be consistent with that information that has been gathered. Such findings are consistent with the comments by Bame-Aldred and Kida (2007) in relation to an audit whereby audit clients have an interest only in maximising income and results as well as having an awareness of their auditors' conservatism.

2.1.8 Literature Review Conclusion

In conclusion, the auditors are recognised as being under extreme pressures to meet client expectations in terms of delivering a quality audit within the timescales that they require whilst striving to reduce the audit fees they are charged. In addition to these internal factors affecting the audit team, they are under increasing pressures to meet internal targets in terms of time and financial budgets whilst attempting to minimise the potential exposure to the risk of the audit firm providing an organisation with an incorrect audit opinion. Academic studies to date have acknowledged such issues; however, the majority of the focus of such studies appears to be on those auditors who are fluctuating around the nearly/newly professionally qualified level.

An element of the literature focuses on the pressures to reduce the level of fees that the auditors are charging and acknowledge that these then result in cuts being made in time allowances for audit tasks to be completed. As a result, irregular practices and premature sign off of audit work is being highlighted at the more junior level, however such studies are limited to this employee level and there appears to be a lack of studies involving the senior members of such auditing firms. Research appears to recognise the links between fee pressures and budgeted time and targets which also leads to the implications upon an individual auditor's performance appraisal and subsequent career progression and financial remuneration.

There are a range of potential irregular audit practices that have been reported via previous studies with an emphasis on the junior auditors, gaps exist within the research as to whether such practices take place at the more senior levels within auditing organisations. It could be argued that as members of audit staff become more senior within an organisation with increased responsibility they become more aware of the implications of such irregular practices and therefore condone such activities (although research does not identify if such individuals are aware of these irregularities).

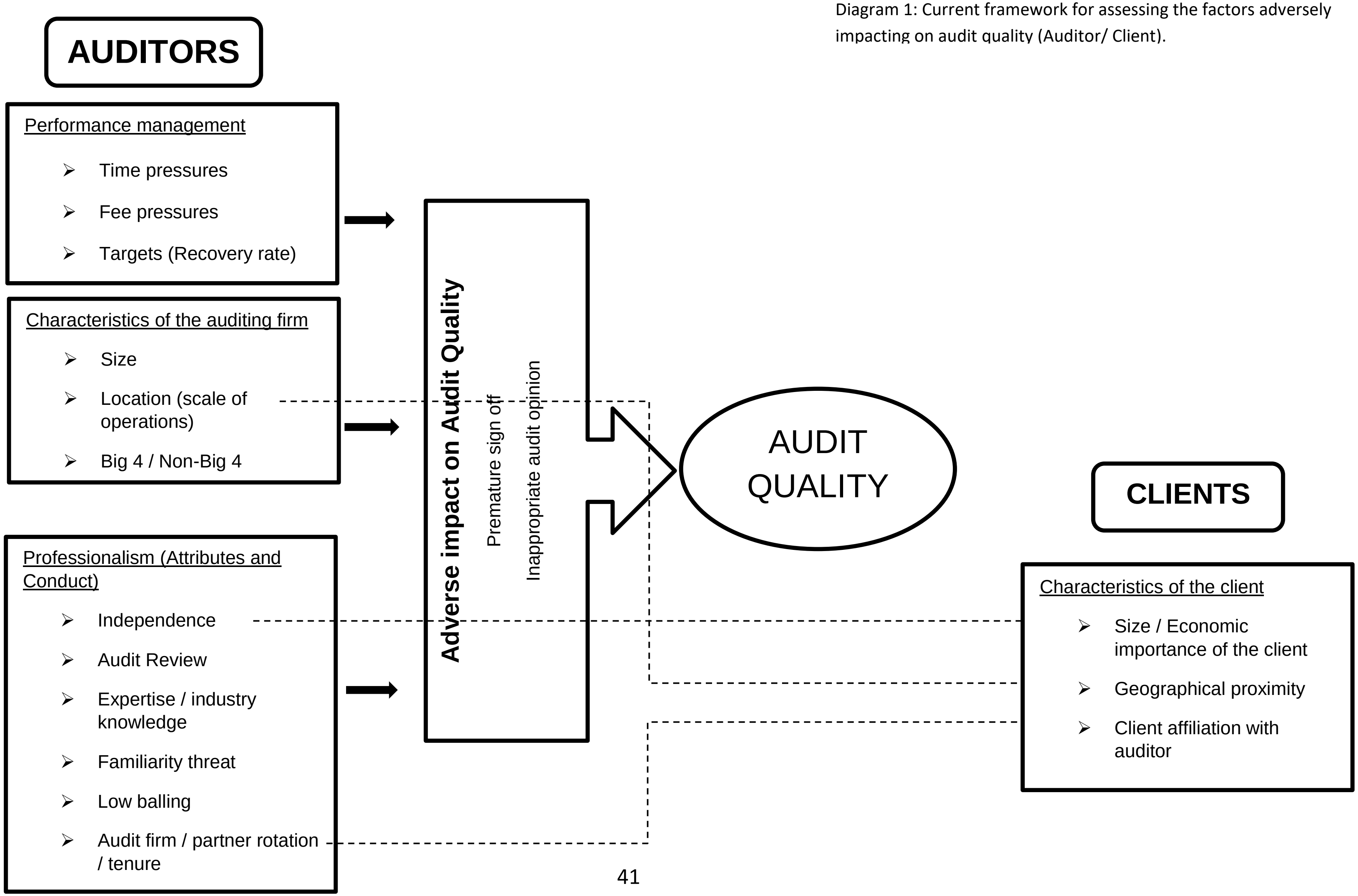
The implementation of varying degrees of the level of review of junior members of staff has been touched upon within current research and the issue of an independent reviewer has been raised. However, it is not apparent whether the potential to include such a practice and record this on the audit file has been addressed, in addition the potential for an auditor to fabricate audit evidence remains unless every auditor was to be reviewed by interview and their own work essentially tested (via means of re performance of audit tests and the production of the documents reviewed checked). Although more modern auditing techniques have been developed (i.e. clients uploading scanned documents onto a portal), it may remain to be researched to consider if the documents were actually reviewed and evidenced as such by an individual independent of the audit.

One further gap that remains from previous studies is that of the audit clients. Although the audit essentially belongs to the auditing firm and they are to remain independent (and safeguards must always be taken to ensure this is not jeopardised), client involvement within the review process has the potential to be explored. Current literature focuses on the process of the audit and the subsequent completion; however there are potential benefits by involving clients in the review process (whilst acknowledging that the clients have no involvement in the actual sample selection and subsequent preliminary conclusions drawn), if a client is involved in certain stages of the audit (not only the completion stage) by formally acknowledging that the documents recorded by the auditor and the conclusions from each test are reasonable, this involvement could enhance (and potentially provide additional comfort to the auditor) the overall quality of the audit.

In addition, additional research has focused on the negotiation process between the auditors and their clients. Such research focuses on the reporting of findings at the conclusion of the audit in the attempt to minimise the subsequent impact on the financial statements audit opinion. However there appears to be a lack of research into the negotiation of the roles and responsibilities (involvement of auditors and clients) at the planning stage of an audit, (for example, prior to the evidence collection stage) and how this impacts upon the time budgeted for by the auditors to perform their duties and how this could influence the amount of audit fee being proposed as well as relieving some of the time pressures on the auditors in an attempt to enhance the overall quality of the audit work being performed, documented and subsequently reported.

Diagram 1 illustrates the factors identified in the literature influencing the quality of audit focussing on issues associated with the auditors and specific to the clients (auditee's).

Diagram 1: Current framework for assessing the factors adversely impacting on audit quality (Auditor/ Client).



Gaps in the literature also exist in relation to the overall audit, as current literature focuses on the quality of an audit in terms of work and time pressures, internal pressures faced by auditors in terms of meeting deadlines and targets and all literature focuses predominantly on the auditor. However there appears to be a lack of research into the responsibility of the actual audit clients in order to provide all relevant documentation to the auditors in order for them to complete their work and how this performance is reported other than the overall audit opinion.

Additionally, an understanding with subsequent analysis of how both the financial statement auditors at senior levels and also the senior members of client staff (finance managers and directors) would perceive such involvement in the audit (including any benefits or barriers) would provide rich data with a view to the appreciation of assisting and enhancing audit quality for both parties.

Chapter 3

3.1 Research Methodology

"If we knew what we were doing it would not be called research, would it?" (Albert Einstein 1879-1955)

3.1.1 Introduction

This chapter is intended to outline the philosophy and methodology which underpins this research and to appraise the research methods and research design deployed in order to meet the thesis aim and objectives. Whilst providing an evaluation of the alternatives, the chosen research methodology to support the adopted qualitative approach is explained. Seale (1999) notes that for any researcher, one of the most valuable mental resources is to have a "methodological awareness", which requires appreciation of "the strategy or plan of action which lies behind the choice and use of particular methods "(Crotty, 1998, p3).

As a result, methodology therefore is concerned with not only the collection method of the data but also it originates, for what reason was it collected, when was it collected (timeliness) and subsequently analysed. Guba and Lincon provide the explanation that "methodology asks the question: how can the inquirer go about finding out whatever they believe can be known?" (Guba and Lincon, 1994, p108). Crotty indicates that there is a difference between methodology and methods, whereby "methods are the specific techniques and procedures used to collect and analyse data" (Crotty, 1998, p3). Qualitative or quantitative methods (or a combination of the two) can be used as any part of the data collection and analysis of a project. Any paradigm (see below) could use both quantitative and qualitative data. As noted by Grix "research methods can be traced back, through methodology and epistemology, to an ontological position. It is impossible to engage in any form of research without committing (often implicitly) to ontological and epistemological positions. Researchers' differing ontological and epistemological positions often lead to different research approaches towards the same phenomenon" (Grix, 2004, p64). It is anticipated that as the scientific, interpretive, and critical paradigms are explored this will become evident.

An understanding of research paradigms including for example, constructivist, positivist and interpretivist ensures that equal awareness to such approaches cover matters including methodology, ontology and epistemology (Denzin and Lincoln, 2008).

Based on the orientation of this thesis (i.e., exploring the importance of audit client commitment to comprehensive audit preparation to improve the quality of a UK financial statements audit) and those issues that have historically faced both auditors and their clients, a critical realist research philosophy has been adopted through which the programme of work has been derived. To clarify the implications for this thesis of this philosophical perspective, an overview of the approach to the research is provided and its relevance to the auditing profession and their clients.

3.1.2 Research Philosophy

Whilst employing a research methodology the researcher has to evaluate and appreciate their own philosophical approach, informed by researcher's view on ontology and epistemology. Saunders et al, state that ontology can be explained as a "branch of philosophy concerned with the assumption about the nature of reality of being" (Saunders et al, 2015, p722) and is further defined by Crotty as "the study of being" (Crotty, 1998, p10). This means that any researcher needs to take a stance as to how things actually work and how they are (ontological assumptions). Similarly important, is to appreciate various epistemological positions, which are referred to as "the study of the nature of knowledge and justification" (Dawson, 2009, p18) and more precisely are concerned with the nature and forms of knowledge (Cohen et al, 2007).

Continuing with such themes it could be argued that epistemological assumptions are thus concerned with the creation of knowledge, how such knowledge has been acquired and subsequently communicated, basically translating into 'what it means to know'. One of the explanations that is offered by Guba and Lincon is that a question asked by epistemology as to the nature of the relationship between the would-be knower and what can be known? (Guba and Lincon, 1994).

It is widely accepted that each paradigm has its' own ontological and epistemological assumptions upon which such a paradigm is based. As stated by Scotland "Since all assumptions are conjecture, the philosophical underpinnings of each paradigm can never be empirically proven or disproven. Different paradigms inherently contain differing ontological and epistemological views; therefore, they have differing assumptions of reality and knowledge which underpin their particular research approach. This is reflected in their methodology and methods" (Scotland, 2012, P9).

Grix (2004) notes that from an ontological position, it would be possible to track back via epistemology and methodology to research methods. In fact (continuing with Grix), in the absence of any commitment to an epistemological and ontological position it could be regarded as 'impossible' to engage in research of any form (Grix, 2004).

3.2 Research Methodology

In this section the methodology used in this research thesis will become evident as the scientific, interpretive and critical paradigms are explored. Typically, positivism and interpretivism are located at opposite ends of a research methodology continuum, whilst a critical realist philosophy, in response to this polarisation, is based on the compatibility thesis of worldviews (Shannon-Baker, 2016).

Positivism was proclaimed dead or at least unfashionable in the early 1980s and since then this particular doctrine has been perceived by social science scholars predominantly in pejorative terms, whilst the anti-positivist stance gained popularity in various academic circles (Cohen, 1980). A sceptic or cynic could ask that if replacing and discrediting one philosophy of science, which dominated physical and social sciences for some four hundred years (Guba and Lincoln 1994), by its alternative (interpretivist) has anything to do with fashion, as it could be claimed that social scientists tend to treat philosophical doctrines in a way which can be captured by the following statement "a doctrine that is unfashionable today is almost guaranteed to be fashionable tomorrow" (Cohen, 1980, p141). Yet despite the above, the discussion on the most suitable approach for studying social science phenomena is still extremely prevalent in the academic literature (Denzin, 2005). More interestingly, this debate typically focuses on the shortcomings of one approach versus another, implying that various philosophical approaches need to be addressed as opposing rather than supplementing each other. Influenced by Burell and Morgan's (1979) position that the research approaches (at least in the field of organisational theory) are incommensurable due to their ontological and epistemological differences, the discussion on what is the "best way" of approaching social sciences research is consequently based on a mutual critique between positivist and interpretivist paradigms.

Positivism has reference to a research school of thought that sees what is described as observable evidence being 'the only form of defensible scientific findings'. However, since the acknowledged founder of positivism (Auguste Compte) passed away in 1857 he has continued to be published and is constantly cited as bequeathing the concept of 'positive knowledge' (Compte, 1975). Positivism sits within the empiricists view point, whereby an approach to empirical research is predominantly obtained by acquiring and accumulating knowledge. The search for knowledge was greatly influenced from the chemists and physicists approaches to experiments (the scientific approach) which were largely developed during the seventeenth and eighteenth centuries. A scientific approach to acquiring knowledge is by gaining experience, this can be done using observation and experiments as techniques to acquire the evidence to support the methodology in order to explain relationships and thus identify the causes that may have some influence over the outcomes (Creswell, 2009). Popper suggested that any theory is derived from the use of the 'hypothetico-deductive model' and that any theory or law about the world should come first and these should be used to generate expectations/hypotheses which can be falsified by observations and experiments (Popper,1959), bearing this in mind it does potentially call into question the results obtained from a positivists point of view and those conclusions drawn from that underlying research.

However, the gathering of empirical evidence to support a hypothesis is 'controlled' by the researcher and hence the variables that are associated with the results of the experiments. Some of the key elements within an experiment are the controls over the variables (dependent, extraneous and Independent) as well as establishing cause and effect relationships. With this in mind the controlled variables need to be investigated and could contradict those arguments put forward in support of NHST (Null Hypothesis Statistical Tests) by Snyder and Lawson (1993) and those of Schmidt (1996b). Creswell continues to argue that even though the positivist has collected all their evidence and has also collated and analysed participant perspectives, a hypothesis from a post positivist's point of view is not proved, but to put it in simpler terms, it is not rejected (Creswell, 2009).

Epistemological assumptions underpinning a positivist paradigm are based on the conviction that what constitutes valid scientific knowledge has to be based on refuting untruths and replacing them with the theories that are less untrue (Cox and Hassard, 2005). In this sense, the question if there is any relationship existing between what is to be known and the user of new knowledge (Guba and Lincon, 1994) is approached by positivism with the fundamental assumption that human beings are part of nature and consequently are subjected to its laws. Thus, social life can be perceived as rooted in biology and not only does this mean that the generalisable laws can be discovered/researched but more importantly that using the approaches borrowed from the natural sciences offer valid explanations of (independent from the researcher) existing reality (Cox and Hassard, 2005). This epistemological assumption is in a stark contrast with the interpretive tradition which challenges the view that it is possible to construct knowledge upon an unbiased observation of the world.

The Interpretivist approach treats knowledge as provisional and relative and science as negotiated but not absolute. What we learn about reality is thus filtered through the researcher's senses and valid knowledge is never absolute, but mind-constructed and the focus of the interpretive research is on describing not discovering aspects of the social world by providing accounts or interpretations of human experiences (King and Horrocks, 2010). If the positivist would claim that those accounts are purely speculative and not "real", for the interpretivist these stories, narratives and interpretation constitute scientific knowledge.

Clearly both approaches of the positivist and interpretivist claim that they produce valid knowledge about the world, however whilst the positivist focuses on explaining the causal relationship between different factors/variables, for the interpretivist the importance of knowledge lies more in uncovering meanings and understandings (Snape and Spencer, 2003). This Weberian emphasis on understanding is considered as one of the intellectual precursors of the qualitative approach (Bryman, 2003) and underpins the key characteristic of the qualitative approach; its "commitment to viewing event, action, norms, values etc from the perspective of the people who are being studied" (Bryman, 2003, p61). If following a positivist approach, the assumption would be that the term is knowable and accepted, then multiple and frequently antagonistic accounts and interpretations can indeed be perceived as 'fiction not science' (Denzin, 2005). Yet the same line of criticism could be raised in relation to the science generated by positivists.

The intra-paradigm critique could be referred to as less fundamental as it does not challenge the philosophical underpinnings of positivism, instead it focuses on the following problems with quantitative approaches: context stripping, exclusion of meaning and purpose, disjunction of grand theories with local contexts, inapplicability of general data to individual cases and exclusion of the discovery dimension in inquiry (Guba and Lincoln, 1994). This long list of problems identified by the positivists themselves can be eliminated by the greater use of qualitative data. Thus, for some authors there is no need to apply an alternative paradigm (such as interpretivist), which involves completely different assumptions about scientific inquiry.

Recognising the complexity of social phenomena still does not prevent some of the scientists from rejecting the positivist's way of carrying out research and simply ends with the suggested combination of interpretivists methods (qualitative) with positivist analysis. This typically involves relying on the qualitative data being treated as observations (truly reflecting reality) which can be analysed in order to establish causal relationships (Lin, 1998). Proponents of this approach do not subscribe to the ontological underpinnings of qualitative research (associated with interpretivist paradigm) as they still believe that their research methods and data mirror reality (Ryan, 2006).

The interpretivist assumption of reality is based on the conviction that our realities are mediated by our senses and are individually constructed. In line with this assumption, the importance of language does not relate only to its role as a collection of signs, but more importantly its role is seen as constitutive shaping reality (Frowe, 2001). If different people construct their meanings differently and reality differs from person to person, then in the process of research, it is the researcher who decides (via data interpretation) what ‘reality’ is rather than the research participants (Rolfe, 2006). This issue of the illusionary voice of participants (as they provide data but not interpretations) can be problematic for researchers who see that form of scientific knowledge as distorted and the analysis of phenomena as incomplete (Danby and Farrell, 2004).

Clearly, from the point of view of positivists, knowledge produced by qualitative researches can be seen as fictional interpretation (Denzin, 2005). From one side, this criticism only describes what qualitative researchers admit themselves, or more importantly, what they believe the research process shares with narrative fiction. Phillips puts it eloquently “On closer examination, we find that social scientists often do what writers do: they create rather than discover, they focus on the unique and individual, and they use illusion and rhetoric in an effort to make their case.” (Philips, 1995, p626). Not only are there certain similarities between the research process and writing novels, but more importantly interpretivists tend to use techniques and forms of narrative fiction to produce knowledge. For various qualitative methods including ethnographic research the data could be presented in a format similar to the product of narrative fiction. Phillips (1995) goes even further stating that the boundaries between narrative fiction and social science are confusing and the separation is based on social norms not practical considerations.

If the term fiction is supposed to serve as an insult to qualitative researchers, it might be interesting to establish the actual meaning of this term to clarify why positivists use it to criticise interpretivists. Fiction (Oxford Dictionary) as a form of prose is typically associated with imaginary stories (events etc.), created by a writer thus by assuming that qualitative researchers write fiction, positivists imply that the knowledge created by interpretivists is fictional not scientific, imaginary not "real". Yet if we follow Astley and Zamouto's (1992) argument that 'empirical research is essentially a form of story-telling albeit, an esoteric variety of storytelling' and that the empirical observation serves as an excuse for theoretical work, but the theory so produced is essentially fiction' we could perceive all models, concepts and theories, including those developed by positivists themselves as products created by human minds (scientists). More importantly, organisational theory scholars reinstated the importance of the narrative mode of knowledge which relies on stories negotiated between the story teller and the listener, as this type of knowledge contrasted with the logo-scientific mode of knowing based on proofs of truth or falsity enriches our understanding of social phenomena (Czarniawska-Joerges, 1995). This led to (at least to some extent) blurring the borders between the literature and social science as researchers focus on collecting organisational stories, writing each in a story like format and approaching organisational life as story-making (Czarniawska-Joerges, 1995). Stories collected by qualitative researchers similarly to the "hard data" collected by quantitative researchers have to be re-presented and interpreted in order for the knowledge to be created.

This discussion has clear references to the ontological assumptions underlining different views on the validity of scientific knowledge and for interpretivists depending on constructivist ontology, which assumes that the social world is not given, the claim that they write fiction is not problematical, as interpretivists are not saying that they are reporting facts; instead they are reporting their interpretations of other people's interpretations' (Walsham, 1995). This recognition, based on the rejection of positivist realist ontology is rooted in a wider discussion in the philosophy of science, and more precisely in the issue of legitimacy of different types of research. Instead of focussing on criteria such as the objectivity of data, generalisability and reproducibility – all typically associated with empirical positivist research, a different set of criteria can be used. As Stahl (2014) noted that instead of asking whether the particular scientific account is true, it would be more helpful to ask whether this account enriches our understanding. Applying different criteria of assessing the validity of knowledge generated by qualitative researches, emphasising reflexivity, criticality, emancipation and contribution to a better world might not only change the way research is evaluated by the proponents of positivistic since, but more importantly may lead to a different way of evaluating what constitutes useful research. This approach could potentially lead to the promotion of an interpretive social science as an instrument for reflexively transforming the conditions of one's existence (McKernan, 2013) such as critical emancipatory action research. Instead of arguing which research approach is 'better' or which approach should be adopted, we should be asking a different question; can the science we produce lead to qualitative improvements for societies, does it underlie urgent challenges or does it perpetuate the discrepancy between the projection and the actuality of modern society deepening the state of crisis? (Dahms, 2008). Social scientists should worry less about validating their knowledge to silence the positivistic critics, instead they should focus on fulfilling the key responsibility of social science: to illuminate those dimensions of modern societies which prevent what constitutes human flourishing, or ‘the human good’ (Sayer, 2009).

For the purpose of meeting the objectives of this thesis and in line with the researcher’s ontological beliefs based on an understanding of reality as "real", only imperfectly and thus probabilistically apprehendable (rather than simply seeing reality as "real") a critical realist philosophy was adopted. This critical realism ontological stance combined with a modified objectivist view on findings and applicable methods (epistemology) means that the researcher does not need to ask the question "is this the truth?", but instead they can focus on obtaining an understanding of what constitutes valid science/ knowledge, based on the conviction that truth is constructed via dialogue and emerges as conflicting interpretations (Ryan, 2006).

Not as naïve as the positivist paradigm, a critical realist approach still retains an ontological realism but borrows from the interpretivist conviction that our understanding of this world is a construction from our perspectives (Maxwell, 2012). Consequently, critical realists assume that what constitutes scientific knowledge cannot be universal, “correct” and independent of researches viewpoints. This combination of ontological realism and epistemological constructivism can be seen as at least contradictory (Smith and Deemer, 2000), but at most it is rejected by constructivist qualitative researchers who “do not think that critical realism will keep the social science ship afloat” (Denzin and Lincoln 2005, p13). Yet despite this criticism, realism should not be approached as a paradigm directly linked to objectivism, thus it should not be understood as an approach which generates fully “objective” knowledge of the world (Maxwell, 2012). Accepting various alternative scientific accounts of the same phenomenon as valid scientific knowledge positions the realist closer to the interpretivist than the positivist, however the fundamental ontological difference remains, dividing those approaches into two distinctive paradigms.

In line with Stahl's (2014) assertion that the purpose of the research should focus on enriching our understanding of the chosen phenomena, a critical realist approach can be aligned with the key objectives of this research, which were set at aiming at obtaining data on the audit client commitment and preparation from the UK audit partners and UK finance directors. As this research objective is based on the assumption that the reality can be considered independent to our awareness, but at the same time we interpret experiences differently and thus universal claims are of limited value, the critical realist philosophy offered the approach which concurs with the fundamental assumptions and objectives of this research. The importance of recognition of the underlying social structures is strongly emphasised by the critical realist philosophy. The view that we need to acknowledge these structures to understand the social world is of particular relevance for this research, as it aims at eliciting data from respondents representing views from potentially contrasting groups of interests. This is line with the assumption underpinning the critical realist philosophy (Krijnen, 2015) that social phenomena cannot be determined in terms of observable behaviours (as indicated by positivist approach) or in terms of discursive practices (as per social constructivism).

As this research aimed on exploring the importance of audit client commitment to comprehensive audit preparation to improve the quality of a UK financial statements audit, the critical realist perspective was deemed the most appropriate for this thesis.

This research philosophy influenced the subsequent research strategy and methods of data collection and analysis.

3.2.1 Selection of the research strategy and method.

Taking into consideration the comments in the previous section, this thesis has used the qualitative research methodology approach. As stated by Denzin and Lincoln "how social experience is created" (Denzin and Lincoln, 2008, p14) is a key aspect of a qualitative approach, from which the questioning of the adopted qualitative approach endeavours to understand. Continuing with this, the researcher has an extremely close relationship with the research topic, having a professional background in this research topic enables a pragmatic approach to the research philosophy (Denzin and Lincoln, 2008).

3.3 Methods

The research strategy employed two sources of data collection: semi structured interviews with what might be termed to be opposing party's in the audit process, the auditor and the audit client and were supplemented by complementary secondary data (including professional reports issued from the Financial Reporting Council [the FRC], professional accounting/auditing bodies and professional auditing organisations). Primary data was collected via a predetermined set of questions aimed at ascertaining each party's perceptions of the levels of preparedness by audit clients on the first day of the audit of the financial statements commencing. As Mathison (1988) argues that data does not need to be generated from different methods to achieve triangulation, but from various sources and in doing so may be considered to increase the validity and reliability of the research.

The methods used in this research (the multi-methods approach), does contribute to the triangulation of the facts presented and perceptions thereof, as each participants response was compared and contrasted.

The research used the semi-structured interviews as a key method of data collection as these are based on a list of questions covering specific topics, relevant for this research. Interviews allow researchers to capture stories and perspectives of informants instead of simply checking if the specific hypothesis of the research is shared by the sample (Arksey and Knight, 1999). This way of collecting data has numerous advantages in comparison with self-administered questionnaires, which can also provide information of attitudes and opinions, however do not allow for any flexibility in exploring additional themes or issues, which may be relevant for the respondents, but not necessarily included in the questionnaire. Flexibility of semi-structured interviews helps the research to establish a dialogue with the informant allowing for some modifications and adaptations to be used in the process of data collection (Bryman and Bell, 2015). Additionally, semi-structured interviews are typically used for exploring data grounded within the informant's experiences and thus allows the researcher to guide the participant in convening accounts of those experiences which are related to the subject of the research (Galletta, 2013).

3.3.1 Participants

The choice of participants taking part in this research was informed by theoretical and practical considerations. Purposive sampling strategy is recommended in qualitative research as a technique for the identification and selection of individuals who are knowledgeable about the subject and have experience with a phenomenon of researcher's interest (Palinkas, et al, 2015). Both factors were particularly relevant for the purpose of meeting the objectives of this research and the selection of participants was also influenced by the importance of their willingness to convey their experiences and opinions. Thus, the individuals were identified on the basis of their experiences and knowledge of the audit process in their capacity as finance directors of organisations regularly subjected to the financial statements audit and respectively as the audit engagement leaders who assume the overall responsibility for the audit opinion.

The participants were approached either directly by the researcher or through a third-party contact at each auditing company or audited organisation. Most of the participants were unknown to the researcher prior to the interviews commencing.

Participants were distributed evenly (ten of each participant group, twenty in total) between the engagement leaders of auditing practices (audit partners or directors responsible for the quality and signing off of the audit and subsequent audit opinion within the financial statements) and ten finance directors who were responsible for the preparation of the financial statements and the provision of audit required information through the whole audit process.

Participants were assured of the confidentiality and anonymity (see appendices six and seven below for consent and ethical considerations) of the proceedings. Due to the sensitive nature of the subject, participants were reassured that their individual responses would not be identifiable and their personal data (positions/experience etc) would not be revealed in the thesis. The necessity to ensure the confidentiality and anonymity can cause a conflict for the researcher who attempts to convey detailed accounts of the investigated phenomenon but is obliged to protect the identities of the respondents who participated in the research (Kaiser, 2009). Due to the above restrictions, only limited information on the interviewees can be provided, as illustrated in table 1 below.

Table 1 – Interviewee classification.

