

# INVESTIGATING THE RELATIONSHIP BETWEEN AUDIT RENEWAL STRATEGY AND AUDIT PERFORMANCE: A CONCEPTUAL FRAMEWORK

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## ABSTRACT

*The important tool that leads to achievement in the audit profession under this dynamic environment is a renewal strategy because it has an influence on a certified public accountant's (CPAs)'s adaptation. Previous research has centered mainly on the renewal strategy and self-renewal of organizations in the field of strategic management, but research in the field of auditing is still lacking. One, therefore, aims to have this question answered: "How does audit renewal strategy affect audit performance?" With the purpose of this conceptual piece being the investigation of the relationship between audit renewal strategy and audit performance, there are five dimensions of audit renewal strategy considered which include: audit development continuity, audit method adaptation, audit concept change, audit process flexibility and audit learning dynamism. This study has come to a conclusion that audit performance outcome is based upon best audit practice, audit information advantage and audit professionalism effectiveness. The results of this conceptual framework can serve auditors with an audit tactic development guide, and it can also help them to recognize key components that may be of significance in bolstering their career as an auditor. In future work, This researcher plans to provide additional analysis of antecedents, moderators, and control variables related to audit renewal strategy and performance outcome, in order to broaden understanding on the subject and explain a real-life situation based on theory.*

## INTRODUCTION

Globalization has increased rapidly in the last decades leads to a much more intense competition in both trade and investment. The audit profession in Thailand affected by entry into the ASEAN Economic Community are auditors' opportunities, challenges and significant changing points under the new realm of free movement of labor. This will increase competition among auditors and will affect the success and sustainability of the auditing profession (FAP, 2015). To ensure their sustained success, Thai auditors must adjust their audit strategy in accordance with this new economic era, the changes in the international accounting standard, and complex transactions. Their professional services must meet international standards so that investors and stakeholders have full confidence in them. Since investors need to be assured, in order for them to make a correct business decision that the financial statements have accurated and prepared according to the international standards, good auditing is of great importance to the economy (Peecher et al., 2007).

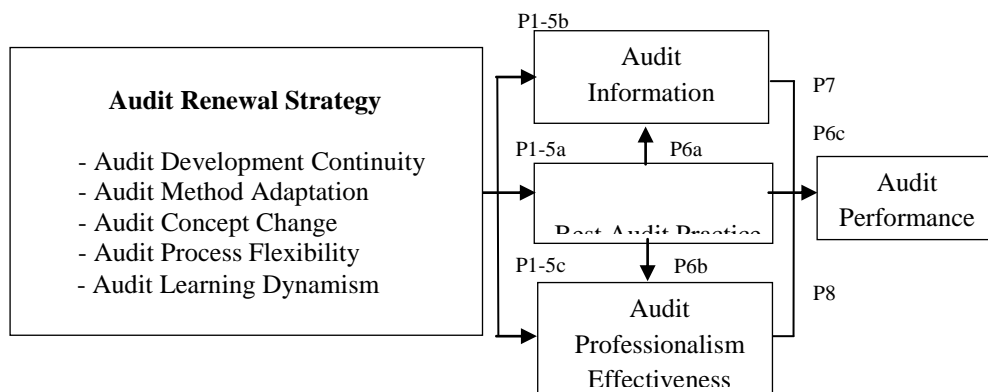
This work applies audit renewal strategy from the concept of strategic renewal that has current perspectives on strategic renewal and has increased the field of strategic management. Previous literature has found that strategic renewal is supported by the middle management perspective (Floyd & Wooldridge, 2000; Wooldridge & Schmid, 2008), in two aspects of strategy content, and the dynamic capabilities view (Agarwal & Helfat, 2009). Moreover, a great deal of research on renewal strategy has focused on the need of firms to continually renew or recreate their strategies (Huff, Huff, & Thomas, 1992; Leonard-Barton,

1993), and self-renewal of organizations. However, there has been only limited research in the field of auditing. For this reason, this study aims to fulfil this gap in the literature. The main purposes of this conceptual paper are to investigate the relationship between audit renewal strategy and audit performance, and to evaluate the possible effects of the former on the latter. This article is outlined as follows. The first section discusses the existing literature in audit renewal strategy. The second one describes the conceptual framework, based on the interdependence of each variable, and the proposition developed on the basis of the framework. The following sections focus on the managerial contribution that this work might have for the auditing profession, as well as on the direction of future research. Finally, the findings of the study are summarized in the conclusion.

