The added value of auditing in a non-mandatory environment

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Chapter 7. Conclusions and discussion

7.1 Introduction

Do financial statements audits have added value? Economic scandals, an ongoing proceduralization\textsuperscript{104} of the audit profession are examples of events that negatively affects public perception of the value of auditing. Nonetheless, legislators still consider auditing as a cornerstone in the ‘trust-mechanisms’ of financial economic markets, particular referring to the audit of large public entities. But do audits also have added value for private companies? It showed that a lack of scientific research exists with regard to the demand for audit for private (SME) companies (Willekens, 2008). Whereas the results of the studies which previously focussed on private companies suggest that the value of auditing for SME companies may be valuable for other reasons than the ‘classic agency theory argument’ underlying the demand for audit in general (Knechel et al., 2008).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{structure.png}
\caption{Overview of the structure of this study}
\end{figure}

The objective of this study is to contribute to the existing literature on the value of auditing for private SME companies and the research question of this study has been formulated as: \textit{What are drivers for the demand for audit in a non-}

\textsuperscript{104} The concept of proceduralization is a result of the (risks encountered in the) reflexive modernity as described by scholars as Giddens (1990) and Beck (1992, 1999). Proceduralization is the transformation of a social context of legal freedom (e.g. the audit profession as standard setter) in a system of justification, standardization and codification of the new social context. In other words: proceduralization of the audit profession includes among others the process of development and implementation of standards, procedures and laws.
mandatory environment? A literature review and empirical research have been conducted to find answers for this question. This chapter will summarize the results, discuss possible implications and provide some suggestions for future research in the area of the demand for audit in general and for SME companies more specifically. In section 7.2 the results of this study are summarized and the overall conclusions are presented. Followed, in section 7.3, by a discussion of possible implications for the demand for audit based on the derived conclusions of this study. Section 7.4 discusses the limitations of this study. This chapter is concluded with suggestions for further research in section 7.5.

7.2 Summary and overall conclusions

To answer the research question of this study, first the question is asked: why is there a demand for audit in contemporary society? In chapter 2 it is described that with the rise of modern corporations and the subsequently rise of financial capital markets (‘the market place for large corporations to raise (new) capital’), auditing emerged as a control mechanism to make economies more efficient. To protect the effective functioning of capital markets in economic society, legislators in most countries have impeded mandatory audit regimes. As modern auditing arose as a result of the rise of the modern corporation, the demand for auditing generally is also explained by economic theories explaining the existence of the those corporations. Agency theory, and more specific the theory of the firm of Jensen and Meckling (1976), is considered to be the paradigm to explain the demand for audit. Various scholars in the audit research discipline have conducted empirical studies regarding the demand for audit to validate agency theory (chapter 2.2.3). However, it showed that only a relative limited number of empirical studies were able to use the demand for audit as a variable, probably caused by the fact that auditing in most countries for public companies is mandatory. Their results also indicate that besides the theoretical expected relationships the demand for audit, especially for SME companies, may be valuable for other reasons than the ‘classical agency theory argument’. Furthermore, it is noticed that the paradigm, i.e agency theory, is being criticized by other scholars in other disciplines (e.g. organization theory). An analysis of the main criticism brought forward against agency theory has been conducted, to see if this criticism could have possible consequences for the demand for audit and could contribute to our understanding of the drivers for the demand for audit. The analysis revealed two themes which could have consequences for theory development and the identification of the existence of additional drivers for the demand for audit: the view of the firm as an institution in society and the ‘bounded rationality’ of decision makers. Variables testing for hypothesized
relationships, based on these themes, are included in the empirical part of this study. Chapter three discussed more in detail the relationships explaining the demand for audit in previous empirical research and the variables used. Given the aim of this study to include as many as possible relationships in the research model, a total of 22 relationships, new and already known from previous studies, were identified as possible drivers for the demand for audit.

Chapter four, five and six empirically investigated the drivers for the demand for audit in a Dutch private SME setting. First, a brief sketch was provided of the historical development of auditing in the Netherlands and audit regulation. As Dutch data is used and it is postulated that auditing is a social control mechanism, the possibility exists that the empirically results of this study may differ from the results of other studies which can be contributed to specific economic, historical and cultural factors. The descriptive results show that 62% of the companies chooses to have their financial statements audited, even if it is no longer mandatory. This finding is comparable with the results of a study done in the UK (Collis et al., 2004), but between the 10-15% lower than the results of the studies in Canada (Senkow et al., 2001) and Finland (Niemi et al., 2009). This could be explained by size and the corresponding risks (large private Canadian companies) and sociological/cultural factors (almost all Finnish companies are currently mandatory obliged by national law to have their financial statements audited).