Auditors responsible for the audit			**Clients responsible for the preparation of the financial statements**		
Auditor Level	**Type of organisation**	**Number interviewed**	**Client Level**	**Type of organisation**	**Number interviewed**
Partner	Auditing Practice	7	Finance Director	Public Sector	3
Director	Auditing Practice	3	Finance Director	Commercial	7
Total		**10**			**10**

3.3.2 Semi-Structured Interviews

As mentioned above a total of twenty semi-structured interviews were conducted. Each interview lasted between sixty and ninety minutes. Interviews took place either at the interviewees' premises or via the telephone, all interviews were in private offices. At the commencement and conclusion of the interviews, participants were assured and re-assured of both the confidentiality and anonymity of the data recorded, collected and subsequently analysed. Additionally, all participants agreed to having the interviews recorded, transcribed and analysed. Although the interviewer took notes to supplement the recordings these were incidental to the recordings and to ensure the validity of the data and avoid any bias, these notes were not used in the data transcribed and subsequent analysis. Lillis (1999) is of the opinion that there is bias in an interview situation and subsequent analysis of the transcripts of those interviews, as theoretical constructs could be attributed to the interpretations of the transcripts and associated codes thereon. To overcome such bias the researcher transcribed the interview recordings with the assistance of an academic colleague with no prior knowledge of research or the sectors in which it was conducted. The data from these interviews was subsequently analysed and emerging patterns were analysed. Thematic analysis was used as a method of analysing data for “identifying, analysing and reporting patterns (themes) within data. It minimally organises and describes a data set in (rich) detail. However, frequently it goes further than this, and interprets various aspects of the research topic” (Braun and Clarke, 2006, p.79). Thematic analysis involves numerous stages which lead the researcher from the process of becoming familiar with the data, generating initial codes, searching for themes followed by reviewing and defining themes in order to produce the report. All the listed stages were followed, and data was analysed with the key themes identified via a repetitious process (Bryman and Bell, 2015) consisting of level one coding, second level coding and consolidated final level coding, as illustrated in appendices 3-7 inclusive.

Secondary data in the form of regulatory reports were obtained from the regulatory bodies and used to compliment the responses from the interviewees and support the findings, conclusions and recommendations within this thesis.

3.4 Reliability, Validity and Triangulation

3.4.1 Reliability

As Smith states "reliability establishes the consistency of a research instrument in that the results it achieves should be similar in similar circumstances. Thus, the same survey subjects (participants) using the same instrument should generate the same results under identical conditions" (Smith, 2017. p38). It should be noted that although the interview questions remain unchanged an actual participant could potentially provide a different response as it would be virtually impossible to replicate identical conditions to those existing during the initial interview. As a result, there could be different responses to the original questions asked at a different point in time, acknowledging that it could be difficult to guarantee reliability in this way. In the attempt to overcome this, once the interviews had been transcribed by himself the researcher received the input of another person (academic) who then listened to the recorded interviews whilst reading the transcriptions. This was undertaken to ensure any bias or interpretation that could be deemed to exist from the researcher was ultimately minimised.

3.4.2 Validity

This research design was underpinned from those concepts arising out of the quality of financial statements theories. The rigor of the data collection and subsequent analysis increased the validity of the findings, conclusions and recommendations.

This study achieved validity in the following ways:

- The secondary data provided by the professional organisations and regulatory bodies (i.e. the ACCA / ICAEW / PwC / Deloittes / FRC) was both reliable and accurate.
- The methods of data collection were consistent throughout the process with all participants.
- The auditing firms and the audited organisations selected were all representative of the sector despite varying in size and complexity.
- The study could be replicated using a different selection of auditing firms and audited organisations and comparable results would be comparable.
- The participants within each organisation and auditing firm were all equally qualified and experienced.
- Bias was at the forefront of the researcher's mind and constant effort was made to minimise bias as much as possible.
- All data was collected using the same media and subsequent transcription methods.

3.4.3 Triangulation

As Flick states “triangulation of data combines data drawn from different sources and at different times, in different places or from different people” (Flick, 2004, p178). Triangulation has been achieved through the use of multiple interviewees (respondents) who were either an auditor or an audit client. One of the key factors in achieving triangulation was to seek different views from essentially, ‘both sides’ in the audit process. In doing so it has been possible to identify any consistencies or indeed opposing / conflicting responses to the interview questions. The consistence and any convergence of responses received from these respondents (as per 3.2.1, that are employed in a wide range of organisations in both terms of size and complexity) has added great value in terms of strengthening the interpretation of the findings and which has thus resulted in the increased confidence in both the validity and reliability of the data.

3.5 Ethical considerations

This research has been conducted in accordance with the University of Central Lancashire’s ethical code of practice. Ethical approval was granted by the research ethics committee prior to the research commencing which was a pre-requisite as per the University regulations. Participation in the research was purely voluntary and all participants were fully briefed prior to the commencement of the research, during the data collection period and upon completion of the data collection. Each participant signed a consent form and they acknowledged that their anonymity would be guaranteed, and any findings would remain confidential in that they were not divulging their origins. The interview recordings are being held in a safe secure manner in line with the stipulations of the University ethical approval that was granted.

Chapter 4

4.1 Findings and Analysis

4.1.1 Introduction

The research questions aimed at obtaining the different views from both the auditors and their clients. The questions were formulated with the help of audit partners at large auditing practices in the UK. The findings and analysis section below commences with an initial comparison of the answers received from both audit engagement leaders and audit client finance directors. From these answers, a subsequent 'consolidated' thematic analysis brings together those views of both parties and this is presented in the sections below.

The purpose of these sections is to illuminate how the quality of a financial statements audit could be affected by the various levels of preparedness on the first day of the audit field work commencing. Specifically, focus centres on the pressures auditors face when their clients are not prepared for them and the potential implications for a 'quality audit' as outlined in Chapter 2. Interestingly auditors and finance directors were asked to describe their perceptions of levels of preparedness and whether anything could be improved upon from either 'side' (auditor or client) in an open-ended series of questions. In addition, the extent to which current attitudes may change if levels of said preparedness were both incentivised and mandatorily reported to external parties. As such, with the information acquired on what the interviewees viewed to be particularly important to them, these sections therefore describe the most crucial identified issues which were implicated across all interviewee accounts.

4.1.2 Analysis of the Auditors responses on their client's preparedness for audit.

The perception of how well a client is prepared for their audit on the first day will always differ between the auditors and their clients. There are many factors that need to be taken into consideration which include (but are not limited to) size of the company, reporting requirements/deadlines, attitude to audit as well as the size and strength of the finance team. Auditors normally plan their audits in advance of a company's year end, the Financial Reporting Council (FRC) issues mandatory International Standards on Auditing (ISA) and ISA 300 'Planning an audit of financial statements'. The FRC state that "the objective of the auditor is to plan the audit so that it will be performed in an effective manner" (ifac.org, ISA 300, p2).

ISA 300 also states that "the auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility" (ifac.org, ISA 300, p3).

As the auditors are required to perform their audits in an 'efficient manner' proper planning needs to have taken place, in fact the planning phase (unless a new audit client of the firm) should commence once the financial statements of the previous year have been signed and filed at Companies' House. Despite all the planning that the auditors who were interviewed are required to complete as part of the audit process, one partner from a smaller auditing firm was noted as saying:

“We do more planning than we used to, we used to pay lip service in what I would call the old days, but increasingly we do have a proper planning meeting” (A7).

In a comparable manner partner A4 supports this statement as they stated:

“I used to enjoy audit, but not anymore, it is all the things you have to do in planning. It is like taking a sledgehammer to crack a nut, there are far too many regulations to comply with, if the numbers and disclosures are right then what’s the point in asking about the companies’ competitors, fraud awareness etc. The owner managed company directors are there every day and they know what’s going on, so what’s the point in asking and then documenting it all. Possibly that would be OK for large listed companies but not smaller owner managed companies”.

Significantly while the regulations are specific requirements, the adherence to, and taken to comply, have an adverse impact (as per Chapter 2) on the budgeted time auditors allocate to their clients. In a competitive market, the additional costs incurred with increased planning of an audit are difficult to pass on to clients in terms of increased audit fees.

When planning the audits, to assist their clients it is widespread practice to ask clients to have certain items ready for them when they arrive at the clients’ site on the first day of the audit. However, a considerable number of partners interviewed did not feel that their clients were actually ready for them when they arrived.

“The nature of our clients means they are not prepared for the audit, they do not have the staff or the expertise to be ready for an audit” (A1).

Interviewee A9 adds:

> *"I would say variable, and the reason I say that is because generally when you take over a new client they are not really ready, but do improve over a period of time and that level of preparedness increases as the finance team get better at knowing what you want. Having said that there are organisations that are never ready".*

However, there are some auditors who felt that some of their clients were ready for them when they arrived at their client's businesses, A7 notes that:

> *"It varies, as I have some clients who are incredibly ready and everything is set out ready for us on day one, and I have other clients where they are at the opposite end of the spectrum and it is extremely challenging to get information which has a knock-on effect in terms of time and pressures on audit quality".*

Similar comments were noted from the other interviewees with there being no benchmark as to how well prepared their audit clients were. It could be worrying if (as noted by A7) the audit quality was potentially threatened by the lack of preparedness of a client and the pressures and stresses on the audit team increase. If such pressures resulted in the reputation of the auditing firm suffering an impairment, as was noted by DeAngelo (1981) the financial statements of or organisation are only as good as the reputation of their auditors.

Notably, preparing and planning for the audit is predominately the responsibility of the auditor, it is also a statutory requirement for companies meeting the audit criteria to have their financial statements audited. In the attempt to facilitate and ensure a shared responsibility of preparing for the audit is embodied by the auditor and their clients, the auditor provides a ‘wish list’ of items they want to receive on the first day of the audit.

> *“Other than the deliverables list we provide for them they are not ready, some items from the list they want to discuss”* (A1).

> *“It’s really about trying to agree what they ought to have, but you don’t want to give away too much about what you want to look at because if you do that you lose the ability to be unpredictable and you give them the opportunity to (if they were to be manipulating the result) prepare that manipulation rather than have that risk about it being mitigated because you have looked at things real time. One thing I should flag up is that we have an online portal and we agree with them what is going to be uploaded and when we are going to need it. This gives them the ability to upload it onto that portal and the benefit is that it means remotely if they are putting things on there before day one of the audit starting we can get ahead by putting things in the format we require. It also gives the benefit that it tracks what we are waiting for from them and also what they are waiting for from us, it is a two-way process to make it as effective as we can”* (A4).

As evidenced by these quotes, the auditors are attempting to encourage their clients to be as prepared as they can be in advance of the audit commencing so as to minimise the amount of time auditors spend using client time obtaining supporting audit documentation.

Extending this point A4 revealed that there is communication between both the auditors and their clients in determining the items to be posted onto these portals.

> *"We agree what we want from our side and from theirs and also agree the date it will be posted onto the portal, that is really helpful as people are goal orientated in the fact that is crystal clear and that everyone can see it to drive people to be a lot better prepared than they would have been in the past. However, I invariably find that for the clients I work on in …………… sector they are only 50% to 60% ready for the audit."* (A4).

This dialogue/continuous communication between the clients and their auditors is a recurrent theme which arose several times during the interviews of both auditors and finance directors. The comment that A4 makes in relation to the agreement of required documents and dates is somewhat confusing when only 50% to 60% of his clients in a particular sector are deemed to be ready. This appears to contradict the comments regarding the agreement of documents and dates, as noted in Chapter 2 Emmanuel et al (1990) whereby targets form an effective part of control, should those targets be unrealistic they are thus not motivational and as a result there is no 'buy in' from staff. The result of this would be the additional time the auditors would need to obtain the 'missing' documentation.

> *"Nothing we prepare everything for them*" (A3). *"………..clients send us information throughout the accounts preparation process [A2 prepare the accounts] so this information we tend to keep from the account preparation process as it can be used later on as well as ensuring the accounts are prepared in a relatively correct form or status before we start the audit so we are actually starting with a trial balance and that starts the work of the accounts into statutory format"* (A2).

It is fascinating to note that all the other auditors other than the two quoted above, all stated categorically that it is very rare that they would ever receive a set of financial statements to audit when they arrive on day one of the audit. Rather a fundamental point as the whole purpose of a financial statements audit, is to audit the financial statements. Only those where the same firm of accountants and auditors prepared them were the financial statements ready for the first day of the audit. However, although auditors must remain independent from the companies, it could be questionable if the same firm of accountants, irrespective of ‘Chinese walls’ between accounts preparation and audit existing within such firms should be allowed to audit accounts prepared by their company.

Other than the lack of financial statements to audit, another element contributing to a ‘failing to be prepared’ concerns the time dedicated to preparation and the availability of key client personnel. One auditing partner described how in one of his business sectors the cutting down on internal finance resource was an issue and client staff are stretched performing their normal duties.

> *“I don’t think they don’t give it enough time regrettably, because everyone has a full day job and because for example the……..[a specific sector] have taken out all of their surplus capacity in their finance and other teams the reality is that as time progresses they are busy preparing the information they need internally and there just isn’t a long enough lead time or enough resources available for them to then say let’s spend a week getting ready for the audit. So, I think their biggest issue is that they don’t have the capacity to do it, so frequently we find that financial statements will be half complete with the numbers they know aren’t going to move from the start, so we have to take the approach of auditing the trial balance that’s*

available on day one - making it very clear that there is no point giving us trial balance 2, trial balance 3 etc" (A4).

With such a lack of preparation it is apparent that the auditors (as noted in Chapter 2) are faced with attempting to manage their audit risk by spending additional time by collecting as much supporting documentation themselves. The above statement implies that this auditor is not prepared to accept subsequent changes to already provided documentation until the final stages of their audit work. This course of action appears to enable the audit team to essentially audit any changes (i.e. adjustments) at the end of the audit without constantly restating balances and then using time computing and testing revises samples and populations.

> *"Not being prepared, the sales ledger may not reconcile and it may not appear until later in the audit. Statutory accounts are never received on the first day of the audit. There is more willingness for our staff to push back and tell clients that the information received is not acceptable, working overtime for junior staff is no longer acceptable by them"* (A5)
>
> *"At the other end of the scale you have those clients that have been provided with a set of deliverables and then say that they did not know that you wanted this and that. You generally tend to find that some of those are under resourced and/or ill prepared as they are busy doing other things"* (A6).

When clients do not appear to 'buy in' to the process the pressure is also felt by clients and not only the auditing teams. There is a balancing act for those organisations that are ‘lean’ on finance staff or under resources as they have conflicting deadlines of both their daily duties and providing information to the auditors and this is further demonstrated by the comments from another audit partner.

> *“……….despite us getting things in terms of deliverables to clients early they don’t always deliver as there may be conflicting things that they need to do, i.e. there could be transactions that they are dealing with that take priority over our audit. Clients prioritise things operational above the audit*” (A8).

Despite the auditors attempting to plan their work to meet the required reporting deadlines, one common theme evident from the auditors’ interviews relates to the availability of key staff during the period of audit. Two audit partners described the importance that having access to client staff throughout the audit fieldwork is a key element in helping them to understand and complete their audit work on time.

> *“More catastrophic comes to people not being available when we are in and we really need to speak with them as they are key to some elements of our work”* (A8).

> *“Maybe staff availability? they assume that they have provided information and basically say there it is, they don’t understand in all cases that it is not just the documentation we need but it is seeing people, they underestimate that there is quite a bit in terms of face to face time needed”* (A10).

Considering this, auditors question whether their clients are seeing their work as a priority as it only happens once per year (the audit of the reporting period end financial statements). Within most companies a financial timetable is followed to meet monthly and annual (half yearly for a listed company) reporting requirements, an annual audit could be assumed to be built into such timetables.

Both A2 and A3 referred to clients as seeing the audit as *"a necessary evil"* or *"an additional overhead"* and therefore do not regard preparing for it as a priority as, in their opinion, it is not adding any value to their business.

> *"No, they don't prioritise, often clients leave writing the OFR [Operating Financial Review], the corporate review or the corporate governance papers through the audit process, whereas I struggle to understand why these documents which are talking about the whole financial year have not been prepared in advance of an audit because the year is already complete"* (notes A4).

This statement concurs with those previous comments whereby the accounts are rarely ready for the first day of the audit commencing. Auditor A6 notes with some of their clients:

> *"……… others where key staff may be off on holiday which is bad planning on their side as we are only here for 2 or 3 weeks, so there is an element of bad preparation, about planned preparedness and planned approach to the audit. Those clients that are engaged and you have senior buy in, things happen and they happen quickly. Those clients that are a bit distracted or the audit is lower down the priority list it is a harder process".*

This comment supports those of auditors A8 and A10, if the clients are allowing staff to be absent during the audit it could be deemed to be doubtful that they therefore see the audit as a priority within their finance operations. Without having the buy in from an organisation, the pressures are predominately resting with the auditors. As noted in Chapter 2 with auditors being under budgeted time and target recovery rates, if they have additional work to do in obtaining audit evidence, or indeed having ‘idle time’ due to clients only producing this evidence when asked for directly to the auditor, it could result in less detailed review by audit and/or add to the pressure to meet a deadline. The impact of such actions could potentially have an adverse effect on the quality of the audit work performed, and ultimately contribute to an inappropriate audit opinion within the financial statements.

It is however recognised that preparedness is not an issue in every organisation, as auditors A8 highlighted that:

> *“I have one client who loves an audit and likes the challenge of being audited, it gives him an excuse to get into the books, listed clients tend to make it a priority…….”*

Notably, whilst this comment is echoed by many other auditors, it is interesting to note that they (A8) continue by saying that:

> *“…….. smaller companies see it as a compliance task and they perceived a good audit as an efficient audit, less concerned about quality but want to get us in and get us out”.*

Whilst there is an apparent disparity between organisations’ attitude to audit (some ‘love’ audit, whilst others want audit ‘in and out’), one important issue is all clients attitude to fees (which is discussed in detail later in this section). Fees as noted in Chapter 2 are computed based on the amount of time an auditor will spend working at a client’s (chargeable time), and also incorporate an element of perceived risk. If the auditors are not going to complete the audit within the budgeted time an 'overrun' (additional time incurred to complete the audit) will occur and this additional cost is passed onto the clients.

> *"My guys don't have the time to go digging out invoices whereas other firms may, so some clients just leave it to us. Overruns that clients pay for as a result of us doing lots of digging around soon learn and get better prepared next time to reduce overruns and costs. If time costs escalate because I can see what time and date information is loaded onto our portals and when, so that acts as a good tool to enable overrun costs to be recovered from clients as I can evidence when things were not delivered on time"* (A5).

In a comparable way A10 notes that:

> *"As long as we have made it clear to them and of the timetables and deadlines…………… from the other side if they know they will get additional billing then that focusses their minds"* (A10).

Although overruns and the basis for charging these back to clients is usually outlined in the annual engagement letter, proving that the delays were client related and outside of the auditors' control can occasionally be difficult to prove.

Not only has it been identified that some clients are not perceived to make the audit period a priority during the year-end close-down of the accounts. But also, some auditors feel that whilst they are on client sites carrying out their audit procedures clients are not dedicating sufficient time in helping them complete those procedures.

"The other thing that they are never prepared and this is a great frustration for us, is that they fail to coordinate the accounting team with the wider communications such as legal teams, so you frequently turn up and don't get the annual report in the financial statements until incredibly late in the audit process, because the other people that sit outside of finance don't realise the importance of it and more often than not clients don't invest enough time to get ready" (A4).

Interesting point is that the auditors are becoming frustrated with clients when assistance is not always readily available, frustration can also add to pressure which then potentially impacts on quality.

"………often clients leave writing the OFR, the corporate review or the corporate governance papers through the audit process, whereas I struggle to understand why these documents which are talking about the whole financial year have not been prepared in advance of an audit because the year is already complete" (A4 continued).

"….. if there is no incentive then there is little effort put in by some, not all, clients. However, for those that are not ready or willing to assist and as a result auditors have to get information themselves or make information up. But clients are getting better and those getting better are financial, i.e. financial penalties" (A5).

The two points above appear to insinuate that not only do clients have little or no motivation to assist them with their tasks, possibly as a result of the audit work interfering with their daily tasks and the conflicting deadlines that could have. However, the comments made by auditor A5 do give rise to an element of concern. If the auditor is ‘making up’ audit evidence and then concluding on those results, this would mean that the whole quality of the audit is threatened. If this fabricated work led to the incorrect conclusion on an account balance or financial statement disclosure this could lead to an inappropriate audit opinion being made, one upon which investment decisions could be made.

As noted in Chapter 2, Raghunathan (1991) highlighted the issues surrounding the premature sign off (basically, the review) of working papers in relation to audit quality. The comments made by auditor A5 allude to the fact that working papers that were ‘made up’ because of time pressure faced by auditors. If this fabricated audit documentation and test conclusions pass through the audit review process (due to time pressures caused by client delays), the overall quality of the audit is potentially a significant issue regarding the risks surrounding forming an inappropriate audit opinion.

As noted earlier in this section, the auditors prepare (on most occasions) a set of deliverables that they require on the first day of the audit, in addition to this it has also been highlighted that access to client staff is also an issue, not just as a result of daily duties being completed by clients but also with clients taking annual leave or business trips whilst the auditors are on site. A crucial point is raised by Auditor A9 below:

> *“Most of them do [make time for auditors], but there are the odd one or two where you have an extremely short reporting deadline and the frustrating thing is that there are one or two people that we need to speak to on an ad hoc basis. Questions arise during the audit every now and then and they want us to book time in diaries etc in advance of the audit commencing, an audit needs to be an ongoing process where queries arise and there are*

> *questions etc coming out of the audit, where finance teams are very rigid in how the audit is carried out is very unhelpful"* (A9).

Indeed, many auditors would agree with these statements as client staff absence appears to be a common occurrence. Taking into consideration the earlier comments related to clients running their businesses as a priority over the audit, for those who do not need to be away from the office auditors should query if client staff absence should be permitted.

In support of this auditor A2 notes that:

> *"………… one of our clients will not allow holidays for administration staff during the audit"* (A2).

Although the auditor is independent and there to form an opinion on the truth and fairness of financial statements, clients could potentially be more sympathetic towards the auditors completing their work. For those clients who wish to have allotted time booked in a diary in advance, the audit work in those areas may need revisiting to ensure that it could be completed in advance of those meetings. In the case of the work over running, where client related delays result in the meetings needing to be rescheduled, this would need to be brought to the attention of management early in addition to indicating that there could be fee issue implications.

It was alluded to earlier that the audit opinion does reflect on the reputation of the firm auditing those financial statements upon which said opinion is based. However, this opinion relates to the truth and fairness of the financial figures and related disclosures, it does not reflect on the management of that company or how they were prepared for the audit or assisted during the audit period. After all the audit is a part of not only the finance function but as per the Companies Act 2006, the directors' responsibility in the preparation of the financial statements.

Considering this (the audit opinion), including some reference to the levels of preparedness and/or disclosures in relation to fees and overruns was considered to be something all auditors were in favour of.

> *"……….. anything whereby an opinion that would have an adverse comment in the audit report would mean that clients would take action on their part. All of our clients are conscious of having an adverse opinion, they will basically do anything they need to avoid having an adverse opinion*" (A2).

> "………. *I am a firm believer in if it gets measured it gets actioned upon, if it were something in the public domain it would get actioned upon, from a personal perspective of that finance director he would not want to be known as someone who isn't prepared for an audit*" (A6).

> *"…….. if it were mandatory to disclose this and clients knew about it up front they would go all out to avoid anything adverse going in the audit report"* (A7).

Taking these comments from these three audit partners from different auditing practices, they appear to state that they genuinely feel that by amending the audit opinion, clients would place greater importance on the preparation and timeliness of information for audit. Two comments in relation to charities that require an audit gave rise to some interesting points:

> *"I think it would…… [disclosing something in the audit opinion], and I say it would for 2 reasons. Firstly, on some of our reports and particularly charities*

and those for the last 12 months we have a little section at the front that lets us tell the trustees how ready the client was for our audit, it is in some of the charity ISA's and what we have found is that if the client hasn't got three green blobs, one of them is quality of the papers, another is preparedness and the third one is the quality of the annual report and financial statements and it looks like a traffic light. And if they have not got 3 straight greens you find that when you come back the subsequent year they have made a marked improvement so they end up with 3 green lights" (A4).

Notably, while this point was echoed by auditor A10 below, it is interesting to note that this individual (A4) felt that a level of ownership in relation to the preparation of documents in terms of both timeliness and quality as well as having a good quality annual report and accounts ready (something that clients appear to be lacking so far), is needed to be taken by the management of the Charity being audited.

"……….in the reports to audit committees we report on a traffic light basis on how well prepared the clients were for us and the quality of the audit papers and this draws attention to the director of finance and yes it would [be beneficial to disclose something in the audit opinion of commercial organisations], as this would become more public which would put more pressure on the FD to manage the team better, regulators and readers would definitely have a view as to how well / how good that finance team and director is" (A9).

This auditor (A9), although supporting the views of auditor A4 suggests that the audit committee benefit from such disclosures being made to them and not its' widespread availability to the general public as a whole. They also appear extremely confident in that introducing such a modification to the audit opinion would influence finance departments in prioritising their audit preparation.

In further support of such modifications to the audit opinion was auditor A8:

> *"I think it probably would [modifying the audit opinion to refer to client levels of preparedness], I think clients tend to be quite sensitive as to what goes into the audit opinion so anything that would be published that could be potentially adverse for them or their interest would encourage them"* (A8).

One potential disclosure that could either support the modified audit opinion (either by disclosure within the audit opinion or become a mandatory cost disclosure note supporting the figures in the financial statements) that was raised by several of the auditors was the variation to the original fees.

> *"…….. if clients were to report on variations they had to pay to the auditors because that is probably a greater indicator as to whether they have not been ready or not delivered what they were supposed to deliver because that sends a message to the world that they agreed a commercial fee for the audit but they have had to pay more due to the auditors doing more work due to the quality of the information provided or the time in which it was prepared"* (A4).

> *"But it could be a motivating factor to clients to be ready as money is important to them"* (A10).

From the perspective of the auditors it could potentially be beneficial to investors to understand how organised an organisation is and the timeliness of reporting, if a fee variation is disclosed with some narrative that outlines why they incurred a fee more than the original fee that the auditors quoted. Although it should be acknowledged that in providing such disclosures within an audit opinion or in a cost note to the accounts, may not sit too well with those organisations who fall foul of such negative modifications.

> *"If we want to be transparent I think there is value in bringing the fee being disclosed in the audit opinion, maybe in a box at the bottom detailing variations as that is a greater indicator as to the preparedness of the clients. We are constantly concerned with the auditors delivering other things to avoid impairing our independence, the box could show the audit fee, audit fee variation, other fees charged by the auditors in the provision of other work. If it is important to be transparent then let's be transparent and show everything"* (A4).

> *"……however, in the auditor remuneration box splitting out the audit fee and overrun costs due to audit ineffectiveness then that could be beneficial"* (A5).

In providing examples (from the quotations above) of the levels of preparedness of organisations for their audits, it is apparent that the auditors feel that this needs recognising in the financial statements. Either positive or negative comments could help a user of the financial statements in their understanding of the organisation in both financial terms and also the strength of the management team, in particular with how they view the importance of their financial reporting. Although it is recognised that including such disclosures would need careful consideration, it is deemed to be a positive step forward in the field of auditing by the auditors.

In relation to the added value of other stakeholders and not limited to the equity investors, the benefits of such disclosures were mixed amongst the auditors interviewed. Although it is recognised by the auditors that they would benefit as clients could be driven to avoid any negative commentary in their audit report and disclosure notes, wider audiences may not take any additional value.

Issues could arise however with those companies that have some form of negative preparedness, as auditor A2 notes:

> *"……….it may have a negative impact on the client and it may raise some issues with HMRC as they would require that information is available and if the report said the information was not available that may be interpreted that the client's records are not up to standard that would be expected"* (A2)

If such an issue were to arise and a subsequent inspection from HMRC arose, then such reporting could potentially be a positive step forward. Upon implementation, the improvement of maintaining accounting records could be higher on an organisation's agenda to ensure future audits or indeed other inspections ran smoothly due to improved systems and documentation filing and storage. Organisation who received poor reports as a result of their levels of preparedness and perhaps incur additional overrun costs, could use this to improve and not only benefit from clean reports in the future, but also as a tool to enable them to reduce costs, therefore reinvesting the savings for company growth.

It is apparent from discussions with the auditors that they are united in forming and reporting the clients' attitude to audit, after all this is a part of the annual process and disclosed within the annual report is a review of the year of the reporting company and a look ahead to the following year, that could mean there is scope for mandatory disclosure of the audit performance as it forms a part of the companies processes and costs.

However, with such potential negative comments within an annual report, for those companies that elect to have a voluntary audit as they do not meet the relevant audit thresholds, they may rethink the process.

> *"I think that for those clients who have a voluntary audit as opposed to a mandatory audit they would think again. In my opinion audit requirements are overkill, complete and utter overkill and as a result I am trying to persuade some clients who have a voluntary audit not to bother as the planning etc is overkill"* (A3).

Should voluntary audits reduce as clients do not want anything adverse appearing in their financial statements, there could be reduction of fee income to those auditing companies that complete a voluntary audit of a client. However, such clients are unlikely to be significant unless the auditing company is small, and the removal of voluntary audit fees does not adversely impact on total practice income upon which individual audit client independence rules are based.

> *"It is getting to the stage now where I feel audits should just be for listed companies I just don't see the point for smaller owner managed businesses. By the time you have taken to do the audit and do these stupid 80 pages of*

planning notes and god knows what you give the client much more value for their money than messing around with stupid audit requirements" (A3).

"I don't think financial statements tell a great deal as they are now too complex" (A1).

As shown by these two points, the financial statements are becoming more complex and it is felt that other than a user of these statements taking a look at the financial results, dividends and earnings per share, they take little value from anything else within them. It could therefore be argued that with such additional disclosures and audit requirements from regulatory bodies that there is no doubt that clients will continue to suffer in terms of preparedness for audit. As mentioned earlier in this chapter, it is extremely rare that auditors find a full set of financial statements ready for them on the first day of the audit fieldwork commencing and taking that into consideration reporting this as a failing may fall outside of a client's control if the audit is scheduled too close to the reporting period end.

Pointing to clients being better prepared, there is evidence (as per Chapter 2) to suggest that as time elapses and deadlines approach, pressure increases and that could have an adverse effect on the quality of an audit. However, audit pressure and quality is not necessarily at the forefront of the client's minds when the audit is taking place.