### CONCEPTUAL FRAMEWORK OF AUDIT RENEWAL STRATEGY AND AUDIT PERFORMANCE

The audit renewal strategy relationships of CPAs in Thailand are thoroughly investigated. To study the effect of the five components of the audit renewal strategy on the audit performance, a conceptual framework linking the renewal strategy with the performance through the audit information, best audit practice and audit professional effectiveness has been constructed as shown in Figure 1.

**Figure 1**  
**A Conceptual Framework of Audit Renewal Strategy and Audit Performance**



### AUDIT RENEWAL STRATEGY AND AUDIT PERFORMANCE

Audit renewal strategy is the key construct in this research that is adapted from strategic renewal. There are some issues to be discussed. Firstly, the definition of strategic renewal strategy is one type of firm capability (Das & Teng, 2000), and is the general framework for making decisions about innovations and change (Sundbo, 2001). In addition to this, it can bring a firm to superior performance. In general, strategic renewal refers to a collective part of strategic management that can be attributed to the contributions that were of great significance to the field (Schendel & Hofer, 1979). In the beginning, strategic self-renewal was understood as a transformative action that involves the environment, objectives, strategy and/or structure in order to survive in a sustained manner (Chakravarthy, 1984). The concept stresses the bottom-up approach to learning of new skills and capabilities. In a similar fashion, Floyd & Wooldridge (2000), defined strategic renewal as a procedure that involves the promotion and accommodation of novel information and innovation that lead to new development in a firm’s strategy and/or its core capabilities. Furthermore, it can cope with an environment subjected to constant change, and is gradually replacing the moment of strategic change (Huff, Huff, & Thomas, 1992).

Therefore, renewal strategy in the context of auditing is the capabilities of an auditor to perceive the importance of adaptation, process, method, concept and self-development continuity according to the situation the audit faces, whether it involves internal or external uncertainty. In this research, audit renewal strategy includes a set of activities or evolutionary auditing processes which promote auditors to use new knowledge and innovative behaviour to improve their capabilities. In a dynamic environment, they must be able to profess the abilities to adjust, adapt and change, and must stay flexible as well. This study proposes five dimensions of the audit renewal strategy which are: audit development continuity, audit method adaptation, audit concept change, audit process flexibility, and audit learning dynamism. Each aspect is elaborated under the next section.

## PROPOSITIONS DEVELOPMENT

### Audit Development Continuity

Audit development continuity refers to the continuous learning of an auditor through both informal and formal training in order to stay constantly up-to-date with the new information in the field of auditing. The formal development continuity includes activities such as a participation in a seminar, an attendance of a training course and holding of a lecture. The informal development continuity mostly involves the auditor's learning of the rules of the Federation of Accounting Professions. The information acquired from such learning may have implications on the audit performance and may be beneficial for the interaction with customers. The knowledge gained, both formal and informal, is evaluated to ensure that the auditor is capable of working successfully in various situations (Nelson & et al., 2005). According to Generally Accepted Auditing Standards (GAAS), auditors must maintain a level of adequate knowledge in order to understand events, transactions, and practices. The continuous learning would then stimulate new ideas and creativity (Wong & Chueng, 2008), leading to the renewal, widening and improvement of knowledge (Goh & Richards, 1997).

Prior research on audit development continuity has involved the improvement of action, tacit learning, and knowledge-sharing that were implemented to achieve best audit practices and lead to good audit performance (Garavan, 2007). Moreover, the finding of Schultz et al., (2010), pointed out that trained auditors might be less inclined to take evidence concerning the risk of the business or material misstatement straight into their evaluations. Interestingly, previous study found the association between increased education requirements, audit fees, and audit quality (Allen & Woodland, 2010). According to Kinney (1997), despite the auditors' attempt to evaluate business risk to understand the clients, training remains an important tool for them to realise the business risk. (Erickson et al., 2000). Similarly, Knechel (2007) stated that continuous audit improvement enable auditors to effectively assess the business risk of their clients. In summary, development continuity has the potential possibility to affect best audit practice, audit information advantage, and audit professionalism effectiveness. Consequently, this study propositions this as:

*P1a-c Audit development continuity setting would be positively related to (a) best audit practice, (b) audit information advantage, and (c) audit professionalism effectiveness.*

### Audit Method Adaptation

Audit method adaptation refers to a process by which an audit's objective is achieved through the collection of suitable audit evidence in order to gain an opinion on the financial

statement in compliance with generally accepted accounting principles (GAAP). Audit efficiency generally includes audit practice effectiveness, audit risk reduction, and audit efficiency enhancement. Additionally, the increased awareness of value-added leads one to choose the methods for an internal audit's effectiveness that can be reliably measured and evaluated (Bota-Avram, Popa & Stefanescu, 2010).

