

**AUDITING**

**AUDITING IN PUBLIC ACCOUNTING FIRMS: A PRELIMINARY LOOK TO 1999**

By *Mary Ellen Oliverio and Bernard H. Newman*

**P**ublic accounting firms have expanded services in a number of ways in the last decade. New services have been added and former services restructured. Auditing services, long the primary focus of many public accounting firms, have been joined by other significant services. Auditing services are undergoing modifications and are currently under review. The AICPA has formed a special committee on assurance services that has as its charge the development of a strategic plan for an expanded assurance function. The auditing section of the American Accounting Association has also established a committee to investigate issues related to future expansion of audit, attestation, and other assurance services. In practice, there has already been implementation of a broader view of auditing, as, for example, in the brochure of one of the major public accounting firms the segments of the firm's services include auditing under "business assurance." Emphasis in the brief discussion of business assurance services is on the "...leveraging of the knowledge gained from the audit to enhance the effectiveness of your organization..."

*Editor:*

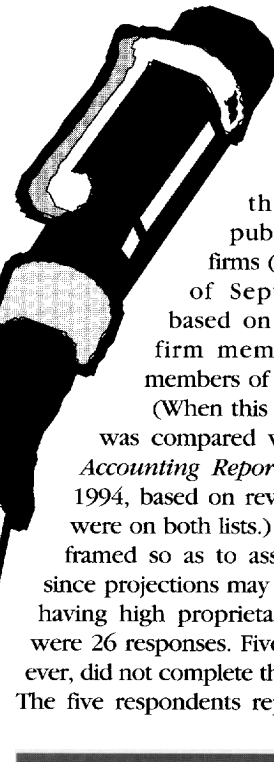
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In an effort to determine how public accounting firms were responding to the current environment, a survey was designed to gather information about the current status of auditing and the anticipated status at the end of 1999. Since discussion with several partners in firms of different sizes indicated the segment that included auditing continued to have that label, the term used throughout the questionnaire was, therefore, "auditing," even though the term "assurance" is beginning to appear in the literature.

The exploratory survey was developed to include a range of considerations rather than to focus on a limited number of factors. From articles in professional journals and the business press and from comments by practitioners in a variety of forums, a number of factors relevant to change were identified. The questionnaire therefore included questions related to these general questions:

- To what extent will auditing continue to be a significant component of public firms' practices?
- To what extent will the structure of auditing change?
- What technology will be in use?
- How will the auditing task be performed?

A questionnaire of 15 structured questions and one open-ended question was



developed and mailed to the managing partners at the largest 101 public accounting firms (AICPA listing as of September 1993, based on percentage of firm members who are members of the AICPA).

(When this list of 101 firms was compared with the *Public Accounting Report's* Top 100 for 1994, based on revenues, 78 firms were on both lists.) Questions were framed so as to assure anonymity, since projections may be perceived as having high proprietary value. There were 26 responses. Five of these, however, did not complete the questionnaire. The five respondents reported they did

**TABLE 1  
 AUDITING NOW AND AT THE END OF 1999**

Percentage of Practice (revenues)

In Auditing	Now	Anticipated for 1999
60%	4	0
50 to 59%	4	2
40 to 49%	5	7
30 to 39%	6	9
20 to 29%	<u>1</u>	<u>2</u>
	20	20

**TABLE 2  
 EXTENT OF INDUSTRY SPECIALIZATION BY STAFF LEVELS**

Extent of Specialization	Staff		Senior		Manager		Partner	
	Now	1999	Now	1999	Now	1999	Now	1999
None	11	8	6	3	5	3	4	3
No more than 10%	8	3	4	0	2	2	3	1
11 to 25%	0	3	4	5	3	2	2	1
26 to 50%	0	4	3	3	2	3	1	1
51 to 75%	0	0	0	2	3	3	2	2
76 to 99%	0	0	0	2	2	2	0	2
100%	<u>2</u>	<u>3</u>	<u>4</u>	<u>6</u>	<u>4</u>	<u>6</u>	<u>9</u>	<u>11</u>
	21	21	21	21	21	21	21	21



## AUDITING IS THE CURRENT MAJOR ACTIVITY REPORTED BY THE FIRMS, AND ALTHOUGH A DECREASE IN PERCENTAGE IS PROJECTED BY 1999, AUDITING IS EXPECTED TO CONTINUE AS AN IMPORTANT ACTIVITY.

not have projections to the end of 1999. Of the 21 usable responses, a few did not answer every question. There is no basis for determining whether the response was representative of the population of 101 firms, since no alternative procedures related to the original sam-

ple were completed. Conversations with partners in seven firms, however, that were not on the original list resulted in responses similar to those received. Only three of the seven, though, had thought systematically about the future of their firm.

### The Extent of Audit Services

The first two questions related to the overall firm practice.

Question one asked for subdivision of the U.S. firm (by revenue percentages) now and anticipated for 1999. Question two asked for growth in personnel by projecting increases (or decreases) by the end of 1999 compared to June 1994.