"……it depends how the clients view the audit, if they just want a cheap fee or are they looking for real value out of it, if they were happy to set aside an amount of time for the audit then the compliance element would add more value to the client. They may not want that, they may just want you to do your compliance audit and get out of there. That's where I think most of our clients probably are" (A1).

This is an isolated comment from auditor A1 as the remaining auditors interviewed had different views. The comment from A1 indicates that for some clients the audit is in some way unimportant to them, however this supports the comments made earlier in this chapter relating to 'get them in and out as quickly as possible' in addition to being cost (audit fee) sensitive.

The impact on increasing the quality of the audit was a key response to clients being better prepared.

> Audit A4 notes that *"as time pressures could affect the amount of time spent obtaining and analysing audit evidence".*

In support of A4's comment similar comments were noted which include:

> *"Yes, I think it would enhance the quality of the documentation on the audit file and not necessarily what we do. Documentation could always be improved and I am sure this would add to enhancing the overall quality of the audit conducted"* (A5).

> *"…….. you go into the mess and spend so long sorting the mess out you actually probably although subconsciously lower your bar of expectation and are happy to just get through the audit whereas if clients are better prepared and you do the job properly and more efficiently and focus on the stuff you need to focus on, so yes the audit will be more efficient and better quality, no doubt about that"* (A7).

> *"I think it could in terms of documenting things more thoroughly and as mentioned earlier for those more judgemental areas if we get our clients on*

side and things are ready the work on the more judgemental things could be better" (A8).

As demonstrated by the auditors above they are of the genuine opinion that the quality of their work could be improved. This could relieve unnecessary pressures on the auditors in terms of ensuring their audit was recorded in the working papers and audit files to a high standard. But also, the time saved could also be reinvested in a more quality review process which would enable (as mentioned earlier) any fabricated audit evidence to be picked up prior to a conclusion and subsequent audit opinion being formed.

Additional effort could be focussed on those areas that auditors have identified as being risky (susceptible to being misstated or disclosed), alternatively adding value to the audit by completing a review of a client identified issue, as Auditor A6 identifies:

> "……….*there is a direct linkage in terms of where you are spending your audit effort, for some clients it may be reinvestment of that time elsewhere, could you spend time looking at XYZ thus adding value or a reduction in fees"* (A6).

It was noted earlier that amending the audit opinion was a favourable option for the auditors, it could be used as a tool to motivate their clients to be better prepared for them when they commence their audit. One of the modifications identified could have been identifying and reporting in the financial statements the variations to fees due to overrunning on budgeted time, as auditor A9 notes:

> *"…….this [clients being better prepared for them] would help avoid arguing about overruns for example, I think the more we move towards a digital*

audit so certain aspects erm they would have to have that level of preparedness" (A9).

The point regarding a digital audit is an interesting point, there would be a significant amount of investment required in the initial purchase of such software for the smaller auditing firms and ongoing additional costs in terms of licenses and maintenance. Should the world of auditing move towards digitalisation the costs may outweigh the benefit as the smaller firms would no longer be able to afford the potential levels of investments required. Moreover, if the smaller firms were unable to audit their clients, it would be the larger more expensive auditing firms that would benefit. However, in doing so the price of an audit from a larger auditing firm would usually be more than the fees charged by the existing smaller auditing practices. Another issue could be that as these smaller clients may not be able to afford increased audit costs due to digitalisation and hypothetically, cheaper less quality auditing organisations could enter the market place.

Those larger auditing firms, due to their reputation do have some authority when their demands are not met as noted by A10:

> *"It is definitely a challenge if I am not happy with the quality of information or there is a major delay I will not be forced to sign anything until I am 100% happy with the information etc, I would go back to clients and tell them if there were to be any delays, it is their issue, if there are information delays I won't be pushed into accepting anything of lower quality"* (A10).

From a support staff (junior auditors) perspective, the weight of an audit partner with a good reputation and the support of a large firm behind them is a comfort in ensuring audit supporting documentation is of the highest quality delivered in a timely manner. However, that is down purely to the strength of the audit partner concerned. Similar partners no doubt exist in smaller practices, however the resources to support such decisions and of course levels of audit fees are crucial factors.

Reflecting on previous audit engagements and the issues that have been encountered, although having acknowledged the costs involved when implementing any form of change, it is apparent automation is something clients need to be considering. In doing so, a good solid accounting and record keeping system would be of a great benefit to any audit. Not only would it make the audit more efficient, but as mentioned above, it could have a positive impact on improving audit quality and audit test recording.

Auditors remain concerned that some clients are somewhat naive when it comes to the audit, there continues to exist an audit expectations gap (the difference between what the general perception of what auditors do and what they actually do and are attempting to achieve).

> *"I would say the vast majority of clients are not aware of how an audit works, they see it in many cases as checking rather than confirming. There is scope for us to do more there however clients just want us to get on with it"* (A2).

This view of an expectations gap has been investigated in numerous previous studies, this suggests that to overcome this issue an amount of investment in terms of the auditor's time could yield benefits by educating them on the audit process.

> *"Invest time in clients to get them to do things sooner rather than later. We work hard at having this all year round audit which means if a client has an unusual transaction or something that's going to feature in the year end audit we try and encourage them to share information as they go so that firstly we can agree the treatment that should be taken in the accounts as there is nothing worse than an auditor at the year-end stating you can't record a transaction like that as it is contrary to an IFRS or something similar so we try and do that and bring things forwards, but sometimes clients are reluctant to do things sooner"* (A4)

It is apparent that this auditor (A4) encourages its' clients to communicate throughout the year, in doing so it would avoid any issues that could have been discussed and resolved prior to the year-end free up valuable time when the year-end audit commences. In a similar theme auditors A9 and A10 stated that:

> *"…….. knowing about any major transactions or changes and discussed early….."* (A9).

> *"Combination of communication as to what we are going to do and when we are going to do it so both sides know what the goal is, communication both ways. If you agree to a timetable then stick to it and if you agree on it you agree to deliver to it" (A10).*

Communication is a regular theme, auditors have noted earlier that the audit is a year-round process with the start of one year's audit commencing once the previous year's audit has been signed off. Although communication is a fundamental part of any business, communication with the auditors could be deemed to be less of a priority for clients, after all, as some auditors mentioned earlier, clients' focus is on running their core business with audit being a necessary evil and overhead cost.

In addition to increased communication being something the auditors would like to see improved, so too is the automation of the audit process. It was mentioned earlier that automation is something that is developing as technology advances. Introducing more automation into the process could contribute to removing some of the time pressures on auditors. An interesting viewpoint is raised by auditor A5:

> *"More automation, the less time spent shuffling papers would reduce time and costs to us which could potentially be passed onto clients. If automated samples may disappear and 100% checks could be possible. Clients would just give access to systems and we can then access those systems and essentially interrogate the data, we can't automate those balances that require an element of judgement, by pushing the boundaries of automation that must surely enhance overall audit quality and the clients therefore needs to be less prepared and thus focus on those judgemental balances"* (A5).

The point raised above is something alluded to by auditor A9:

> *"……with changes in how we sample now as it is more automated….."*(A9)

Audit is based on a test basis and only samples from a population (an account balance) is tested by the auditor. The automation point raised by different auditors insinuates that with implementing more automated auditing techniques larger samples, if not 100% could be tested thus adding value to the audit opinion as detection risk (the risk that an error may not be included in the auditor's sample and thus go undetected) is virtually removed/reduced to zero.

Thus far it is apparent that very few clients are prepared for their auditors, differing reasons have been noted as to why they were not prepared have arisen and thus the auditors feel additional pressures when information is provided late. The auditors have also stated that where overruns are incurred additional costs are passed onto their clients resulting in a higher than anticipated fee being charged to clients thus adversely affecting their financial results. A number of auditors note that incentivising clients could be a method by which those clients could be motivated to prioritise the audit and provide timely quality information and staff availability. As auditor A10 notes:

> *"….most clients are financially motivated and therefore any savings are always an incentive"* (A10).

This statement is also supported by auditors A2 and A4 below:

> *"Although we try to add value our clients don't really see vast amounts of added value and would be keen to reduce any costs"* (A2).

> *"……at the end of the day all audit fees should be calculated based on the risk, time and materials in delivering the work. In some years, I had clients who I have had to change the fee as they have not delivered but I have also had to change fees for those clients who have become more efficient and as a result as we have not incurred as much cost we have agreed to amend our fees in light of that………..,[auditor A4 continues]…. Where the clients have not delivered the price should go up, but when the audit becomes*

simplified because of the level of preparation and quality of what we deliver we should share that saving with them" (A4).

As suggested by these quotations, clients could prioritise preparing for the audit if there is a financial benefit for them. There could however be a number of considerations to be taken into account by clients to essentially measure the benefit (the financial incentive) against the cost (additional costs incurred in preparing for the audit, additional staff, opportunity costs etc). Only if it made good commercial sense to clients could it be worth investing in these increased efforts of preparedness. However, if the incentive were to be in addition to a potential adverse comment (as suggested earlier) in the audit opinion, it could become a more attractive proposition to clients.

> *"…….. I think audits are very cost sensitive, not necessarily loss making but I think some of the bigger firms use the audit as a foot in the door for additional services. It is a competitive market and you need to be aware that fees can go down as well as up. Yes, I think clients would respond to that, I definitely do!"* (A7).

With this statement, the auditor is making the point that within the auditing industry it is common practice for the audit to be viewed as a loss leader (a product that is sold at a loss with the intention that a client/customer will then purchase higher priced/more profitable other goods or services from the same supplier).

> *"……..we quote a fee on the assumption everything will be prepared on time, so whether a reduction is an incentive or a penalty I think there is pricing differential already for those clients who are ready, we have discussed with some clients about what they can do to reduce the fee and*

being ready on time is one of the things that crops up time after time as well as having information ready that is in a format that is understandable if it saves us time we can pass that saving onto clients” (A8).

A number of significant points are made in this one statement, it is evident that the levels of preparedness for different clients are taken into consideration when the initial audit fee is agreed prior to the commencement of the audit. The second point is that this auditor advises clients that savings are to be made if they could be better prepared (however the comments in the previous paragraph in relation to cost versus benefit are worthy of note). The third point raises the matter of the quality of the audit supporting documents provided by clients to their auditors, although having all the items on the deliverables listing the auditors provide, there could be ambiguity or misunderstanding as to what is required. If the client is of the opinion that they have provided the information required in a timely manner, but the auditors deems this client to have failed (in meeting the preparedness target) as documentation is of poor quality, issues could arise in relation to (not only the preparedness disclosure in the opinion) the financial incentive a client was under the impression they were receiving.

As conveyed in this analysis above, it could be interpreted that the misunderstandings of what is perceived to be prepared, or the documents that are required could be overcome by (as raised in the previous paragraphs) increased meetings and discussions between the auditors and their clients. As auditor, A1 and A9 state:

Other than meeting them with a list of pre-prepared deliverables there isn’t a massive amount that they would know what you are going to be looking at as an auditor” (A1).

"*Clients need to talk us through the working papers or spreadsheets instead of leaving the team to fathom things out. There is no standard template for clients to present information"* (A9).

As is suggested here, increasing the amount of communication prior to the audit commencing and with the possibility of including all key members of client and audit personnel, the requirements in terms of the items on the deliverables listing can be discussed. In doing so the auditors have the opportunity to tailor the deliverables to be specific as opposed to generic to the client being audited, this then enables the clients to indicate if the items on such a listing are obtainable and also the formats in which they will be received.

"Definitely a case of educating clients, it is the be all and end all, how can we do it better, I mean we have independence and rotation but I don't subscribe to it, we get better at our job the more we do it, the more we do it the better we get, the better we get we know where to look and then design tests accordingly to press the right buttons. I think there is a lot to be said for not being rotated, if we rotate staff the fee stays the same but clients have to educate our staff and that can impact on our recovery, not the clients fault" (A7).

The role of the auditor is to remain independent, the FRC state that "Audit engagement partners can only serve for five years before rotation is required" (FRC, 2017 p8.) (noted in section 2.1.3). The objective of this is to avoid 'familiarity threat' (the risk that the auditor and their clients become too 'friendly' and as a result the auditor may not be as thorough as would be deemed usual), however in light of the comment above from auditor A7 mandatory rotating from clients is not considered to be beneficial. It can take a number of years' audits before an auditor gets to know the inner workings of a client and where the risk areas are, however this knowledge is then apparently discarded in favour of a new auditor. Potentially this may not be a significant issue in larger auditing firms whereby such information should be documented on the client's audit files, and of course that new partner has the luxury of liaising with the previous partner and audit team. With smaller auditing firms where rotation means conceding a client to another firm, this then becomes a larger issue.

From a client perspective, this then essentially puts them back to 'square one' as they then have to educate the new auditors as to their systems and processes, but a disadvantage could be that a different expected level of preparedness may be required with a subsequent adverse audit preparedness opinion and/or overrun disclosure. As this is potentially outside of the clients' control moving from one audit firm reporting no overruns and good levels of preparedness to a new firm with adverse opinions it would appear the client has taken a step backwards in terms of preparedness.

In addition to this, re-education of the auditors every 5 years means that valuable time is taken from performing their daily tasks, something which has already been raised as an issue. Although it is argued that in changing the auditors ensures that clients are 'challenged' in regard to their control systems and financial reports and this leads to continuous improvements, the loss of valuable information about an organisation by an auditor is questionable.

As noted previously, and echoed by auditor A4, advancement in automating processes is more mainstream and affordable. With the move towards computerised automated auditing techniques it could be said that:

"One thing would be if organisations could invest in IT so they had an integrated ledger system which produced management accounts and financial statements because to me whenever you have got financial statements that are having to be produced in spreadsheets or word documents which have to go through an iteration of amendments because the finance system doesn't reflect the way the business works or there is not an integrated system so you have to do lots of reconciliations to prove everything, then to me that would be the best, to have all organisations that have seamless accounting systems which were then producing financial statements because, then you could perform an audit by checking the technology and the logic and the removal of human intervention reduces risk of error and also the risk of manipulation and fraud so to me that would be the ultimate solution" (A4).

This auditor expands on this matter and continues:

"……if there was a bit more preparedness in what we want to do and how will we want to do it before you did it, there could be benefits and savings because if human beings are not having to post journals or intercede into a system then that improves the integrity and quality of the system and it means anything that is done manually becomes more obvious and that's where you can have either error or fraud" (A4).

The role and impact computers and automation are having on business practices in current times is increasing. With more automation, the earlier comments by essentially 'plugging in' the auditor's computer and following the debits and credits (transactions) through the ledgers to the correct disclosure in the financial statements appear to be somewhat valid.

Not all audits are computerised or automated, and for those that are this is only a minor process in the whole audit testing programme and a considerable number remain manual. The time pressures on audit have been noted to increase due to client related delays, those (as previously mentioned) are in respect of poor preparation or poor-quality information. In order to provide a quality audit, it is imperative that the supporting documentation produced/supplied by clients is of sufficient quality to enable tests to be completed and correct conclusions drawn that will feed into the final audit opinion on the financial statements.

The role of an audit client is to provide all documentation and explanations that an auditor requires in order for them to complete their work. Poor quality information and staff availability has previously been noted as adding to audit time pressures as does the quality of information supplied. Should insufficient information be supplied, this adds not only to the auditors' time (and pressures) in completing a test, but also takes a client away from performing their daily tasks. In order to ensure that management take ownership of their audit information if prepared in advance, it could be reviewed to ensure it is not only the correct documents as requested in the deliverables list, but (as a result of the increased number of meetings between clients and auditors) of the correct quality.

> *"Some of our better clients do, however some don't, one I am working on now which is exceptional, have reconciliations and there is an error on every single one so it is evident management don't review those, they can't have done"* (A8).

> *"…….more judgemental areas will have been reviewed by senior managers, however draft financial statements no, why are they giving me something to review they have not reviewed themselves, very frustrating"* (A10).

> *"…….it is the basics that come up time and time again, it tends to be low level management review as it is obvious the CEO has not reviewed the draft accounts"* (A9).

As suggested here, the auditors are being furnished with sub-standard documentation. An interesting theme is that the draft accounts (which are not always received on the first day of the audit) are not apparently reviewed, this seems alarming as this is the document that is going to be publicly available once the audit is complete and alludes to the directors' performance in managing the organisation on behalf of the shareholders/members) clients appear to be leaving it to the auditors to review and make a judgement on the information provided as to its adequacy, however this is not always the case as demonstrated below:

> *"[information received is reviewed by management] Yes and no, but it is rare that we get anything that is wrong as management information Is normally reviewed by managers in part of running their business"* (A5).

> *"Most of this [documentation review] may have been done as part of normal month end procedures but more judgemental areas may need greater management review"* (A6).

The role and impact management have on the review process appears to link to the preparedness of the audit. Where review has taken place the better quality the documentation provided for audit, where little or no review is undertaken, the greater the risk of incorrect information being received or potentially an inadequate conclusion being drawn from an audit test upon which that documentation featured. Recognising the different attitudes to audit, auditor A3 stated that "*[for other clients] the information is left up to me to obtain"*. In the case of third party documentation that is largely to be expected, however for client prepared schedules and reconciliations the ownership of those documents should lie with the client. Should the auditors attempt to reconcile an account in the absence of client assistance this could lead to (due to a lack of accurate knowledge) this document being incorrectly reconciled or, if time pressured and discussed previously, fabricated. Again, in doing so there is the potential to form an inappropriate audit opinion if there were any inaccuracies in such documents.

Recognising that the motivation behind client staff is to ultimately receive a clean unmodified audit opinion, it would appear to be a little odd that clients would not prioritise the audit more than is apparent from the comments raised above. However not every client is focussed on receiving a clean audit report, for smaller owner managed businesses it could be argued that unless their intention was to raise finance based on a clean audit within the financial statements, as noted previously, the audit is a 'necessary evil'.

> *"A clean report is obviously important …….[directors of] owner managed businesses are often working in the business day to day so we are reporting to the shareholders on themselves. If they work in that business day to day there is a good chance they understand everything that is going on. So, I think the value of an audit is only where the directors and shareholders are different people who do not work in an organisation which they have a*

shareholding in and there is more scope for fraud or error…. there is little value in the audit unless they have bank or other borrowings and want a clean audit report, I don't think our clients place any value on it whatsoever, it is an overhead, and in the unlikely event it was not a clean overhead report there are very few consequences to that owner managed business unless they want to borrow money, suppliers and customers will still use them. It is not in the public interest" (A1)

With an apparent disregard of the audit process for owner managed businesses it is not surprising that there is little incentive to prepare for the auditors, it may also be doubtful that such clients have any concern over the quality of their audit.

In support of these comments as auditor A6 continues:

"………some clients are not interested how we go about our audit, you need to do your audit and provide a clean audit opinion and then get on" (A6).

A large number of the auditors feel that price is a key element of the clients' thinking when it comes to the audit tendering process, although it is recognised that quality is also a factor that clients consider.

"…….they want a quality audit for a commercial rate and with an organisation such as ours quality is always associated with us" (A4).

"Clients would obviously like it to be a quality audit and hate it to be a poor-quality audit and see value for money. Quality is important as inferior quality may result in press and bank issues if it hit the media" (A2).

"……price is important throughout, but the sector I work in quality is important in terms of financial statements and audit, smaller clients I would

say price is the main factor and we are seen as doing compliance work and they want us in and out" (A8).

A theme that is apparent in not just the interview extracts above but also throughout the interviews with the auditors was that they were keen to improve quality, not just maintain it. It is recognised that fees are always going to be an issue for clients and those need to reflect a level of quality but that needs to be from both sides and not just the auditors.

Price could be considered to drive what clients require from their auditors, as previously mentioned the audit could be seen as a loss leader to sell other services to clients yielding higher profit margins. The tendering process is not always (from a client perspective) driven by the price the audit will cost, but also the other services auditors are able to offer.

"……it is more the overall package and that we have people here with very good tax knowledge as the audit is just something that just needs to be done and is a necessary overhead. Our clients want the added value of other services the audit is just routine that needs to be done" (A3).

As this auditor demonstrates, in support of the previous paragraph other services are attractive to clients. In order for an audit firm to offer such services they must have built a reputation to enable them to grow, and it could be assumed that reputation stems from providing good quality services.

The additional services viewpoint is shared by auditor A5 who stated:

"……some clients see value in different things, one client we retendered for we won as were better equipped to help them with non-audit issues as

opposed to fees basically additional added value, others see the cost as an overhead they have to bear" (A5).

4.1.3 Analysis of the Finance Director responses and their perceived preparedness for audit.

In a similar way that the auditors prepare for their audits, planning and adhering to relevant International Standards on Auditing, the finance team of the client should also plan and prepare for the audit of their reporting period end financial statements. However, the perception of how well a client is prepared for their audit on the first day will always differ between the clients and their auditors. There are many factors that need to be taken into consideration which include (but are not limited to) size of the company, group structure, consolidated financial statements, reporting requirements / deadlines, attitude to audit as well as the size and strength of the finance team. In addition to this the finance team will face other challenges in the preparation of the financial statements as they need to place reliance on information from non-finance departments that they will require to both populate the financial statements and also support for any disclosures within those financial statements.

> *"We are extremely well prepared because we receive a checklist from the auditors with a full detailed list of all the paperwork and evidence which they require"* (FD1).

> *"…..95% audit file prepared by me, accounts done, all back up for the balance sheet is in the audit file so essentially when they come I hand them an audit file…… as I used to prepare my audit file when I was an auditor"* (FD2).

"…….. we are quite well prepared we try to have everything to hand in particular with having a number of years' experience we have a plan in place for what the auditors need and what they will ask" (FD3).

"……. we probably have around 95% of the things they have asked for ready for them at the beginning of the audit on the first day" (FD7).

"We are normally quite well prepared and I used to be an auditor so I know what the auditors are looking for" (FD10).

From the comments above a theme is emerging that the finance directors feel that they are quite well prepared for their auditors on day one of the audit of the financial statements commencing. Similar responses were received from the other interviewees of audit clients. Significantly, of the comments by the finance directors, they felt the need to stress that they used to be an auditor, this prior knowledge of the audit process enables them to prepare for their audit. Be that as it may, the auditing profession along with the associated regulations and changes in the audit work/audit testing environment is likely to have evolved since these individuals worked within an audit capacity. Although it is evident they are attempting to assist the auditor in what they believe to be required by audit, the actual documents / other evidence may differ from that prepared in their 'audit files'. As a potential result the views of preparedness may differ between the auditor and their clients. In such circumstances differing opinions could put a strain on the auditor / client relationship as well as adding to the pressures auditors may face in meeting reporting deadlines.

Not all clients felt they had time to prepare for their auditors, it was noted in Chapter 2 that the time/reporting deadlines can have an adverse effect on the quality of the audit and potentially impact on the audit opinion.

Preparing for the audit could occasionally be outside of the control of the finance department / finance team.

> *"Generally [we are prepared for the auditors] as well as can be expected given the timeframe, the timeframes are quite tight"* (FD4).

Significantly, this view was corroborated by another finance director FD 6, who added:

> *"We don't really have enough time from finishing the draft accounts and then having their prepared by client list complete………… it is difficult, very time pressured"* (FD6).

Providing a complete set of financial statements is required by the auditors to enable them to complete their work whilst on the client's site during the allocated time. Financial statements contain a significant amount of information that is not restricted to financial information and as mentioned above, may be sourced from other departments within an organisation. As finance director FD3 notes *" draft accounts are ready",* adding to this theme FD10 is also quoted as saying that "*we have draft accounts ready for them [the auditors]."*

Interestingly, such themes are not shared by other finance directors who do not have the financial statements fully ready for the start of the audit.

> *"…..draft stats are done with the exception of the directors narrative bits, numbers are OK due to our detailed management accounts"* (FD4).

"Having a draft set of accounts ready for the auditors is an area which is a problem for us and has been for a number of years. The previous auditors used to prepare our accounts and our big 4 auditors in particular have a strict interpretation of what they can and cannot do here, and that change within the first couple of years was quite difficult for us and we continued to get the old auditors to prepare the accounts. It was impossible for them to get them ready for the start of the audit last year we changed it and got someone internally to type the accounts so they were ready sooner by week 2 of the audit, but not for the first week or day of the audit. From a client point of view where it is possible for a firm of auditors to do that it is very helpful" (FD7).

"……we have version one of the accounts ready for them but there tends to be different versions throughout [the audit], when they start we are in a pretty good place and make sure the auditors have enough to get them started. Worst case is if there is no draft they have a good set of working papers in advance and we certainly don't want them sitting around doing nothing" (FD9).

Although there appears to be different perceived levels of preparedness of the financial statements between clients, it is noted that clients do have some difficulty in having the fully completed set of financial statements ready for the start of the audit. As FD4 suggests, the narrative bits are not complete, that could indicate a lack of support from a department responsible for completing those elements of the financial statements. In delaying this element, although potentially not seen as an important part of the audit, it does add to the time pressures on the auditors as they have to ensure that everything disclosed (not purely the primary financial disclosures) is consistent with their work undertaken and their understanding of the business and the reporting period just ended.

The matter raised by the finance director (FD7) is an interesting point, it would appear that although there is a finance team in place, there does not appear to be the necessary skill levels in preparing their own financial statements within that organisation. The additional admission that their current big 4 auditors will not prepare the financial statements appears to contrast with their previous auditor that did prepare the financial statements. As was noted in the section above (auditor analysis), it is not uncommon for auditors to prepare and audit the financial statements of an organisation. However, if the large auditing companies refuse to do this task, it raises the issue of consistency between auditing firms and it should be normal practice that financial statements cannot be prepared by the firm auditing them.

In terms of the financial statements being ready, FD9 appears to be constantly revisiting the initial draft financial statements throughout the audit. As auditors have mentioned above, if the financial figures are not fixed then there is little point in starting the audit. One auditor did indicate that they would audit the first draft of the financial statements and then any amendments to those as a separate exercise at the final stages of the audit. As draft financial statements are amended a ‘moving balance’ is almost impossible to audit, auditors compute tests based on a sample of a population, if the auditors were not as strict as that auditor who will only audit changes at the end the result could be revising and documenting tests on a continual basis. If such an approach was adopted the effect would be to impact on not only the constant revisions to audit test recording but also adding to those pressures faced by auditors who should be focussing on more judgemental areas.

In order to prepare for their audit, it was noted in the previous section that clients receive a prepared ‘wish list’ (deliverables) outlining certain types of information required at the start of the audit, draft financial statements being the first item on this list. It was acknowledged by the finance directors that they receive some form of deliverables listing, either on a portal which they have access to or in some other format (usually an excel spreadsheet).

> *“They [the auditors] have an electronic platform with things that they have asked for and my team work their way through the things we have been asked to provide onto that portal in advance. There is a degree of tailoring of this listing that has evolved over the time of 3 years and this has developed over that time. Where it falls down though is where things have changed during the year and that is where you do not necessarily get to the requests that you need to prepare as there may be part of the business that has changed or you have a new contract, it evolves over the year”* (FD7).

> *“We get a full deliverables list on Excel and a lot of it is tailored as the auditors have gotten to know us over the years and have excluded things that are not applicable to us. We assign staff members to each area of the deliverables and then they upload the information onto the auditors’ portal and we can put all the information for them there before and during the audit so they can do their work either on site on remotely”* (FD8).

Providing an effective way, the clients can upload documentation via a portal which outlines what documents are required and can be monitored by both the clients and the auditors does initially appear to be a positive advancement. It was noted in the previous section that these portals are only available to the auditing firms that have the resources to invest, in terms of both financial investment and time investment in terms of training both audit and client staff. Where there could potentially be a failing is that although the documents could be loaded by a client in advance of the audit commencing, if the auditor does not monitor the quality of these documents in a timely manner (possibly due to time pressures on other audit clients as per Chapter 2) the client is not aware until the first day of the audit, thus putting additional pressure on them. In addition to this, the auditor or the client are not receiving a return on the investment of the portal as they are essentially starting once more from the beginning, this could have an adverse effect on the relationship between the client and auditor, in particular when it comes to taking the responsibility for monitoring any overruns.

Common across all finance directors was the acknowledgement that the auditors are attempting to help them by providing a deliverables list of information required on day of their audit. The interesting points are those within the quotes above in relation to tailoring, it was noted in the earlier section that the auditors 'tailor' to some extent these deliverables listings and this supports the comments of the auditors made earlier. If the auditors tailor these lists over time, based on mandatory rotation of auditors every five years (as discussed earlier) by the time the auditor has familiarised themselves with the client and its business this knowledge is lost as they must rotate off this client and this important auditor knowledge is lost. In doing so the client then has to invest time with the new auditors educating them on their systems and processes, although this is 'keeping them on their toes' as new auditors investigate new clients' systems in more detail in the early years of the relationship. Potentially not a bad approach to avoid the familiarity threat, but perhaps the auditors focus more on understanding the systems than the key 'risk' areas that only knowledge and experience of a client may yield.

Reflecting on their ability to be prepared for audit, the finance directors recognise that there are some areas which they themselves (along with their teams) could improve upon.

> *"Thinking about the past its waiting for figures to go in the accounts, accruals or SWAPS but that is very rare……… Once this [not having all the information available for auditors] has caused problems with the auditors as they have staff booked, but as we have several group company's they could start on one company whilst we wait information that is outstanding from others"* (FD2).

Rather than taking into consideration the timescales the auditors have to work through, this finance director acknowledges that audit staff bookings is an issue (as per Chapter 2 staff allocation and budgeting pressures), staff and rescheduling is potentially an issue whilst appearing to have a disregard for any pressures this may have on them. It is apparent some of the group companies are available, however it could be argued that those easier companies would be the first to complete and those more complex companies/transactions would be available towards the end of the allocated audit time. In leaving such complex items to the end of the audit the pressures could increase as these would be deemed to require more in-depth levels of inquiry and supporting documentation required. As noted in Chapter 2, where time becomes short and pressured auditors could prematurely sign off the work in such areas in order to meet their budgeted recovery targets, and as a result there is the possibility an inappropriate audit opinion was signed.