The results of individual hypothesis testing of identified relationships with the demand for audit in chapter five showed that perceptions held by decision makers do have a strong significant relationship with the demand for audit. The perception held by management that shareholder’s desire an audit influences their decision whether or not to have the financial statements audited. Whereas, the commonly used proxy variables such as management ownership share, showed to be moderately significant or even not significant. Using bounded rationality theory, it is reasoned that (economic) facts do play a role in the perception people have. As such the variables ‘proxying’ the shareholder relationship are to be expected to influence the perception. The additional analysis in chapter 6.4 showed that a relationship exists between the perception and the proxy variables. A comparative analysis in chapter 6.5 of the results of this study with the study of Collis et al. (2004) and Niemi et al. (2009) showed that the main drivers for the demand for audit in SME companies seem to be similar.

From the results the multivariate regression analysis in chapter 6.3, the following observations can be made regarding the (main) drivers for the demand for audit:
The classical shareholder – manager relationship is the most important driver for the demand for audit

The results of this study implicate, that in a private SME setting the relationship between shareholder and manager is the most important driver for the demand for audit. This supports the explanatory power of the theory of the firm, as set out by Jensen and Meckling (1976). With respect to this relationship it can be observed that when the company has shareholders without access to internal financial information audit demand increases. In other words, not the existence (number of, or % shares) of the shareholder-manager relationship is important, but the nature of the relationship between the shareholder and the manager (company). The latter could be further supported by the observation of the significance of another shareholder-manager relationship variable used, management’s ownership share. In general, it is hypothesized that the higher management’s ownership share, the lower the probability the company demands an audit. However, the results showed that this is not a main driver. The existence of shareholders without access to internal financial information can be a driver for the demand for audit both from the perspective of the shareholder as of management. As without access to internal financial information, the shareholder is dependent on the financial information provided by management. The existence of shareholders without access also has a significant influence on the perceptions held by management regarding shareholder’s need for audited financial statements as is shown the additional analysis of chapter 6.4.

The existence of a lender requirement is another main driver for the demand for audit

The relationship between the providers of debt capital and the company is considered to be another important driver for the demand for audit. With respect to this relationship, it is hypothesized that the higher the proportion of debt in the company’s capital structure, the higher the probability the company demands an audit. It is also hypothesized that auditing reduces the cost of debt capital. The existence of a lender requirement is another variable, considered to be a driver for the demand for audit. It is hypothesized that providers of debt capital uses lender requirements to limit the potential conflict of interest with the shareholder/manager. Whereas, the results of this study, as presented in chapter 5.2.2 (individual hypotheses) and chapter 6.3 (logistic regression model), showed that leverage and the cost of debt are no drivers for the demand for audit, the existence of a lender requirement showed to be a main driver. The existence of a lender requirement can be considered to be part of the outcome of negotiations between the bank and the company. To mitigate their risks the bank demands an audit as condition under which they are willing to provide the loan. This latter could indicate that other ‘risk’ considerations, than for example leverage, are of
more importance for lenders of debt capital in their need for a demand for audit. A suggestion for future research is to investigate which determinants are driving lenders of debt capital to negotiate a lender requirement in which an audit is demanded.

*On the use of size criteria explaining the demand for audit*

To determine whether or not a company classified for a mandatory audit, the following size criteria are used: total assets, turnover and number of employees. This study uses data of a population which, as a result of deregulation, no longer are classified as medium sized companies in 2006. As such, the population of this study to some extent can be considered as homogenous regarding their size. From the results of the bivariate analyses in chapter 5.2.3 it can be concluded that only the number of employees has a significant positive relationship with the demand for audit. However, the number of employees does not only proxy for the wealth at risk for external stakeholders, but can also proxy the loss of control (and subsequently the complexity) within the company (Abdel-khalik, 1993). In chapter 6.2.3 a multivariate analysis of the combined size factors and the demand for audit is conducted. Based on the pseudo $R^2$ of 0.062 (see panel D of table 6.4) it can be concluded that the size factors in this study have a low explanatory power to predict the demand for audit and of the size factors only the number of employees showed to be significant. This low explanatory power of the size-criteria in this study is to be expected given the population of SME companies. However, as we know from the descriptive statistics (chapter 4.3.5), the percentage of companies which opt for a non-mandatory audit in this study is 62%. Given this percentage it can be questioned if (current levels of) size criteria are appropriate to determine whether or not a SME company should have its financial statements mandatorily audited.