Mock & Wright (1999), found that audit method adaptation appeared to show no correlation between risk and audit method. The audit method was slightly altered when risk differed from that of the previous year. The auditors ignored the development of the audit method, the efficiency of the audit method and the quality of the audit report. Audit method should be concerned with the engagement, objective of auditing, risk, and internal control. As a consequence, the audit method affects the relationships of audit effectiveness, as well as the acceptance of stakeholders (Shoosmuangpak & Ussahawanitchakit, 2009). In ISAs section 210, "Agreeing with the Terms of Audit Engagements" (2009), auditors should attend to the purposes of the engagement. Engagement in understanding leads to disparities between auditor and management. It assesses an audit agreement, indicating the duty of the management and the auditors in the audit agreement. It indicates the responsibility of the management and auditors. The objectives of the engagement should reflect the efficiency of the audit method.

Consequently, audit method adaptation refers to the ability of the auditor to change or improve ways of appropriate auditing. It should be in accordance with task commitment contexts and must meet professional standards, being able to detect fraud or errors in a range of situations. The audit method affects the relationships both audit effectiveness and stakeholder acceptance. Also, they address issues relating to the control and motivational aspects of audit method adaptation. Hence, it is posited that:

*P2a-c Audit method adaptation setting would be positively related to (a) best audit practice, (b) audit information advantage, and (c) audit professionalism effectiveness.*

### **Audit Concept Change**

As environment become more dynamic and complex, doing business likely involves higher degrees of uncertainty. The main task of management, therefore, is to find mechanisms that will reduce, absorb, counter, or avoid uncertainty (Jabnoun, Khalifah, & Yusuf, 2003). The changes, however, do not translate only to uncertainty. They bring with them new opportunities for organisations to adapt to the new environments – developing their competitiveness and evaluating their strategies so that they can cope well under intense competition (Sumritsakun & Ussahawanitchakit, 2009). Consequently, the auditor needs to be aware of the uncertainty and instability of the environments, including technological transformations that may influence their audit performance.

Audit concept change focuses on the transformation of notions and attitudes to improve the audit performance. The capability to develop and implement changes is necessary for every individual and organization that wants to prosper. It has been found to be beneficial in developing specific concepts for changes that lead to improvement. Moreover, concept change includes the development that is associated with process improvement. At present, the dynamic and complex environment in technology warrants the changes in customer needs and tastes, demand and supply conditions, and competition, (Sumritsakun & Ussahawanitchakit, 2009). Hence, audit concept change has an effect on audit practice. Audit practice efficiency is best audit practice. It involves the collection of evidence that aids the auditors in managing risks, with the purpose of providing assurance to the investors on the financial statement. Thus, the hypothesis is proposed as follows:

*P3a-c Audit concept change setting would be positively related to (a) best audit practice, (b) audit information advantage, (c) and audit professionalism effectiveness.*

### **Audit Process Flexibility**

Of late, the business environment has become much more dynamic. To survive in this very challenging environment, firms need to adapt to maintain their levels of competitiveness and focus on their long-term survival (Wheelen & Hunger, 2008). In the ever-changing dynamics of doing business, it is crucial for firms to be flexible in order to be able to adjust and look for opportunities as responses to new challenges (Birkinshaw, 2000). Success is highly dependent on firms' abilities to stay flexible (Hitt, Keats & DeMarie, 1998; Hitt et al., 2001). The flexibility of a corporation determines its success in the competitive global market.