In support of these comments FD6 is noted as stating:

> *Sometimes guidance comes out late so we are still adjusting the day before the accounts are signed. Audit are time pressured too but they understand"* (FD6).

Importantly, the point raised here, is that with the previous issue (raised by FD2) whereby the company could be better prepared by having the whole group ready for audit, FD6 has an issue that is outside of their control in relation to late technical guidance.

Technical guidance is a recurring theme, not always highlighted in the same way as FD6 raised the issue above, the finance director FD10 raised a similar issue:

> *"……providing the disclosures or the more technical accounting treatments of transactions I think it would be those types of things [that we can be better prepared with], mainly because we don't know what the auditors are wanting, we are not as up to date as the auditors so we could do with knowing and doing more on that basis"* (FD10).

With an apparent dependency on the auditors to assist in preparing financial statements with full current technical support on disclosures within the financial statements (as alluded to by FD10 above), these views could be seen to be a justification as to why not all clients have their financial statements fully prepared on the first day of the audit. Additionally, the earlier comments whereby a client would prefer the auditors to prepare their financial statements for them, appear to be supported with these points raised here.

Preparation for the auditors is not always high on the agenda for finance directors, however depending upon the clients and the types of organisations they are in, their attitudes towards prioritising their audits differ.

> *"Day to day job will always come first and audit second"* (FD2).
>
> *"We are not always deeming them to be a priority as perhaps we should"* (FD3).
>
> *"……...things that don't get operationally managed are the disclosure style notes, some of those elements are not part of the day to day functions of finance so getting the relevant departments to deliver for the audit can be quite tricky and time consuming, if it is outside of our control we have problems with that as it is not part of those departments day to day tasks and time consuming for us to chase them up"* (FD4).
>
> *"We would prioritise ermmm…… make sure we deliver but take into consideration that there are day to day operations that must be done"* (FD5).

Whilst speaking with the finance directors was undoubtedly important, this reinforces those similar comments and issues raised by the auditors. Running their businesses is the main function of any finance director's employment and must always come first and understanding this should be incorporated into the auditors planning and work around this where possible. Those comments from FD3 though do indeed recognise that there is an issue with recognising that the audit is actually a key element of their annual role and whilst other FDs are stating they prioritise their business it could be argued that this 'may' be used as an acceptable excuse to vindicate clients and their staff when any overrun charges are incurred.

In contrast, whilst it was felt that audit is not a priority, this was not always the case.

> *"fortunately, the financial year-end coincides with it being a quiet time for us so it sits where we can make it a priority so it doesn't really impact on the day to day activities of staff"* (FD1).

> *"Fundamentally we are ready for the audit, by virtue of the day to day operations we are ready for audit"* (FD4).

> *"We never put it on the back burner it helps no one, we want them in and out as we don't want them here any longer than need be. It's about being prepared and don't wind the auditor up, I would rather be far more prepared than not"* (FD5).

> *"We are starting to look at our audit timetable approx. 3 months before the year end and we have to submit 2 months later and preparing for audit is built into our normal timetable"* (FD6).

> *" It's about timing the audit right to fit it in between all those other commitments"* (FD8).

> *"………100%, we want the audit to go quickly smoothly and delivered on time and we pride ourselves on having a clean audit. We are a professional team and we like to do whatever we can to prioritise the audit"* (FD9).

Worthy of note is the fact that all of these are positive statements regarding preparing for audit and essentially putting their day to day activities aside. The earlier comments from those finance directors who needed to run their organisation appear to contradict these comments from finance directors who also have organisations to run (of varying sizes). It is interesting that preparing for the audit can be done whilst running an organisation provided plans are in place. FD1 notes it is a quiet time for them, suggesting that their organisation may be seasonal and thus timing the audit to fall into this quiet time where they can prioritise work to prepare for and assist the auditors, this ‘timing’ is echoed by FD8.

Although on a tight external reporting schedule, FD6 is recognising that in order to fulfil their obligations to external parties in a timely manner, they need to plan and prepare for their audit well in advance of the reporting period end. They have identified the need to plan for this some three months prior to the reporting period end suggesting that this is not a small organisation and a significant amount of planning is involved. With such a high level of ‘buy in’ to the audit process this in some way contradicts those earlier comments from the finance directors neglecting audit in favour of running their businesses (although it is noted that there is no mention of a time pressured reporting period end).

Another interesting point that FD9 and FD5 raise is in relation to pride and speed of audit. Taking pride in receiving a clean audit (where the auditors have not discovered any material/significant reporting matters) is a target that these clients set for themselves and feel motivated in achieving that goal. The added benefit is that by having prepared sufficiently the audit will go smoothly and quickly and has been mentioned on several occasions in the sections above, the auditors have ‘got in and got out’ as quickly as possible thus minimising disruption to the clients during their fieldwork.

Reflecting on their levels of preparedness the finance directors recognise that this is rarely (if at all) communicated to a wider/external audience and there are no performance measures in which to benchmark themselves. It could be argued that organisations benchmark themselves against their competitors in terms of for example turnover, profitability, market share etc, public sector bodies are benchmarked against other public-sector bodies however an integral part of the whole reporting process – the audit is not reported. Within the audit opinion or elsewhere in the financial statements such disclosures could highlight how well an organisation has performed and this could potentially be valuable information for interested parties. One of the finance directors made the following interesting point:

> *“definitely [including in the financial statements audit opinion a disclosure on the preparedness of clients], well it would because [our organisation] takes a great deal of pride in having a clean audit report when it is presented to the board and the audit committee as [we – the directors and the finance team] are accountable to them. And also, a clean audit report does not currently reflect on the senior management team as it only shows essentially a true and fair view of the accounts so it would be impossible to tell one well prepared company from an ill prepared company”* (FD1).

This positive comment was also shared by FD2 who states:

> *“Yes [including the level of preparedness for audit being included in the audit opinion] most definitely so, our accounts are used by banks, investors, shareholders that would alert a bad process internally and wouldn’t be*

welcomed by anyone in my team and would give a bad impression of the company so it would undoubtedly change (FD2).

FD2 raises the issue of ‘change’, they are alluding to the fact that if the finance team were aware that their efficiency and preparedness was being reported externally, not only would that reflect on them (the team) within their current organisation in terms of individual annual appraisals (albeit the audit opinion is reporting on the finance team as a whole and not an individual), but also can be used for career development and enhancement within current/potential organisations.

For those organisations that are not as well prepared as they perhaps could be, disclosing their preparedness could be motivational, as FD3 demonstrates:

> *“I think it would be a good idea [disclosure within the audit opinion on the level of preparedness], however as a member of the finance team we may not like it but from an external user viewpoint it is good. And this could indicate underlying issues and the importance of the audit report, it will also get the team to see how important the audit was and in particular for listed companies and why it happens. Even getting things from other departments and focussing those departments minds on the importance of the audit”* (FD3).

The final part of this quote is interesting because it was mentioned previously that a complete set of financial statements are not always available (rarely) on the first day of the audit. It was noted earlier that some of this is due to the finance team being delayed due to non-finance supplying the information to them, with anything adverse being reported to a wider external audience this revised audit opinion or other disclosure could act as a motivator to those departments who could then be held accountable for delaying the auditors and subsequent organisations adverse financial statements audit opinion.

> *"………[including levels of preparedness in the audit opinion]….. as shareholders may want to know as its good comparison of company to company and if the company got a clean audit report by the skin of its teeth* (FD5)*.*

Not all finance directors are as enthusiastic, although noted that they were not averse regarding having their team's levels of preparedness reported to externally to a wider audience.

> *"From the outside, it is not evident how well the management team were, however I think some disclosure would be very useful but the wording would need to be carefully selected but ensuring you are monitored on only those things that are within our control"* (FD6)*.*

> *"I think yes [having levels of preparedness disclosed in the audit opinion], as a finance team if you were not already prioritising it [audit] you may prioritise it. However, you would need to define what 'how well prepared' was to avoid conflict between auditor and clients as in 'did we supply that document and was it any good' and it could be adversarial between the client and the auditor to agree all that"* (FD7).

> *"I think they possibly would [having levels of preparedness disclosed in the audit opinion], yes if it is overtly mentioned, having just been to a meeting with a company we are amalgamating with the readiness for the audit was discussed there……..Internal audit give us [in their annual internal audit*

report] a green, amber, red and it is something that we like to present to our exec team to show that we have a team in place and is doing the necessary work in advance. It would be a stick to make it work like that [in relation to having staff prepare for external audit knowing that their performance would feature in an external report]……… Some people will work to excel as they will not fall foul of getting a negative opinion, others will use it to drive them forward to be prepared. It depends on the personalities involved" (FD8).

"I am not sure [if having levels of preparedness disclosed in the audit opinion], but initially it is a good idea, for me we get the management letter and that feeds back to the board and for that that is the place for that to be, for me the statement [audit opinion] should be about the accounts and if they are true and fair could be confusing if we added anything into it" (FD9).

"It potentially could [having levels of preparedness disclosed in the audit opinion], but depends on the relationship you have with your auditors at the year-end I mean letting people know you were not prepared is not ideal is it" (FD10).

Reflecting on these comments above, it is noted that each finance director does propose that something could be made public to external parties via a disclosure in their annual financial statements. Such disclosure could reflect on the management teams, in times where less positive financial results have occurred which could be outside of management control, positive commentary within the audit opinion could in some way negate such opposing information.

Concerns were raised in regard to the exact wording of any disclosures, however it should be noted that although the audit opinion does feature some standard and mandatory disclosures there is scope for auditors to insert their own wording to emphasise or provide more detail into any matters raised in an audit opinion. Indeed, all audit opinions are discussed with clients prior to signing as part of the audit process, as in the event of the auditors qualifying their audit opinion (providing an adverse statement) the directors must have the opportunity to disclose a response.

The traffic light system as noted by FD8 is reported by their internal auditors, it is noted that not all organisations require an internal audit, however this comment supports similar comments made by the auditors who may consider such a disclosure within annual financial statements audit opinions.

Motivation is a theme that appears throughout the finance director's reflections, as noted by FD9, they appear to seek recognition from the executive board for their performance and achievements, at present this is only generally recognised when a clean audit opinion is received. With an additional disclosure within the financial statements a formal recognition as to the levels of preparedness a team and the effort that has required will be evident. As noted earlier by FD5, a benchmark could be if a competitor received a clean audit opinion by the 'skin of its teeth', at present this is not evident.

Management are not always keen to share anything negative, as FD9 notes, a management letter (the internal report from the auditors to the management on any findings, weaknesses, delays and fee / time overruns) is where such comments should be made. Although it could be argued that this point is somewhat valid, as alluded to earlier, if there were any negative comments and these were being communicated externally, this could act as a motivating tool in order for management to improve in the attempt to ensure such failings no longer occurred as improvements were implemented.

Disclosing such failings, or as FD10 *notes "letting people know you were not prepared, is not ideal*" is a contentious point, as an argument for including such could be that a qualified audit opinion (an adverse, un-clean/modified audit opinion) 'is not ideal'. In addition, a fall in turnover or profits may also not be considered to be ideal, after all, the financial statements' main aim is to provide a true and fair view and a reflection of an organisation's activities over the past reporting period.

As well as including a modified audit opinion the value of such additional disclosures again, once again a varying number of concerns were shared as the impact on the financial statements could be called into question.

> *"It would however give value to an investor as it gives an insight into the strength of the management team, figures don't tell processes or strength of management or organisation of management so it would definitely add value, third parties would want it as it gives them more knowledge, however I think a lot of management would not want it"* (FD2).

A conflict exists between the management and the investors here, it would appear that the management team would prefer to minimise the risk of anything negative being provided to their investors as it could have an adverse impact on their position. Although stating that such inclusion could inform the investor as to the strength of the management team, it could be assumed that a strong management team would want the investors to be informed and weaker team not.

Interesting how FD6 supports the inclusion as they state that:

> "*Yes [users of financial statements would take additional value from having additional disclosures regarding the levels of preparedness for audit within the audit opinion] very much so for investors to see how the management team are performing"* (FD6)*.*

In supporting the modification to an audit opinion this finance director alludes to the fact that although the financial statements report to a user (predominantly an investor or provider of finance) the results for a period. If the financial statements report for a commercial profit-making organisation a positive profitability or other financial increase, or a not for profit public sector organisation reports a break even use of resources position, management are deemed to have performed well. However, with current accounting practices the financial statements show a financial result, which may not be reflective of the strength of the finance team (as previously mentioned), finance director FD4 calls into question the actual disclosers (a concern raised above) and also that of smaller entities.

> *"Depends on the exact disclosure, maybe not (including in the audit opinion a modification on the preparedness for audit an organisation was) for a close company but possibly for large companies and public-sector organisations. Additional information on managements level of cooperation with auditors within the opinion could be helpful"* (FD4)*.*

The latter part of FD4's quote refers more towards owner managed businesses whereby the actual audit opinion (as raised by one of the audit partners in the section above) does not realistically go outside of the organisation as the investors are the directors and thus running the business, as a result an audit may not be considered to be adding any value to those types of businesses (unless relying on other external non-equity finance).

The measurement of how well an organisation is prepared is a contentious issue, it could be extremely subjective and it potentially could be argued as being in favour of the auditor's judgement and subsequent assessment.

> *"If there was a clear matrix set out with exactly what was required and wording for an audit opinion was essentially mandated and pre-determined it would gee up clients to be more-ready. However, we need to be careful as if the auditor did not get on with the client there could be an incentive rightly or wrongly to make reference in the opinion to their level of preparedness. The deliverables could be standard and if all delivered regardless as to accuracy you know what wording is in the opinion and if not, this is the wording you get. However, it needs to be clear that getting a load of garbage is not going to be acceptable if just delivering to tick the box and get the 'clean' opinion, you would get the adverse opinion"* (F5).

To overcome the ambiguity as to the level of preparedness it needs to be transparent as to what is required, in what format and when it is required. The client deliverables listing is an attempt to address this, however there would need to be increased discussion and communication between the clients and their auditors to agree on these requirements. Indeed, this is not the first occasion increased communication and agreement of requirements on the first day of the audit has been raised. Chapter 2 noted that time pressures on the auditors did arise due to the quality and timeliness of information being provided to the audit team, on occasion this resulted in working papers being prematurely signed off, the acknowledgement here by the finance director indicates that the concerns raised in Chapter 2 appear valid.

On a similar theme and in support of these comments FD10 notes:

> *"It could be subjective [the levels of preparedness] depending on the audit partner as to whether they were prepared or not. i.e. if there is not a full set of accounts with full disclosures then are you not ready. It would need to be agreed up front"* (FD10).

Audit fees have been a theme throughout the audit process, finance directors have alluded to the audit fee being set purposely low in the attempt to sell additional higher priced services from the auditing firm (low balling). Additionally, in Chapter 2 such low-balling techniques also added additional pressures on the auditors as they are internally assessed on achieving their targeted recovery rates which has an impact on their performance review, progression and financial rewards, in doing so a time pressured audit could suffer from premature sign off and subsequent adverse audit quality. With additional disclosures and measurable preparedness levels the finance directors felt this could have fee implications.

> *"Anything being reported may add to the fee as auditors would have to assess more information and report"* (FD5).
>
> *"……..an efficient audit…. That [assessing the levels of client preparedness] should be built into the audit fee"* (FD7).

Interestingly, it was mentioned previously that the auditors can track via their online portals when documents were uploaded and as a result there would be minimal time incurred by undertaking this exercise. For audit firms that do not have this automated software they do all use computerised individual audit staff time recording and this should be discussed at an audit closure meeting where any delays were incurred (this is common practice). Highlighting their concerns, the same finance director continued……….

> *"Even having the overrun costs identified, explained and evidenced, then that disclosure due to a lack of preparedness could be an option. But it would have to be agreed the overrun was the clients fault"* (FD5).

> *"Overrun costs disclosure in the costs note for additional fees being charged could be OK but you would get into all kind of explanations as to why and could lead to possible confusion in the accounts. It would need some thought as to the disclosures"* (FD9).

Indicating that although they had an issue with an adverse opinion as well as concerns over how to gauge the levels of preparedness, these finance directors are not averse to including additional costs for overruns in the audit opinion. This is an interesting revelation as this supports this as being a potential option which, as in the previous section, some of the auditors were also in favour of disclosing.

Indicating how such levels of preparedness are currently reported the auditors have a process where they provide a letter of weakness/management letter/ISA260 report to their clients, this reports objective is to report all audit findings as well as a review of the audit process. Included in such a report is a specific reference to how well prepared the client and their staff were before and during the audit.

> *"…it [level of preparedness] could be reported but perhaps not in the audit opinion but it is in the ISA 260 report but that is not seen by the outside world"* (FD4).

> *"There is the ISA 260 where audit make comment on the preparedness of the client and quality of working papers etc, however that is not in the public domain"* (FD6).

> *"With the readiness for the audit was discussed via the ISA 260 report and it is discussed in our audit clearing meetings"* (FD8).

> *"Recommendations which includes this [level of preparedness] is in the management letter in feedback and notes if we had not done a good job"* (FD9).

> FD9 continues:

> *"……we get the management letter and that feeds back to the board and for that that is the place for that to be, for me the statement should be about the accounts and if they are true and fair it could be confusing if we added anything into it, I am happy with the management letter which in our section is available [level of preparedness] elsewhere and that is enough for me"* (FD9).

Acknowledging that their performance is reported to management the finance directors appear to be satisfied that this (not in all cases, as alluded to previously in this section) is where the levels of preparedness should be reported. Interestingly, this document is an internal document and when discussed with management it is usually the finance director and members of his team that attend / have sight of the report and it would be rare that the report was seen outside of this group. For larger clients who have the benefit of an audit committee, again the finance director generally responds to any matters within the management letter (ISA260 report) direct to the audit committee members, it is rare that anyone outside of these groups would have access to or sight of the management letter.

Recognising that preparedness is always going to be an issue there are areas in which generally clients could improve on their levels of preparedness for auditors, or indeed clients feel that their auditors could improve by assisting them to prepare for audit, each finance director agrees that clients need to improve.

> *"The problem we have each year is that a new team of auditors, many of which don't understand our business sector, therefore a lot of time is spent explaining how our processes work and it takes a lot of time explaining internal processes and how certain things are accounted for"* (FD1).
>
> *"it feels like a bit of a waste at times as new auditors don't really know what they are doing whereas an experienced auditor knows what they want and the additional time could add value"* (FD3).

Indeed, it is recognised that the auditors will change, as with any organisation staff turnover is usually outside of the control of any organisation. However, the frustrations are felt by clients where there appears to be no initial planning meeting and the junior staff that are involved in the detailed substantive testing element of the audit (basically finding invoices and other similar documents) are new to them. Experienced auditors who know the client from previous visits will know how the systems and processes operate, they will know how and where to look for information, who to ask and when convenient use of staff time is available for questioning. Alternatively, an auditor who is experienced in a certain sector is allocated to a sector in which they have no experience, as an example the processes any systems of a Hospital are significantly different to that of a commercial manufacturing company.

This frustration is shared by the more senior members of the audit team as it is appreciated that clients feel as though each year they are continually training audit junior staff.

Although frustrating, it could be argued that inexperience increases the risk that a balance or a process has not been tested adequately, alternatively inadequate explanations have been obtained from key client staff. The consequences of such actions could result in poor quality audit work, time pressure on the auditor as additional explanations/other documents are required where the review process has revealed insufficient audit work as being completed / documented and ultimately (due to time / budget pressures) and, as mentioned in Chapter 2, premature audit sign off.

The better prepared clients can be, the smoother the audit process should be, as a result there could be minimal disruption on client staff.

> *"[the auditors should be asking] key questions about what's not there or test their understanding of what is not there that saves time for everybody including the audit and that focuses the attention in getting through the audit quicker"* (FD2).

> "……. *more time can always help*" (FD4).

> "*If I am better prepared then, the less stressful it is. As they are asking for loads and loads of information up front do they really need to come. They can audit in 5 minutes as they have everything loaded on their portals, looking at the operations of an organisation is an added benefit when they do come"* (FD10).

In recognition of preparing for the auditors, the finance directors with the comments above understand that the auditors will have a smoother audit if they have information readily available. Although as more time is always going to help with preparing for the auditors that is not always going to be seen as a positive step. Alluded to is that the auditors can effectively audit from a room as everything is ready for them and this reduces the pressures on not only clients but also the auditors. Interestingly, FD2 would actually prefer the auditors to be questioning what they perceive to be missing (if anything) and the intrusion is not an issue.

Being extremely well prepared is not always considered to be beneficial to the audit, as FD5 notes:

> *"From an auditor's point of view, you are always looking for something to report, at the end of the day you need something to report. If we were 1 million percent prepared and the auditors found nothing I am not sure they would be comfortable with that. From an audit side, you always want a client well prepared, therefore have a clean report with a clear management report, others less well prepared have a larger number of reporting matters. Auditors don't want us to be too well prepared as they may have nothing to report. But yes, more time will obviously ease the pressure on auditors"* (FD5).

This could be perceived to be a somewhat naïve view on the auditor's role and responsibility adding fuel to the argument that an expectations gap exists between auditors and their clients, and the view that the auditor is a bloodhound. In fact, it is apparent from the previous section that auditors would prefer less pressure and a clean audit than a time pressured audit with errors that require significant investigation utilising staff time and adding to overall audit pressures.

A two-way interaction with auditors was highlighted as an area where the auditors felt they could invest time with improving with their clients, indeed the benefits of such interactions throughout the year have been identified as being beneficial to clients throughout the audit process.

> *"we try and be open and transparent with our auditors throughout the year so we can get issues resolved prior to the year end, we like a good working relationship that is easy to manage we can't be a partnership as they have to be independent however a working relationship based on a sound footing is better to manage and is always good and audit have to, audit won't let us get away with anything as they have rules etc but working with us resolves late issues etc"* (FD6).

> "*We do audit planning with our auditors, they do a planning visit and do some of the pre-testing analytical review to get a feel as to the material and risk areas and that helps as we get some information in advance and therefore they only have to validate the last few months of the year. Anything that could help clients and auditors be better prepared the uploading of information staggered over the year will help reduce pressures and avoid deadlines that could be tight*" (FD8).

> "*if the auditors get good information up front, its clean and clear and they can work through it without any confusion without a doubt the audit would be better, we do that to avoid duplication and escalation of audit questions. Here we spoon feed the auditors which is different to the day when I was in audit when they had to work harder to get to the end"* (FD9).

It appears to be evident that with such statements the client companies feel that continuous communication throughout a reporting period, whereby the auditors are kept informed of key transactions or potential issues they can be prepared at the reporting period end. Potentially the issues may have been resolved within continuous dialogue between the client and the auditor, alternatively the auditors may have asked for certain information on such areas to enable the audit to run smoother, in doing so the auditor is better prepared (as is the client) and the time pressures as a result should be reduced.

Extending on the theme that time is a key contributory factor in the overall quality of an audit as mentioned in the section above, this is not always something that either the auditor or the client can control. Reporting to parent companies or to some other regulatory deadline (i.e. the NHS) may have a direct impact on the preparedness for audit of clients, in addition the amount of time an auditor has to complete the audit may also be adversely affected.

> *"If there was no audit to prepare for we would still be busy so ultimately, we are never prepared, if the board understood the importance of the audit we could get more time as the audit is seen as an afterthought in most cases"* (FD3).

"……..we have a fixed timetable due to reporting deadlines including publication of glossy accounts and the AGM, audit committee and clearance meeting etc. It works but not much slack is in there, if the audit slipped a few weeks we would have problems with board meetings etc that are essentially fixed" (FD7).

"As said the timetables are outside of our control" (FD4).

Unsurprisingly there appears to be a potential lack of acknowledgement from the boards that the audit is an important feature in the annual mandatory requirements of their organisations. FD3 alludes to the fact that their board tends to focus on the running of their 'busy' organisation, whereas FD7 notes that they have a board meeting scheduled and they have a large number of tasks that must be completed to meet that 'fixed board meeting date. In both cases the boards appear to be slightly inflexible and ignorant as to the tasks the finance team is required to undertake to meet their statutory obligations. FD4 has no control over their reporting requirements and as a result this may affect the level of preparedness in readiness for their auditors as deadlines may be tight.

Acknowledging that having sufficient time to prepare for the audit is an issue, there are certain aspects of this which result in areas not being ready for audit. An issue that has been raised on various occasions has been in relation to the financial statements.

"In our industry, not really we could do with more time in particular to review the draft accounts and have fuller disclosures ready. It's the end of the audit that suffers in terms of the timescales as we rely on auditor's technical people reviewing notes etc. Annual report is pulled together by corporate and is generally on time getting other information ready" (FD5).

> *“Last year was tough with the accounting for FRS102 and implementing that, so pressure is on when there is a change in accounting standards or regulatory changes”* (FD1).

It was previously noted that the financial statements and annual reports are rarely fully compiled and reviewed ready for the audit fieldwork commencing. The statement from FD5 supports this as being an issue for them, not only would more time enable a full review of the financial statements to be completed (reviewed financial statements usually results in fewer audit matters being raised), but also any technical updates can be incorporated into the draft financial statements (per FD1) which could be complete as all departments (including those external to finance) should have provided all relevant information and disclosures.

As well as identifying that additional time would be beneficial, that was not always noted as being the case as FD5 continues:

> *“Giving more time may just mean people sit on things for longer they work on their parts last minute to meet any revised deadlines”* (FD5).

In support of such a statement, FD10 adds:

> *“There is never enough time as it is about timescales getting things to the Board and the AGM so even having more time would just mean we took longer getting there”* (FD10).

As shown by these two statements, it is acknowledged that people will work to a deadline, no matter when the deadline is people generally work towards meeting such timescales and plan and prioritise their work accordingly.

> *"We could always do with more time and more staff to do things better, the team work extremely hard around year-end to do things better. Areas where we could do better are where we have other deadlines and need other information from other sources"* (FD9).

Highlighting the time constraints being an issue, as has been noted in this section conflicting deadlines is an apparent issue for some clients, thus demonstrating that the day to day running of their organisations will always take priority over the financial statements audit. However, depending on the size, type and available resources may impact on the levels of preparedness irrespective of conflicting deadlines.

> *"There is enough time [to prepare for the auditors] as they come in 2 months later [after the reporting period end] which leaves us 1 month when we are less busy and so we make getting ready for the [1 week] audit a priority"* (FD1).

> *"It is extremely tight [preparing for the auditors] as we have to report within 2 months of the year-end, so no not really [we do not have sufficient time after the year-end to prepare for the auditors]"* (FD6).

These two cases have similar reporting periods although FD1 has their audit two months after the reporting period whereas FD6 reports their audited results by the end of month two. Notably though, FD1 alludes to a period after the year-end when they are 'less busy' suggesting there is an element of seasonality within this organisation, whereas FD6 does not appear to have a quiet period. In addition, there is no evidence as to the size and available resource in preparing for audit, however as raised earlier, having the 'buy in' of other departments in supplier information for the financial statements assists with timeliness and increased levels of preparedness. If indeed

FD1 has a business that is less busy for all departments, the result could be that all departments supply information in a timely manner to ensure full financial statements are prepared prior to audit. The opposite could be said for the business of FD6 who appears to have a similar time-frame post reporting period end, but due to the reporting deadline being 'extremely tight' it is suggested that all departments are busy all year round and may not allocate sufficient time in preparing for the audit.

As an organisation that meets the criteria for an audit, a client may be assumed to understand the requirements that the FRC (Financial Reporting Council) places on their auditors. In performance of their duties, doing certain aspects of the audit is sometimes misunderstood by clients and auditors could be deemed to be ignorant to the fact that clients are dubious as to what and why they ask for certain documents and explanations, even though the approach is required by the FRC. The approach is occasionally confusing to clients.

> *"No, and the auditors don't explain anything about this [the FRC professional sceptic approach] and don't look at what I would deem to be significant"* (FD1).

> *"Yes [I understand the FRC professional sceptic approach], but that is only because I have worked in audit before, and so understand the process"* (FD2).

> *"I understand it [the FRC professional sceptic approach] to a point but not the underlying reasons behind it"* (FD3).

"No I don't [understand the FRC professional sceptic approach], I understand why they do some tests and ask certain challenging questions" (FD10).

Interestingly, only the finance director who has worked in audit understood what the FRC require of their auditors. FD1 appears to have a different understanding as to what is deemed to be significant (assuming that they allude to an account balance) and FD3 is unsure why auditors take a sceptical approach. FD10 notes that although they are unaware as to the FRC requirements in regard to professional scepticism they expect certain tests to be completed as well as the auditors to be challenging in order for them to ascertain if the financial statements are true and fairly presented.

"…they [the auditors] are there to give an objective view which is done via an objective test. The auditors can be a little too intrusive. Auditors need to be objective and our staff need to appreciate that, we train our staff that auditors are not being disbelieving, they are merely doing what is required. The FRC are right to develop a level of scepticism but they need to ensure that is defined in the right way" (FD4)*.*

Internally FD4 appears to be educating their staff to be open and transparent with the auditors, this is an extremely rare occurrence in the audit of financial statements as it is common for client staff to feel as though they are having their work 'checked' which is not the purpose of an audit. It could be considered to be admirable that this finance director encourages their staff to assist audit and they support the FRC in the sceptical approach auditors are required to adopt, although notably what the 'right way' may be, could be subject to interpretation.

"……. I don't expect the auditors to swallow everything I give them, but I don't expect auditors to come to me who have not got a clue about your business, not the juniors as everyone has to learn, more the manager level and above. Some are sceptical not always for the right reasons not because they are being sceptical but more so because they just don't have a clue" (FD5).