*Perceptions held by management*

Similar to the studies of Collis et al. (2004), Niemi et al. (2009) and Collis (2010), this study also found a significant positive relationship between the perceptions held by management that the audit has added value as a check on internal controls and the improvement of the quality of the prepared financial statements and the demand for audit. From other empirical studies (using the demand for audit as a variable or using a proxy as audit fee or audit choice) it is known that the relationship between the demand for audit and internal control sometimes showed mixed results (chapter 3.2.2). As these studies used other variables to proxy for this relationship, e.g. the relation between the audit fee and the internal audit budget, it can be questioned if a relationship between these variables and the perceptions held by management exists. This study added an additional perception variable to the commonly used proxy variables measuring...
the relationship between the shareholder-manager relation and the demand for audit (see chapter 3.3.1). The results of the individual hypothesis testing in chapter 5.2.1.3 showed a positive significant association between the perception held by management that an audit of financial statements is desired by existing shareholders and the demand for audit. Besides this variable, this study also used variables based on factual data, such as management-ownership share, the number of shareholders and the existence of shareholders without access to internal financial information for testing the association between the shareholder (owner) – manager relationship and the demand for audit. Although the results in chapter 5.2.1, with the exception of the management ownership share, showed to have a positive significant relationship, they have less predictive power in the multivariate regression model of chapter 6.3 than the perception held by management that an audit is desired by existing shareholders on the demand for audit. To explore the existence and influence of factual data on the perceptions held, using bounded rationality theory, an additional analysis has been conducted in chapter 6.4. The results of this test showed a significant positive association, indicating that the perception held to some extent can be explained by existing factual data.

7.3 Discussion

The results of this study can serve as a basis for further discussion about the theory of the demand for auditing and can contribute to the search for a more richer picture of the drivers for the demand for audit. The results can also be used for a discussion about the current practical implications of a mandatory audit regime for private companies, for example the usability of the current used criteria for the mandatory audit regime.

7.3.1 Implications for research regarding the demand for audit

What do the results of this study tell us? First and most important it can be concluded that, even in absence of a mandatory obligation, the demand for audit to a large extent can be explained by the current paradigm, agency theory. The results of this study also shows that other drivers for the demand for audit in private companies exist. As such this study supports the claim made by a number of scholars (e.g. Knechel et al., 2008) that an audit for private companies may be valuable for other reasons. Although, using only the agency theory and the theory of the firm (Jensen and Meckling, 1976) to explain the demand for audit produces just satisfactory results. A too narrow focus on this theory increases the risk that
other possible drivers for the demand for audit will be overlooked and are excluded. Also sticking to the assumptions underlying these theories, bears the risk of underestimating the considerations made in real life.

The results of this study suggest that perceptions held play a profound role in the decision whether or not to opt for a non-mandatory audit (e.g. the perceptions that shareholder’s need an audit and the perception that an audit provides a check on internal controls and improves the quality of the financial information). This study does not reveal the building blocks for the emergence of the perceptions held. However, the conducted additional analyses showed that present factual circumstances (e.g. the existence of shareholders without access to internal financial information) have a significant association with the perceptions held. Besides, anecdotic evidence showed that holding a negative perception leads to a view on auditing which subsequently could negatively impacts the demand for audit\(^{105}\). Thus, decision makers do not only make the theoretically expected rational economic cost-benefit analysis, but as the results of this study showed the decision is also influenced by perceptions. For researchers in the field of psychology and organizational theory, the role and influence of perceptions on the decision making process is nothing new and already has been the subject of a large number of studies for many years (e.g. Simon, 1982; Kahneman and Tversky, 1982). The influence of these perceptions has, to my knowledge, not yet received much attention in the demand for audit research. However it is noticeable that studies looking at the effect of audited financial statements on loan officers decision (e.g. Wright and Davidson, 2000) explicitly takes into account the perceptions held by loan officers. Whereas several studies noticed the role of perceptions or used perceptions as variable (Jensen and Payne, 1993; Collis et al., 2004; Niemi et al., 2009; Collis, 2010) to explain the demand for audit, no calls have yet been made to explore the drivers for the perceptions held in more detail. 