Prior research on strategic flexibility was concerned with a firm's belief and intention to respond and adapt to the operational methods, and to various demands of highly uncertain competitive environments, through selecting strategic options, processing the allocation of resources, and implementing suitable situations to enhance effective and timely performance (Chai-Amonphaisal & Ussahawanitchakit, 2010). The corporate strategy should be suitable with the environment it faces. Also, it can help the stakeholder ensure the capacity of the firm to succeed. Thus, strategic flexibility is a distinctive capability of a firm to achieve and maintain their levels of competitiveness and performance (Grewal & Tansuhaj, 2001; Verdu-Jover, Llorens-Montes & Garcia-Morales, 2006). Likewise, flexibilities on volume and mix are external components of competition (capabilities) that should lead to increased customer satisfaction (Prahalad & Hamel, 1990).

In the context of the audit profession, audit process flexibility refers to the ability to modify an audit process such as audit planning, audit practice and making audit reports. It involves continuous improvement so that the auditors can rapidly respond to the changing audit environment and technologies. In order to adapt to new situations, flexibility plays a very important role. Moreover, the audit process flexibility enables the auditors to meet different expectations of customers without adding further costs to the organization. Thus, the hypothesis is proposed as follows:

*P4a-c Audit process flexibility setting would be positively related to (a) best audit practice, (b) audit information advantage, and (c) audit professionalism effectiveness.*

### **Audit Learning Dynamism**

Levitt & March (1988), believed that learning involved the transfer of experiences from the organization the behavioural routines of the individuals. To maintain a high degree of competitiveness, firms need to be able to deploy and upgrade their capabilities (Luo, 2000). Personal learning refers to an individual's perceiving to learn and develop new audit skills and knowledge (Woolf & Quinn, 2008; Akerlind, 2005). Auditors' learning depends on individual characteristics. They need specific and wide professional audit skills to challenge and improve their audit professionalism. Dynamic learning describes a firm's attempt to learn the dynamics from their changing environments, both internally and externally, and both domestically and internationally (Kaleka & Berthon, 2006; Luo, 2000). When a firm aims for a sustained growth, learning capability must serve its demand, while also be suitable for environmental characteristics (Luo, 2000). The learning of employees leads to the development of competitively valuable organizational resources and capabilities through comparative advantage (Sharma, 2000). In addition, the knowledge base of the profession is



also an important factor in the determination of the ability of professions to achieve their objectives.

In this research, audit learning dynamism refers to professional learning that can make an auditor a professional. Professional learning is behavioural skill development achieved through training and following certain tasks. It also includes communication and interaction with the external environment (Benson & Standing, 2001). Also, the knowledge base of the profession is an important factor in the determination of the ability of professions to achieve their objectives. In accounting literature, the quality of the financial statement audits is dependent upon the performance in the job of auditors. The auditors stand to gain from the skills such as training, and this will improve their performance (McKnight & Wright, 2011). In being aware of continued learning, the auditors possess a new capability that would greatly benefit their organizations. Therefore, dynamic learning is important for a firm to create new capability.

Audit Learning Dynamism refers to an effort in learning under dynamic international environments (Kaleka & Berthon, 2006) by focusing on capacity development and understanding of the various issues in order to be able to increase capability and respond to continually changing situations. Besides, audit learning dynamism also refers to the procedure of creating new knowledge and new ideas to enhance existing resource capabilities. Additionally, Teece, Pisano, & Schuen (1997), proposed learning as a dynamic process, which is essential, social and collective. It occurs not only through simulation and emulation of individuals. Hence, the proposition is as follows:

*P5a-c Audit learning dynamism setting would be positively related to (a) best audit practice, (b) audit information advantage, and (c) audit professionalism effectiveness.*

### **Best Audit Practice**

According to O'Dell & Grayson (1998), the best practices are practices of firms, humans, or processes that can be implemented successfully. They refer to techniques, methods, processes, and procedures that can be put into practice to improve the business results of the organization. The successful best practice of audit includes techniques for project management, which concern the achievement of plans, and those of alternate management that facilitate change (Ramesh, 2003). To ensure that a task is efficiently accomplished, management experts believe that best practices involve audit management. Moreover, best practices must have a high degree of dynamism. It is more effective to take into account the continuous changes occurring during the process of accomplishing a task – rather than relying solely on static and formulaic approaches.

Based on the literature above, best audit practice refers to a method or technique in audit practice, leading to audit achievement, that is in accordance with audit and accounting professional standards through knowledge, ability, expertise, transparency, and independence. Auditors collect sufficient evidence to show an audit opinion clearly under the inherent risk, control risk, reporting of a higher quality audit, and the achievement of audit objectives in giving confidence to financial statements which are accurate and reliable (Francis, 2011; Gomez, 2003). Purpose builds confidence in financial statements which are accurate. Reliability is based on accounting standards (Obadiah, 2007; Hui & Fatt, 2007). It leads to decision-making (Solomon & Trotman, 2003) by auditors who have applied practice, judgment, and accuracy, as well as in audit performance (Carnaghan, 2006; Hui & Fatt, 2007).