In a similar vein to FD4, this finance director recognises the sceptical approach that the auditors need to adopt. However, interestingly they also reiterate a similar point that was raised in this section in relation to the lack of auditor sector knowledge. This theme appears to be common throughout finance director's comments, although it is evident that this finance director directs this lack of knowledge at more senior members of the audit team, whereas previously junior members featured as being inadequately briefed regarding the client and their business sector. Surprisingly this finance director's experience of the sceptical approach has been interpreted as 'not having a clue'. In the absence of an interview with the senior auditors involved, it could be argued that pressures arising from other client audits (as per Chapter 2) may have resulted in these senior auditors being less prepared than would deem to be ideal and as a result less informed 'challenging' questions/tests may be asked or preformed. Once again, with auditors being pressured with other client work and thus compounding onto and impacting upon other client audits the quality of the audit may be called into question.

"Our audit partner at the clearance meeting [meeting where auditors explain to management the audit findings and audit progress at the end of the allotted audit fieldwork time] was talking that the auditors should be challenging more, we want to be working more together but be challenging

> *more without being confrontational, they have to be challenging in the right way and not aggressive then it won't result in a good relationship and look for new auditors I do worry about the current challenging approach"* (FD9).

When confrontation arises as a result of challenging questions any relationship may be adversely affected. FD9 raises an interesting point, if the auditors are too challenging and this sours the relationship, they may elect to find an alternative audit supplier. It needs to be highlighted, that the auditors, although independent and adhering to strict independence rules and regulations, are the providers of a remunerated service to their clients, losing any client will result in a financial penalty (loss of audit fee income) to any auditing organisation.

Adopting a challenging and sceptical approach should be at the forefront of the audit process. In adopting such an approach, clients should expect any explanation or document provided to auditor to be questioned, not in a disbelieving way or to doubt a client, but to provide the auditor that the conclusions they draw are sufficient to enable them to form the correct audit opinion on the financial statements. As FD5 previously stated:

> *"........ I don't expect the auditors to swallow everything I give them"* (FD5)

> *"Whatever your audit clients tell you assume it is a lie, and then be prepared to be proved wrong when supporting documents have been provided"* (FD6).

> *"………its guilty until proved innocent isn't it, may not be the right way to put it but audit have to take a prudent approach to make sure the figures are true and fair"* (FD8).

These two statements from FD6 and FD8 are interesting as the sceptical approach is deemed to insinuate that the auditors assume that they have been provided with inaccurate information. This view is in contrast to the view of FD4 who educates their staff from the feeling that they are being ‘checked’ by the auditors to the view that the auditors are verifying and clarifying.

If the auditors are assumed by their clients in regard to their evidence and explanations being, as FD6 states “a lie”, in an attempt to alleviate such views, the auditors do provide the deliverables lists as detailed previously. However, the value of these listings is not always seen as adding any value where clients attempt to prepare for their audit.

> *“Even though they send this client request list beforehand what they don’t do is have a follow up before they turn up to say yes we have everything that we needed so when they turn up on day one”* (FD1).
>
> *“The list of deliverables I find is a standard list of deliverables and some of the deliverables are not really associated with your company so it’s not really tailored to your company so in terms of that can work against an auditor because those deliverables are not relevant for your company”* (FD2).
>
> In short, compiling a tailored deliverable listing that is specific to their client’s organisation and business sector is not always adhered to by auditors. Clients may follow the listing as it is assumed that the auditors have asked for the items in order to complete their audit tasks. Without following up on the listing prior to arriving on site to conduct the audit clients may not feel

supported, and as a result have little motivation in providing any requested documentation. However, as FD1 and FD2 continue:

"….. so when they [the auditors] turn up on day one we think we have sent or prepared everything that they have asked for they are then asking for information that had they included in their request we could have got that prepared ready for them before they started which does go back to us potentially having some input into the checklist during their planning stage" (FD1).

"……that [not having a tailored set of deliverables] can work against an auditor because those deliverables are not relevant for your company. So, deliverables have got to be back up for nominal ledger to your P&L and balance sheet and notes in the accounts – now if you don't understand that, an auditor is not going to understand it" (FD2).

As conveyed in these quotations, the requests from auditors may not always work in their favour in terms of attempting to make the audit run smoother and thus relieve them of any time pressures. Both finance directors place a certain degree of faith the auditors knowing what they will need and thus provide that in advance (at the auditor's request) for them. However, without any communication prior to audit the auditor is unaware if the clients have any issues with their requests, as FD2 notes, some of the information is not relevant to their company, and FD2 indicates that had they been able to discuss in detail the types of reports they actually produce, audit could have asked for these in advance and not during the audit, which inevitably could have saved them time.

Adding to this, FD2 alludes to auditors asking for what could be interpreted to be non-standard items which they appear to prepare but do not really understand what they are providing. As they note they may not understand it, as a result they may have difficulty in providing relevant explanations to audit. Once again, a potential time-consuming exercise that could adversely affect time that could be spent focussing audit work on material / judgemental / higher risk areas.

Building on these comments, FD7 adds:

> *"Some form of format pre-approval so that things we have not been asked for in advance can be prepared in a format that is understandable, maybe some pre-planned dates when things would be required for, so as a client we can prepare things on day one and then for day 3 or 5 etc but the audit team need to provide a schedule of work to help coordinate the planning on both sides"* (FD7).

As suggested here, clients recognise that auditors will not be able to look at everything they have asked for on the first day of the audit via their deliverables listing. An 'add on' to the deliverables listing that would be beneficial could be a schedule of audit work so that clients can essentially continue to work on preparing items during the audit in preparation for the scheduled audit area start date. One consideration that could be of benefit in adopting such an approach is that client staff (that auditors have noted availability is occasionally an issue) can ensure they are available.

Furthermore, a 'pre-approval' supports similar comments made by FD1 (following up), if the audit opinion were to report on preparedness, ensuring that clients have the opportunity to provide what is required, on time and in the format requested prior to audit would add support for any additional disclosures within the audit opinion / provide additional evidence to substantiate any additional overrun costs.

The role of the auditor being independent and adopting a sceptical approach was further reinforced by finance director FD3:

> *"As an auditor if they disclosed everything they were going to do and wanted, for some companies they could exploit that so the auditors need to ensure they hold something back in order to request / ask for something we are not ready for that keeps us on our toes, but next year we will have the documents / explanations ready for that new test or question"* (FD3).

In recognition that the auditors need to 'keep clients on their toes', the provision of a full detailed list of everything the auditor requires is not deemed appropriate. Indeed, it could be argued that given enough time between the reporting period end and the audit commencing, as well as having a detailed listing of audit requirements, could provide an opportunity for a less than honest organisation to prepare and disguise transactions. This could be in the attempt for such unscrupulous organisations to manipulate the financial statements and disclosures and mislead the auditors.

However, it is customary practice for auditors to update their audit procedures to include a level of 'unpredictability' (a test/question that may never have been performed / asked previously on an account balance or disclosure that may not be deemed significant by the audit client) into their testing each year to alleviate such concerns. Arguably, in relation to the points raised in regarding concerns over changes in junior audit staff constantly asking 'uninformed' questions, this 'naive' approach could in some way address this finance director's concerns as demonstrated by FD10's comments below.

> *"……I understand that they [the auditors] have to send juniors but industry knowledge would help. As long as the manager and partner have industry knowledge that's OK but every year we are telling juniors the same thing but that's fine I like passing on my knowledge but they have to learn somewhere, it is what it is"* (FD10).

As conveyed earlier and also in the previous section, modification to the audit opinion/fee disclosure were favoured to reflect the levels of preparedness for audit. Issues have been noted in delivering poor quality documents on time in order to 'meet' a desired level of preparedness. To avoid inferior quality evidence being provided to the auditors it is an important process to ensure a level of client review is in place to ensure management are aware of the documentation their junior staff members are providing to the auditors. Should poor quality documents be rejected by the auditors the result impacts on both client and auditors time, as per Chapter 2, time delays have an adverse effect on the pressures on auditors and subsequent quality of the audit as a whole.

The majority of the finance directors will look at the significant / judgemental areas and supporting documentation may be reviewed/prepared by them, more day to day documents i.e. supplier invoices will not be reviewed and delegated to junior staff members.

> *"……the only thing I expect the staff to give are back-up invoices or in our case property related information, leases to back up turnover or management agreements to back up management agreements income and that will be sourced direct from the staff but I will be comfortable that all that is available" (FD2).*

Where the more judgemental balances are concerned:

> *"……where there are any judgemental areas I would do that work myself rather than let anyone in the team do that"* (FD7).

> *"Provisions etc are done at higher levels and thus reviewed as well as write offs, impairments, there is the vehicle to review, information depends on what is needed"* (FD8).

The focus appears to be on the items which the finance directors perceive audit will focus on and potentially where any issues may arise and wish to be personally comfortable as to the rational for inclusion in the financial statements. This is not an unusual approach as it is the finance director who is usually regarded to be the most knowledgeable in respect of an organisations' financial position, in addition it is they who assume the ultimate responsibility for the preparation of the annual financial statements.

Notably, not all organisations have the 'luxury' of having information reviewed prior to receipt by audit, this may be as a result of tight reporting timescales/resources available.

> *"…they [the auditors] get what's there, we don't have time to review everything that they get"* (FD5).

> *"….there isn't time to allow for that independent review, auditors make comment on this but we just don't have the time or resource"* (FD6).

> "….we have the draft accounts and do provide information to senior members of the organisation but it is rare that we get comments, but at least we have tried" (FD10).

The final comment by FD10 is an interesting point and reinforces previous issues in relation to the senior management team 'buying into the audit process'. If the finance team are preparing information and providing it to senior management prior to passing to audit for review, it would be expected that some form of feedback would be received. The final comment "but at least we have tried" indicates the frustration this finance director feels as noted in the previous section by the auditors, why should audit review something senior management have not reviewed.

Providing information to auditors early can ease the pressure on not only the auditors during the reporting period end audit but also for clients where a tight reporting deadline needs to be adhered to. Communication throughout the period to discuss potential contentious / judgemental areas may help in having a smooth audit and also reduce the risk of any issues arising once such an area is audited.

> *"……we would like to think that anything contentious could be discussed with the auditors during the year and policies have been made available for the auditors" (FD9).*

As suggested here, optimising the auditors throughout the year for the benefit of the client in bringing to their attention and discussing the treatment of certain items that will impact on the financial statements early, could result in these essentially being audited (as the auditors have provided advice and guidance) prior to the period end.

Should clients be prepared for their audit, it is felt that not only should this be recognised in the audit report, but they should also be rewarded in some form by their auditors due to high levels of preparedness and assistance.

> *"Fee reduction would be very nice yes, they could do additional non-audit work for free or information benchmarking with similar clients to assist us"* (FD1).

> *"….an enhanced audit should feed through to some form of reduction in tax fee for instance you should get some form of credit for it or additional services"* (FD2).

> *"…..on the whole a fee reduction is always a good incentive"* (FD3).

> *"so incentives would be good for them [audit clients]"* (FD6).

> *"If you can put some more resource into getting ready for the audit then it would be good to see that you were getting something back for that effort"* (FD7).

> *"Fee reduction would be nice, I think the auditors' price on the fact we are well prepared, however this needs to be ensured that they are not over pricing but it would look good for us and have some benefits"* (FD9).

As suggested here, provided the auditors did not essentially over price (as FD9 notes) some form of incentive to be prepared would act as a motivator to prepare for audit, the auditors as a result could benefit from being able to increase the quality of their work in terms of documenting within their audit files and reduce the risk of (as per Chapter 2) premature sign off due to reduced time pressures and thus a thorough review could be conducted.

Preparedness levels are not seen by all clients as an issue, as previously noted and further suggested by FD8:

> *"…however, audit is the loss leader for the auditors to get in and sell other services such as tax and the audit is an easy way to get a foot in the door, fee reduction may be good for a small organisation but for a larger organisation fee reduction may not be significant"* (FD8).

The loss leader is a common perception of the audit, this finance director recognises that the level of incentive needs to be scalable to the organisation in question and thus an actual incentive. However, FD8 appears to address this issue:

> *"Additional work could be useful similar to an internal auditor, if they could do some of that work it may reduce internal audit fees. Most companies see audit as a necessary evil get in get out"* (FD8).

Where an incentive in terms of a reduction in fee may not be deemed appropriate, the benefit of additional services is seen to be more appealing and this supports the views of FD1 and FD2 above. Interestingly FD8 once again reiterates that the audit is a necessary evil, a comment that has been raised several times previously, which reinforces the potential adverse opinions and value of the audit and audit process. This focus on incentives for clients, be it a fee reduction or a cost to the auditor of providing additional services, questions whether the auditors tend to focus on the price of the audit or the quality of the audit provided.

Reputations are built on providing a quality product, as the finance directors recognise, however it is also notable that an auditing company is a commercial enterprise that exists to make a profit for the investors and provide continuous employment for its' employees.

> *"I think auditors want to make a profit as I don't think they would do an audit at a loss so I think that if they were in that situation the quality would go down unless the fee went up so I think fee over quality"* (FD2).

> *"I think it is quality [that is important to auditors] they have an incentive to maximise fees but as an auditor to do your job you must focus on delivering quality. That kind of mindset tends towards quality as opposed to price"* (FD3).

> *"They are focussed on a quality audit in our case. It does however feel very expensive from our side but we are a small client using a very large firm"* (FD7).

This focus by the auditors on providing a quality audit is seen as being important to their clients, not only in terms of reputation but it must also be borne in mind that auditors are heavily regulated and can be subject to quality inspections from their professional body and the FRC. The large auditing providers are renowned for their reputations as delivering products (including audit) to a high standard, however, as noted by FD7 above, this can attract a premium price having to be borne by their clients. Echoing this, FD6 notes that:

> *"The big boys (big 4 auditing firms] are there to make profit, if they lose reputation then they will go, so they have to maintain high quality or else they will go. The big boys want the business but they must maintain the*

> *quality I doubt during our tender there was much between them [the auditing firms invited to tender] in terms of price hence why we use a big 4 company only as they are top notch internationally recognised quality organisations. Big companies know that reputation is what keeps them in the market place"* (FD6).

Interestingly the focus on audit quality is recognised by all finance directors, however the issue of 'low balling' is raised once more when considering what an auditor may focus on in terms of fees or quality.

> *"I think once they have sold us the audit it is an opportunity to be in with an organisation and then provide the opportunity to provide the more lucrative sexier side of things such as VAT health checks and reclaims and contingent fees where we get a refund and they get a percentage"* (FD8).

Providing an insight into how this finance director views the auditors pricing techniques, they could be considered to appear to be somewhat cautious as to the intentions of the auditor. Possibly a risky strategy on behalf of the auditor anticipating that the client would consider purchasing services from them in order to offset the 'low' audit fee. Consideration as to the quality of their audit if purely based on the levels of fees charged would no doubt have been a consideration of the client during the tendering process.

A further consideration in light of the size of an auditing firm in respect of providing a quality audit is the amount of resources available to them to invest in maintaining that audit quality. As a result, there could be an argument that to maintain a profitable business a smaller auditing organisation could potentially focus more on price than ensuring the audit is of a high standard. As noted in the previous section, a small auditing practice stated that they felt that there was too much regulation and too much planning to complete and that the amounts of regulations and planning was indeed increasing. As such, this could be interpreted that the focus is on minimising the work in these areas, potentially impacting on the quality of the audit as the additional time and costs involved in completing these tasks cannot be passed on to their clients in terms of increased fees, in some way this is corroborated by the following comments from FD4:

> *"I do think there are a few lines that can be drawn, there is a minimum that audit will do, but different organisations draw lines at different points and that can cause a fee disparity. I think they focus on 80% of the fee being on quality and the rest on costs - get in get it done, they do focus on quality and the delivery of the audit is of a certain standard"* (FD4)*.*

Significantly, FD4 appears to insinuate that the auditors, although maintaining a certain level of quality, focus on their costs and wish to complete the audit as soon as they can to maximise their recovery rates. Reinforcing this comment FD1 somewhat appears to share this view:

> *"I do think that sometimes the team is not big enough as there are some days when they don't turn up at all or leave for the afternoon as they have to go off to do something else and you question if they put enough resource into it. There have been issues when audit staff have not turned up and the audit was done remotely some 3 weeks after it was scheduled to end and there was too much outstanding"* (FD1)*.*

Chapter 2 discussed the pressures auditors faced whilst completing audits and also moving between several clients whilst being committed to a client timetable. The quotation from FD4 demonstrates that auditors could be pressurised to 'balance' several clients at any point in time, not an ideal situation as there will inevitably be the constant need to refresh where one client was left and then picked up several days later. With the audit being completed remotely and a client potentially being prepared having delivered to an auditor prepared schedule, it would seem inappropriate not to report on this client's levels of preparedness favourably (unless the auditor moved between clients whilst waiting for this particular client to deliver information not available at the time of audit). In cases where auditors are balancing clients and constantly 'picking up and putting down' an audit, the quality of the audit could be called into question, in such audits the increased risk for premature signing off of the audit work and subsequent audit could be said to be inevitable.

4.1.4 Consolidated analysis of auditor and their client's preparedness for audit.

4.1.4.1 Introduction

Reflecting on the specific aims and objectives of this thesis (Chapter 1), the primary focus of this section describes both the theoretical and practical implications relating to how the varying levels of preparedness for a financial statements audit can affect the pressures faced by not only auditors and their clients, but also the overall quality of the audit and subsequent audit opinion. From the themes that have evolved from the interviews, these have been coded and these final themes (per Appendix 7) are discussed in the sections below.

Additionally, with the challenges faced by both auditors and their clients when planning and preparing for the start of the audit, the findings point to a significant difference in opinion on the perceived levels of preparedness. It is noted that in order to conduct the audit of the financial statements, the auditors must be provided with a complete set of financial statements when they arrive at their client's premises to conduct the audit of those statements. Auditors noted that it is exceptionally rare that a full set of financial statements would be ready for them when they arrive, this contradicts finance directors who stated that (in their opinion) they have the financial statements prepared and ready for audit. In the absence of a fully prepared set of financial statements it appears that the auditors may already have an issue as to the time limits/budgets allocated to conducting an audit. Incurring time delays at the start of an audit (whilst awaiting the draft financial statements), as noted by Willett and Page (1996), adversely affects the time pressure to complete the audit which subsequently increases towards the end of the audit fieldwork. Additionally, there are issues with clients providing timely supporting documents of suitable quality despite efforts from the auditors supporting their clients with this exercise. Indeed, PwC (2015) make available to clients an 'Audit Essentials' document in the attempt to assist clients preparing for audit. Such issues were noted by Bame-Aldred and Kida (2007) who argue that roles and responsibilities (i.e. including the financial statements being available) should be incorporated into the initial 'fee' negotiation phase of the audit tenure process. In Chapter 2 it was noted that there has been little academic research in the area of client preparedness for audit and such issues (not purely restricted to client preparedness levels) are explored below.

4.1.4.2 Availability of Financial Statements

The financial statements are not always available prior to an audit commencing. It has been suggested by the finance directors that 'draft 1' may be available, however without a full set of disclosure notes (alternatively, without the completed key primary financial statement balances) and subsequent drafts will be presented to the auditors throughout the audit.

As one finance director notably stated; *"if there is no draft they have a good set of working papers in advance, we certainly don't want them sitting around doing nothing"*. Such attitude to preparing for audit may not be ideal, in the absence of a financial statement the auditor is essentially conducting their work on a 'number' (financial statement / disclosure balance) in the hope that this is the 'number' that will appear in the final completed set of financial statements upon which the audit opinion will be signed.

Whether or not this ‘number’ eventually features in the financial statements is to some extent irrelevant, as there is additional work in which the auditor will need to perform in tracing this ‘number’ from their working papers to the financial statements. By adding to the tasks the auditor is required to do would not have been reflected in the original budgeted audit time and fee, as Otley and Pierce (1996) note, when budget tightness increases, there is a reduction in audit quality.

It was highlighted that some of the audited clients had little or no experience in preparing financial statements. Indeed, interviews revealed that finance directors occasionally found preparing the financial statements problematic, as it as a task they had never previously had to undertake. In such circumstances previous auditors would have prepared the financial statements on their client’s behalf. Corroborating this approach, a number of the smaller auditing firms (partners interviewed in this research) also indicated that they prepared the financial statements for their audited clients and subsequently audited the financial statements they had prepared. Although these auditors were not ‘generating’ the financial data within the financial statements (it was noted that one auditor also did the book keeping including accounting adjustments for auditor generated estimates), they deem themselves to be purely ‘putting numbers in boxes’, there is a potential conflict of interest. As Doumpos and Zopoundis (2003) argue, one of the most important performance measures of the audit is the actual audit opinion being reported, if this is considered to be a measure it would appear that the auditor is unlikely to provide an adverse opinion on themselves.

In such circumstances, these ‘smaller’ auditing firms that both prepare and audit their client’s financial statements could potentially be perceived as having lower levels of quality control. Sanitoso, Kunda and Fong (1990) noted that firms (not restricted to the small auditing firms) will always justify the conclusions they draw as a result of the information they deemed necessary and such conclusions may include an element of bias. With a 'self-audit' approach it could be argued that such bias will always exist, additionally the quality in terms of the amount of time spent to arrive at such conclusions may also be questionable.

Bame-Aldred and Kida (2007) note, audit clients have an interest in maximising income, potentially a similar approach could be considered to be that of the commercial auditing practice, as they have prepared the financial statements, it is unlikely they will interrogate those reported figures and disclosures with the same rigor as those externally prepared.

The FRC (2016) introduced the International Standard on Auditing (UK) 300 [Revised June 2016] (Planning an Audit of Financial Statements). This is a mandatory auditing standard that any financial statements auditor must adhere to, and document in their audit working paper files (in addition to other relevant auditing standards) prior to commencing an audit. Consideration of this standard was a significant issue raised by a number of the audit partners, notably A3 stating that *"planning etc is overkill"* and supported by A7 "*We certainly do far more planning than we used to do"*. With the smaller auditing firms with limited resource following the same regulations as larger auditing firms consideration may need to be given to the size and nature of the clients audited. Arguably, auditors performing an audit on the financial statements they / their organisation has produced may not be as thorough / planned as an audit where they have not inputted into the production of the financial statements. This could be aligned to the arguments posed by Brown and Johnstone (2007) in that with such a notion, the level of risk the auditor may be willing to accept may be reduced / impaired.

Adding to the issue in relation to the availability of the financial statements, it was alluded to that some auditors prepare financial statements on behalf of their clients. With the increased levels of disclosures within financial statements clients are required to prepare and report additional information, and auditors are required to opine on these disclosures. The complexities of providing increased/enhanced disclosures appears to be proving problematic for clients, a significant consideration is that mandatory full disclosure sets of financial statements are only produced once per year by organisations and thus not a routine task. As FD10 states; *"if they [the auditors] provided pro forma draft accounts, we could populate them to avoid formatting comments [in the ISA260 report], that would help"*, with increased complexities the auditors are calling into question the value of the financial statements upon which they must form an opinion. As Auditor A3 states; *"I don't think they [users of financial statements] read the accounts other than the dividend disclosure"*, similarly A4 notes; *"there is a significant risk that your average lay reader can no longer interpret a set of financial statements and the more complex they become…….. also, complexities make the accounts less user friendly……. the financial statements are at such a level of complexity that most of the readers don't use them…. begs the question as to the value of the annual report, financial statements and the audit that is associated with it".* Reflecting on these comments Daske, and Gebhardt (2006) question the quality of financial statements which have been prepared using International Financial Reporting Standards (IFRS), particularly with reference to adverse reporting incentives and weak enforcement mechanisms.

With increased regulations with the planning of an audit, plus the additional disclosures that clients have to include within their financial statements and annual reports, it could be argued that there are increased pressures on auditors to complete audits and little incentives (due to their limited updated knowledge) for clients to prepare financial statements and related disclosures.

Tosi (1975) argued that targets (completing the audit or having financial statements ready) should act as a motivator, however as Kermis and Mahaptra (1985) add, stresses could be incurred in meeting any such target. Without a motivation, other than clients having an adverse comment in their ISA260 report (as they did not prepare full financial statements), the stresses could be deemed to pass purely to the auditor, it may therefore be argued that there is too much audit and financial reporting regulations.

4.1.4.3 Availability of Audit Evidence

Bame-Aldred and Kida (2007) noted that there can occasionally be conflict between auditors and their clients during negotiations, not only could this relate to fee negotiations but also transcend to the roles and responsibilities of both parties in terms of the availability of information.

There exists a gap in the perceptions of how prepared clients are, there is a consensus with the auditors that although levels of preparedness varied from client to client, overall preparation was lacking. In contrast, a considerable number of finance directors thought they were well prepared, with the acknowledgement by a small number of others who thought they were ill prepared, if prepared at all. It is apparent that for the larger auditing firms that have no input in the preparation of the financial statements, they aid clients in the items they would need at the start of the audit.

However, this was largely irrelevant to those smaller auditing firms who audited the financial statements that either they, or a department within their firm, had prepared.

A crucial element of the audit is to maintain the highest level of quality possible, in achieving quality, audit pressures could have an adverse impact. As noted in Chapter 2, auditors are appraised internally on a recovery rate (a target) an audit yields. In order to maximise, or exceed these targets, the higher the level of preparedness a client has, the increased chance a target may be met.

The Cohen Commission (1978) acknowledges the effect time pressures have on audit quality, however, as clients are less prepared (even though they have been provided with a list of deliverables) it is the auditor that inevitably feels additional pressures. As noted by the finance directors, other reporting time limits/daily tasks interfere with preparing for the auditors. Alternatively, there is a misinterpretation or ambiguity in what the auditors require

A common theme arose with the finance directors in relation to the deliverables listings and the lack of communication between auditors and themselves. If the expectations of the auditors and their clients could be managed, the time pressures could in some way be alleviated. Furthermore, clients feel that the deliverables listing is not always tailored towards their specific organisation and as a result largely irrelevant, the impact upon the audit is that little audit evidence is prepared/available for the auditors when they arrive. Concurring with this, FD1 noted that although they receive a deliverable listing, this is not followed up prior to the audit to ascertain if everything is ready for the commencement of the audit. More importantly for them (the client), is for the auditors to ascertain if sufficient evidence and evidence of the correct quality that the auditor requires has been collated to enable the auditors to complete a particular audit task and not delay the audit.

Frustratingly, it is not always a client that appears to add pressures to their audit, it was noted by discussion with finance directors that their auditors (during their two-week audit) were not always on site and continued to work remotely some three weeks after the scheduled audit visit time. Such an approach had an adverse impact on clients as they had scheduled their daily tasks around the predetermined audit visit. As Kreps and Wilson (1982) indicate, reputations are built on client satisfaction, this approach to their audit could taint any reputation. However, the approach could suggest that balancing audits as a result of time pressures, (as Willett and Page (1996) suggest) was the result of completing other more time pressured audits. In some way this could reflect on a particular client's high level of preparedness whereby all information was readily available, thus enabling (as frustrating for their client it may be) a remote audit to be undertaken.

Driven by the identified two-way relationship between the auditors and their clients, the auditors focus on actively promoting the use of a deliverables listing. A common statement from the finance directors *"we don't want them here any longer than they need to be"* or *"get them in and get them out",* potentially indicates that the better prepared a client can be, the amount of disruption caused by the auditors could be minimised. Although subject to revision and clarification via meeting with clients prior to the reporting period end, the provision of a listing may not always be perceived as a positive step forward in assisting with audit quality. FD3 noted *"as an auditor if they disclosed everything they were going to do and wanted, for some companies they could exploit that so the auditors need to hold something back …….. keep us on our toes".* An opposing view offered from FD7 *"some form of pre-approval so that things* *we have not been asked for in advance can be prepared in a format that is understandable, maybe some pre-planned dates when things will be required for”*. These opposing views are interesting, as some finance directors appear to welcome an element of surprise tests or questions, whereas others welcome as much notice as possible to prepare. Interestingly, auditors should include an element of unpredictability is built into their audit approach as a matter of routine thus alleviating the concerns of the finance directors above.

Both clients and auditors alike noted communication throughout the year as an area of concern and something they would like to improve upon and have built into the audit process. With increased communication the agreements of deliverables, times, quality of information and any implications for non-delivery would be discussed and also bringing to the attention of client staff that some tests/questions will not appear on the deliverables list and will arise throughout the audit process.

4.1.4.4 Education / Knowledge / Specialisation

With reference to the FRC requirement that auditors must rotate off a client’s audit after five years, this concept is challenged by both the auditor and their clients. Although it is recognised that a level of independence must be maintained, and as such, continuous challenges on clients and their processes and systems etc will continue, the independence benefits of doing so may not in all instances yield returns. Audit quality is inevitably affected by the amount of time available to complete audit tests, when pressures arise during peak auditing times it could be argued that audit quality reduces (Lopez and Peters, 2012). In such peak times, it could be considered to be imperative that clients are as prepared as possible to mitigate the risk of increased audit pressure.

It has been regularly noted that the finance directors and their staff feel like they are 'training the auditors', *"each year we have a new team of auditors many of which don't understand our business sector"* FD1, *"may be helpful to use more qualified than less qualified members of staff due to their level of understanding as sometimes it feels like we are teaching their staff as opposed to explaining something"* FD7. Where an auditors time budget is tight, as Otley and Pierce (1996) note, prior knowledge of the client and/or their business sector could in some way alleviate time accumulating knowledge on how a system/process operates and focus that time on the more challenging/high risk areas of the audit, as a result aiming to increase the overall quality of that audit.

With stress being built into the accounting profession (Kelly and Seller, 1982), accumulated knowledge and experience is a key contributor to conducting an audit in as efficient and quality manner as possible. As a result, auditors rotating off a client within what could be deemed to be a relatively short period of time may not always be beneficial in providing a quality audit. Systems and process knowledge is understood, and the auditor has a better understanding of any weaknesses and risk areas within that clients' business. As auditor A7 notes *"I think there is a lot to be said for not being rotated, if we rotate the fee remains the same but the clients have to educate our staff and that can impact on our recovery [as more time is needed for auditors to get that new knowledge], not the clients fault, we will always have something unpredictable in there"*. These comments echo those of finance directors recognising the preference to maintain their current auditing team (without jeopardising independence).

