Discussant's response to current developments in United Kingdom Auditing research;

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Current Developments in United Kingdom Auditing Research

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Gwilliam’s paper is interesting for two reasons. First, it provides a good account of the current status of auditing research in the U.K. and the reasons why U.K. research has been more limited than U.S. research. Second, the paper provides a basis for analyzing how future changes in the U.K. environment might affect the level and nature of research performed.

The paper is divided into four sections:
- A summary of research that has been done,
- A discussion of why past research has been so limited,
- A discussion of what U.S. research might be applicable in the U.K., and
- A discussion of what research areas might be most beneficial for U.K. researchers to pursue.

The primary focus of my discussion will be to expand on some of Gwilliam’s comments and to provide my own views on the relative importance of some of the matters mentioned in the paper.

Why Has There Been So Little U.K. Auditing Research?

In some respects, the U.K. auditing environment is similar to the U.S. environment approximately 15 years ago. There apparently is very little external pressure on the profession to improve auditing techniques, and, therefore, very little money and effort is being expended on auditing research.

Gwilliam’s paper provides a comprehensive description of the characteristics of the U.K. and the U.S. auditing research environments. For convenience, I will group these characteristics into three categories—the academic, the auditing firm, and the general business environments.

Academic Environment

Gwilliam points out that the U.K. academic environment is not as conducive to auditing research as the U.S. environment. There are fewer accounting faculty, they are not as research oriented, and they are not as well trained in research techniques as their U.S. counterparts. Gwilliam also states that auditing research is not considered to be a prestigious activity and that funding for research is not generally available. All of these factors are disincentives to conducting contemporary auditing research, particularly in “high-tech” areas such as expert systems and decision aids.
It struck me as ironic that one of the reasons contributing to the low level of research in the U.K. is that many U.K. academics are former auditors who have become disenchanted with auditing. I would have expected that academics who are former auditors would be more interested in auditing research than other academics because of their awareness of the problems and issues facing auditors.

Auditing Firm Environment

Gwilliam points out that major U.K. auditing firms do not fund academic research to the same degree that their U.S. counterparts do. Major U.S. auditing firms provide a great deal of support for auditing research by funding specific projects, contributing to university accounting programs, providing support for doctoral students, and sponsoring research conferences. In the U.K., auditing firms provide very little such support.

Gwilliam's paper asserts that U.S. firms receive recruiting and public relations benefits from supporting academic auditing research and that funding might be provided for this reason. When Peat Marwick introduced its Research Opportunities in Auditing Program in 1976, its objective was to stimulate interest in auditing research and, thereby, to improve the profession. This is still the objective of the program, and significant progress has been made toward its achievement. Any recruiting or public relations benefits that Peat Marwick has received are fortunate side effects of sponsoring the ROA program. Therefore, while I agree that firms receive public relations benefits from sponsoring research, I do not think that these benefits are a primary motivating factor in deciding to provide funding.

In the past, the U.K. and the U.S. used different approaches to professional training. In the U.S., university graduates with majors in accounting were hired. In the U.K., the typical recruit had a liberal arts degree and received his accounting and auditing training after he was hired. The paper points out that since auditing research is not usually conducted at the universities where U.K. firms recruit, U.K. firms would not have been motivated by recruiting benefits to fund academic auditing research. I agree with Gwilliam's point. I also think it would be interesting to investigate the reasons for and the ramifications of the two training methods.

As a part of his discussion of why U.S. accounting firms fund academic research more than U.K. firms, Gwilliam discusses the possibility that it might be less expensive for U.S. firms to pay academics to perform research than to do it themselves. I suspect that this is true, but I do not think that it is a major factor in funding decisions. Research grants are not usually restricted by the donors, the results of the research are the property of the researchers, and projects funded are selected based primarily on their academic merit. The possibility of an immediate research benefit to the funding firm is usually not a consideration. The lack of donor control indicated by these factors makes the estimation of any direct economic benefits very difficult. Because of the difficulty of measuring the benefits to the funding firm, I do not think that the relative cost of the two alternatives is a significant determining factor in the decision to fund academic research.

