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E-business audit: Advisory jurisdiction or occupational invasion?

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A B S T R A C T

This study sets out to examine the impact of technological change on the external audit function of e-businesses and, specifically, the professionals involved in executing it. Utilising semi-structured interviews combined with a questionnaire survey, this paper explores the possible implications of developments in e-business audit for financial auditors as a professional group. The findings suggest that the traditional authority enjoyed by external financial auditors is being, and will be, increasingly challenged by IT audit specialists. The role of the professional bodies, responsible for the education and training of financial audit professionals, in particular, is highlighted as key to the outcome if they are to fend off challenges in this growing arena and retain jurisdictional control.

1. Introduction

The course of professionalisation is very much coupled to inter-professional relations and the activities and tasks performed by professionals. To this end, the history of the professions is littered with cases of jurisdictional manoeuvring, where the hegemony of a professional group is threatened or even eclipsed by another with a skill set more specific to a

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particular task.[1] In British accountancy, accountants had plied their trade long before professional organisation was initiated in the late nineteenth century (Matthews et al., 1998), competing with solicitors for legal and financial business. They carved a specialised niche for themselves, initially engaging in resolving the fallout from bankruptcies and liquidations and eventually monopolising the legal requirement for audit and slowly expanding their jurisdictional claims to encompass cost and management accounting too. The professionalisation process is one of evolution[2] and accountancy has long been, and continues to be, a contested terrain in the modern economy (Cooper and Robson, 2006). At various times, accountants also engaged with bankers over the jurisdiction of business advice and with managers over the provision of staff services (Abbott, 1988). In more recent times the work performed by accountants has been significantly transformed by the introduction of information technology (IT) (Caglio, 2003; El Sayed, 2006). For auditors, in particular, the computerisation of clients' systems and the recent growth in e-business present new audit challenges.

Within the last decade the literature pertaining to the use of information technology (IT) in accountancy (Orlikowski, 1992; Caglio, 2003) and in the audit process (Manson et al., 2001; Bierstaker et al., 2001; Shaikh, 2005; Matthews, 2006; Janvrin et al., 2008; Omoteso et al., 2010; KPMG, 2010) has been steadily growing. Some of these have focussed on the use and inadequacies of computer assisted audit tools (CAATs) (Bierstaker et al., 2001; Shaikh, 2005), whilst others have, more recently, explored the relationship between financial auditors and IT specialists involved in external audit (Vendrzyk and Bagranoff, 2003; Brazel, 2008).[3] However, very little attention has been directed towards the use of IT audit specialists in the external audits of e-businesses.

This empirically rooted study sets out to redress this and examines the impact of developments in e-business on the external audit function and, specifically, on the professionals involved in executing it. E-businesses evolve in an IT-driven environment and are dependent upon the use of composite technologies for networks, communications, databases, and securities (Pathak and Lind, 2007; Kotb and Roberts, 2011). This has become an important area for study for two reasons. Firstly, the last five years has witnessed a period of accelerated growth in e-business both in the UK and globally. In the UK, the corporate website has become an essential means of communication with stakeholders with the proportion of non-financial businesses selling over the Internet doubling from 7% to 15% between 2002 and 2007, by which time 70% of businesses had a website (The Office for National Statistics ONS, 2009). More importantly for this study, also by 2007, 19.3% of all UK businesses (and 68.9% of larger businesses – those with at least a 1000 employees) used automated data exchange, 17.8% (50.3%) automatically integrated orders received with their accounting system while 12.8% (48.5%) did the same for orders placed with suppliers. Secondly, for audit purposes, the implementation of an e-business system can alter the risk profile of the enterprise (The Institute of Internal Auditors IIA, 2003; Kotb and Roberts, 2011). Although the basic principles and essential procedures underlying the external audit of such entities are not significantly different to those that apply to the audit of other businesses, in an e-business environment economic transactions are captured, measured, and reported on a real-time basis without either internal human intervention or paper documentation (Auditing Practices Board (APB), 2001; Australian Accounting Research Foundation (AARF), 2002; Chatzoglou and Diamantidis, 2009) and accordingly, the information produced by these systems needs to be audited on a real-time basis (Zhao et al., 2004). Continuous auditing[4] and assurance is increasingly utilised by audit firms in the audit of web services such as XBRL-based accounting systems and ERPs (Du and Roohani, 2007; Vasarhelyi, 2010). This means that a number of audit practices and techniques are no longer ideal or even applicable in an e-business environment, for instance traditional paper-based audit evidence, testing controls and transactions, and the year-end audit approach (Shaikh, 2005; Chou and Chang, 2010; Masli et al., 2010; Chan and Vasarhelyi, 2011). Such developments imply that auditors have been, and are likely to be, increasingly faced with the need to adopt new audit techniques (Kotb and Roberts, 2011) and employ the use of new IT based techniques in order to accommodate the unique features of e-business.

However, the literature suggests that there is evidence that financial auditors are often reluctant or unable to take responsibility for real-time audit and technically specialised IT audit roles are increasingly growing in importance and driving the need for a very specialised IT expertise (Vendrzyk and Bagranoff, 2003; Brazel, 2008)[5] that has not, to date, been a significant part of financial auditors' education or training (Bedard and Chi, 1993; Albrecht and Sack, 2000; Arnold and Sutton, 2007; Coe, 2006; Pathak and Lind, 2007). This study sets out to explore the consequences of the delegation of

[1] In his study of "The System of Professions", Abbott (1988) cites various historical cases of jurisdictional usurpation, including the rise of psychiatrists in America, from being the superintendents of asylums for the insane to replacing neurologists as the "outpatient border guards of the medical profession" (Abbott, 1988, p. 22). In Britain, the security enjoyed by barristers in the legal profession was threatened by the association of solicitors in the early nineteenth century, who triumphed in their attempts to secure a monopoly over the lucrative business of conveyancing, although the barristers retaliated by consolidating their rights to verbal pleading within courts of law (Abbott, 1988).

[2] For accountants, this has included establishing and maintaining their position and monopoly, fighting off challenges from below, nurturing the profession–client relationship, developing the education of current and prospective members and seeking out new opportunities by engaging in competition.

[3] Brazel (2008) notes that in a complex IT environment audit quality is partially determined by the IT expertise of the financial auditor and his evaluation of an IT specialist's assessment. Vendrzyk and Bagranoff (2003) found that audit firms typically have separate IT and financial audit practices within a risk assurance group and an audit team will include members of both.

[4] Continuous audit is a "a methodology that enables independent auditors to provide written assurance on a subject matter using a series of auditors' reports issued simultaneously with, or a short period of time after, the occurrence of events underlying the subject matter" (Shields, 1998).

[5] Evidence from the USA suggests that IT auditors have become permanent fixtures on audit engagements due to changes in audit standards in US – SAS 108 and 109 (Brazel, 2008).