Best audit practices are necessary in the evaluation of the efficiency of audit methodology which can enhance audit execution and business process development. They can control risk to include those relating to roles, responsibilities, authoritative audit

activities, audit processes, and evaluating audit credibility. The lack of effective audit practice might translate into the failure to converge in audit work, an inadequacy of how processes are generally applicable, to find the mistakes in the financial statement (Chaney & Kim, 2007). Therefore, the proposition is posited as follows:

*P6a Best audit practice setting would be positively related to (a) audit information advantage, (b) audit professionalism effectiveness, and (c) audit performance..*

### **Audit Information Advantage**

Audit evidence or audit information is all the data gathered and used by the auditor in order to establish conclusions. The audit opinion generally bases itself upon these conclusions. The audit evidence or audit information includes information found in the accounting records of the financial statements. Not all information may be subjected for examination. Cumulative audit evidence is a collection of evidence from audit processes and of diverse sources. In addition, good information can help confirm or point out mistakes of past assessments of the financial statements (IFAC, 2009). It refers to the potential of information sources used as evidence. The type and amount of evidence are crucial when one needs to signify the audit objectives (Leventis, Weetman, & Caramanis, 2005).

Prior research suggested that audit information advantage was associated with audit information, which found that financial information presented in the financial statements is required to meet the needs of varied users, such as owners or managers, investors, employees, governments, and financial institutions (Watts & Zimmerman, 1986). That useful information is apparent by users inside and outside, by the decision-making of inside users, or by the internal financial information which will assist management in decision-making of businesses on new products or services, expansion, or investment in new technology. It shows that financial information is of great importance in the decision (Kieso & Warfield, 2004). Consequently, this information is accurate, leading to recommendations, determinations, and solutions. It includes appropriately contributing an opinion in the report. Hence, a reviewer is required to track the accuracy of this information, including closely checking the progress of the work performed, which should back the conclusions; and, it should be properly documented (Petchjul & Ussahawanitchakit, 2013; Pongsatitpat & Ussahawanitchakit, 2012; Solomon & Trotman, 2003).

Therefore, audit information advantage is the capability of auditors to acquire data superior to others. The possession of superior data or information helps confirm or point out mistakes of past assessments of the financial statements. The information should be sufficient and appropriate so that the audit objectives can be determined, and it has a significant influence on the decision-making of inside users. Consequently, audit information advantage supports audit performance. Therefore, the proposition is posited as follows:

*P7 Audit information advantage setting would be positively related to audit performance.*

### **Audit Professionalism Effectiveness**

Audit professionals refer to those with an important task in audit assignment as those who make judgments based upon the overall audit opinion. This definition means an audit professional should be a professional accountant, and one who has the abilities as required in IES 1 to 6. The audit professional does the audit function and is substantially involved in an audit assignment concerning a financial statement.

Prior research on auditing focused on the audit task. The outcome of the research evaluates the effectiveness of audit work. According to the literature, audit task is divided

into the following groups: the ability to use standard and core principles for audit work (Kent et al., 2008), the communication and relationship between auditor and client (Hilton et al., 2006), the knowledge and skill of audit techniques (Dittenhofer, 2001; Thompson, 2001), the consciousness of professional ethics in the job, effectiveness of judgment (Leung & Trotman, 2005), and environmental auditing change (Struweg & Meintjies, 2008; Jayalakshmy et al., 2005; Read et al., 1987).

Based on the literature above, audit profession effectiveness is the outcome of auditors using knowledge, abilities and skills in the audit process to achieve the goal in the audit profession. The customers and stakeholders receive satisfaction and timeliness of work (Nicolaou, 2000). Furthermore, this leads to added audit performance. As a result, the hypothesis is proposed as follows:

*P8 Audit professionalism effectiveness setting would be positively related to audit performance.*

### **Audit Performance**

Audit performance has been defined in numerous ways. Its definitions include: (1) the probability that an auditor will not issue an unqualified report for statements containing material errors (Lee, Liu, & Wang, 1999); (2) the correctness of an information report accumulated by an auditor (Davidson & Neu, 1993); (3) the measure of the ability of an auditor to exclude wrong information and improve accounting data (Wallace, 1980); (4) and the probability that an auditor will find and present errors in the financial statements (Libby & Luft, 2003). In addition, AICPA (1989) defined audit performance as the outcome of two primary purposes: 1) to acquire sufficient evidence for the audit opinion, and 2) to be able to provide a quality control function ensuring that the work is done in accordance with generally accepted auditing standards and the firm's own requirements.