Many theoretical implications arise from these context related characteristics of audit regulations and procedures. Primarily there is the need to maintain a level of independence between the auditors and their clients as independence is critical to providing the independent audit opinion. Secondly, there is the desire to ensure client knowledge is utilised in conducting a quality audit, saving time and focus on quality documentation of the audit and reducing the potential for premature sign off (Gibbins and Newton, 1994). However, a counter argument for not rotating exists, as Kunda (1990) suggests premature sign off could be as a result of anticipated conclusions potentially drawn from an auditor's prior particular client audit experience.

4.1.4.5 Fees and Performance Management

Lopez and Peters (2012) argued that the level of fees could affect the levels of audit quality, with targets having been 'imposed' on the audit team, the amount of time tailoring a client specific approach may thus be reduced, therefore focusing the time budget on the actual substantive testing of the financial statements whilst attempting to meet internal recovery rate targets

Driven by the need to meet targeted recovery rates, it was noted in Chapter 2 that pressure is felt not only by the senior members of auditing teams, but also the juniors conducting the work. As Alderman and Deitrick (1982) note, all members of the audit team are subjected to pressures of varying levels, Turley and Cooper (1991) suggest that the auditing trainees suffered from increased pressures as they progressed through their training. Such pressures were as a result in competition driving a reduction in audit fees and the resultant audit costs in order to meet internal target recovery rates (Emmanuel et al, 1990). As audit costs are predominantly audit time, the impact is essentially working to a shortened timescale whilst completing the same levels of audit work. In the case of issues arising during the audit, it could be argued that to maintain the recovery rate, the optimum levels of additional audit work to resolve such issues may not be conducted (as previously noted via the potential fabrication of audit work). By employing such practices, there is the increased risk of an inappropriate audit opinion being concluded and an adverse effect on the quality of the audit.

As Asthana and Boone (2012) argue, there is a notable decline in quality when audit fees reduce, and as noted above, recovery rates remain unchanged. Accordingly, Houston, Peters and Pratt (2005) recognise that audit fees not only reflect the amount of time required auditing the financial statements, but must also reflect the amount of perceived risk within a client's organisation. In addition to this, the levels of client preparedness are also a key factor in agreeing a fee for the audit.

Fees for audit can be a significant cost to any organisation, if a client could be greater prepared for audit the opportunity to receive a reduction was welcomed by all finance directors and auditors alike. As an incentive to be better prepared a potential refund or additional work was seen (in most cases) to appeal. It was recognised by the auditors that this would be the main focus (reducing costs) for their clients, interestingly the clients felt that maintaining high quality was the main focus for their auditors, irrespective of the amounts of work conducted. The fear of losing reputation and the impacts on market share were evident, as DeAngelo (1981) argues, value is based on the reputations of an auditing firm. As an example, confirming this FD10 noted that *"quality [is important to their auditors] as the firm we have, have to put their reputation on the line"*.

Indeed, a quality audit is at the forefront of any auditor's mind as the implications of providing a sub-standard audit could have profound consequences, from forming an inappropriate audit opinion and exposing themselves to litigation, to producing inferior quality documentation/audit work recorded on their audit files and facing internal disciplinary action or issues arising with the professional body. Setting the fee at the right level in the attempt to provide a quality audit is paramount, however as Humphrey, Moizer and Turley (2006) argue, audit fees are set intentionally low with the intention of selling additional premium priced products onto clients (low balling). Such practice is recognised by FD8 who stated that *"I think once they have sold us the audit it is an opportunity to be in with an organisation and then provide the opportunity to provide the more lucrative sexier side of things such as VAT, health checks and reclaims and contingent fees where we get a refund and they get a percentage",* by employing tactics in essentially using the audit as a 'loss leader', this argument supports the additional views of DeAngelo (1981). With the reduced 'loss leader' audit fee, the pressure to minimise audit time and costs could be argued to be significant. Those junior staff completing the less risky areas of the audit may have reduced time to conduct their tasks (Willet and Page, 1996), as Turley and Cooper (1991) argue, those tasks provide the foundations for the audit and support the concluding audit opinion.

During fee negotiations, the fee is not always the deciding factor (albeit a significant factor) when audit tenders are received by clients. FD6 raises a crucial point when they decided upon their auditors *"I doubt during our tender there was much between them [auditing tenders received] in terms of price hence why we use a big 4 company only as they are top notch internationally recognised quality organisations",* thereby supporting the arguments of Kreps and Wilson (1982) in relation to building reputations.

Reflecting on the perspective of seeing the audit as *"a necessary evil"*, *"get the auditors in and out as quickly as possible"* the audit is *"just an overhead"*, in certain situations this is the view of both clients and auditors alike. With such opinions on the audit process, it is seen predominantly by the smaller client firms as a compliance task and should be priced accordingly. As Moctezuma and Benau state "In this sense, the auditor election process is simply reduced to the mere fact of hiring any auditor in order to cover their obligation, and in that case, the most rational solution for certain companies, it seems that is, the hiring of the auditor who offers the service at the lowest possible price" (Moctezuma and Benau, 2017, P232). Such clients do not appear to place any value on the audit, in support of such views auditor A2 notably stated that *"…… they know it [a financial statements audit] is a legal requirement, but they have to have it done whether they like it or not as it is not adding value"*. It would appear from these statements that such clients (as mentioned in the sections above) could relate to owner managed businesses and as such little or no benefit is envisaged to be received by the directors / shareholders / stakeholders of such organisations.

4.1.4.6 Automation / Monitoring

With developments in auditing practices and auditing techniques/approaches, the way clients and auditors alike prepare for their audits is evolving. The nervousness noted above of auditors and clients in preparing for audit may become more transparent with the introduction of the computerisation of auditing techniques (automation). In the previous sections it was evident that the larger auditing practices are investing in technology or 'client portals'. Computer Assisted Auditing Techniques (CAAT's) is not a new phenomenon within the auditing profession, however they do appear to be evolving at increased rates.

The functionality of such portals allows clients to upload documents and the system then records the date and time it was uploaded. In addition to this the portal records the date and time an auditor accessed the document, however, it is unclear as to the actions the auditor took once accessing the document (they may have merely opened/accessed it without performing an audit test), and also as to the quality/appropriateness of the document originally uploaded. Such a system could therefore alleviate some of the concerns raised by the auditors and clients in relation to measuring/monitoring of the preparedness levels therefore forming the basis to inform any subsequent 'new preparedness' audit opinion disclosures. In corroboration of such automated techniques, auditor A8 notes:

> *"Our system records dates things were received by us during the audit so we can demonstrate when things were received. Things becoming more automated with date stamps on them seems to be the way to go" (A8).*

Auditor A5 confirms and extends on this approach:

> *"More automation [is required in the audit approach], the less time spent shuffling papers would reduce time and costs to us which could potentially be passed onto clients. If so, automated samples may disappear and 100% checks could be possible. Clients would just give access to systems and we can then access those systems and essentially interrogate the data, we can't automate those balances that require an element of judgement, by pushing the boundaries of automation that must surely enhance overall audit quality and the clients therefore needs to be less prepared and thus focus on those judgemental balances"* (A5).

Corroborating such a positive attitude to automation, FD10 stated that "*loading things onto the portal is great, and avoids going back and forth asking for documents etc."* With such advancements in automation the risk of human intervention could be argued to decrease, however such practices could then give rise to increased cyber risks requiring additional investment in training of auditors.

If such automations were employed by the auditors, they may need to revisit their current approaches to their audits. Indeed, finance directors do appear to welcome a revision to some auditor approaches as they do not see that it fits with their organisation.

> *"Using a large firm for a small organisation it feels like the approach does not fit and it feels as if some things are being done for the sake of doing it because it is in the firm's own approach, some of it maybe because they have no choice as it is an audit standard. however, if a more tailored approach could be made it would be beneficial"* (FD7).

4.1.4.7 Audit Opinion

Considering that the auditors face a significant amount of pressure (as a result of clients not being prepared for them), they recognise that there is a potential impact on the quality of the audit test recording and conclusions of the audit as a whole. As demonstrated, auditors attempt to help their clients prepare, however due to some of the issues already discussed, such issues are not communicated to a wider audience and interested parties.

The current standard audit opinion discloses the truth and fairness of the financial statements, and the other information within the annual report, however as the audit is part of a company's procedures there is no reference as to how well this procedure was executed. Both auditors and clients supported the theory that some form of disclosure could be included within the financial statements either in the audit opinion itself or other disclosure note in relation to how well prepared for audit they were.

Francis (2004) agrees that a fee structure should be agreed at the commencement of the audit, both auditors and clients felt that although this is disclosed in the operating costs notes with the financial statements, additional disclosures would be beneficial. Suggestions included amending the audit fee disclosure in terms of refunds if the clients have been well prepared or adverse fee variations in terms of overrun costs where clients have been less prepared and such disclosures would be beneficial to financial statement users, as auditor A2 states;

> *"Anything that whereby an opinion that would have an adverse comment in the audit report would mean that clients would take action on their part. All of our clients are conscious of having an adverse opinion"* (A2).

Auditor A4 adds:

> *"Also, if clients were to report on variations they had to pay to the auditors because that is probably a greater indicator as to whether they have not been ready or not delivered what they were supposed to deliver because that sends a message to the world that they agreed a commercial fee for the audit but they have had to pay more due to the auditors doing more work due to the quality of the information provided or the time in which it was prepared. If we want to be transparent I think there is value in bringing*

the fee being disclosed in the audit opinion, maybe in a box at the bottom detailing variations as that is greater indicator as to the preparedness of the clients. We are constantly concerned with the auditors delivering other things to avoid impairing our independence, the box could show the audit fee, audit fee variation, other fees charged by the auditors in the provision of other work. If it is important to be transparent then let's be transparent and show everything" (A4).

Indeed, the concept of reporting weaknesses within client's organisations was noted in Chapter 2, Krishnan, Krishnan and Song (2011) related higher fees being charged and disclosed as per USA Auditing Standard 5 (AS No5) as a reflection of the level and number of internal control weaknesses. As the internal control weaknesses declined so did the audit fee, the disclosure of a reduced fee from the previous year would indicate to a user of the financial statements that the clients had responded to audit findings, which could be interpreted to include the level of preparedness for auditors. In an equivalent manner to the proposals by the auditors quoted above, the introduction of similar disclosures within the UK, would not be too dissimilar in practice.

Indeed, in recognising that there could be some benefit with disclosing something in the audit opinion or fee variations, finance directors were quite surprisingly in support of such additional disclosures. FD2 noted that their financial statements were used by banks as well as investors and if there were any preparedness issues that were highlighted in their opinion "*that would alert a bad process……. And would give a bad impression of the company"* (FD2). FD3 supported this approach as "*this could indicate any underlying issues [potentially resource related] and the importance of the audit report"* (FD3).

With such positive responses from both the auditors and the finance directors to amend the audit opinion in some way that reflected their level of preparedness for audit, it could be seen that they wish to bring to the attention of a wider audience that they were better prepared than others.

Ultimately, the financial statements and annual reports do include in the relevant director's reports, OFR (Operating and Financial Review) an overview as to the performance of the organisation over the reporting period and other information as to the organisations past performance. In addition to this any adverse issues that have arisen over the year that may have had an adverse effect on the organisation, such instances may include financial in terms of additional costs (restructuring for example), or alternatively explanations as to adverse trading conditions. It could therefore be argued that the performance of an organisation in terms of levels of preparedness and assistance throughout the audit process should also be reported within this document as ultimately the audit is a part of the annual (and indeed business) processes of such an organisation.

4.1.4.8 Audit review / Premature Sign Off

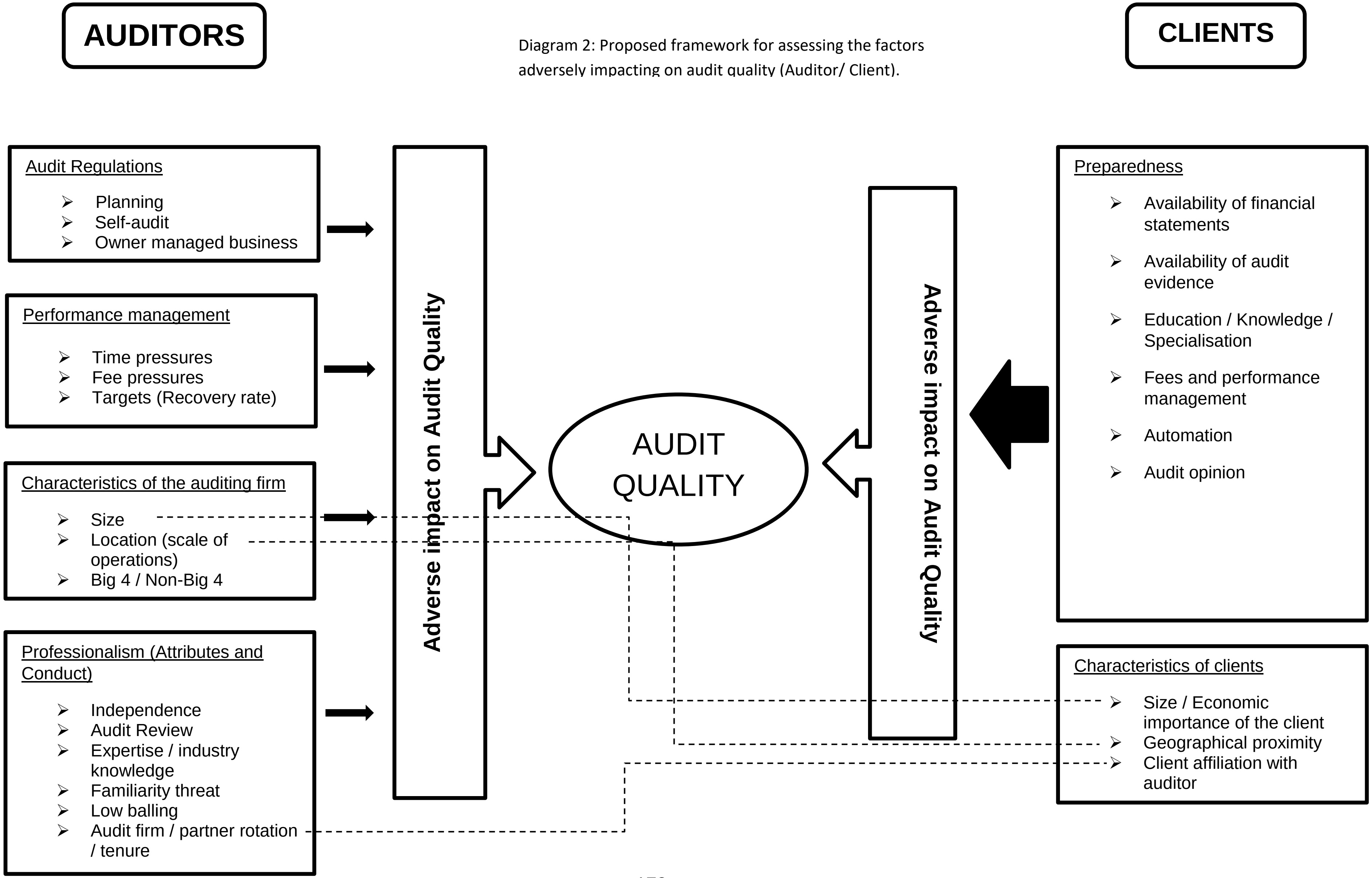
It was suggested by Lightener, Adams and Lightener (1982) that the review process (where time pressures exist) may not be as robust and thorough when compared to an audit where a client is well prepared, and time allows for the work to be conducted efficiently and a subsequent thorough audit work review completed. It may therefore be argued that the better prepared a client is, the greater the quality of the audit, as a thorough review should have been completed ensuring the audit tasks have been completed, documented and concluded upon correctly, thus adding value to the quality of the subsequent signed audit opinion. This argument is supported by auditor A5 who noted that *"auditors have to either get information themselves or make information up"*, clearly this is an unacceptable practice, however indicating that time pressures, impending deadlines and meeting the audit recovery rate may have been contributory factors in making this decision.

The author of this thesis has extensive experience in the audit of financial statements and is aware that such practices existed in the profession whereby audit work was fabricated and not picked up during the review process. As Waggoner and Cashell (1991) suggest, had there been sufficient review time such practices may have been discovered, as a result tests and results (which may have a damaging affect not only on the quality of the audit but also potentially informing an incorrect audit opinion on the financial statements) could be revisited and correctly documented and concluded upon. It was suggested by Raghunathan (1991) that premature sign off of the audit work may have an effect on the quality of the audit, potentially as Gibbins and Newton (1994) not as a result of time pressure, but as highlighted above, due to the auditor's knowledge and experience.

The ultimate responsibility for signing off the audit and the audit opinion is the audit engagement leader (holder of an auditing practicing certificate, usually a designated audit partner or director), their decision as to the audit opinion is based on the conclusions drawn from the audit work undertaken. As Ricchiute (1999) suggests, the signing off of the audit working papers should be done after a senior review and this will influence the engagement leader's decision. Notably time pressures (which has been a recurring theme) impact on such thorough reviews taking place. Consideration must therefore be given to the arguments raised by Lightener, Adams and Lightener (1982) whereby the audit quality in respect of the review process could be enhanced by incorporating an independent reviewer into the process.

The key findings discussed in this chapter are summarised in Diagram 2 below, which combines the outcomes of the current literature with the outcomes of the empirical qualitative study conducted in this thesis.

Diagram 2: Proposed framework for assessing the factors adversely impacting on audit quality (Auditor/ Client).



Chapter 5

5.1 Conclusions and Recommendations

5.1.1.1 Introduction

Whilst the quality of a financial statements audit has received a significant amount of attention in business literature, there is a lack of both theoretical and practical knowledge in respect of the levels of preparedness for the commencement of a financial statements audit. Given the extreme pressures that can be faced by predominately the auditors, but also the finance directors to prepare for and deliver (in the case of the auditors) a quality audit, the focus of this thesis was on the perceived levels of financial statement preparedness from the perspective of the auditors and finance directors of audited organisations. Additionally, this thesis investigated the issues and challenges faced by both auditors and clients in preparing for a financial statements audit.

To meet the overall purpose, the objectives of this thesis were threefold:

- To provide a thorough critical literature review in order to identify and evaluate the concepts and factors impacting upon the improvement of the quality of the UK financial statements audit.

- To undertake qualitative research through the use of semi structured interviews, with a range of UK auditor partners (the registered ultimate auditor with sole responsibility for the audit) and UK finance directors (the ultimate audited body senior official responsible for ensuring auditors are supplied with high quality information).

- To develop a conceptual framework with links to professional practice for the contribution to enhance financial statements audit quality in the UK.

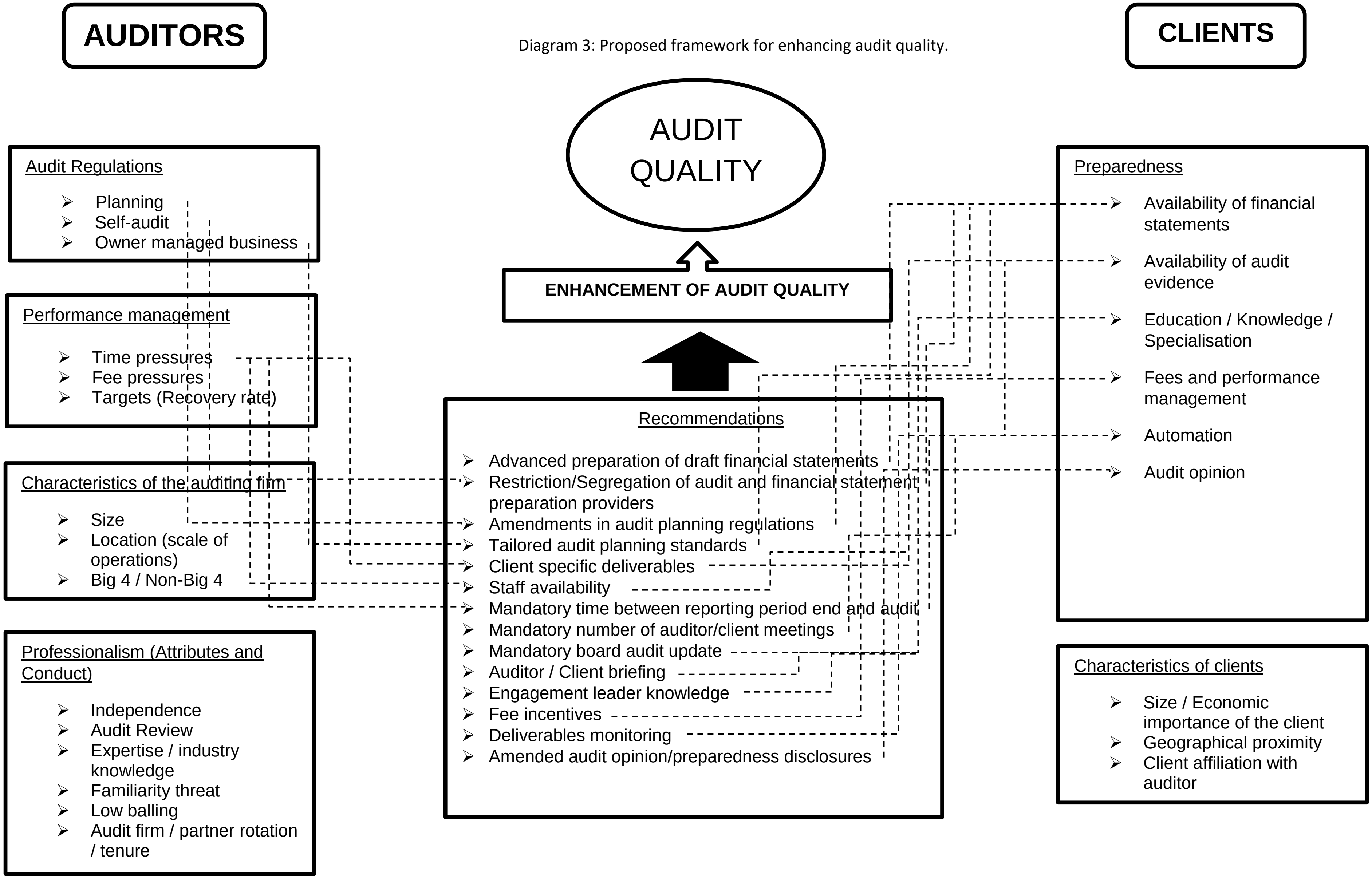
As outlined in Chapter 3, guidance on meeting these objectives was constrained by the methodological limitations of audit quality literature. It is not possible to transfer those theories or concepts that arose from the literature and apply those to the preparedness for audit study. It was therefore apparent that in order to generate knowledge that was both practical and useful, this thesis needed to take a pragmatic approach in order to enable that meaningful practical knowledge to be generated.

Employing a qualitative data collection technique when carrying out the interviews, the views from ten audit engagement leaders from a range of qualified auditing firms of various sizes who took overall responsibility for the signing of the audit opinion and the quality of the audit were acquired. To complement this thesis, the views from ten finance directors from a range of organisations varying in size and business sector, were also acquired. Exploring their views on the pressures they face preparing for/executing an audit and the pressures they faced has highlighted some interesting issues and reflections on key areas that could be improved to ensure a quality audit is delivered and correct conclusions drawn.

This thesis has provided some extremely valuable insights as to how the research could be built into the practical application of the financial statements audit. As detailed below a number of recommendations for consideration are raised in the attempt to benefit both auditors and clients alike to enhance the audit quality on financial statements. Additionally, there may be increased comfort to users of financial statements in determining not only the value of the audit opinion based on the financial disclosures, but also a reflection of the management of the organisation preparing those financial statements.

Diagram 3 demonstrates the summary of the key issues adversely impacting on audit quality as identified in this research, and the corresponding proposed recommendations for enhancing the quality of a UK financial statements audit.

Diagram 3: Proposed framework for enhancing audit quality.



5.1.1.2 Availability of Financial Statements

As a result of the interviews, a difference of opinion arose into the levels of preparedness for audit between auditors and clients, auditors believed clients were rarely ready and finance directors felt they were well prepared. In addition, as per the auditors' opinion, it was evident that a completed set of financial statements including full disclosures were rarely ready for the auditors when they arrived at a client on the first day of the audit commencing. Concerns were raised from the auditors that this then put them behind with the audit as items would essentially be 'drip fed' to them throughout the audit. If the financial statements were late and such statements were to be audited in the January to March 'audit busy period', as Lopez and Peters (2012) allude, this could have an adverse effect on the audit quality due to time pressures.

With such time pressure and in line with the theories highlighted in Chapter 2, both auditors and finance directors alike were not averse to having (along with other matters discussed below) reference made to the level of preparedness in terms of the draft financial statements and supporting audit evidence available for audit included within the published audit opinion. It was acknowledged by both participant groups that additional disclosures within the audit opinion could reinforce the importance of the audit as mandatory annual process, even though the financial statements may warrant a clean (un-qualified) audit opinion the preparedness opinion may receive a qualification (adverse opinion for that element of the audit).

An additional issue identified by the interviewees was the advanced preparation of the financial statements, it has been discussed above that, in the auditor's opinion, it is rare that clients prepare such a document prior to the audit commencing. Such issue could be addressed by the following recommendation:

- *Advanced preparation of draft financial statements* – Where the full financial statements are not available at the commencement of the audit, a qualification is included in the financial statements/disclosures.

However, data revealed that some smaller organisations employ their auditors to prepare their financial statements on their behalf, which could be interpreted as 'self-auditing' and thus contradictory to current ethical regulations. Additionally, highlighted during the interviews, newly appointed auditing firms refused to take over the preparation of the financial statements from a new client when acquiring the audit from a previous auditor (who previously prepared the financial statements for their clients'). The reasoning was that the new auditor did not wish to fall foul of any independence rules, irrespective of the ethical codes of practice. Such issue gives rise to the following recommendation:

- *Restriction/Segregation of audit and financial statements preparation providers* - To increase independence, no auditor should be allowed to prepare and audit the financial statements of a client. Financial statements should be prepared by either the client themselves or outsourced to an alternative (independent of the auditing firm) accountancy provider.

Auditors believe the amount of time being invested in adhering to planning all audits is becoming excessive and absorbing the time budget allowed for the full audit. Performing mandatory audit planning tasks to satisfy Auditing Standards and other planning regulations resulted in less time to perform the audit as the additional time costs could not be passed onto their clients. It is therefore recommended that:

- *Amendments to audit planning regulations* – Reducing the amount of mandatory audit planning to ensure the primary focus of the audit remains on ensuring the balances and related financial statement disclosures are true and fair thus enhancing the quality of the audit opinion thereon.
- *Tailored audit planning standards* – Mandatory audit planning regulations could be revisited and revised/tailored to address the organisation being audited, whereby less audit time is invested in planning the audit and the focus of time is directed at opining on the truth and fairness of the financial statements.

5.1.1.3 Availability of Audit Evidence

Focussing on the levels of preparedness for audit and the availability of supporting financial statement audit evidence for the first day of the audit fieldwork commencing, this study utilised the knowledge, qualifications and experience of individuals in the participant group. There was some consensus as to the elements of the required documentation that auditors require for the commencement of the audit, however differences of opinion as to the information/access to staff required, format and timescales arose. Where such deliverables listing did not exist, or were not client specific, ambiguity of information could result in overruns of the audit and deadlines missed or insufficient / sub-standard audit work completed / reviewed.

The following recommendations are proposed to address the above-mentioned issues:

- *Client specific deliverables* – An agreed upon listing of the client specific items (in addition to the draft financial statements) is discussed and provided in advance of the audit fieldwork commencing. The agreement of such listing should be documented in the audit file and copies provided to clients.

- *Staff availability* – Where possible staff as identified by auditors remain accessible to auditors for the duration of the scheduled audit fieldwork.

A major factor that impacts on the rationale for companies to have their financial statements audited and signed off is the accounting standard IAS10 (Events after the reporting period). This standard requires that companies need to consider anything that comes to light in the period between the reporting period end and the financial statements being signed by the auditors and the relevant company signatory, the shorter this period is, the less likely anything will arise affecting the financial results reported to stock markets and other interested parties. However, with such short time periods, financial statements and supporting information is not readily available to audit. It is therefore recommended that:

- *Mandatory time between reporting period end and audit* - A mandatory period between the reporting period end and the date the audit commences (for example 3 months) is put in place to allow for financial statements to be prepared and auditor required information collated and made available for audit. Accordingly, such additional time would allow for a rigorous going concern review to be undertaken and a more robust audit opinion provided.

The thematic analysis of the interviewees' responses highlighted there was concern surrounding the lack of communication throughout the reporting period, whereby contentious issues, changes in regulations or other related reporting / audit issues that may impact on the financial statements and subsequent audit could be discussed. To address this concern:

- *Mandatory minimum number of auditor/client meetings* - Mandating the number of meetings could alleviate some of these issues whereby (amongst traditional business updates) matters potentially affecting the financial results/audit requirements can be addressed early to avoid impacting adversely on the final audit.

5.1.1.4 Education / Knowledge / Specialisation

Similarly, the amount of importance of the audit to the board of an organisation was indicated as being questionable. Both participant groups noted that there was on occasion little buy in from the board into the audit process. Indeed, the incidents where the board did not even pass comment on the draft financial statements provided to them prior to audit, were highlighted by the interviewees. It is therefore recommended that:

- *Mandatory board audit update* - Consideration should be given to mandating a meeting between the auditors and key audit and client staff personnel outlining the importance of the audit, the reporting requirements of the organisation, the pressures the finance department faced and that the preparedness levels would be reported within the financial statements (adverse and favourable) should the client be well prepared/overruns due to being ill prepared/sub-standard information be provided, and the impact upon the audit opinion.