A possible explanation for this lack may be the focus on quantitative empirical research in the studies explaining the demand for audit. However, as the results of this study showed the robustness of some of the perceptions held by management and the demand for audit in different institutional settings, it gives rise for researchers to gain further insights into the conditions (including the microeconomic determinants) that might predispose the perceptions held by management (supposing that they are the ultimate decision maker) regarding the

\(^{105}\) An example of these negative perceptions is the view ‘auditing is mandatory’ combined with the Dutch culture of aversion to detailed rules and regulation to ensure compliance. Also the qualitative responses of a number of respondents (see chapter 4.3.3.1) indicate the importance of (whether or not irrational) negative perceptions regarding the audit in the decision making process: “An audit is not very effective to detect fraud and also does not contribute to an improvement of our business operations, therefore it is too costly”. “The current audit is redundant and time and cost consuming as the auditors do not have industry knowledge. As a result our relation with the audit firm deteriorated”.

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need for audited financial statements by stakeholders and the added value of an audit for their own purposes. We will discuss some opportunities for future research in this area in further detail in section 7.5.

Although the results of this study showed that agency theory is capable to predict the demand for audit to a large extent, these findings should not serve as a justification not to explore for rivalling theories or other drivers to enable us to find a more comprehensive predictive theory (Wallace, 2004). In a time where the concept of auditing and the audit profession becomes more and more scrutinized, a call is made for exploring to which extent theoretical progress in neighbouring disciplines may have implications for our theory development regarding the demand for audit? By relaxing some of the assumptions underlying agency theory, this study shows that this is fruitful. A way of gaining further insight in the demand for audit may be (a reconsidering of the) the validation of the current theory explaining the demand for audit. Should the audit research discipline in its attempt to increase knowledge of the demand for audit also “reinventing the wheel” of years ago as Fukuyama (2004) signals in other economic disciplines? Looking into history, it is clear that modern auditing serves as a mechanism to reduce uncertainty between participants in (economic) society. Economic exchanges between participants has much to do with ‘trust’ participants place in each other and in ‘the market’. The rise of modern auditing therefore can be attributed to societal changes and technology development. With the separation of capital/ownership and management, the risk of providers of capital increased as they became dependent on the acts and information provided by management. But as we know the world has become more complex and interdependent, resulting that also the interests of other actors in society can be at risk. Therefore actors within society (including actors within the company) who are facing uncertainty related to this risk may have a need to mitigate this risk. As it is clear that these risks are more profoundly apparent with large companies, this also could be the case in the situation of private SME companies. For scholars researching the demand for audit it might be of interest to take notice of attempts made by scholars in neighbouring disciplines (e.g. transaction cost economics) to incorporate other lenses (Möllering, 2006) into the demand for audit theory to relax the behavioural assumptions underlying the current paradigm and increase realism into the model. Suggestions for research possibilities in this area will be presented in section 7.5.
7.3.2 Implications for current audit practice

Is it necessary to have mandatory audit regime for private SME companies? Is size to be considered a sufficient criteria to ‘proxy’ for the mandatory audit? Whereas in the United States only public listed companies are required to have their financial statements audited, all member states of the European Union have a mandatory audit regime for private SME companies. EU legislation requires member states to install at least the size criteria as set by the European Union (see chapter 4.3.1), although a more stringent regime is allowed. As a result all companies that meet those size criteria are mandatory obliged to have their financial statements audited. This mandatory audit regime for private SME companies combined with recent developments such as several corporate scandals and more stringent oversight on the audit profession ‘fuels’ a growing public discussion regarding the added value of auditing, whereby some criticasters even suggest to abolish the audit. Besides this, the European Commission is currently evaluating existing audit policies (European Commission, 2010). The results of this study contribute to this discussion as it confirms that, given the existence of certain drivers, the audit does have added value.