Prior research found the provision of independent verification, of whether the financial statements are credible to third parties, to be of great importance. The audit performance must have an effective and sufficient quality for the financial statements to be credible (Sucher, Moizer & Zarova, 1998). The audit of great quality means that the information can be trusted and it, thus, impacts the quality of the financial statements. The higher their performance, the more credible the auditors (Watkins, Hillison, & Morecroft, 2004). As a consequence, high-quality auditing services are of particular importance that brings about the credibility of financial statements, and they increase a client's confidence. Thus, audit performance influences auditors' best practices under different circumstances (Wilson, Apostolou & Apostolou, 1997). The components of audit performance consist of audit independence and audit judgment (Watkins, Hillison & Morecroft, 2004). In addition, Salteio (1994) suggested that an auditor having higher best audit profession in competencies may also have higher audit performance. Firth (2002) found that the ability of auditor affects audit performance.

Therefore, audit performance is an outcome that guarantees that there is sufficient audit evidence, which can serve as a basis for the audit opinion and audit work performed in accordance with GAAS and the firm's own requirements. The use of audit renewal strategy would likely increase effectiveness and efficiency. The audit performance then depends on best audit practice, audit information advantage and audit profession effectiveness.



## CONTRIBUTIONS AND FUTURE RESEARCH DIRECTIONS

### Contributions

Audit renewal strategy is an abstract concept which is difficult to define and measure. This research has, therefore, developed hypotheses that provide an insight into, and an understanding of, the relationship between audit renewal strategy and audit performance. It is the first empirical evidence supporting causal relationships between audit renewal strategy and the performance of certified public accountants (CPAs) in Thailand. The results of this conceptual framework can serve auditors with an audit tactic development guide, and it can also help them recognize key components that may be of significance in bolstering their career as an auditor.

### Suggestions for Future Research

In future work, the research plans to provide additional analysis of antecedents, moderators, and control variables related to audit renewal strategy and performance outcome, in order to broaden the understanding on the subject and explain a real-life situation based on theory. One would extend the scope of the work to include a larger population such as tax auditors (TAs), governmental auditors (GAs), and internal auditors (IAs) in Thailand or in other countries, to expand the generalizability and increase the reliability of the findings.

## CONCLUSION

The constant changing in the global economy leads to a much more intense competition in both trade and investment. Thailand's entry into the ASEAN Economic Community are auditors' opportunities, challenges and significant changing point under the new realm of free movement of labour. Thus, the important tool leading to achievement in audit professions is renewal strategy because renewal strategy processes influence a certified public accountants (CPAs)'s adaptation.

Much of previous research focused mainly on renewal strategy and self-renewal of organizations in the field of strategic management, but research in the field of auditing is still limited. Therefore, the aim is to have this question answered: "How does audit renewal strategy affect audit performance?" With the purpose of this conceptual piece being the investigation of the relationship between audit renewal strategy and audit performance, there are five dimensions of audit renewal strategy considered, which include: audit development continuity, audit method adaptation, audit concept change, audit process flexibility and audit learning dynamism. One must come to a conclusion that audit performance outcome is based upon best audit practice, audit information advantage and audit professionalism effectiveness.

The results of this conceptual framework can serve auditors with an audit tactic development guide, and it can also help them recognize key components that may be of significance in bolstering their career as an auditor. This study has developed hypotheses that provide an insight into, and an understanding of, the relationship between audit renewal strategy and audit performance.

In consequence, future research suggests to additional analysis of variables related to audit renewal strategy and performance outcome in order to broaden understanding on the subject, and should seek theory to explain the phenomenon for understanding the relationships. To expand the generalizability and increase the reliability of the findings should collecting data from a larger population such as Tax Auditors (TAs), Governmental Auditors (GAs), and Internal Auditors (IAs) in Thailand or in other countries.

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