Auditors allude to improvements that their clients could make to assist and reduce pressures faced by them, finance directors also suggested that the auditors could change some factors within the audit process and approach. A common theme being that auditors lacked knowledge regarding their businesses, they get new auditors every year and they felt as though they were training their junior auditors. To alleviate such frustrations the following recommendations are proposed:

- *Auditor/Client briefing* – Adding to the increased levels of continuous communication, the full audit team attend a client briefing regarding their sector, their systems and processes as well as key contacts. If auditors are ill prepared for an organisation, how they operate and are unfamiliar with the recording systems (albeit such items should be recorded in some form in the auditors planning file) it would be more difficult to trace information flows and audit balances. There lies an inherent risk that the lack of expertise of the auditor could provide the opportunity for a client to manipulate financial statements and thus mislead the ill prepared auditor.

The thematic analysis of the interviews highlighted concerns raised (in addition to junior audit staff not understanding a client's business) in relation to the knowledge an engagement leader accumulates during their audit tenure. Current FRC requirements to avoid the threat of an audit and a client becoming too familiar with each other (familiarity threat), is that no auditor (engagement leader) shall work on an audit in that capacity for a period exceeding five years. The interviewees also argued that it takes several years before fully understanding an organisation, the knowledge that has been gained is subsequently lost once the engagement leader rotates off that client. Whilst acknowledging that becoming too familiar is a threat, there is also the risk that the incoming engagement leader could make similar inappropriate conclusions as audit juniors if they are unfamiliar with that client and their sector. It is therefore argued that once an audit engagement leader understands their client they have the knowledge of where the underlying risks lie and how to address those risks, consideration should therefore be given to:

- *Engagement leader knowledge* – Consideration is given to reviewing and extending the five-year rotation rule to enable accumulated client/sector knowledge to be capitalised upon.

5.1.1.5 Fees and Performance Management

Finance directors indicated that a quality audit is at the forefront of any auditor's mind as the implications of providing a sub-standard audit could have profound consequences, from forming an inappropriate audit opinion to exposing themselves to litigation. The result would include litigation and reputational damage both of which would adversely affect any commercial organisation. Low-balling the audit fee to sell additional services is a practice that is recognised throughout the auditing field from both auditors and clients alike. There is little that can be done in terms of recommended pricing policies and targeted recoveries, however, the implications of clients increasing their levels of preparedness and assisting audit to reduce the pressures they are under, can only have a positive impact on the audit for the financial statements and subsequent quality of the audit. However, incentives were seen as being a positive motivator for clients to increase their levels of preparedness.

- *Fee incentives -* Where clients are perceived to add pressures to the auditors which could adversely affect the quality of their work by being ill prepared. Offering incentives in terms of favourable fee variations or additional services could change clients attitude to audit and prioritise their audit preparations.

5.1.1.6 Automation / Monitoring

The thematic analysis of the interviewees' responses highlighted that the issue of automation is of significant relevance for both; auditors and clients. Some auditors provide portals for clients to access the deliverables listing and upload those items ideally when required, however the affordability of such software is currently excessive for smaller auditing practices who provide word-based deliverables lists.

- *Deliverables monitoring* - In order to monitor client agreed deliverables and provide feedback upon the supporting documentation quality and suitability / potential implications for substandard information and delays. Agreed monitoring systems need to be put in place to provide reliable evidence to support the levels of preparedness a client achieves at each reporting period end.

5.1.1.7 Audit Opinion

A recurrent theme throughout the discussions with the interviewees was the willingness to have the audit opinion amended to include a statement regarding the client's levels of preparedness. However, due to the potentially contentious inclusion of such a disclosure, careful consideration would be required to ensure a consistent approach was adopted by auditing firms as well as agreement as to the wording, terminology and other related disclosure information (fee variations). Additionally, ensuring a pre-agreed level of preparedness, timeliness and quality of the documents being made available to auditors was ‘signed up to’ by all relevant parties prior to the audit commencing to avoid any ambiguities and conflicts. It is therefore recommended:

- *Amended audit opinion / preparedness disclosures* – The audit opinion includes reference to a client’s levels of preparedness, also to include fee variations both favourable and adverse.

5.1.1.8 Audit Review / Premature Sign Off

Time pressure has been a theme that auditors and clients have raised throughout this study as the major threat to overall audit quality. The issues and subsequent implementation of the recommendations above would assist both parties in ensuring that commitment to being prepared for an audit is paramount. In doing so the pressures on auditors to ‘fabricate’ results would be reduced allowing for a thorough review of the audit work that underpins the final audit opinion to be undertaken. With reduced pressures on valuable time higher quality work would be undertaken, complementing this would be the increased time between a reporting period end and audit thereon. With greater preparation, a higher quality audit will be the resultant quality product. The summary of the combined proposed recommendations mitigating the issues adversely affecting audit quality, is provided in diagram 3.

5.1.1.9 Additional reflections on the conclusions

It must be acknowledged that the recommendations proposed in this study are subject to the acceptance of both parties involved in the audit process, as well as the relevant regulatory bodies. The key issues which can impact on the practical application of the recommended practices of enhancing audit quality include not only cost, but also the time and resource implications for both auditors and auditees. Despite the agreement reported by this study that there is a pressing need to enhance audit quality, it is important to note that the competitive environment of auditing services, and the ongoing pressures on cost effectiveness in business sector, could lead to possible objections to the implementation of the recommendations above. These could be potentially mitigated if the relevant regulatory bodies consider incorporating the recommendations of this study into the statuary audit regulations.

As this study is explanatory in its nature, its main theoretical contribution addresses the shortcomings of the literature in the field of audit quality. Despite the importance of the auditees' engagement in the audit process, the literature to date failed to report on the views of auditees on the factors relevant for enhancing the quality of a UK financial statements audit. It is also important to note that this study, by adopting non-positivistic methods, addresses the limitations of the existing research on audit quality that are predominantly based on a quantitative approach, which limits the opportunities for in depth explorations of the auditees views and perceptions.

5.1.1.10 Limitations and Suggestions for Future Research

Whilst this study aimed at providing a contribution to the theoretical knowledge and profession practice, it is important that certain limitations in the process of achieving this objective are acknowledged. As the overall aim of this study was to explore the importance of audit client commitment to comprehensive audit preparation to improve the quality of a UK financial statements audit, this study covered the perspectives of auditors and clients. This could be considered as a limitation as this study did not include other stakeholders, whose opinions may inform the theoretical and practical understanding of the issues affecting audit quality. Thus, future research could focus on exploring opinions of other groups of practitioners, directly involved in the audit process.

A second limitation of this study is the sample size of the participants included in the study. Due to the practical constraints and the sensitive nature of the topic, the researcher had to limit the number of interviewees from each group. This led to the subsequent limitation of providing a generalised set of recommendations. It is felt that a qualitative study based on semi structured interviews may not generate universally applicable conclusions, however it can provide an enhanced theoretical understanding of the phenomenon researched and, equally importantly, it can lead to the enhancement of professional practice.

As this study contributes to an extremely limited body of literature, certain references to previous findings, comparisons with published empirical research material could not be incorporated in the manner typically expected from any research project. Yet, it has to be recognised that despite its limitation, this study addresses a very topical issue, which has been mostly ignored in the current literature, thus opening up possibilities and directions for further explorations of the 'audit client 'as a research object, specifically in the context of the enhancement of audit quality.

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Appendices

Appendix 1

Auditor Interview Questions

Q1

How well prepared would you consider your clients to be on the first day of the audit fieldwork?

Q2

What do you / your team do as part of audit planning to assist your clients in preparing for the first day of the audit?

Q3

What would you consider to be the main failings (if any) of clients when preparing for the first day of the audit fieldwork?

Q4

Do you feel that clients make preparing for the auditors a priority?

Q5

Do you think that clients make sufficient time for auditors during the audit fieldwork?

Q6

If the published financial statements audit opinion were modified to include a section in relation to the client's preparation for audit, do you think clients would place an emphasis on ensuring they were fully prepared for the auditors at the commencement of the audit fieldwork (if so, how - if not why not)?

Q7

Considering the previous question, do you feel users of audited financial statements would take additional value from including such disclosures within the audit opinion?

Q8

If clients were to be any better prepared do you feel this would reduce time / reporting pressures on auditors? and if so could this enhance audit quality in any way?

Q9

Is there anything you feel that auditors could be doing / providing to their clients to ensure clients are fully prepared on day one of an audit to avoid potential overruns / poor quality supporting evidence?

Q10

If clients were considered to be well prepared for the first day of the audit, other than this being acknowledged in the audit opinion, could there be incentives (i.e. fee reductions)?

Q11

Is there anything else that you feel clients should be doing in order to ensure good quality information is readily available on the first day of an audit?

Q12

Do client management review information before it is shared with auditors?

Q13

Do you feel quality or price is important to your clients?

Q14

Other that the information provided, what do you feel could be done by either the auditor or the clients to increase the quality of an audit?

Appendix 2

Finance Director Questions

Q1

How well prepared would you consider you and your staff to be on the first day of the audit fieldwork?

Q2

Have / Management reviewed and approved the information that is shared with the auditors?

Q3

What do you / your team receive from your auditors to assist you with preparing for the first day of the audit?

Q4

What would you consider to be the main shortcomings (if any) of you/your team when preparing for the first day of the audit fieldwork?

Q5

Taking into account that finance departments are busy and daily tasks need to be completed, would you/your team consider preparing for an audit to be a priority?

Q6

If the published financial statements audit opinion were modified to include a section in relation to the client's preparation for audit, do you think you / your team would place greater emphasis on being fully prepared for the auditors at the commencement of the audit fieldwork (if so, how - if not why not)?

Q7

Considering the question above, do you feel users of audited financial statements would take additional value from including such disclosures within the audit opinion?

Q8

Would you consider that if audit clients could be any better prepared for their auditors this could reduce time / reporting pressures on auditors? If so do you feel that this could enhance the quality of an audit in any way?

Q9

Do you have sufficient time to be prepared for the audit after the year end?

Q10

Do you understand the professional sceptic approach that the FRC requires of auditors?

Q11

Is there anything you feel that auditors could be doing / providing to their clients to ensure clients could be considered to be fully prepared on day one of an audit to avoid potential overruns / poor quality supporting evidence?

Q12

If you were considered to be well prepared for the first day of the audit, other than this being acknowledged in the audit opinion, could there be incentives (i.e. fee reductions)?

Q13

Is quality or price more important to your auditors?

Q14

If there was any room for improvement in your current procedures etc, is there anything else that you feel you could be doing / preparing in order to ensure good quality information (as required by auditors) is readily available on the first day of an audit?

Q15

Other that the information provided, what do you feel could be done by either the auditor or the clients to increase the quality of an audit?

Appendix 3

Level 1 coding - Auditors

Appendix 3 – Auditors Responses - Question 1.

How well prepared would you consider your clients to be on the first day of the audit fieldwork?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*Not prepared for an audit.*			*They are not prepared on day one of the audit.*					*Some organisations are never ready.*	
Code 2		*Quite well prepared.*					*Some are ready.*	*Some are particularly ready.*		
Code 3	*No idea what they need to do.*		*Companies do not really know what to do.*							
Code 4					*It varies, we have some with longer timescales but even those are not prepared.*	*No one single answer as it varies as we have clients at both ends of the scale.*	*Varies as we have both ends of the spectrum.*	*Some are ready.*	*I would say variable.*	
Code 5										*Somewhat prepared based on what we have one during planning.*
Code 6	*We prepare the accounts and audit them.*		*Other than a TB we audit it and prepare the final accounts.*							

Appendix 3 – Auditors Responses - Question 2

What do you / your team do as part of the audit planning to assist your clients in preparing for the first day of the audit fieldwork?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*Other than the schedule we provide they are not ready.*			*We have an online portal and we agree with them what we are going to need.*	*We do more than we used to, we have a deliverables list loaded onto the client portal.*	*We prepare a deliverables list which is loaded onto a client portal.*	*We don't provide a list of deliverables.*	*We have a tailored list of deliverables loaded onto a client portal*	*We provide a detailed list of deliverables and requests.*	*We provide a detailed list of deliverables that we can monitor electronically*
Code 2	*Some they want to meet and discuss*	*I prepare the accounts so there is communication between us and them.*		*It's about agreeing what you ought to have but don't give too much away to avoid the level of unpredictability. We agree what we want from our side and from theirs and the dates items should be posted on the portal.*		*We meet with clients during the planning phase a few months before the year end.*	*We have a proper planning meeting.*		*We meet and discuss with our clients to understand key risk areas.*	*We contact out clients to check if they are ready for us.*
Code 3		*Of the stuff they send us to prepare the accounts part will be used later for the audit. Our accounts preparation team are separate from the auditing teams.*	*Nothing, we prepare everything for them.*							

Appendix 3 – Auditors Responses - Question 2 (continued)

What do you / your team do as part of the audit planning to assist your clients in preparing for the first day of the audit fieldwork?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 4				*The planning stage is done around month ten and we pull samples so the clients can start to dig out that information.*	*We perform some tests at the interim audit and we have more computer tests.*					
Code 5		*A lot earlier than the planning phase as part of the accounts preparation we start to collate information and then plan the audit.*		*Invest time to understand how they collate information. Do early GAAP check to see what info they are planning to have in the annual report.*		*We talk through all the facets of planning and about planning and expectations.*	*We certainly do far more planning than we used to do in the 'good old days'*			
Code 6					*Having some overseas assistance matching invoices to other documents etc overnight relieves some of the pressures on our time.*					
Code 7		*As the team needed more time to prepare the accounts we moved the audit so the information was ready for the start of the audit.*			*Clients not ready and we were pushed for time this would allow for corners to be cut.*					

Appendix 3 – Auditors Responses - Question 3

What would you consider to be the main failings if (any)? Of clients when preparing for the first day of the audit fieldwork?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*No proper finance function as they are owner managed businesses.*	*Lack of client staff availability due to holiday etc whilst we are on site, staff too busy with day to day running of the business than dealing with audit.*	*Leaving it up to me to decide what I want.*					*Poor clients are smaller and under resourced.*		
Code 2	*No accounts are prepared*		*Not having accounts prepared for the first day of the audit.*	*Financial statements are only half complete with the numbers even though they know they are not going to move. We don't get the annual report in the financial statements until incredibly late in the audit process.*	*Statutory accounts are never prepared on the first day of an audit. Key reconciliations are not ready / and may not appear until late in the audit process.*	*Some clients have been provided with a set of deliverables and then say they did not know what we wanted.*	*Accounts not ready, information being held off site and not knowing who is responsible for signing the accounts.*	*Conflicting tasks – running the business or providing information and accounts to the auditors.*		
Code 3				*They don't give it enough time regrettably as everyone has a full-time job.* *They don't invest enough time to get ready.*						*They underestimate there is quite a bit in terms of face to face time needed.*

Appendix 3 – Auditors Responses - Question 3 (Continued)

What would you consider to be the main failings if (any)? Of clients when preparing for the first day of the audit fieldwork?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 4				*Not enough client resources to assist the audit. They are never prepared and this is a great frustration as they fail to coordinate the accounting team.*	*Working overtime by client junior staff is no longer acceptable to them.*				*People being available when we are in as they are essential in completing some elements of our work.*	
Code 5						*The preparation for the audit is pretty reflective as to the strength of the finance team.* *It is always a good barometer as to how well the finance team within an organisation is run. Those clients that run their finance team properly tend to have less adjustments and the audit runs smoother.*				*Staff availability as it is not always the case of a document being the evidence that is needed, it is people.*

Appendix 3 – Auditors Responses - Question 4

Do you feel that clients make preparing for the audit a priority?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*No, as it is more questions and hassle.*			*No, they don't prioritise.*	*Consider the audit as not important to them.*		*No, I don't think they do.*		*Other clients do not consider it to be important and could not give two hoots*	
Code 2									*Some clients do.*	*Only as long as we have made it clear about timetables and deadlines.*
Code 3						*Clients put audit lower down the priority list and this puts additional time pressures on us where things may not be completed within the required timescales.*			*Clients expect us to report around them irrespective of our or their reporting requirement regulatory deadlines this puts additional time pressures on us.*	
Code 4		*Clients see it as a necessary evil. It is a cost. It is a cost they have to go through. It does not add pounds to their top line.*	*They see it as a necessary evil.*					*Clients are less concerned with quality, but they just want to get us in and out.*		*If they know they will get additional billings then this focusses their minds.*

Appendix 3 – Auditors Responses - Question 4 (continued)

Do you feel that clients make preparing for the audit a priority?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 5					*Clients leave digging out invoices etc for us, my guys just don't have the time to do this. This results in overruns that clients have to pay for as a result of us digging around.*		*They do not see the value, on the whole it is just compliance to them.*	*Smaller clients see it as a compliance task and they perceive a good audit as an efficient one.*		
Code 6				*They don't prepare the OFR or Corporate Review, these are reporting on events from the whole year ended, why can't these be ready.*		*If we have to report to the audit committee that we are not receiving things, if they hear this more than once, things happen.*			*Sometimes we just need to walk away when they are not ready and we are doing that more regularly now, that tends to escalate things*	

Appendix 3 – Auditors Responses - Question 5

Do you think that clients make sufficient time for auditors during the audit fieldwork?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*No not really.*			*No, they don't prioritise.*	*If there is little or no incentive, no.*					
Code 2		*All ours do yes. They have a holiday embargo on staff.*			*If there is group reporting to do, then yes, staff are more willing to help.*	*In general, yes.*	*Mostly yes*		*Most of them do yes.*	*Generally, yes.*
Code 3						*They want us in and out.*				
Code 4			*Where there is no input from client's queries have to be done via e-mail.*		*For those clients that are unhelpful audit staff have to get information out for themselves.*	*If it drags on it is an issue for both us and the client.*			*Client staff can be unavailable.*	
Code 5				*The OFR and other similar documents are not prepared for the first day of the audit. I struggle to understand why not.*	*Some auditors have 'made information up'*				*Clients with extremely short reporting deadline may have some staff who require time booking with them when we need to question them on an ad hoc basis due to questions coming out of the audit. Where finance teams are rigid this is very unhelpful.*	

Appendix 3 – Auditors Responses - Question 6

If the published financial statements audit opinion were modified to include a section in relation to the clients' preparation for audit, do you think clients would place an emphasis on ensuring they were fully prepared for the auditors at the commencement of the audit fieldwork (if so, how, if not, why not)?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1		*I think the answer is yes.*		*I think it would.* *Could be similar to a charity whereby they get 3 green blobs on a traffic light system.*	*For individual company accounts it could be OK.*	*Simple answer is yes.*	*If clients were aware of this they would go all out to avoid anything adverse going in the audit opinion.*	*I think it probably would.*	*Yes definitely.* *In audit committees we report on a traffic light system.*	*Possibly yes.*
Code 2	*Could create pressure on the relationship between accountants and auditors.*				*Could be difficult to manage if different group companies had different levels of preparedness.*		*Initially it could cause a bit of friction.*			
Code 3	*Could be interpretations as to where they ready or not?*	*We would have to standardise what information is required, larger firms may have a completely different idea to those of smaller firms.*				*One person's level of preparedness if different on another's.*		*It could be hard to measure scientifically.*		*Could be a bit too judgemental and more of a rule based thing as to how well prepared they are.*

Appendix 3 – Auditors Responses - Question 6 (Continued)

If the published financial statements audit opinion were modified to include a section in relation to the clients' preparation for audit, do you think clients would place an emphasis on ensuring they were fully prepared for the auditors at the commencement of the audit fieldwork (if so, how, if not, why not)?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 4			*For those clients having a voluntary audit as opposed to mandatory, they would think again.* *Audit requirements are overkill.*							
Code 5		*Audit report modifications would have to be standardised and that may cause a few discussions.*		*If everything was ready on day one that would drive transparency.* *Also disclosing fee variations for audits is a good indicator as to how ready clients were.* *Perhaps disclose fee and fee variations (positive and negative) in the opinion is a good indicator / idea.*		*If it is measured it gets actioned.* *Needs a level of consistency from one audit to another.* *Could be argued that such inefficiencies are built into the audit fee.*	*If it were mandatory to disclose could be good.*	*If something is going to be disclosed there needs to be a robust way of measuring it.* *However, if it were published it would make them better.*	*It would draw attention and put more pressure on the finance director.* *Regulators would have a view as to how good that team and finance director were as well.*	

Appendix 3 – Auditors Responses - Question 7

Considering the previous question, do you feel users of audited financial statements would take additional value from including such disclosures within the audit opinion?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*No, I do not think they would care.*	*No, I don't think it would.*	*I don't think they read the accounts other than dividend disclosures.*	*I don't think they would get additional comfort.* *Would indicate level of investment in producing the annual report.* *Level of preparedness drives the indication as to the appetite and culture surrounding financial statements.*						*Commercial sector yes.*
Code 2		*It would have a negative on the client and could raise issues with HMRC.*								*Public sector, not so much.*
Code 3						*You would get a snapshot of the management.* *Investors may have a sense of the quality of the individuals.*		*I suppose it would. Two companies under the current system could have the same audit report but that does not tell the same story.* *I think investors would find that interesting.*	*It definitely would be useful and have an impact.*	

Appendix 3 – Auditors Responses - Question 7 (Continued)

Considering the previous question, do you feel users of audited financial statements would take additional value from including such disclosures within the audit opinion?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 4					*It would be beneficial to disclose the auditor remuneration and any additional overrun costs due to audit ineffectiveness, that could be beneficial*		*Every company having an audit would go all out to prevent it happening, disclosure would need some thought.* *Overrun costs disclosure could be a way.*	*The letter of weakness is private and discloses the weaknesses of companies that have similar audit reports but very different control / preparedness issues.* *Could publish without detail the number and levels of weaknesses.*		
Code 5							*Charity audits have some good practice gold standards, not external but is best practice. If that standard is not met it affects how we go about our audits.*			

Appendix 3 – Auditors Responses - Question 8

If clients were to be any better prepared, do you feel this would reduce time/ reporting pressures on the auditors? And if so could this enhance audit quality in any way?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*They may just want you to do your compliance and get out of there.*									
Code 2	*Most clients want you out.*									
Code 3			*If they had accounts prepared on the first day this would help.* *Costs could outweigh the audit fee.*							
Code 4		*Certainly, an element of time pressure. It is potentially more profitable.*		*Yes definitely, time pressure affects the time obtaining and analysing audit evidence.*	*Less pressure improves documenting.*	*Additional time could be spent on documentation*	*Yes, no doubt about it.* *We could do our job properly and more efficiently and focus the stuff we need to focus on, benefit quality.*	*Work on the judgemental things could be better.*	*Yes, and this would avoid having to argue about overruns.*	*Yes, it is definitely a challenge if I am not happy with the quality of information or a delay in receiving it.*
Code 5		*We could potentially reduce the audit fee.* *We could use any saved time to do some other value-added work.*			*Enhances the quality of documentation on file, not what we do.*	*We could spend more time adding value or providing a fee reduction.*				

Appendix 3 – Auditors Responses - Question 9

Is there anything you feel that auditors could be doing / providing to their clients to ensure clients are fully prepared on day one of the audit to avoid potential overruns / poor quality supporting evidence?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*Implement systems throughout the year so accounting systems are better.*				*More automation.*			*Our systems are automated and records report names and also date stamps things received. Portals / automation appears to be the way to go.*	*How we sample is more automated*	*Communication of what we are going to do and when we intend to do it.*
Code 2		*Vast majority of clients are not aware how an audit works.*	*We write to clients and say we need stock lists and debtors reports etc.*	*Invest time in clients to get them to do things sooner rather than later.*		*Ensure expectations are agreed before going out.*	*Meet with the clients to say what can we / they do better and prevent overruns.*		*Knowing about major transactions early.*	
Code 3	*Provide the information that is required for an audit.*		*Some clients provide a file with everything I need.*		*Automation spends less time shuffling papers and thus reduce time and costs.* *Automation must enhance overall audit quality.*				*If better prepared the team has more time to scrutinise and not rush through.*	
Code 4		*Clients see an audit as checking rather than confirming.*				*Make sure everyone knows their role.*			*Having a dry run would be useful*	*Communication both ways so we / they deliver what we agree upon and when.*

Appendix 3 – Auditors Responses - Question 10

If clients were considered to be well prepared for the first day of the audit, other than this being acknowledged in the audit opinion, could there be any incentives (i.e. fee reductions)?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*They would need to assess the cost against the benefit.*								*Need to avoid arguing over the fee variation as opposed to discussing audit issues.*	
Code 2		*I don't really see vast amounts of added value, clients would be keen to reduce any costs.*		*Yes, I would like to think so. I have revisited fees for those clients that have become more efficient.* *Price should go up if clients have not delivered.*	*Either a lower fee or a lower than inflation increase.*	*Yes, most definitely fee reductions, or us to do additional work.*	*Yes, and I think audits are cost sensitive.*	*We quote a fee on the assumption everything will be ready on time.*	*Yes, this is done to some extent already, difficulty is arguing over a fee variation.*	*Yes, most clients are financially motivated.*
Code 3		*We have an issue recovering overrun costs we have incurred. Our engagement letter explains the fee is not fixed.*			*We show last years' time sheets to the Finance Director as evidence of overruns due to them not being prepared.*		*In a competitive market, fees can go down as well as up. I think clients would definitely respond to that.*	*Whether a reduction is an incentive or a financial penalty.*		

Appendix 3 – Auditors Responses - Question 10 (Continued)

If clients were considered to be well prepared for the first day of the audit, other than this being acknowledged in the audit opinion, could there be any incentives (i.e. fee reductions)?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 4				*If the audit becomes simplified because of the level of preparation and quality of what we deliver, we should share that saving.* *Well controlled clients with better systems are less substantive and thus attract a lower fee.*	*We can monitor the deliverable in terms of when it was received, however not the quality of that deliverable.*			*Clients could provide better information, could be a result of not knowing exactly what we are after. In particular for those areas outside of finance.*		

Appendix 3 – Auditors Responses - Question 11

Is there anything else that you feel clients should be doing in order to ensure good quality information is readily available on the first day of an audit?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*Meeting with us.*								*Meet and talk us through the working papers, don't leave us to figure them out.*	*Communication.*
Code 2	*Have the items from the pre-prepared list of deliverables we sent them.*	*Provide everything on the list of deliverables is ready and make sure their staff are available.*			*Ensure good quality information arrives on time.*	*Deliver on expectations.*			*There is no standard template for clients to present information*	*Deliver to agreed timetables.*
Code 3			*Nothing as they would need to pay for additional resource.*	*They could invest in IT.* *Systems could produce the financial statements as removing human intervention reduces the risk of manipulation and thus we could perform a technology audit.* *Payback for client's investment would be a smooth and efficient audit.*						

Appendix 3 – Auditors Responses - Question 11 (Continued)

Is there anything else that you feel clients should be doing in order to ensure good quality information is readily available on the first day of an audit?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 4							*A lot to be said for not rotating off clients, if we rotate the fee stays the same but clients have to educate audit staff.* *We always have some levels of unpredictability built into our testing.*			
Code 5				*Automation removes human intervention and the spreadsheets we receive have a human risk error in them.*						

Appendix 3 – Auditors Responses - Question 12

Do client management review information before it is shared with auditors?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*Yes, otherwise their reputation is on the line.*	*They do review it.*	*For some clients, yes.*							*Junior managers yes in terms of reconciliations.*
Code 2	*Need a filter to make sure it is right*	*Sometimes ask us to look into certain areas so it is reported formally, staff react to auditors more positively than line managers.*	*Others, the information is left for me to obtain.*	*Not on all occasions as information requests are delegated.*	*Management review information as part of running their business.*	*Managers review information as part of month end procedures, judgemental areas may need greater management review.*	*Depends on the nature and size of the organisation.*	*I have reconciliations where there is an error on every single one, it is evident management do not review those.*	*No, it is the basics that come up time and time again.*	*Draft financial statement – No.*
Code 3				*Directors don't have the time to review everything.*			*Varies from one client to another.*	*Management don't review as there are errors.*	*It is obvious the CEO has not reviewed the draft accounts.* *It is always low-level management we have issues with.*	*Why are they giving me something they have not reviewed themselves?*

Appendix 3 – Auditors Responses - Question 13

Do you feel quality or price is important to your clients?

Question coding	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10
Code 1	*A clean audit report is obviously important to them.*					*Clients want you to do your audit and provide a clean audit opinion.*	*The want a clean audit report.*			
Code 2	*I would say price.*	*Price.*	*It is a necessary overhead.*		*No clients want to overpay.*		*Price.*	*Price is very important. I would say price is the main factor.*	*Price is driving what they need. Basically, come in and do your work as cheap as you can.*	*Price.*
Code 3		*Quality is for the auditors to control.* *Quality is important and may result in bank/press issues.*		*Clients want a quality audit at a commercial rate.*		*Quality issues go at the top of client's agendas.*		*Quality is important to larger clients.*	*Big issues arising in clients indicates that they should go for quality over price.*	*Quality is always important and this is paramount for the big accounting firms.*
Code 4			*People here have very good tax knowledge.*		*WE are better equipped to help with non-audit issues as opposed to fees, basically added value.*	*Clients want to know what we did on specific areas.*				*Commercial organisations like the value of other work done during the audit.*

Appendix 3 – Auditors Responses - Question 14

Other than the information provided, what do you feel could be done by either the auditor or the clients to increase the quality of an audit?

Question coding	A1	A2 (Self-audit)	A3	A4	A5 (nothing to add)	A6	A7	A8	A9	A10
Code 1	*Have the accounts prepared on day one of the audit.*						*Need more time to analytically review the financial statements.*		*Get those not involved in the numbers involved in the production of the financial statements early.*	*Clients could complete the front part of the accounts.*
Code 2			*Reduce the amount of planning and regulations surrounding audit.*	*Reduce the amount of information in financial statements that no one reads. They are so complex no one reads them.*				*Reduce the amount of regulation as it seems to be increasing year on year.*		
Code 3						*Provide information on a timely basis, give us tie to review it.*				
Code 4							*More talking, meet with clients to discuss the audit and judgemental / subjective areas.*			
Code 5						*Clients need to prepare and review information on a timely basis.* *FRC note things go wrong when things not reviewed properly.*		*Clients need to be more organised and buy into the audit process*		*Clients to buy into the process, it is a 2-way process with a common goal.*

Appendix 4

Level 1 coding – Finance Directors

Appendix 4 – Finance Director Responses - Question 1.