However, the question remains: Is it necessary to have a mandatory audit regime for SME companies? Is size still to be considered the only variable to ‘proxy’ for the mandatory audit? The findings of this study showed that in absence of a mandatory requirement almost two third of the companies opt for an audit. Also the results of this study showed that the demand for audit to a large extent can be explained by the identified drivers for the demand for audit, whereby the shareholder – manager relationship showed to be the most significant driver for the demand for audit. However, the results of the size criteria showed to be not significant, with the exception of the number of employees, and only to a small amount contributed to the explanatory power of the demand for audit model. The latter could be explained as the population of this study, based on the size criteria, to some extent could be considered as homogenous (see chapter 6.2.3).

Based on the findings of this study it can be concluded that other criteria than size are potentially more capable to predict the demand for audit. It is therefore suggested that legislators reconsider the usefulness of the current size criteria to require companies to have their financial statements audited. Besides this, legislators could also reconsider the usefulness of the current mandatory audit regime taking into account the protection of stakeholders who do not have the
(economic) power\textsuperscript{106} to negotiate a demand for audit. Replacing the current mandatory audit regime with for example incorporating in company law that minority shareholders have the possibility to demand an audit and giving this possibility also to the works council may be alternatives to consider\textsuperscript{107}. This study contributes to the enrichment of our knowledge of the drivers for the demand for audit (in other words: who is demanding an audit and why?) and as such offers legislators the opportunity to install more effective legislation and at the same time lessen the administrative burden of companies.

For auditors and audit firms the findings of this study may be beneficial as it contributes to the enrichment of the knowledge that the added value of an audit is indeed multifaceted (Knechel et al., 2008) and that the existence of a mix of different drivers may the inducement for the demand for audit. In the absence of a mandatory audit regime, auditors have to ‘sell’ (and in a broader context: (re)convincing (economic) society of the benefits of the audit in general) the added value of an audit. Combined with the recognition that decision makers are ultimately ‘satisficers’, which only include those elements which they think that are of importance in their decision making process, the findings of this study may support auditors and audit firms to discuss potential existing drivers not included. Broadening the view of possible existing other potential benefits of the audit increases the subjective environment of the decision maker regarding the audit and subsequently could have an influence on the ultimate decision made.

### 7.4 Limitations of this study

This study has investigated what the drivers are for the demand for audit in a non-mandatory environment. As with most research this study is susceptible to a number of limitations. Although many potential drivers are included in this study, due to difficulties in data collection not all drivers for the demand for audit are included in the multivariate regression analysis. As a result of the literature review of chapter two and three a total of 22 relationships have been identified as potential drivers for the demand for audit. However, due to the initial number of 154 returned questionnaires (chapter 4.3.3.2) not all relationships could be included in the multivariate regression analysis. To reduce the risk of ‘overfit’, parsimonious methods had to be carried out to reduce the number of relationships

\textsuperscript{106} It is expected that for instance banking institutions and large creditors have the (economic) power to demand an audit (see chapter 5.6).

\textsuperscript{107} In the United Kingdom it is incorporated in company law that if 10\% of the shareholders demands an audit, the company is obliged to have their financial statements audited. In the Netherlands a law on works councils (‘wet op de ondernemingsraden’) exists which requires companies with a certain number of employees to install a working council.
(chapter 6.2.2). Theoretically, including all relationships in a larger sample could lead to other results. Also, due to difficulties in data collection, it was not always possible to use more refined measures to predict relationships. For example for the degree of loss of control/complexity, earnings management and financial health more refined measures exists than those used in this study.

Another limitation is related to the selection of the population. Due to the fact that the population consists of all companies, which as a result of deregulation no longer classify as medium sized, the sample spans a limited range in size, which potentially limits the generalizing ability of this study. However, the comparative analysis performed with other studies (see chapter 6.5) indicates that a number of drivers for the demand for audit seems to be similar. Also the use of questionnaires introduces several limitations, already noticed in chapter four. For example, with the use of any survey study the concern of potential non response bias exists. These limitations has been addressed in chapter 4.3.3.2.

Finally, for a number of identified relationships in this study, variables are used involving the perceptions held by management at the time of decision making. However, due to the ‘time-gap’, between the actual decision to (dis)continue the audit and the perceptions held at the time of responding to the questionnaire, the perceptions may be ‘coloured’ by latter events. Also, perceptions held are, besides the existence of factual knowledge, the result of personal characteristics of the decision maker. Therefore the risk exists that social desirable answers have been given by the respondents. The underlying conditions for the perceptions held have not been investigated in this study, but offers avenues for future research.