Another reason cited for the relatively low level of research in the U.K. is the fact that researchers do not have access to audit working papers. It is true
that audit working papers contain a great deal of researchable data. However, the lack of working paper access does not explain the relatively low level of U.K. research because U.S. researchers have only limited access to audit working papers. Confidentiality of client data is one of the cornerstones of the auditing profession, and it must not be compromised. Therefore, academic access to working papers must continue to be limited. Occasionally, a firm releases data collected in connection with an internal research project for further analysis by the academic community, but such data are summarized or client-specific information is deleted so that confidential client data are not disclosed.

An alternative to using working paper data for research is to have auditors provide judgments for cases based on hypothetical audit situations. In this manner, researchers can find out what auditors do in the field without reviewing working papers. Careful experimental design can help to ensure adequate external and internal validity, and this method has the benefit of providing information about how several auditors would react in similar circumstances. This stability of circumstances would be impossible to duplicate using client data from a number of different audit engagements. Research in the U.S. is often carried out in this manner, and U.K. researchers could also benefit from using this method.

Two factors that Gwilliam does not mention are the relative size of U.K. and U.S. firms and the fact that the major international auditing firms practice in both countries. The major U.K. firms are smaller than the major U.S. firms. The major U.S. firms generally have larger staff operations than their U.K. counterparts and can make a larger commitment to developing their audit technology, becoming familiar with academic research activities, and funding academic research projects. Also, since “The Big Eight” are principal firms in both countries, the U.K. practices of these firms can benefit directly from U.S. research by adopting the technology of their U.S. practices. Both of these factors would limit the incentive for U.K. firms to engage in or fund auditing research.

**Business Environment**

The business environment in the U.K. is similar to that in the U.S. in many ways. The two countries share a common language and similar accounting practices, and both have well developed industrial bases and financial markets. However, the practice of auditing in the U.K. is somewhat different. In the U.K., a lower risk of litigation against auditors exists, there is less competition among auditing firms, and the government is not concerned with auditing matters.

Gwilliam indicates that these factors may contribute to a lower level of concern in the U.K. about the efficiency and effectiveness of auditing techniques. While this may be true, I think that U.K. firms are interested in improving their auditing techniques. Even in the U.K. business environment, firms that are more efficient or more effective than their competitors will obtain competitive benefits in the long run.
U.K. Research: Needs and Future Directions

A logical approach to conducting future auditing research in the U.K. is to review what has already been done elsewhere, use what is directly applicable, adapt what needs to be tailored to specific U.K. circumstances, and fill in any gaps between existing research and U.K. needs. Gwilliam suggests that this approach be used.

One of the examples given of the direct adoption of U.S. research is the use of SEADOC by Peat Marwick's U.K. practice. SEADOC—Peat Marwick's method of documenting internal accounting controls—was developed primarily by its U.S. practice. However, Peat Marwick practices around the world were involved in its development to ensure that it would be useful in their environments. All audit decision aids used by Peat Marwick are developed under the review of Peat Marwick's Accounting and Auditing Committee, which includes representatives from major practices around the world. Therefore, at least in the case of Peat Marwick, all products of U.S. research which are applied outside of the U.S. are carefully screened to ensure that they are applicable.

Gwilliam identifies four areas as being of specific U.K. interest: audits of small businesses, forecasts, audits of public sector entities, and reports on inflation-adjusted balances. These areas were selected because the U.K. accounting profession presently places greater emphasis on them than the U.S. profession does. However, these areas are also of increasing importance to the U.S. profession. If U.K. researchers do perform research in these areas, the U.S. profession might reap some of the benefits of their efforts.

Conclusion

I hope that Gwilliam's paper will also be published in the U.K. and that U.K. researchers and auditors will read it carefully. Researchers should use it as a basis for determining which areas of research they should pursue. Auditors should use the paper to assess their present research positions and to assess whether, in the changing U.K. environment, they should increase their commitment to auditing research. Gwilliam points out that auditing research in the U.K. appears to be growing. His paper should provide a basis for guiding this growth and for stimulating further growth in the future.