How well prepared would you consider you and your staff to be on the first day of the audit fieldwork?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*We are extremely well prepared.*	*95% of the audit file is done by me, when they come in I hand them the file.*	*WE are quite well prepared.*		*I would say well prepared.*		*We have around 95% of what the auditors have asked for.*	*Pretty well prepared.*	*We are pretty well prepared.*	*Normally quite well prepared/*
Code 2	*We receive a list of deliverables from our auditors outlining what they require.*			*We receive client deliverables but the list is quite loose.*	*We usually receive a list of deliverables. This year we did not get a list.*	*Receive a deliverables list.*				
Code 3				*The timeframes are quite tight.*	*Requests for information were quite late even though we thought we were well prepared.* *Auditors were less experienced than in previous years.*	*We don't have enough time from finishing the draft accounts and having their deliverables list completed. It is difficult, very time pressured.*				
Code 4			*We have a plan in place so everything is ready, draft accounts are prepared.*	*Draft stat accounts are done with the exception of the director's narrative bits.*		*We finish the draft accounts (in adv of the audit)*	*Having draft accounts ready for audit is a problem for us.* *Previous auditors used to prepare those for us. It would be useful if the auditors did that for us now.*	*We have 2 of 3 subsidiary accounts ready but not the third or the parent.* *Shame the auditors no longer do that for us.*	*We have a first draft ready for them but there are different versions throughout.*	*We have draft accounts ready for them.*

Appendix 4 – Finance Director Responses - Question 2.

Have management reviewed and approved the information that is shared with auditors?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Yes, I do review it.*	*I prepare most of it from my audit file. Staff provide backup invoices*	*Yes.*				*Yes. Judgemental areas I work on myself.*	*Only high-level stuff.*	*Yes, we would.*	*Yes.*
Code 2				*We would always look into areas that could be contentious.*		*Auditors comment that we don't review information, we simply don't have the time or resource.*			*Anything contentious would have been discussed with audit during the year.*	
Code 3					*We don't have time to review everything they get.*	*No, there is not really time to allow for independent review.*				
Code 4			*Make the auditors job as easy as possible so they are not here any longer than need be.*	*Main areas we would always flag with audit.*					*Make contentious items and policies available to audit throughout the year.*	*We try to get comments from senior members on draft accounts ready for the auditors, but rare we get any.*

Appendix 4 – Finance Director Responses - Question 3.

What do you/ your team receive from your auditors to assist you with preparing for the first day of the audit?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*A Checklist.*	*A list if deliverables expected on day one of the audit.*	*We get a listing of **requirements**.*	*Deliverables list.*	*A deliverables list.*	*A prepared by client list in advance of the audit.*	*They provide a list.*	*We get a full list of deliverables on excel.*	*WE get a deliverables list*	*We use a deliverables listed provided by audit.*
Code 2		*We have about 3 months between a planning meeting and the final audit.* *Frustrating how we may not get same staff on both audits.*	*We have a pre-meeting to discuss the year and identify any major transactions.*							
Code 3				*Access to an online portal.*			*They have an online platform we have access to with things they have asked for.*	*Staff are assigned to the deliverables and they upload them onto the auditor's portal.*		*The list is on the portal audit gives us access to.*
Code 4			*The deliverable list we get seems pretty applicable to us.*				*List has some amount of tailoring that has developed over the years.*	*A lot of it is tailored as auditors have gotten to know us over the years.*	*The list has evolved over time and we have some input into this list.*	*The list is quite relevant to us, in some respect it is tailored.*

Appendix 4 – Finance Director Responses - Question 4.

What would you consider to be the main shortcomings (if any) of you / (your team) when preparing for the first day of the audit fieldwork?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Where a control has not been followed there may not be control evidence for the auditors.*								*Some things are outside our control and we get information late.*	
Code 2		*Waiting for figures to go into the accounts (accruals, SWAPS etc)*			*We have issues relying on others in other departments / organisations.*					
Code 3										*Providing the disclosures or the more technical treatment of transactions.*
Code 4						*Technical guidance coming out late so we are still adjusting even on the day the accounts are signed.*	*If audit could give us an example of what they want so we can provide it in the format they want it could save time.*	*We have late complex transaction that take place at the end of the year.*	*We get some information late.*	*We are not as technically up to date as our auditors.*
Code 5		*I wouldn't put the team in a position whereby the audit would start without a completed audit file.*	*Get the auditors out of the way as quickly as possible.*	*Making sure we have provided the staff to fit in with the auditors to ensure availability during the relevant work.*		*We would love to give them a file and say get on with it, but we know we will not be able to deliver everything.*	*Getting things in the format the auditor require is a challenge.*	*We have to run our business so audit is secondary.*	*We let audit know what is happening and when so they can schedule their work accordingly.*	

Appendix 4 – Finance Director Responses - Question 5.

Taking into account that finance departments are busy and daily tasks need to be completed, would you / your team consider preparing for the audit to be a priority?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Yes.*			*Fundamentally, yes.*	*We never put it on the back burner.*	*We look at our audit timetable 3 months before the year end.*		*I think we do.*	*Yes 100%*	*Yes.*
Code 2				*By virtue of the day to day operations we are ready for the audit.*	*We want them in and out as quickly as possible.* *We would prioritise and make sure we deliver*				*We want the audit to go smoothly and quickly and a delivered-on time. We do whatever we can to prioritise the audit.*	*We have a holiday embargo to get the accounts done and signed off.*
Code 3	*Audit is when it is a quiet time for us so it has little impact on daily activities.*	*Day to day job will always come first.*	*We do not deem auditors to be as much of a priority as perhaps we should.*				*We need to run our business and that requires daily financials.* *We need to provide daily information and not really an efficient audit.*	*It's about timing the audit just right to fit in with other commitments.*		

Appendix 4 – Finance Director Responses - Question 6.

If the published financial statements audit opinion were modified to include a section in relation to the clients preparation for audit, do you think you / your team would place greater emphasis on being fully prepared for the auditors at the commencement of the audit fieldwork (if so how, if not why not)?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Yes definitely.*	*Yes, most definitely.*	*I think it would be a good idea.*	*Could be good idea including it if it is brought to the attention of management and noted by shareholders (i.e. they are incurring an extra fee due to XYZ.*	*Public sector no – listed companies yes.*	*I think some disclosure would be very useful.*	*I think yes.*	*I think they possibly would yes.*	*Not sure, but initially it is good idea.*	*It potentially could be.*
Code 2	*A clean audit report does not currently reflect on the senior management team.*	*Would not be welcomed by anyone in my team.*	*From external user's perspective it could be good and indicate underlying issues and the importance of the audit report.*		*Good to see if the company got its clean audit report by the skin of its teeth.*	*Could see how the management team were.*				
Code 3		*Would not be welcomed. Give bad impression of the company.*		*Need to see if additional information can be measured and included in the report if the company is well managed or not.*		*Need to carefully select the wording, but only monitored on things within our control.*	*Client and auditor need to agree on what is good. Maybe we provide information and the auditor did not understand it as they were too junior.*	*It depends on the personalities involved.*		*Letting people know you are not prepared is not ideal is it.*

Appendix 4 – Finance Director Responses - Question 6. (Continued)

If the published financial statements audit opinion were modified to include a section in relation to the client's preparation for audit, do you think you / your team would place greater emphasis on being fully prepared for the auditors at the commencement of the audit fieldwork (if so how, if not why not)?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 4			*Focus other departments on the importance of the audit.*	*I would have no objection to some overrun costs and reasons in the notes.*	*Shareholders may want to know it is good in comparison to other companies.*	*From the outside it is not evident how well the management team were.*	*Fee over run disclosures if proven would be useful.*	*If it is overtly mentioned. Present to our management team how well the finance team is doing. Could be a stick to use. People may be driven to avoid a negative opinion.*		
Code 5								*Internal audit gives us a traffic light system which we present to the exec team.*		

Appendix 4 – Finance Director Responses - Question 7.

Considering the previous question, do you feel users of audited financial statements would take additional value from including such disclosures within the audit opinion?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*The governing corporation - Yes.*	*Would give value of an investor as it gives an insight into the strength of the management team*	*I suppose it would yes (if there were an underlying issue)*	*Yes, for large companies and public-sector organisations.*	*Yes.*	*Yes, very much.*	*They might do.*	*Yes definitely.*	*A little yes.*	*Yes.*
Code 2	*Other users – possibly not.*	*Shareholders would not want to publicise anything negative to third parties.*		*Not for a close company.*						*However, just one department is not a true reflection of the whole organisation.*
Code 3		*Figures don't tell the strength of management, so it would definitely add more value, third parties want it as it gives them more knowledge.*		*Depends on the exact disclosure, management co-operation with auditors within the opinion could be useful.*	*I would want to know if the company got a clean opinion by the skin of its teeth. May think again before investing.*	*To see how the management are performing.*				

Appendix 4 – Finance Director Responses - Question 7 (Continued)

Considering the previous question, do you feel users of audited financial statements would take additional value from including such disclosures within the audit opinion?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 4					*Even having overrun fees identified and disclosed could be in the opinion. Need to agree it is the clients fault.*		*The efficiency of an audit should be built into the fee.*			
Code 5					*Deliverables needs to be standard but also note that receiving a load of garbage is not going to be acceptable.*					*Subjective as to the audit partner if we are prepared or not, i.e. if there is not a full set of accounts with full disclosures you are not ready. Needs to be agreed up front.*
Code 6					*The ISA260 report is more use to public sector governing bodies.*				*They could have access to our ISA 260 report.*	

Appendix 4 – Finance Director Responses - Question 8.

Would you consider that if audit clients could be any better prepared for their auditors this could reduce time / reporting pressure on auditors? If so do you feel that this could enhance audit quality in any way?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Yes*	*Yes.*	*Yes.*	*A bit more time could always help.*		*Yes definitely.*		*Yes, I think so.*	*Yes, absolutely.*	*Potentially it could do.*
Code 2	*Each year we have a new audit team which don't understand our business.*		*New auditors don't really know what they are doing whereas an experienced auditor knows what they want and additional time could add value.*							
Code 3		*That's the reason I prepare an audit file for them*	*From experience audit is a tick box exercise.*						*We spoon feed auditors today.*	*They ask for loads of information up front – do they really need to come?* *They can audit in 5 minutes if they have everything uploaded onto their portals.* *Looking at operations is and added benefit when they do come.*

Appendix 4 – Finance Director Responses - Question 8.

Would you consider that if audit clients could be any better prepared for their auditors this could reduce time / reporting pressure on auditors? If so do you feel that this could enhance audit quality in any way?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 4	*It takes a lot of time each year explaining how our systems and processes work.*	*Focuses them on getting through the audit quicker.*	*Feels like a waste of time as new auditors don't know what they are doing.*		*More time will obviously ease the pressure on auditors.*	*Working with us resolves issues.*	*Reduced time pressures would not necessarily give better quality.* *I can't see if the big firms were able to save time, the clients would benefit.*	*Anything that could help both clients and auditors throughout the year by being better prepared will help reduce pressures and avoid tight deadlines.*		*I am not really bother on the pressures auditors are under, they provide a service I am paying for.* *If I am better prepared the less stressful it is.*
Code 5					*Auditors are always looking for something to report. If they found nothing I don't think they would be comfortable with that.* *Audit don't want us to be too prepared as they may have nothing to report.*					
Code 6						*We are open and transparent throughout the year.*		*They do pre-testing analytical review to get a feel on the risk areas in advance.*		

Appendix 4 – Finance Director Responses - Question 9.

Do you have sufficient time to be prepared for the audit after the year end?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Yes.*									
Code 2		*It is a challenge building audit into the process.*	*Ultimately, we are never prepared.*	*Timetables are outside of our control.*	*We could do with more time.*	*Note really, it is extremely tight anyway we have to report.*	*Just enough time with a fixed timetable.*	*Our timescale is being brought forward, it is a resource issue.*	*We could always do with more time.*	*There is never enough time.*
Code 3		*It needs to be built into a timetable*	*If the board understood the importance of audit we could get ore time.*		*More time to review the draft accounts would help. However, giving more time means people may just sit on things for longer.*		*If the audit slipped we would have issues with timings of board meetings etc.*	*We will do more during the year so less to reconcile at year end.*	*Areas we could do better are those with conflicting deadlines.*	*Having more time would just result in taking longer to get there.*

Appendix 4 – Finance Director Responses - Question 10.

Do you understand the professional sceptic approach that the FRC requires of auditors?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*No.*					*No..*	*Not really the detail.*	*I wouldn't have known that terminology in the question.*		*No I don't.*
Code 2		*Yes.*	*To a point.*	*Yes*	*Yes*					
Code 3		*I used to be an auditor.*		*They are there to give an objective view via tests.*	*I used to be an auditor.*					
Code 4				*Audit are not disbelieving they are merely doing what is required.*	*They are being sceptical.*	*Whatever your audit clients tell you, assume it is a lie.*		*Its guilty until proven innocent, isn't it?*	*Audit have to be challenging but not aggressive, I do worry about the current challenging approach.*	
Code 5	*Audit don't look at what I deem to be significant.*				*I don't expect auditor to come who do not have a clue about my business, but more often it is that they just don't have a clue.*					*I understand why they ask challenging questions.*

Appendix 4 – Finance Director Responses - Question 11.

Is there anything you feel that auditors could be doing / providing to their clients to ensure clients could be considered to be fully prepared on day one of an audit to avoid potential overruns / poor quality supporting evidence?

c	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Follow up on deliverables list before the audit to see if we have it covered.*									
Code 2		*The deliverables list is standard and not applicable to my company.*					*Some form of format approval of documents etc required*			
Code 3			*The auditors should disclose everything they want and are going to do.*							
Code 4				*There are late technical issues often viewed in earnest and we have different views based on technical guidance.*				*We have to rely on audit being technically up to date, they were great during the transition through FRS102, audit should educate us throughout the year.*		*Provide us with pro forma accounts so we can populate to avoid formatting comments.*
Code 5				*Discussion between audit and FD on technical guidance is needed.*						

Appendix 4 – Finance Director Responses - Question 11 (Continued).

Is there anything you feel that auditors could be doing / providing to their clients to ensure clients could be considered to be fully prepared on day one of an audit to avoid potential overruns / poor quality supporting evidence?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 6					*Audit team need to be more up to speed and trained efficiently on the sector they are auditing.*	*Changes in audit members needs to be reduced as it takes them longer to get up to speed and review the work.*	*Use more qualified staff as it feels like we are teaching their staff as opposed to explaining something.*		*We need knowledgeable auditors, in the past we have had incompetent auditors who do not have the knowledge or experience.* *We need auditors with industry specific experience.*	*Having junior members who understand our sector would help.*
Code 7							*The audit approach does not fit, some things are done for the sake of doing them.* *A more tailored approach would be beneficial.*		*The audit approach for large groups should be the same person doing the same sections on all companies not split companies over several individuals.*	

Appendix 4 – Finance Director Responses - Question 12.

If you were considered to be well prepared for the first day of the audit, other than this being acknowledged in the audit opinion, could there be incentives (i.e. fee reductions)?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Fee reduction would be nice.*	*Reduction in the tax fees.*	*For some companies' fee is important.*			*Yes – fee reduction.*	*Yes, provided the specification is right.* *If you put more effort and resource into getting ready it would be good to be recognised for that additional effort and resource.*	*A fee reduction is always helpful.*	*Fee reduction would be nice.*	*Fee reduction would be nice.*
Code 2	*Free additional work.*		*Spend more time on judgemental areas or other value-added controls work.*	*Additional work could be dodgy,* *Incentivising is a good idea.*				*Audit is a loss leader for additional services, isn't it?*		
Code 3		*You don't know how the fee is calculated in terms of hours.*			*Auditors will always find a way to keep the fees up.*			*Most companies see audit as a necessary evil – get in and get out.*	*Ensure audit are not initially over pricing. It would look good for us and receive some benefits*	*I don't think people sit back and don't care if they are not ready.*
Code 4	*When audit staff do not turn up it took 3 weeks longer than the scheduled completion date.*			*I would be reluctant to have a framework where one size fits all.*						

Appendix 4 – Finance Director Responses - Question 13.

Is quality or price more important to your auditors?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1		*Quality*		*They focus on quality and the delivery of an audit is a certain standard.*			*In our case – quality.*	*Quality – 75% price 25%..*	*We look for quality when tendering.*	*Quality, using a large professional firm has quality and knowledge and that is important to us.*
Code 2	*They want to make a profit, don't they?*				*Price.*	*The big boys are there to make a profit.*			*Getting the fees right and getting enough fee to operate a business and reinvest in good staff.*	
Code 3				*It's a balance.*		*They have to maintain high quality.*				
Code 4						*Don't want to risk their reputation.*			*If not doing a good job we would look elsewhere and that would impact on their reputation.*	*The have to put their reputation on the line.*
Code 5								*Audit provides the firms with the opportunity to provide the more lucrative sexier things.*		
Code 6						*Big companies know that reputation is what keeps them in the market.*	*We are a small client using a large firm*			
Code 7				*They want to get in and get done.*						

Appendix 4 – Finance Director Responses - Question 14.

If there was any room for improvement in your current procedures etc, is there anything else that you feel you could be doing / preparing in order to ensure good quality information (as required by auditors) is readily available on the first day of an audit?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1	*Knowing who they want to talk to as right people not always available.*		*Meeting with them and sitting face to face earlier in the year.*	*Conversations could be done earlier in the year.*			*Communication and staggered deadlines.*			
Code 2	*Having a work schedule in advance so we know what they are going to look at and when.*	*We could be better at getting the going concern review ready.*								
Code 3			*Meet so they understand our business and the issues / changes that have occurred throughout the year to date.*				*Meet pre- year end so we can discuss what is happening / happened in our business and they would be better prepared for the audit.*		*At my old place I provided audit training in advance to my staff.* *Audit also showed what a good schedule and reconciliation should look like.*	*Having a good audit team and not a rubbish one.*
Code 4										*Loading things onto the portals is great and avoids going back and forth for documents.*

Appendix 4 – Finance Director Responses - Question 14 (Continued).

If there was any room for improvement in your current procedures etc, is there anything else that you feel you could be doing / preparing in order to ensure good quality information (as required by auditors) is readily available on the first day of an audit?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 5						*Departments not checking the information provided to finance. There are too many irrelevant disclosures and audit report on it if not correct – that's outside finance control*				
Code 6				*We have to work late and at weekends, could impact on quality.*						

Appendix 4 – Finance Director Responses - Question 15.

Other than the information provided, what do you feel could be done by either the auditor or the clients to increase the quality of an audit?

Question coding	FD1	FD2	FD3	FD4	FD5	FD6	FD7	FD8	FD9	FD10
Code 1		*Audit to provide changes in audit staff a briefing so they understand our business before coming out.*	*Juniors spending time in our company watching the manufacturing process etc so they understand our business.*		*Have an agreement whereby junior audit staff come and learn about our business.* *We could go to the auditor's office and give them an inside view of our business and its sector.*					
Code 2				*The regulations are excessive and keep changing, too much pointless planning – I am considering leaving the profession.*						
Code 3			*People are scared of audit and try to hide things. They could be educated better.*							
Code 4	*For us to make sure everything is filed in the right place in a timely manner.*				*Audit should engage and speak to us throughout the year.*					

Appendix 5

Second level coding - Auditors

Appendix 5 – Auditor second level coding

	Code 1	Code 2	Code 3	Code 4	Code 5	Code 6	Code 7
Q1	*Not prepared for auditors.*	*Well prepared for auditors.*	*Company has no idea what to do.*	*Varies between clients.*	*Clients are somewhat prepared for auditors.*	*Auditors prepare and audit the accounts.*	
Q2	*Deliverables listing.*	*Meet / discuss with clients.*	*Auditors do everything and the accounts.*	*Do an interim audit.*	*Auditors do more / too much planning.*	*Time and pressure.*	*Impacts on quality of audit work.*
Q3	*No proper finance functions. Clients rely on auditors.*	*No accounts are ready.*	*Time.*	*Client staff availability.*	*Better prepared clients result in less audit adjustments.*		
Q4	*No, audit not a priority.*	*Yes, audit a priority*	*Additional pressure on auditors.*	*Audit is overhead/necessary evil.*	*Costs / overruns.*	*Escalate problems to make things happen.*	
Q5	*N0, do not make sufficient time for auditors.*	*Yes, make sufficient time for auditors.*	*Get auditors in and out ASAP.*	*Unhelpful clients, audit make information up.*	*Auditors pressured.*		
Q6	*Yes, include in the opinion.*	*Could be contentious/cause friction.*	*How to measure / manage.*	*Drop / remove audit altogether.*	*Disclose level of preparedness / additional fee disclosure.*		
Q7	*No additional value.*	*Raise issues / awareness.*	*Yes, additional value.*	*Disclose overrun fees / weaknesses*	*Differing standards between companies / rank companies.*		
Q8	*Just do the compliance audit.*	*Get audit in and out as fast as possible.*	*Clients prepare the accounts on day one.*	*Reduce time and pressures on auditors.*	*Benefit clients, reduced fee / other audit work.*		
Q9	*Implement / improve client systems. Automate processes etc.*	*Communication.*	*Improve audit tests / audit quality.*	*Educate clients.*			
Q10	*Cost versus benefit.*	*Reduce fees / pass efficiency savings to clients.*	*How to evidence savings.*	*Audit quality / quality of client produced information.*			
Q11	*Meet / discuss.*	*Deliver / provide information on the deliverables.*	*Invest in systems.*	*Know your clients and industry, not rotate off.*	*Automation.*		
Q12	*Yes, review information.*	*No, do not review information. Delegate to junior management.*	*Poor quality – impact on time and audit pressures.*				
Q13	*Clean audit report.*	*Clients focus on price.*	*Clients focus on audit quality.*	*Clients want auditor's knowledge / other services.*			
Q14	*Have accounts prepared.*	*Reduce the amount of accounting / audit regulations.*	*Timeliness of information.*	*Meet / talk.*	*Client review of information and client buy in.*		

Appendix 6

Second level coding – Finance Directors

Appendix 6 – Finance Director second level coding

	Code 1	Code 2	Code 3	Code 4	Code 5	Code 6	Code 7
Q1	*We are well prepared.*	*Receive deliverables.*	*Time and pressures.*	*Accounts prepared.*			
Q2	*Yes, information reviewed.*	*No, information not reviewed / contentious information.*	*Don't have time.*	*Help get audit in and out as fast as possible.*			
Q3	*Receive a checklist / deliverables list.*	*Pre-audit meeting.*	*Auditors portal.*	*Tailored checklist.*			
Q4	*Controls.*	*Reliance on others outside finance.*	*Disclosures (accounts).*	*Late technical guidance.*	*Time / pressures.*		
Q5	*Yes, a priority.*	*Get audit in and out as fast as possible.*	*Daily job is priority.*				
Q6	*Yes, include in opinion would make audit preparation a priority.*	*Reflection of management.*	*Cause problems.*	*Possibly benefit / other (overrun costs).*	*Traffic light system.*		
Q7	*Yes, additional value.*	*Publicise negatives.*	*Explain how company has performed.*	*Disclose fees / overruns.*	*Agreed deliverables.*	*ISA 260 report.*	
Q8	*Yes, reduce time.*	*Change in audit staff.*	*Audit from isolated place (no need to be on site).*	*Pressure / time.*	*Audit findings, audit must report something.*	*Interim audit.*	
Q9	*Yes, sufficient time.*	*No, not enough time to prepare.*	*More time, would be better prepared.*				
Q10	*No, do not understand FRC requirements.*	*Yes, understand FRC requirements.*	*Ex auditor.*	*Assume we are lying.*	*Audit have no clue, therefore challenge clients.*		
Q11	*Follow up on checklist / deliverables.*	*Checklist / deliverables is standard.*	*Lack of communication.*	*Technical support.*	*Late technical guidance.*	*Educate audit on client industries.*	*Pro forma accounts / audit approach.*
Q12	*Reduce fees.*	*Provide additional services.*	*Audit may not pass on fee reduction / efficiency savings.*	*No incentive.*			
Q13	*Audit quality.*	*Audit price / fee.*	*Quality and price.*	*Reputation.*	*Audit is loss lead for other services.*	*Size of audit firm.*	*Time.*
Q14	*Meetings / talking.*	*Audit work schedule.*	*Understand client's businesses.*	*Have portals.*	*Silly disclosures.*	*Time / quality.*	
Q15	*Audit juniors / Educate auditors / change audit staff.*	*Regulatory changes.*	*Scared of what audit do.*	*Meeting / speaking with clients.*			

Appendix 7

Consolidated final level coding

Code 4 – Audit Review and Premature Sign Off

Code		Theme
1	**Availability of financial statements**	No accounts preparation / Self audit / Auditor prepares accounts / Regulations / too much planning Regulations.
2	**Availability of audit evidence**	Level of preparedness / Deliverables / Communication / Agreement of what is delivered / quality and timeliness / unpredictability.
3	**Education / Knowledge / Specialisation**	Rotation of staff / Continuity of audit staff / Training of audit.
5	**Fees and performance management**	Time pressures on both clients and auditors / Fee pressures / audit quality Low balling.
7	**Automation**	Automation / portals / audit approach.
6	**Audit opinion**	Amend the audit opinion / costs / reflect levels of preparedness.

Appendix 8

Participant information sheet

University of Central Lancashire

Study title

This study forms part of the Doctorate in Business Administration at the University of Central Lancashire.

The title of this study is:

To explore the importance of audit client commitment to comprehensive audit preparation to improve the quality of a UK financial statements audit.

Invitation paragraph

You are being invited to take part in a research study. Before you decide whether or not to take part, it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully.

What is the purpose of the study?

As a professionally qualified accountant and auditor it has been noted during my professional life that clients and auditors have differences between their expectations for the commencement of the audit fieldwork. This study aims to ascertain if there are any commonalities / differences between the expectations of both the auditor or the organisation being audited from those persons within each respective organisations who take overall responsibility for the audit.

Why have I been invited to participate?

You have been asked to participate due to the fact that you are the person within your organisation who takes overall responsibility for the financial statements external audit.

Do I have to take part?

It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep and be asked to sign a consent form. If you decide to take part you are still free to withdraw at any time and without giving a reason. You have the opportunity to withdraw up to one month after the interview, should you wish to withdraw your data (recording and any notes etc) will be deleted / destroyed. All data is anonymised at the time of collection, after one month from the interview date withdrawal will not normally be possible. If at this or any stage of the process you do have any issues with your involvement in this research project please contact the researcher to discuss these concerns

What will happen to me if I take part?

You will be interviewed for normally between 30 and 60 minutes and the interview will be digitally recorded following consent, or alternatively hand-written notes will be recorded.

What are the possible benefits of taking part?

Upon completion of the study the findings may inform the current process / regulatory frameworks of preparing for audits on the first day of an audit, your contribution may well aid with informing how an audit is conducted from both a client/ auditor perspective in the future.

What are the possible risks of taking part?

There are no risks involved in participating in this study as all recordings, any notes and subsequent findings will be anonymised and no individual or organisation will be identifiable.

Will what I say in this study be kept confidential?

All information collected will be kept strictly confidential (subject to legal limitations) and, there will be no reference to an individual or organisation and all information will be password protected on the researchers own computer and will not be stored on any network or other transportable storage device. Data generated by the study must be retained in accordance with the University's policy on Academic Integrity which can be made available to you should you so wish. However, the data generated in the course of this research must be kept securely in paper or electronic form for 5 years from the end of the project. This research project has been through and is bound by a strict ethical research policy of the University.

What should I do if I want to take part?

If you wish to take part please acknowledge by responding to an e-mail inviting you to participate and please sign a participant's sheet that will be made available to you at the commencement of the interview.

What will happen to the results of the research study?

The results will form the basis for the data collection and analysis of the Doctorate in Business Administration programme I am enrolled upon at the University of Central Lancashire and will form part of my thesis. Should you wish to see copy of the final thesis this can be made available to you upon completion and graduation.

Who is organising and funding the research?

I am conducting the research as a student of the School of Management at UCLan.

Who has reviewed the study?

The research has been approved by the University Research Ethics Committee (BAHSS Ethics Committee).

Contact for Further Information

I can be contacted on my e-mail address: s.marsh@bolton.ac.uk should need any further information from me. Should you have any concerns about the way in which the study has been conducted, please contact the University Officer for Ethics (email address OfficerforEthics@uclan.ac.uk).

Thank you

May I take this opportunity to thank you for taking the time to read this information sheet.

Date

xx/xx/xxxx

Appendix 9

Participant consent form

University of Central Lancashire

CONSENT FORM

Full title of Project: Stuart Marsh DBA Thesis (Module DB5000)

Name, position and contact address of Researcher: Stuart Marsh. DBA Student. University of Bolton, Dean Road, Bolton, Lancashire, BL3 5AB

Please read the following statements and initial the boxes to indicate your agreement

	Please initial box
I confirm that I have read and understand the information sheet, dated ………….. for the above study and have had the opportunity to consider the information, ask questions and have had these answered satisfactorily.	☐
I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason.	☐
I agree to take part in the above study.	☐
I agree that my data gathered in this study may be stored (after it has been anonymised) and may be used for future research.	☐
I understand that it will not be possible to withdraw my data from the study after final analysis has been undertaken	☐
I agree to the interview being audio recorded	☐

I agree to the use of anonymised quotes in publications ☐

Name of Participant	Date	Signature
Name of Researcher	Date	