Auditing is the current major activity reported by the firms, and although a decrease in percentage is projected by 1999, auditing is expected to continue as an important activity. As shown in *Table 1*, while four firms indicated that 60% or more of their revenues currently are in auditing, no firm indicated that would be the extent of auditing by the end of 1999. (Responses for only 20 are indicated, since one firm gave a figure of 56% for both auditing and taxes for current practice; the respondent in this instance indicated that the combined figure would be 43% by the end of 1999.)

When the 78 firms that were on both the AICPA and Public Accounting Report lists were analyzed, using the Public Accounting Report figures for the per-

**TABLE 3**  
**STRUCTURE OF STAFF: IN 1994 AND ANTICIPATED FOR 1999\***

	Now		Anticipated for End of 1999	
	Range	Mean	Range	Mean
Partners (n=19)	5% to 27%	17%	5% to 30%	19%
Managers (n=19)	15% to 50%	23%	15% to 30%	20%
Seniors (n=18)	12% to 30%	26%	15% to 24%	19%
Staff (n=18)	19% to 60%	29%	10% to 35%	25%
Paraprofessionals				
(Now n=5; 1999 n=9)	3% to 15%	7%	5% to 20%	11%
Part-time				
(Now n=5; 1999 n=11)	1% to 5%	3%	4% to 20%	9%

\*Means do not equal 100% since the number of respondents differs in the categories.

**TABLE 4**  
**TECHNOLOGIES ANTICIPATED FOR THE END OF 1999**

Technology	Extent of Usage			
	Extensive	Somewhat Limited	Limited	Unsure
Expert systems for planning	2	6	0	2
Expert systems for internal control assessment	0	14	4	2
Expert systems for tests of control	0	12	6	2
Expert systems for substantive tests	0	12	6	2
Computer based working papers	0	2	18	0
Interactive systems for continuous auditing of client	6	8	0	6
Interactive videodisc systems for intercompany training	4	4	6	4
Interactive databases for distant access by staff	2	3	3	5
International information network for firm	13	4	2	1

TABLE 5  
TODAY'S JUDGMENTS REGARDING AUDITING AT THE END OF 1999

Circumstance	HIGHLY LIKELY	MAYBE	NOT SURE
Auditing will be done continuously throughout the year	0	7	12
Auditors will express an opinion on internal control	8	7	5
Auditing will be monitored more closely by an outside group than is the case now	6	4	10
The responsibility of auditor will be legally limited to reduce the extent of potential liability	8	10	2
Auditor assignments will likely require some work outside the United States	4	12	4
Added by respondents: The audit will be expanded	7		

centage of revenues generated by auditing services, the average percentage was approximately 49%. The average for the sample in this group is approximately the same. As *Table 1* shows, 11 of the 20 respondents indicated between 20% and 39% as the anticipated proportion of revenues that would be generated from auditing services.

Five of the 21 respondents indicated that they anticipated an increase in the number of employees in auditing relative to the number in June 1994, while 10 anticipated decreases of 5 or 10%. The responses were as follows:

	Frequency
Increase of 20%	1
Increase of 15%	2
Increase of 5%	2
Same number or slightly fewer while providing more services	4
Decrease of 5%	4
Decrease of 10%	6
Unknown/no projection	2

### Specialization by Industry Groups

Respondents were asked about the extent of industry specialization by staff level now and the extent anticipated by the end of 1999. As shown in *Table 2*, there is a range of specialization now and anticipated. There were two firms where staff are assigned to industry groups now and these firms anticipate that this practice will prevail at the end of 1999. Another two firms assign all staff, except staff

accountants, to industry groups. However, there were three firms that have no specialization at any level now or anticipated.

### Structure of the Auditing Division

There is considerable variation in percentage of staff at each level in the 19 providing information. The most marked change anticipated by the end of 1999 is the extent to which paraprofessionals and part-time workers will be employed. One respondent combined staff and paraprofessionals in one percentage (27%) that is not included in *Table 3*. While only approximately a fourth of the firms indicated the use of either paraprofessionals or part-time professional staff in 1994, there were eleven who noted such employees for the end of 1999. The mean percentage for the end of 1999 reflects a flattening of the firm's structure when compared with 1994.

### Technology in Use at the End of 1999

Nine technologies gaining acceptance in businesses of all types were listed. Respondents were asked to provide opinions as to the extent of usage for each by the end of 1999. (Unfortunately, the current use of technology was not ascertained.) *Table 4* provides the responses. The two technologies that were most frequently checked as "extensive" were computer-based working papers and expert systems for planning. There does not appear to be

overwhelming introduction of several technologies that are gaining attention in the business world, such as expert systems for internal control assessment and interactive databases.

### Judgments About Auditing at the End of 1999

Respondents were asked to indicate if each of five circumstances regarding auditing was "highly likely," "maybe," or "not sure." *Table 5* presents the judgments about the factors listed. Opinions were varied. The most common response for three circumstances was "maybe" for continuous auditing, limited liability, and assignments outside the U.S. As noted, eight of the 20 respondents believed that auditors will express an opinion on internal control with another seven indicating maybe this will be the case. Expressing an opinion on internal control is just one commonly discussed extension of the auditor's involvement with clients.

Seven of the 21 respondents added that they believed there will be an expanded audit by the end of 1999. There was no elaboration on this point. This prediction seems to be in line with that included in the report of the AICPA Special Committee on Financial Reporting. □

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