7.5 Further research

Based on the discussion and implications of the findings of this study some suggestions for future research already have been addressed. Also the discussion of the limitations of this study raised suggestions for future research. In this chapter we will explore a few, at first glance other avenues for future research regarding the demand for audit, which could be of interest in enriching our understanding of the drivers for the demand for audit.

The complexity of the environment in which a private SME company operates may be a possible driver for the demand for audit. Although in general it is assumed that private SME companies are less complex (Abdel-khalik, 1993; Knechel et al., 2008), empirical research shows that with an increase of complexity the demand for audit or the demand for high quality audits increases.
Most of these studies have focused on the complexity within the organization (organizational control) to determine whether there is a relationship between complexity and the demand for audit and in general found a positive significant relationship. However, due to changes in society (e.g. globalization, technological developments), the way companies (entities) are organized are also subject to changes. The evolution of a ‘network economy’ and the existence of independent suppliers in a supply chain are examples of these changes. Even if private SME companies in itself do not have to be complex, they may be an essential part of a larger complex economic structure. This latter phenomenon could be a driver for the demand for audit also, as the other participants in the network of supply chain are interdependent on the continuing existence and reliability of network or the supply chain as a whole. Future research, viewing the private SME company as an institution in society and exploring the complexity of the ‘web’ the company is operating in, may contribute to the enrichment of our knowledge for the drivers for the demand for audit.

In absence of a mandatory audit regime, the results of this study indicates that a ‘mix’ of factors influences the decision. It can also be concluded that in the absence of a mandatory audit regime the role of perceptions held by management becomes more profoundly apparent in their decision making process whether or not to opt for an audit. As this study has followed a quantitative research approach, the necessary data regarding the perceptions has been gathered using likert-scale questions in a questionnaire. However, perceptions are built on the subjective interpretation of perceived factual circumstances that are to be considered relevant and are taken into account in the decision making process. As such the followed research approach does not reveal the determinants which underlie the perceptions, and the ultimate influence in the decision making process of management. To explore these determinants, the use of a qualitative research approach may be more appropriate. Although qualitative research have some obvious shortcomings as a research technique (e.g. whether the observed verbal protocol reflects the true thought processes of management in an actual

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108 To mitigate the risk associated with these interdependence ‘outsiders’ may have also demand other monitoring mechanism. The existence of outside directors in private SME companies (which is not mandatory for private SME companies in the Netherlands) may be to some extent also the result of the existence of ‘outside complexity’. This study did take into account the existence of outside directors, but did not investigate the reasons why companies voluntarily installed a committee of outside directors.

109 It should be noticed that besides the demand for financial statement audit, this phenomenon may also give rise to a demand for other types of audits, such as an audit of systems and/or processes.

110 The results of the full logistic regression model (see table 6.7) showed to be strong significant (p<0.001) indicating the model as a whole is significant. Also the explanatory power of the model can be considered to be high (pseudo R² of 0.604).
decision making process), qualitative research offers unique insights which cannot be obtained using a quantitative research approach.

Also a point of interest to investigate in future research, may be the incorporation of a ‘social-context variable’ into the demand for audit model. A call for introducing such a variable has already been made in the context of transaction cost economics (Chiles and McMackin, 1996). Whereas this study postulates that auditing is a social control mechanism and recognizes that historical and cultural factors can possibly influence the demand for audit. Adding a ‘social-context variable’ in the demand for audit creates the possibility to explore whether this parameter adds to our knowledge in understanding whether or not an audit in different settings is demanded and the factors driving this demand.

Furthermore, the results of this study showed that even in absence of a mandatory regime, a demand for audit in private SME companies exists. Knowing that we are living in a globalizing world and knowing that private companies in for example the USA and Canada (Senkow et al., 2001) are not subject to a mandatory audit regime. Also knowing that the existence of mandatory audit regime bears the disadvantage to exclude other potential benefits of the audit (see also chapter 2.4.3). Therefore it might of interest to investigate whether current (European) mandatory audit regime for private companies still is the most desirable and to investigate the ‘pros and cons’ of a further alleviation of existing mandatory audit regime for (large and medium-sized) private companies.

Finally, a lack of insight why contemporary society demands an audit accommodates the risk of not meeting the needs and expectations of society and as a result auditing may be perceived to have no added value and become redundant, a call is made to continue this study into a longitudinal study regarding the factors driving the demand for audit. Within Europe, conducting such a longitudinal study can contribute to the ongoing harmonisation process.