Doctor of Economics

International Standards on Auditing: An institutional driver for Audit Quality. Empirical research within the financial sector on indices of compliance using auditor reporting characteristics

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Summary

The major thesis defended is that the ISAs are an institutional driver for audit quality.

The first chapter discusses the application of information economics to an audit of financial statements (agency theory, signalling theory). First, the importance and functionality of auditing standards is dealt with, followed by considerations why the International Standards on Auditing, although not “optimal”, may be considered “best in class” drivers of audit quality provided certain conditions are being met. Audit quality may arise from the interaction between auditing standards (including the ISAs) and the incentive creating and monitoring mechanisms (reputation, quality assurance, legal system characteristics and regulatory inspections).

The second chapter discusses in depth the institutional field of auditing, including the de-jure and de-facto (international and national) auditing standard setters. A key factor in the institutional process of auditing standard setting is the legitimacy assigned to the existing auditing standards, to the bodies setting these standards and to the due process to be followed in the setting thereof. Furthermore, a comprehensive comparison is being made between the ISAs and the Belgian auditing standards (edition 2013) and the possible impacts on audit quality arising from these differences are discussed.

The third chapter includes an empirical research on the harmonization and standardization of the auditor’s report of banks and insurance companies. An alternative approach to the usual audit quality proxies is being followed, making use of compliance indices. This empirical study will conclude on whether ‘country’ is to be considered a harmonization disturbing factor, and on whether the ISA brand or the Big-N auditing network brands are to be considered as drivers of compliance with ISA reporting characteristics.